



EVRAZSECURITIES S.A.

U.S.\$ 150,000,000 8.875 PER CENT. GUARANTEED NOTES DUE 2006
UNCONDITIONALLY AND IRREVOCABLY JOINTLY AND SEVERALLY GUARANTEED BY
OJSC NIZHNY TAGIL IRON AND STEEL PLANT
OJSC WEST SIBERIAN IRON AND STEEL PLANT
FERROTRADE & CO.
(ACTING THROUGH ITS GENERAL PARTNER)
FERROTRADE LIMITED
and
MASTERCROFT LIMITED
ISSUE PRICE: 99.357 PER CENT.

The U.S.\$ 150,000,000 8.875 per cent. Guaranteed Notes due 2006 (the “Notes”) are being issued by EvrazSecurities S.A., a company incorporated as a société anonyme under the laws of the Grand Duchy of Luxembourg (the “Issuer”). Shares in the Issuer are held by Financial Trustees Limited, a company organised under the laws of the British Virgin Islands and TMF Corporate Services S.A., a company organised under the laws of the Grand Duchy of Luxembourg.

The Notes will be constituted by, and have the benefit of, a trust deed dated 25 September 2003 (the “Trust Deed”) among the Issuer, Mastercrocft Limited, incorporated as a company with limited liability in Cyprus (“Mastercrocft”), Ferrotrade & Co. (acting through its general partner), registered as a limited partnership in England and Wales (“Ferrotrade UK”), Ferrotrade Limited, incorporated as a limited company in Gibraltar (“Ferrotrade Gibraltar”) and J.P. Morgan Corporate Trustee Services Limited (the “Trustee”). The Notes will also have the benefit of two deeds of guarantee, each dated 25 September 2003 and executed by Open Joint Stock Company Nizhny Tagil Iron and Steel Plant (*Nizhnetagilskiy Metallurgicheskii Kombinat*) (“NTMK”) and Open Joint Stock Company West Siberian Iron and Steel Plant (*Zapadno-Sibirskiy Metallurgicheskii Kombinat*) (“ZapSib”), respectively (together, the “Deeds of Guarantee”).

Each of Mastercrocft, Ferrotrade UK, Ferrotrade Gibraltar, NTMK and ZapSib (each a “Guarantor” and together, the “Guarantors”) will unconditionally and irrevocably guarantee, on a joint and several basis, the due and punctual payment of all amounts at any time becoming due and payable in respect of the Notes (the guarantees contained in the Trust Deed together with the Deeds of Guarantee, the “Guarantee”).

Unless previously redeemed or purchased and cancelled, the Notes will be redeemed at their principal amount on 25 September 2006. All, but not some only, of the Notes are subject to redemption at their principal amount (together with interest accrued to but excluding the date of redemption) at the option of the Issuer at any time in the event of certain changes affecting taxation in any Relevant Jurisdiction (as defined in Condition 8 (*Taxation*)). All, but not some only, of the Notes may also be redeemed at the option of the Issuer at their Applicable Premium (as defined in Condition 10.2 (*Interpretation*)) and their principal amount (together with interest accrued to but excluding the date of redemption) on any following Interest Payment Date (see “Conditions of the Notes” — “Redemption and Purchase”).

Interest on the Notes is payable semi-annually in arrear on 25 March and 25 September of each year commencing on 25 March 2004 as described under “Conditions of the Notes” — “Interest”. The Notes will bear interest at a rate of 8.875 per cent. per annum.

Except as set forth herein, payments in respect of the Notes will be made without any deduction or withholding for or on account of taxes of the Grand Duchy of Luxembourg, the Russian Federation, the United Kingdom, the British Virgin Islands, Gibraltar or Cyprus.

INVESTING IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE “RISK FACTORS” BEGINNING ON PAGE 21.

The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933 (the “Securities Act”) and may not be offered or sold within the United States or to, or for the account or benefit of U.S. persons. The Notes will be offered and sold by the Managers (as defined in “Subscription and Sale”) to non-U.S. persons in offshore transactions in reliance on Regulation S under the Securities Act. The Notes are being sold in reliance on the exemption from the provisions of Section 5 of the Securities Act provided by Regulation S.

Application has been made to list the Notes on the Luxembourg Stock Exchange.

The Notes are to be rated B3 by Moody’s Investors Services Limited and B by Fitch Ratings Ltd. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

The Notes will be initially represented by a temporary global note in bearer form (the “Temporary Global Note”), without interest coupons, which will be deposited with a common depositary for Euroclear Bank S.A./N.V. as operator of the Euroclear system (“Euroclear”) and Clearstream Banking, société anonyme (“Clearstream, Luxembourg”), on or about 25 September 2003 (the “Closing Date”). Interests in the Temporary Global Note will be exchangeable for interests in a permanent global note in bearer form (the “Permanent Global Note” and, together with the Temporary Global Note, the “Global Notes”), without interest coupons, on or after 4 November 2003 upon certification as to non-U.S. beneficial ownership. Interests in the Permanent Global Note will be exchangeable for Notes in definitive form only in the limited circumstances set out therein.

Sole Lead Manager and Bookrunner

ING

Co-Lead Manager

MDM FINANCIAL GROUP

Co-Manager

MOSCOW NARODNY BANK

The date of this Offering Circular is 24 September 2003

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The Issuer and each of the Guarantors accept responsibility for the information contained in this offering circular (the “**Offering Circular**”) save as otherwise provided herein. To the best of the knowledge and belief of the Issuer and each of the Guarantors (each having taken all reasonable care to ensure that such is the case) the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information. The Issuer and each of the Guarantors, having made all reasonable enquiries, confirms that: (i) this Offering Circular contains or incorporates all information with respect to the Issuer, Mastercrocft, NTMK, ZapSib, Ferrotrade UK, Ferrotrade Gibraltar, Evraz Group (as defined below) and the Notes which is (in the context of the issue of the Notes) material; (ii) such information is true and accurate in all material respects and is not misleading in any material respect; (iii) any opinions, predictions or intentions expressed in this Offering Circular on the part of the Issuer and/or each of the Guarantors are honestly held or made and are not misleading in any material respect; and (iv) there are no other facts the omission of which would make this Offering Circular or any such information or the expression of any such opinions, predictions or intentions misleading. Accordingly, the Issuer and each of the Guarantors accept responsibility for the information and statements contained in this Offering Circular save as otherwise provided herein.

The statistical information and other data contained in Appendices A and B (“Overview of the Russian Federation” and “Overview of the Global/Russian Steel Industry”, respectively) to this Offering Circular includes extracts from information and data publicly released by official and other sources (such as information contained on official websites and in publications of governmental agencies of the Russian Federation, including the Central Bank of the Russian Federation (the “**CBR**”), and from other government and mass media sources). The Issuer and each of the Guarantors accept responsibility for extracting and reproducing accurately such information but accept no further responsibility in respect of such information and data.

No person is authorised in connection with the issue, offering or sale of the Notes to make any representation or give any information regarding the Issuer, the Guarantors, Evraz Group or the Notes other than as contained in this Offering Circular or as approved for such purpose by the Issuer and each of the Guarantors. Any such representation or information should not be relied upon as having been authorised by the Issuer, any of the Guarantors, the Trustee or any of the Managers. Without limitation to the generality of the foregoing, the contents of any website of any of the Guarantors (if any) do not form part of this Offering Circular.

Neither the delivery or distribution of this Offering Circular nor the offering, sale or delivery of any Note shall in any circumstances constitute a representation or create any implication that there has been no change, or any event reasonably likely to involve any change, in the condition (financial or otherwise) or affairs of the Issuer, any of the Guarantors or Evraz Group since the date of this Offering Circular.

This Offering Circular does not constitute an offer of, or an invitation by, or on behalf of, the Issuer, any of the Guarantors or any of the Managers to subscribe or purchase, any Notes.

The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Issuer, the Guarantors and the Managers to inform themselves about and to observe any such restrictions. In particular, the Notes have not been registered with the U.S. Securities and Exchange Commission, any State securities commission in the United States or any other U.S. regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the offering of the Notes or the accuracy or adequacy of this Offering Circular. Any representation to the contrary is a criminal offence in the United States. In addition, none of the Issuer, the Guarantors or the Managers has authorised any issue of Notes to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (the “**Regulations**”). Notes may not be lawfully offered or sold to persons in the United Kingdom except in circumstances that do not result in an offer to the public in the United Kingdom within the meaning of the Regulations or otherwise in compliance with all applicable provisions of the Regulations. Further information with regard to restrictions on offers and sales of the Notes and the distribution of this Offering Circular is set out under “Subscription and Sale”.

The Managers and the Trustee have not separately verified the information contained in this Offering Circular. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Managers, the Trustee or any of them as to the accuracy or completeness of the information contained in this Offering Circular or any other information provided by the Issuer or any of the Guarantors in connection with the Notes or their distribution.

None of the Issuer, the Guarantors or the Managers is providing prospective purchasers with any legal, business, tax or other advice in this Offering Circular. Prospective purchasers should consult with their own advisers as needed to assist in making their investment decision and to advise whether they are legally permitted to purchase Notes.

IN CONNECTION WITH THE ISSUE OF THE NOTES, ING BANK N.V., LONDON BRANCH (THE “STABILISING MANAGER”) (OR ANY PERSON ACTING FOR THE STABILISING MANAGER) MAY OVER-ALLOT OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL FOR A LIMITED PERIOD AFTER THE CLOSING DATE. HOWEVER, THERE MAY BE NO OBLIGATION ON THE STABILISING MANAGER (OR ANY AGENT OF THE STABILISING MANAGER) TO DO THIS. SUCH STABILISING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME AND MUST BE BROUGHT TO AN END AFTER A LIMITED PERIOD.

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FORWARD LOOKING STATEMENTS

This Offering Circular contains “forward-looking statements” which relate to, without limitation, any of the Guarantors’ plans, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward-looking statements (forward looking statements ascribed to Evraz Group are made by Mastercraft). The Guarantors use words such as “estimates”, “expects”, “believes”, “intends”, “plans”, “may”, “will”, “should” and any similar expressions to identify forward-looking statements. These forward-looking statements are contained in “Summary”, “Risk Factors”, “Business” and other sections of this Offering Circular. Each of the Guarantors have based these forward-looking statements on the current view of the relevant Guarantor’s management with respect to future events and financial performance. These views reflect the best judgement of the relevant Guarantor’s management but involve uncertainties and are subject to certain risks, the occurrence of which could cause actual results to differ materially from those predicted in the relevant Guarantor’s forward-looking statements and from past results, performance or achievements. Although the relevant Guarantor believes that the estimates and the projections reflected in that Guarantor’s forward-looking statements are reasonable, if one or more of the risks or uncertainties materialise or occur, including those which the relevant Guarantor has identified in this Offering Circular, or if any of the relevant Guarantor’s underlying assumptions prove to be incomplete or incorrect, the relevant Guarantor’s actual results of operations may vary from those expected, estimated or projected.

Accordingly, prospective purchasers of the Notes should not place undue reliance on these forward-looking statements. The important factors that could cause a Guarantor’s actual results, performance or achievements to differ materially from those in these forward-looking statements include, but not limited to, those discussed in “Risk Factors” and “Business”. These forward-looking statements speak only as at the date of this Offering Circular. The Guarantors expressly disclaim any obligation or undertaking to disseminate after the date of this Offering Circular any updates or revisions to any forward-looking statements contained herein to reflect any change in their expectation with regard thereto or any change in events, conditions or circumstance on which any such forward-looking statement is based, unless required to do so by applicable law.

ENFORCEABILITY OF JUDGEMENTS

The Issuer and the Guarantors (save for Ferrotrade UK) are corporations organised under the laws of their respective jurisdictions of incorporation, as set out on the front cover of this Offering Circular. The majority of the directors and executive officers of the Guarantors (save for Ferrotrade UK and Ferrotrade Gibraltar) reside in the Russian Federation. As a result, it may not be possible for investors to effect service of process outside the Russian Federation upon NTMK, ZapSib and Mastercroft or such persons. Moreover, as substantially all the assets of the Guarantors are located in the Russian Federation, it may not be possible for investors to enforce in the Russian Federation judgements rendered against any of the Guarantors. Judgements rendered by a court in any jurisdiction outside the Russian Federation will be recognised by Russian courts only if an international treaty providing for the recognition and enforcement of civil judgements exists between the Russian Federation and the country where the judgement is rendered.

The Russian Federation is not a party to any multilateral or bilateral treaties with most Western jurisdictions for the mutual enforcement of court judgements. Consequently, should a judgement be obtained from a court of any such jurisdiction, it is highly unlikely to be given direct effect in Russian courts. The Russian Federation (as the successor to the Soviet Union) is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. The Trust Deed and the Deeds of Guarantee (as defined below) contain a provision allowing for arbitration of disputes. A foreign arbitral award obtained in a state which is party to that convention (including the United Kingdom) should be recognised and enforced by a Russian court (subject to the qualifications provided for in the convention and requirements established by Russian legislation). As of September 2002, the Arbitrazh Procedural Code of the Russian Federation came into force providing for the procedure of recognition and enforcement of foreign court judgements and introducing the exhaustive list of grounds for refusal of such recognition and enforcement. However, the Russian procedural legislation might be further changed and, therefore, there may be further grounds preventing foreign court judgements from being recognised and enforced in the Russian Federation.

In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgement or any foreign arbitral award in the Russian Federation.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

This Offering Circular includes the following financial statements and financial information:

- Audited parent company financial statements of NTMK for the years ended 31 December 2002 and 31 December 2001 prepared in accordance with International Financial Reporting Standards (“IFRS”). Ernst & Young (CIS) Limited in their audit report expressed a qualified opinion on these financial statements. The opinion was qualified for (a) the effects of such adjustments, if any, as might have been determined to be necessary had the auditors been able to examine evidence as to the carrying value of a certain portion of assets under construction of NTMK with a carrying value of U.S.\$ 15,730,000 and U.S.\$ 20,645,000 as of 31 December 2002 and 31 December 2001, respectively, and a certain portion of machinery and equipment of NTMK with a carrying value of U.S.\$ 3,683,000 and U.S.\$ 0 as of 31 December 2002 and 31 December 2001, respectively; and (b) the omission of consolidated financial statements.
- Audited parent company financial statements of ZapSib for the years ended 31 December 2002 and 31 December 2001 prepared in accordance with IFRS. Ernst & Young (CIS) Limited in their audit report expressed a qualified opinion on these financial statements. The opinion was qualified for the omission of consolidated financial statements.
- Audited consolidated financial statements of Ferrotrade UK for the years ended 31 December 2002 and 31 December 2001 prepared in accordance with IFRS. Ernst & Young (CIS) Limited in their audit report expressed an unqualified opinion on these financial statements.
- Pro forma consolidated financial information of Mastercrocft for the years ended 31 December 2002 and 31 December 2001. Ernst & Young (CIS) Limited issued an examination report on this financial information.

Mastercrocft was incorporated on 31 December 2002. The pro forma consolidated financial information of Mastercrocft included in this Offering Circular relates to the periods before the incorporation of Mastercrocft and includes the historical financial statements of Mastercrocft’s subsidiaries acquired by Mastercrocft after its incorporation, adjustments to eliminate intragroup balances and adjustments to give effect to the acquisitions of subsidiaries by Mastercrocft as if those acquisitions had taken place on 31 December 2000.

The pro forma consolidated financial information of Mastercrocft included in this Offering Circular includes, in addition to the financial statements of NTMK, ZapSib and Ferrotrade UK, the financial statements of Lakemill Trading & Investments Limited (“**Lakemill**”), Tradeline Enterprises Limited (“**Tradeline**”) and Logicmind Investments Limited (“**Logicmind**”). Lakemill, Tradeline and Logicmind (all subsidiaries of Mastercrocft) hold shares in NTMK and ZapSib. In the financial statements of Lakemill, Tradeline and Logicmind included in this Offering Circular, their investments in NTMK and ZapSib are accounted for under the cost method. Lakemill is required under IFRS to consolidate ZapSib. Tradeline is required under IFRS to account for its investment in NTMK under the equity method. Logicmind is required under IFRS to account for its investment in ZapSib under the equity method. The fact that Lakemill, Tradeline and Logicmind accounted for their investments in NTMK and ZapSib under the cost method did not have an impact on the pro forma consolidated financial information of Mastercrocft included in this Offering Circular, because all intra-group balances and transactions, including intra-group capital investments, are eliminated in the pro forma consolidated financial information of Mastercrocft.

Unless otherwise defined, EBITDA represents net profit (loss) reported in the financial statements prepared in accordance with IFRS, before the following items: gain (loss) on extinguishment of debts; extraordinary items; gain (loss) on disposal of property, plant and equipment; depreciation and amortization; amortization of negative goodwill; interest income; interest expense; income tax expense (benefit), tax-related fines and penalties for the year ended 31 December 2001, impairment of investments, gain (loss) on net monetary position, net foreign exchange gains (losses), minority interest in profit (loss) from ordinary

activities, minority interests in extraordinary items. Because all companies do not calculate EBITDA identically, the presentation of EBITDA contained herein may not be comparable to other similarly entitled measures of other companies.

Currencies and Exchange Rates

In this Offering Circular, the following currency terms are used:

- “U.S. dollar”, “Dollar”, or “U.S.\$” means the lawful currency of the United States of America;
- “Rouble” or “RUR” means the lawful currency of the Russian Federation;
- “EUR”, “Euro” or “€” means the lawful currency of the member states of the European Union that adopted the single currency introduced at the start of the third stage of the European economic and monetary union pursuant to the Treaty establishing the European Union, as amended; and
- “Pounds sterling” or “GBP” means the lawful currency of the United Kingdom.

Solely for the convenience of the reader, and except as otherwise stated, this Offering Circular contains translations of some Rouble amounts into U.S. dollars at a conversion rate of RUR 31.7844 to U.S.\$ 1, which was the official exchange rate quoted by the CBR on 31 December 2002. None of the Issuer, any of the Guarantors and Evraz Group make any representation that the Rouble amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars at the above exchange rate or at any other rate.

Corresponding figures

According to International Accounting Standard (“IAS”) 21, The Effects of Changes in Foreign Exchange Rates, and its interpretations, the measurement currency of NTMK and ZapSib, which reflects the economic substance of the underlying events and circumstances of NTMK and ZapSib, is the Rouble. NTMK and ZapSib operate in Russia. In the years ended 31 December 2001 and 31 December 2002, the Russian economy suffered from the effects of hyperinflation, defined, among other things, as an economy in which the cumulative inflation rate over three years is approaching, or exceeds, 100 per cent.

Thus, as required by IAS 29, Financial Reporting in Hyperinflationary Economies, the financial statements of NTMK and ZapSib, prepared on a historical cost basis, have been restated so that all reported amounts, including the corresponding figures for the previous periods, are expressed in terms of the value of the measurement currency at 31 December 2002, the date of the most recent balance sheets of NTMK and ZapSib presented in this Offering Circular. For presentation purposes, the financial statements of NTMK and ZapSib have been translated into U.S. dollars, the presentation currency, at the exchange rate as of 31 December 2002 (RUR 31.7844/U.S.\$ 1).

The measurement currency of the Issuer, Mastercroft, Ferrotrade UK and Ferrotrade Gibraltar is the U.S. dollar. The measurement currency of NTMK and Zap Sib is the Rouble. All financial information of the Issuer and the Guarantors, including the corresponding figures for the previous periods, is presented in U.S. dollars.

Rounding

Some numerical figures included in this Offering Circular have been subject to rounding adjustments. Accordingly, numerical figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that preceded them. Unless otherwise specified, all percentages have been rounded to the nearest one-tenth of per cent.

Units

The term “tonne” as used herein means a metric tonne. A metric tonne is equal to 1,000 kilograms or 2,204.62 pounds.

References to a “billion” are to a thousand million.

SUMMARY

This summary may not contain all the information that may be important to prospective purchasers of the Notes and, therefore, should be read in conjunction with this entire Offering Circular, including the more detailed information regarding Evraz Group's business and the IFRS Financial Statements included elsewhere in this Offering Circular. The information set forth under "Risk Factors" should be carefully considered. Certain statements in this Offering Circular include forward-looking statements that also involve risks and uncertainties as described under "Forward Looking Statements".

The Issuer

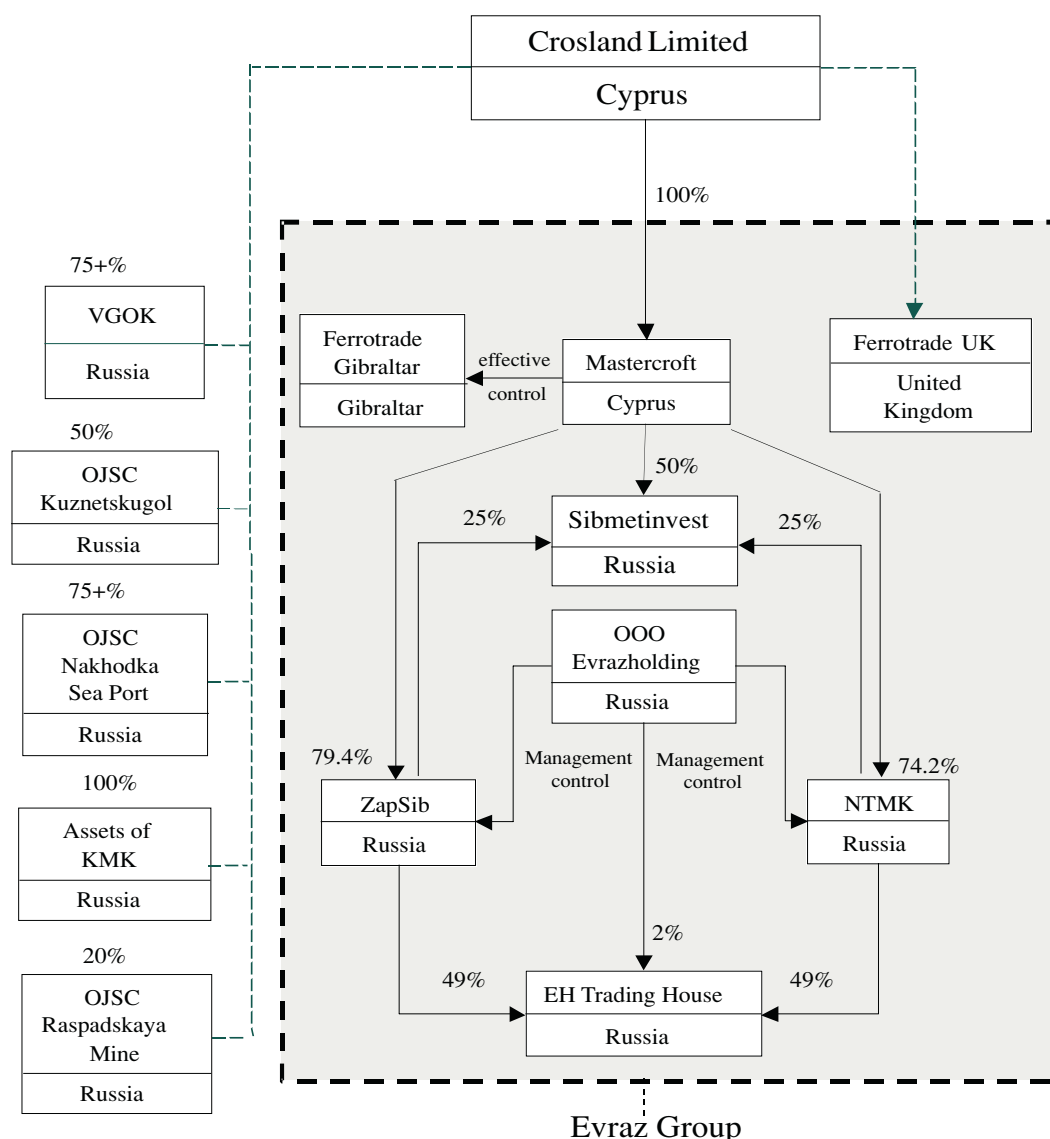
EvrazSecurities S.A. is a company incorporated as a société anonyme under the laws of the Grand Duchy of Luxembourg. Shares in the Issuer are held by Financial Trustees Limited, a company organised under the laws of the British Virgin Islands, with office in Mill Mall, P.O. Box 964, Road Town, Tortola, British Virgin Islands and TMF Corporate Services S.A., a company organised under the laws of the Grand Duchy of Luxembourg, having its registered office at 33, boulevard du Prince Henry, L-1724 Luxembourg.

Evraz Group

Evraz Group is one of the largest steel production conglomerates and industrial groups in the Russian Federation. Evraz Group is a group of companies owned by, or affiliated with, Mastercraft. Evraz Group's principal operating assets are shares in two integrated steel production companies – NTMK (74.2 per cent. shareholding as of 1 September 2003) and ZapSib (79.4 per cent. shareholding as of 1 September 2003). The combined production of NTMK and ZapSib in 2002 amounted to 11 million tonnes of steel (compared to 10.8 million tonnes of steel in 2001), ranking Evraz Group one of the largest producers of steel in Russia and the 16th-17th largest steel company in the world. In the first three months of 2003, Evraz Group's steel production reached 2.80 million tonnes (compared to 2.59 millions tonnes in the same period of 2002). Evraz Group's revenues based on pro forma consolidated financial information of Mastercraft included in this Offering Circular and earnings before interest, taxes, depreciation and amortisation ("**EBITDA**") in 2002 amounted to U.S.\$ 2,064 million and U.S.\$ 327 million, respectively (compared to U.S.\$ 2,083 million and U.S.\$ 127 million, respectively in 2001). In the first three months of 2003, Evraz Group's revenues were U.S.\$ 645 million and EBITDA equalled U.S.\$ 170 million.

Evraz Group is part of a wider group of businesses referred to herein as the "Crosland Group". Crosland Limited is a limited liability company incorporated in Cyprus, and its principal business is to function as a holding company for the Crosland Group.

Below is a chart outlining the general structure of the Crosland Group (the “**Crosland Group**”) and Evraz Group (the “**Evraz Group**”) (shareholding percentages accurate as of 1 September 2003). A more detailed description of Evraz Group can be found in the section headed “Business” below.



Crosland Limited holds shares in NTMK and ZapSib through wholly-owned subsidiaries of Mastercraft. In addition to controlling interests in NTMK and ZapSib, the assets of the Crosland Group include shares in a number of other Russian companies, namely OJSC Vysokogorsky Mining and Processing Integrated Works (“**VGOK**”), OJSC Kuznetskugol, OJSC Rapskaya Mine and OJSC Nakhodka Commercial Sea Port. The Crosland Group has also acquired assets of OJSC Kuznetsk Iron & Steel Plant (“**KMK**”) which were offered for sale as part of KMK’s recently completed liquidation. It is intended that a portion of the issue proceeds of the Notes would be used by Evraz Group to acquire some of those assets currently held at the Crosland level.

Strategy

Evraz Group is guided by the following major aims:

- ***Achieve lowest-cost steel production.*** Evraz Group's management believes that producing lowest-cost steel products is key for ensuring the competitiveness of its plants. To achieve lowest-cost production, Evraz Group must control the supply and price of its raw materials, maximise its steel production volumes, and ensure that the production technology used by its plants is sufficiently up-to-date to allow Evraz Group to produce competitive (but not overengineered) products. Evraz Group plans to acquire further mining and steel production assets. Technologically, Evraz Group intends, in the near future, to upgrade its steel production plants to 100 per cent. continuous casting technology and shut down the Siemens-Martin furnaces.
- ***Maintain its position as one of the largest steel companies in Russia.*** Evraz Group's management believes that maintaining critical mass is crucial to the group's success in the future. Large size allows Evraz Group to realise economies of scale through a favourable bargaining position with suppliers, transportation companies, and off-takers. Being one of the largest steel groups in Russia allows Evraz Group to gain access to, and influence, decision makers at all political and regulatory levels. This reduces any potential political risks that may affect the group's business.

The Crosland Group has also acquired assets of KMK which were offered as part of KMK's recently completed liquidation. Those assets are currently being held at the Crosland level and it is intended that such assets will be acquired by Evraz Group.

- ***Maintain a leading position in long products in Russia.*** Evraz Group intends to maintain its leading position in the production of rails and other related products and also construction steel.

Evraz Group's management is aware of the impact of rail transportation costs on the prices of its products. By being the near monopoly supplier of rails and related products, Evraz Group will obtain more leverage in negotiating with the railway authorities regarding increasing its prices in line with price increases set by the government for the use of railways. The recent acquisition of KMK's assets is an important step in this direction in that it places Evraz Group in a near monopoly position as a producer in the Russian rails market.

In addition, Evraz Group intends to concentrate on production of construction steel products which would allow Evraz Group to maintain its position as one of the major suppliers of steel to one of the fastest growing and dynamic sectors of the Russian economy.

As part of the above aims of Evraz Group's strategy, a range of potential acquisitions is being considered. In order to secure the continuous supply of iron ore and coal, Evraz Group is contemplating acquiring a stake in VGOK by purchasing VGOK's shares from Crosland Limited's subsidiaries, acquiring stakes in the iron ore mines in Kuzbass and Krasnoyarsk regions and mines that could supply sinter and iron ore to ZapSib. Evraz Group is also considering acquiring interests in energy production facilities to ensure electricity and heat energy supply to its production facilities.

- ***Achieve a balance between export and domestic sales with an increased focus on Russian domestic market.*** Evraz Group's management believes (i) that demand in the domestic market is less volatile than in the export markets, (ii) that the domestic market growth is more sustainable and easier to forecast and (iii) that it is easier to sell higher value-added products in the Russian domestic market. Accordingly, Evraz Group intends to increase its presence on the Russian domestic market. In particular, Evraz Group plans to develop its business to benefit from increased steel consumption in the Russian Federation (and, in particular, by Russian construction and oil and gas sectors). Evraz Group is also seeking to develop its export sales and look for new export markets (including Iran and Canada) in order to mitigate any potential adverse effects from fluctuations in domestic demand and to maintain flexibility in terms of production sales.

- ***Build own distribution for sales in the domestic market.*** Instead of relying on third-party traders to sell the products produced by NTMK and ZapSib, Evraz Group intends to develop its own domestic distribution network through EvrazHolding Trading House (“**EH Trading House**”). It is expected that this will allow Evraz Group to build a longer-term relationship with its domestic customers as well as to increase its sales prices by eliminating intermediaries and reduce receivables risk.
- ***Simplify the structure of its operating companies.*** As a legacy of the way in which major operating companies were structured in the past, NTMK and ZapSib own a number of assets that are ancillary to their core activities, mainly social infrastructure assets. Evraz Group intends to rationalise and simplify its operations by transferring some of these social infrastructure assets to municipal authorities and divesting or, in some cases, closing down certain of these companies. This may result in laying off, redundancy or transfer of the relevant employees to other businesses.

Competitive Strengths

Evraz Group’s principal competitive advantages include:

Size: The combined size of Evraz Group’s operating assets establishes Evraz Group as an important component of the Russian economy and allows it to realise significant economies of scale. Being one of the largest steel producers in the Russian Federation also gives Evraz Group a strong bargaining position when negotiating the procurement prices with its suppliers (thus reducing the cost of produced metal) and sale prices with its principal customers.

Low Production Costs: Evraz Group benefits from being able to produce hot steel at a cost of less than U.S.\$ 115 per tonne at NTMK and ZapSib. This is among the lowest of such production costs in the industry.

Product Mix Composition: Evraz Group focuses on the production of, and enjoys a dominant market position in, long products (including rails, rebars, beams, slabs) allowing it to avoid direct competition in domestic and export markets with Severstal, Magnitogorsk Iron and Steel Plant (“**MMK**”) and Novolipetsk Iron and Steel Plant (“**NLMK**”), which concentrate on flat steel products.

Co-ordinated Sales: Consolidated marketing and distribution, through EH Trading House in the domestic markets and Ferrotrade UK (to be replaced by Ferrotrade Gibraltar following the migration of the trading function in the export markets), allows Evraz Group to achieve competitive pricing and payment terms, as well as to establish more efficient direct control with end customers.

Customer Relationship: Evraz Group has an established relationship with its customer base. Among its long-term customers in Russia are Ministry of Railroad Transportation of the Russian Federation (“**MPS**”), Sinarsky Pipe Plant and Pervouralsky Pipe Plant. Major international customers include Duferco (Switzerland), VSC Steel (Hong Kong), Tycoons Worldwide (Thailand), Linkful Metals (Hong Kong), Dong Kuk (South Korea) and Southern Natsteel (China).

Resilience of Products to Tariff Barriers: 74 per cent. of Evraz Group semi-finished products are exported. Semi-finished products are not commonly subject to import tariffs and quotas, and exports of these products are, therefore, more stable than those of higher value-added products. In addition, semi-finished products are sold entirely in the spot market and their sales can be redirected between markets to maximise margins.

Credit Ratings

Evraz Group (represented by Mastercroft as the holding company of Evraz Group) has received a long-term foreign currency rating of B1 from Moody’s Investors Services Limited and B from Fitch Ratings Ltd. The Notes are to be rated B3 by Moody’s Investors Services Limited and B by Fitch Ratings Ltd. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.

THE OFFERING

Issuer	EvrazSecurities S.A.
Guarantors	Mastercrocft Limited OJSC Nizhny Tagil Iron and Steel Plant OJSC West Siberian Iron and Steel Plant Ferrotrade & Co. (acting through its general partner) Ferrotrade Limited
Issue	8.875 per cent. Guaranteed Notes due 2006
Amount	U.S.\$150,000,000
Issue Price	99.357 per cent. of the principal amount of the Notes
Maturity Date	25 September 2006
Trustee	J.P. Morgan Corporate Trustee Services Limited
Principal Paying Agent	JPMorgan Chase Bank, London Branch
Paying Agent	J.P. Morgan Bank Luxembourg S.A.
Interest	The Notes will bear interest from and including 25 September 2003 at a rate of 8.875 per cent. per annum payable semi-annually in arrear on 25 March and 25 September in each year commencing on 25 March 2004.
Form and Denomination	The Notes will be issued in bearer form, in the denomination of U.S.\$ 10,000 each and will be initially represented by the Temporary Global Note. Interests in the Temporary Global Note will be exchangeable for interests in the Permanent Global Note. Interests in the Permanent Global Note will only be exchangeable for Notes in definitive form in the limited circumstances described under “Summary of Provisions relating to the Notes while represented by the Global Notes”.
Status of the Notes	The Notes are direct, unconditional and, subject to Condition 4, unsecured obligations of the Issuer which rank <i>pari passu</i> , without any preference among themselves, with all other outstanding, present and future, unsecured and unsubordinated obligations of the Issuer.
Guarantee	The payment of the principal and interest in respect of the Notes and all other moneys payable by the Issuer under the Trust Deed has been unconditionally and irrevocably guaranteed on a joint and several basis by the Guarantors (see Condition 3 (<i>Guarantee</i>)).
Covenants	The Conditions of the Notes contain restrictions on certain activities of the Issuer, the Guarantors and certain subsidiaries of the Guarantors, including limitation on indebtedness and on giving guarantees in respect of certain indebtedness, limitation on restricted payments, limitation on transactions with affiliates, limitation on liens and limitation on consolidation, merger and sale of assets (see Condition 4 (<i>Covenants</i>)).
Cross Default	The Notes contain a cross default provision in respect of certain Indebtedness (as defined in Condition 10 (<i>Events of Default</i>)) of the Issuer, any Guarantor or any Restricted Subsidiary (as so defined)

	in excess of U.S.\$7.5 million (or its equivalent in another currency) (see Condition 10 (<i>Events of Default</i>)).
Ratings	<p>The Notes are to be rated B3 by Moody’s Investors Service Limited and B by Fitch Ratings Ltd.</p> <p>A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation.</p>
Early Redemption at the Option of the Issuer	The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date at the amount equal to the sum of their Applicable Premium and principal amount together with accrued interest to the date of redemption, subject to notification provisions as specified in Condition 7.3 (<i>Redemption at the Option of the Issuer</i>).
Redemption for Taxation Reasons	The Issuer may redeem the Notes, in whole but not in part, at their principal amount together with interest accrued to but excluding the date of redemption in the event of certain changes in taxation by Luxembourg, the Russian Federation, the United Kingdom, the British Virgin Islands, Gibraltar or Cyprus (see Condition 7.2 (<i>Redemption for Taxation Reasons</i>)).
Listing	Application has been made to list the Notes on the Luxembourg Stock Exchange.
Selling Restrictions	The Notes have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Notes may be sold in other jurisdictions (including the United Kingdom, the Russian Federation, Luxembourg, Cyprus, Gibraltar, Austria, Belgium, France, Germany, Hong Kong, Italy, Japan, The Netherlands, Singapore, Spain or Switzerland) only in compliance with applicable laws and regulations. See “Subscription and Sale”.
Governing Law and Arbitration	The Notes, the Trust Deed, the Deeds of Guarantee and the Agency Agreements (as defined below) will be governed by English law and contain provisions for arbitration in London, England.
Use of Proceeds	The net proceeds from the issue of the Notes will be on-lent by the Issuer to Mastercroft which will on-lend those funds to Sibmetinvest. Sibmetinvest intends to use the loan proceeds to fund acquisitions of mining and steel production assets as well as for general corporate purposes of companies within Evraz Group.
Investment Considerations	An investment in the Notes involves a high degree of risk. See “Risk Factors”.
Security Codes	<p>ISIN: XS0176677184</p> <p>Common Code: 017667718</p>
Clearing	Euroclear and Clearstream, Luxembourg.

SUMMARY CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

The following table summarises Evraz Group's sales by market in 2001 and 2002.

Evraz Group's Sales

(excluding intra-group sales)

	2001	2002
	(thousand tonnes)	
Domestic Sales	4,654	5,078
Export Sales	4,709	4,624
Total	<u>9,363</u>	<u>9,702</u>

Evraz Group's sales strategy is aimed at achieving balanced sales mix (its steel products are sold both in the domestic and export markets) with increasing focus on the domestic Russian market. While the spread between domestic and export prices varies depending on the particular product, domestic prices are generally 10 per cent. higher than the ex-works export prices. In addition, domestic sales are more stable and operating margins are also higher in the domestic market. As a result, the share of domestic sales has gradually been increased and, in 2002, equalled 52 per cent. (as compared to 48 per cent. in 2001) of the total production of Evraz Group.

The following tables set out in summary form pro forma consolidated balance sheet and pro forma consolidated income statement information relating to Mastercrocft. Such information is derived from the pro forma consolidated financial information of Mastercrocft as at and for the years ended 31 December 2002 and 31 December 2001. Such pro forma consolidated financial information, together with the examination report of Ernst & Young (CIS) Limited and the accompanying notes, appear elsewhere in this Offering Circular. The summary financial information presented below should be read in conjunction with such pro forma consolidated financial information, reports and the notes thereto.

PRO FORMA SUMMARY CONSOLIDATED BALANCE SHEETS

	31 December 2002	31 December 2001
	(unaudited)	(unaudited)
	(U.S.\$ thousands)	
ASSETS		
Non-current assets		
Property, plant and equipment, net	985,148	1,082,485
Negative goodwill	(136,706)	(168,910)
Other non-current assets	71,909	83,080
	<u>920,351</u>	<u>996,655</u>
Current assets		
Inventories	235,570	211,578
Trade and other receivables, net	107,438	134,915
Other current assets	166,341	140,944
Cash and cash equivalents	15,748	7,660
	<u>525,097</u>	<u>495,097</u>
TOTAL ASSETS	<u>1,445,448</u>	<u>1,491,752</u>
EQUITY AND LIABILITIES		
Total equity	440,799	324,100
Minority interest	138,942	137,977
Total non-current liabilities	321,740	405,399
Total current liabilities	543,967	624,276
TOTAL EQUITY AND LIABILITIES	<u>1,445,448</u>	<u>1,491,752</u>

PRO FORMA SUMMARY CONSOLIDATED INCOME STATEMENTS

	Year ended 31 December	
	2002	2001
	(unaudited)	(unaudited)
	(U.S.\$ thousands)	
Revenues	2,064,150	2,083,398
Cost of revenues	(1,604,821)	(1,816,319)
Amortisation of negative goodwill	32,204	20,044
Gross profit	491,533	287,123
Selling, general and administrative expenses	(241,658)	(257,158)
Tax-related fines and penalties	(15,396)	(110,501)
Foreign exchange losses, net	(14,022)	(24,931)
Gain on net monetary position	82,990	172,951
Other operating expenses	(46,026)	(30,413)
Profit from operating activities	257,421	37,071
Interest expense	(62,284)	(31,957)
Interest income	1,026	-
Gain on extinguishment of debts	46,787	138,190
Profit before income taxes	242,950	143,304
Income tax (expense) benefit	(9,161)	41,550
Minority interest	(573)	(11,786)
Net profit from ordinary activities	233,216	173,068
Extraordinary item – gain on extinguishment of debts under the Settlement Agreement (net of income tax of U.S.\$ 599 and U.S.\$ 38,568, respectively)	1,899	106,709
Minority interest in extraordinary item	(392)	(25,181)
NET PROFIT	234,723	254,596

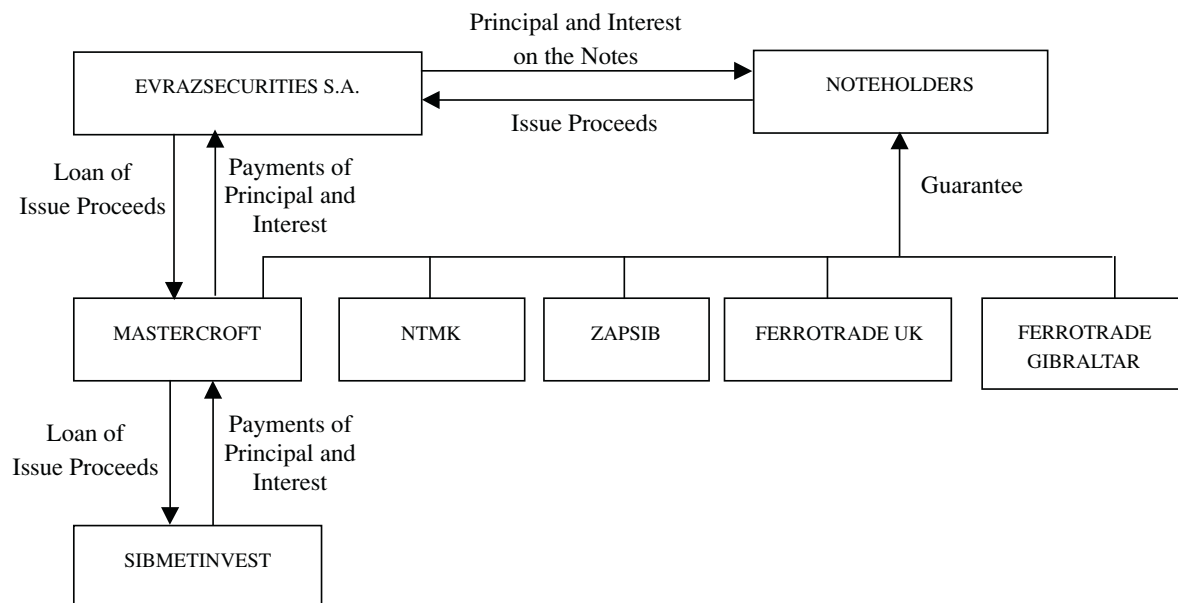
DESCRIPTION OF THE TRANSACTION

The Issuer has been established to issue the Notes and lend the proceeds of the Notes to Mastercroft which will on-lend those proceeds to Sibmetinvest (see “Use of Proceeds” below). The Notes will be constituted by the Trust Deed which will be further supported by the Deeds of Guarantee. Pursuant to the Trust Deed and Deeds of Guarantee, all amounts at any time becoming due and payable in respect of the Notes will be unconditionally and irrevocably guaranteed, on a joint and several basis, by the Guarantors. All payments in respect of the Notes will, subject to certain exceptions and as more fully described in the Conditions of the Notes (the “**Conditions**”), be made without withholding or deduction for any taxes imposed by the Russian Federation, Cyprus, the United Kingdom, the British Virgin Islands, Gibraltar or the Grand Duchy of Luxembourg, as the case may be, unless the withholding or deduction is required by law. In that event, the Issuer or, as the case may be, the Guarantors shall (subject to the Conditions) pay such increased amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding or deduction been required. All, but not some only, of the Notes are subject to redemption at their principal amount (together with accrued interest to but excluding the date of redemption) at the option of the Issuer at any time in the event of certain changes affecting taxation in any Relevant Jurisdiction (as defined in Condition 8 (*Taxation*)). All, but not some only, of the Notes may also be redeemed at the option of the Issuer at their Applicable Premium (as defined in Condition 10.2 (*Interpretation*)) and principal amount (together with accrued interest to but excluding the date of redemption) on any following Interest Payment Date (see “Conditions of the Notes” - “Redemption and Purchase”).

The Conditions, among other things, restrict, with certain significant exceptions, the ability of the Issuer, Mastercroft and Restricted Subsidiaries (as defined in the Conditions) to (i) incur indebtedness; (ii) pay dividends on, redeem or purchase capital stock, or make investments; (iii) engage in transactions with affiliates; (iv) create or incur liens; (v) sell assets; (vi) in the case of Restricted Subsidiaries, guarantee indebtedness; (vii) issue or sell capital stock of Restricted Subsidiaries (viii) limit the ability of Restricted Subsidiaries to pay dividends and other indebtedness; (ix) declare subsidiaries as Unrestricted Subsidiaries (as defined in the Conditions); (x) engage in activities unrelated to the steel and mining industry; and (xi) undertake certain mergers and consolidations.

In the case of an Event of Default (as defined in the Conditions), the Trustee may, subject as provided in the Conditions and the Trust Deed, give notice to the Issuer and each of the Guarantors that the Notes are immediately due and repayable at their principal amount together with accrued interest.

The following diagram illustrates the structure of the proposed transaction⁽¹⁾:



- (1) Additional entities may, as provided in Condition 4, become guarantors of the amounts payable under the Notes and the Trust Deed. Furthermore, under Condition 4 Ferrotrade UK may cease to be a Guarantor prior to the maturity of the Notes.

RISK FACTORS

Investment in the Notes involves a high degree of risk. Potential investors should carefully review this entire Offering Circular and in particular consider all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest. These risk factors, individually or together, could have a material adverse effect on Evraz Group's business, operations and financial condition and/or the rights under the Notes of the holders of the Notes.

Risks Related to the Evraz Group

Corporate Governance

The corporate affairs of NTMK and ZapSib (the “**Russian Guarantors**”) are governed by laws governing companies incorporated in Russia and by the Russian Guarantors’ charters and internal regulations adopted pursuant to their respective charters and such laws. The rights of shareholders and the responsibilities of members of Russian Guarantors’ boards of directors and their management boards under Russian law are different from, and may be subject to, certain requirements not generally applicable to, corporations organised in the United States, the United Kingdom and other jurisdictions.

A principal objective of the securities laws of the United States, the United Kingdom and other countries is to promote full and fair disclosure of all material corporate information to the public. Russian Guarantors are subject to Russian law requirements which require the publishing of, among other things, annual financial statements prepared in accordance with Russian accounting rules and information on material events relating to the relevant company (such as major acquisitions and increases in share capital). However, there is less publicly available information concerning the Russian Guarantors than there is for listed companies in the United States, the United Kingdom or certain other jurisdictions.

In addition, Mastercraft’s shareholders indirectly control the Guarantors. These shareholders will, for the foreseeable future, be able to elect all or the majority of the members of the Russian Guarantors’ boards of directors and determine the outcome of matters requiring majority shareholder approval without recourse to any minority shareholders. Their interests may differ from those of the Noteholders.

Related Party Transactions

Related party transactions constitute a considerable part of the business of each of the Guarantors. In particular, both NTMK and ZapSib rely to a large extent on the supply of raw materials from its related parties (including VGOK (as defined below)) and sales to Ferrotrade UK and, in due course, Ferrotrade Gibraltar (see “Ferrotrade Gibraltar”—“Migration of Ferrotrade UK’s Business to Ferrotrade Gibraltar”).

Although each of the Guarantors endeavours to conclude such related party transactions on an “arm’s length basis”, conflicts of interest may arise between the Guarantors and their related parties resulting in the conclusion of transactions on terms not determined by market forces. Entering into transactions with related parties on non arm’s-length basis could have a material adverse effect on the business, financial condition, results of operations and prospects of each of the Guarantors and Evraz Group.

In addition, subject to certain exceptions, the Russian Joint Stock Company Law provides that a transaction must be approved as an “interested party transaction” if, among other things, one of the shareholders of a company (“**Company A**”), which, together with its affiliates, holds at least 20 per cent. of voting shares in Company A, also holds (again, separately or together with its affiliates) 20 per cent. or more of shares in a company (“**Company B**”) that is a counterparty to a transaction with Company A, whether directly or as a representative or intermediary, or a beneficiary to a transaction. Russian law requires approval of such a transaction by a majority vote of “disinterested directors” or “disinterested shareholders” of Company A generally depending on the size of the transaction. Failure to approve an “interested party” transaction in accordance with the procedure set out in the Joint Stock Company Law will render such transaction voidable and those transactions may be challenged in court by the company, any of its shareholders or, on commencement of insolvency proceedings in relation to any of NTMK and ZapSib, by a court-appointed arbitration manager of either NTMK or ZapSib. In the case of the Guarantors, an interested

party transaction may be challenged by NTMK or ZapSib, the minority shareholders of NTMK and ZapSib or, on commencement of insolvency proceedings in relation to any of NTMK and ZapSib, by a court appointed arbitration manager of either NTMK or ZapSib.

Stability of Steel and Steel Products Exports

In the first quarter of 2003, billets, slabs and blooms accounted for 40 per cent. of the combined production of Evraz Group and constituted approximately 38 per cent. of its revenues (compared to 2002 year-end numbers of 45 per cent. and 42 per cent., respectively). Evraz Group sells almost all produced billets and semi-finished products (including slabs and blooms) on export markets. While export sales of steel and steel products may potentially be subject to protectionist measures (including tariffs and quotas), at the moment, no such protectionist measures are established with respect to semi-finished products. Exports of these products are, therefore, more stable than those of higher value-added products. However, there can be no assurance that this situation will remain and if such additional protectionist measures are introduced, this may have a negative impact on Evraz Group's export revenues and adversely affect its ability to meet its financial obligations, including those under the Notes.

Rapid Growth

Evraz Group has experienced rapid growth and development, particularly in the size of its assets, in a relatively short period of time and may continue to do so to meet its strategic objectives. Such growth entails significant investment, as well as increased operating costs. Overall growth in Evraz Group's business also requires greater allocation of management resources from daily operations. In addition, the management of such growth (including management of multiple operating assets) will require, among other things, the continued development of Evraz Group's financial and information management control systems, the ability to integrate newly acquired assets with existing operations, the ability to attract and retain sufficient numbers of qualified management and other personnel, the continued training of such personnel and the presence of adequate supervision. Failure to manage such growth, while at the same time maintaining adequate focus on the existing assets of Evraz Group, could have a material adverse effect on the business, financial condition, results of operations and prospects of Evraz Group.

Also, as a matter of Russian law, acquisitions of large stakes or portions of assets in Russian companies are generally subject to the prior approval of the Russian Ministry of Anti-Monopoly Policy and Support of Entrepreneurial Activity. Obtaining such prior approval can be a complex process and may take up to two months which may delay or even prevent Evraz Group from purchasing the relevant shares or assets, or delay the acquisition process. Failure or delay in obtaining such anti-monopoly approval may have a material adverse effect on the business, financial condition and prospects of Evraz Group.

Reliance on Russian Economic Growth

Evraz Group's business strategy was developed based on the assumptions that economic growth in Russia and the modernisation, restructuring and upgrade of the Russian physical infrastructure will continue, thus creating an increased demand for its steel and steel products and maintaining the stable level of steel prices in Russia. While the demand in Russia for steel and steel products has gradually increased and steel prices in Russia have remained stable, there is no assurance that this trend will continue. Any slowdown in the development of the Russian economy or any reduction in the investment budgets of governmental agencies and companies responsible for the modernisation of Russia's physical infrastructure may have a material adverse effect on the business, financial condition and prospects of Evraz Group.

Insolvency and Amicable Settlement Agreements

In the second half of 1990s, insolvency proceedings were initiated with respect to the Russian Guarantors. While these proceedings were terminated following the conclusion of amicable settlement agreements with the creditors of the Russian Guarantors, such termination was subject to the compliance with the terms (including payment schedules) of those agreements.

The insolvency proceedings have affected the Russian Guarantors' reputation and increased their cost of capital. While the performance of the Russian Guarantors have improved following the termination of the insolvency proceedings and the Russian Guarantors continue to comply with the terms of the amicable settlement agreements, if for any reason the Russian Guarantors were unable to perform their obligations under the amicable settlement agreements, such non-performance may result in the resumption of insolvency proceedings with respect to the Russian Guarantors. This may have a material adverse effect on Evraz Group's business, financial condition, results of operations and prospects in the Issuer and the Guarantors not being able to perform their respective obligations under the Notes and the Guarantee.

Financial Information is Limited and Qualified

The financial information available in relation to Evraz Group is limited and the audit reports on that information contain qualified opinions set out in full in the "F" pages of this document. Accordingly, the financial statements and other financial information presented in this document in relation to Evraz Group may not enable prospective investors to accurately assess the business, results of operations or financial condition of Evraz Group or any Guarantor.

Evraz Group has grown rapidly in recent years and has been the subject of a multi-stage reorganisation as described under "Business", "History" and "Reorganisation of the Original Group and Structure of Evraz Group". Prior to 31 December 2000, the Russian Guarantors did not prepare their financial statements in accordance with IFRS and only limited financial information is available with respect to the financial periods prior to this date.

The reports of the auditors on the financial statements of NTMK and Zapsib as at and for the years ended 31 December 2002 and 31 December 2001 were qualified. Furthermore, the examination report on the pro forma consolidated financial information of Mastercraft refers to these and other qualifications. There can be no assurance that such qualifications will enable prospective investors to accurately assess the business, results of operations or financial condition of NTMK, Zapsib and/or Mastercraft.

The financial statements for Mastercraft have been prepared on a pro forma basis. Such pro forma financial statements may not reflect what the business, results of operations or financial condition of Mastercraft would have been for the relevant periods if Mastercraft had been in existence for such periods and undertaken the transactions referred to in note 2 on page F-22.

No financial statements prepared in accordance with IFRS are available to prospective investors for NTMK and ZapSib in relation to any period since 31 December 2002. Accordingly, there can be no assurance that the current business, results of operations or financial condition of each of such Guarantors is not materially worse than as presented in the financial statements included in this document.

Limited Control Over Iron Ore and Coal Supply

The Russian Guarantors' performance results can depend on the continuous supply of iron ore and coal from their principal suppliers. While Evraz Group is contemplating acquiring certain assets related to the supply of iron ore and coal in order to obtain greater control over iron ore and coal supply (see "Strategy"), there can be no assurance that such assets will be acquired or on what terms. Any discontinuation of iron ore or coal supply to the Russian Guarantors may have a material adverse effect on Evraz Group's business, financial condition, results of operations and prospects.

Dependence on MPS for Sales of Railway Products

NTMK sells nearly all of its railway products (which accounted for approximately 9.6 per cent. of Evraz Group's revenues in 2002) to the MPS. While demand from the MPS for railway products has been consistent over the last few years, any reduction in the MPS's investment budget or introduction of requirements to decrease the sale prices of railway products may have an adverse effect on NTMK's and Evraz Group's business, financial condition, results of operations and prospects.

Geographical Location and Transportation Costs

NTMK and ZapSib's geographical locations are less favourable than those of the other major Russian steel producers. As a result, Evraz Group's transportation costs are generally higher than those of its competitors. Furthermore, other Russian steel producers for the most part have easier access to sea ports in Western Russia. While Severstal and NLMK products are mainly shipped via the Baltic sea ports, NTMK and ZapSib products are shipped via the Far East sea ports (Vladivostok and Nakhodka). Such unfavourable geographical locations and higher transportation costs may affect Evraz Group's ability to compete successfully both on the domestic and export markets.

Energy and Transportation Tariffs

In Russia, electricity, gas and transportation tariffs are regulated by federal and regional authorities. Over the last few years, RAO UES (the national electricity grid operator), Gazprom and MPS have been increasing tariffs for their services. While Evraz Group endeavours to factor in these increases when adjusting prices for its products, there can be no assurance that Evraz Group would continue to be able to pass on the above increased costs to its customers and that as a result such tariff increases will not affect Evraz Group's competitive position vis-à-vis its competitors and, therefore, such increases may have a material adverse effect on its business, financial condition, results of operations and prospects.

Management of Two Plants

While the production facilities of the majority of Russian steel producers are concentrated within one production site (with a relatively limited product range), Evraz Group operates two steel plants. While this allows Evraz Group to offer its customers a wider product range, operating two plants may lead to difficulties with respect to coordination and management of supply, production and distribution and may have a negative impact on Evraz Group's business, financial condition, results of operations and prospects.

Insufficient Insurance Cover for ZapSib

In addition to the mandatory insurance policies required by Russian law, NTMK has established and maintains comprehensive insurance on all property and equipment of NTMK with AIG Russia. However, no such insurance cover currently exists with respect to the assets of ZapSib. While ZapSib intends to establish an insurance cover in respect of ZapSib's property and operating assets (similar to that of NTMK), there can be no assurance that ZapSib will not incur uninsured losses of assets or be subject to a claim which is not covered, or not sufficiently covered, by insurance. Any such loss or claim may have a material adverse effect on the business, results of operations and financial condition of ZapSib and Evraz Group.

Restrictions Imposed by Financial and Other Covenants

The Conditions will, among other things, restrict, with certain exceptions, the ability of the Issuer, Mastercort and Restricted Subsidiaries (as defined in the Conditions) to (i) incur indebtedness; (ii) pay dividends on, redeem or purchase capital stock, or make investments; (iii) engage in transactions with affiliates; (iv) create or incur liens; (v) sell assets; (vi) in the case of Restricted Subsidiaries, guarantee indebtedness; (vii) issue or sell capital stock of Restricted Subsidiaries (viii) limit the ability of Restricted Subsidiaries to pay dividends and other indebtedness; (ix) declare subsidiaries as Unrestricted Subsidiaries (as defined in the Conditions); (x) engage in activities unrelated to the steel and mining industry; and (xi) undertake certain mergers and consolidations.

Although these restrictions are intended to preserve the creditworthiness of the Notes, such restrictions may hinder the ability of Evraz Group to implement its business strategy and may have a negative adverse effect on Evraz Group's business, financial condition, results of operations and prospects.

Ability To Incur Substantially More Debt; Effective Subordination

Evraz Group may be able to incur substantial additional debt in the future. The Conditions governing the Notes and the Guarantees permit the entire Evraz Group to do so, subject to certain limitations. Such new

debt could be secured, subject again to certain limitations, and because the Issuer depends upon payments from Evraz Group to make payments on the Notes, would thus be effectively senior to the Notes and the Guarantees as to the assets securing such debt. New debt borrowed by any non-guarantor subsidiaries of the Evraz Group would also be structurally senior to the Notes. If new debt is added to Evraz Group's current debt levels, the risks it now faces could be intensified. As of 31 December 2002, pro forma consolidated liabilities of Mastercrocft were U.S.\$ 865.7 million and pro forma consolidated equity of Mastercrocft was U.S.\$ 440.8 million.

In addition, the non-guarantor operating subsidiaries of Evraz Group are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to the Notes or the Guarantees or to make any funds available for these purposes, whether by dividends, loans, distributions or other payments, and do not guarantee the payment of interest on, or principal of, the Notes. Any right that the Issuer or any Guarantor has to receive any assets of such an operating subsidiary upon the liquidation or reorganisation of such a subsidiary, and the consequent right of holders of Notes to realise proceeds from the sale of such a subsidiary's assets, may be effectively subordinated to the claim of that subsidiary's creditors, including trade creditors and holders of debt issued by that subsidiary.

Age of Production Facilities

Certain of the production facilities at NTMK and ZapSib were commissioned in the 1940s, 1950s or 1960s. Due to the age of these production facilities, funds not currently planned to be allocated to any investment programme of Evraz Group (see "Business"—"Capital Investment Programme" and "Investment Programme" sections with respect to each of NTMK and ZapSib) may have to be applied towards their maintenance or replacement. Furthermore, the older facilities are not as flexible as more modern ones with respect to product mix. These factors may have a material adverse effect on Evraz Group's business, financial condition, results of operations and prospects.

Dependence on Key Management

Evraz Group is dependent on its senior management for the implementation of its strategy and the operation of its day-to-day activities. In addition, personal connections and relationships of members of senior management are important to the conduct of its business. While the current senior management has been in place for an average 5 years, no assurance can be given that key members of the senior management will remain at Evraz Group.

Risks Relating to the Steel Industry

Industry Cyclicity

The steel industry is highly cyclical in nature and the financial condition and result of operations of steel producing companies are generally affected by the trends in the local and global economies. The current international trading environment is difficult due to a decline in the intensity of steel use in western industrial countries, as well as significant increases in steel production capacity in a number of developing countries. This has resulted in the oversupply of steel products and, as a consequence, in low prices for steel during 2001 and 2002. The difficult conditions in the export markets have only been partially offset by growth in the Russian economy which has resulted in increased domestic demand for Evraz Group's steel. The Evraz Group's operational results will be influenced by fluctuations in the demand for the produced steel and steel products and the price thereof, and any decrease in steel consumption or the price of steel and steel products may adversely affect the ability of the Evraz Group to meet its financial obligations.

Domestic Competition

The domestic markets for steel and steel products enjoy a very high level of competition. Evraz Group competes principally with large Russian and certain foreign (mainly Ukrainian) steel producers. Some of these producers have established a strong presence in certain regions of the Russian Federation, benefit from lower transportation costs and easier access to sea ports and may have access to greater financial resources

than Evraz Group. There can be no assurance that Evraz Group will continue to maintain its current market position in the future, which may have a material adverse effect on the business, financial condition, results of operations and prospects of Evraz Group.

In 2002 the Russian Government established customs duties of 21 per cent. on rebars (which accounted for approximately 14 per cent. of the combined production of NTMK and ZapSib in 2002) imported into the Russian Federation from the Ukraine for a period of three years. It also initiated anti-dumping investigations and established quotas with respect to certain types of rolled steel products imported from the Ukraine and Kazakhstan. However, there can be no assurance that these import restriction measures (including import tariffs and quotas) will be maintained in the future. See “Competition” in Appendix B below.

Any liberalisation of the customs regime or abolishment of the anti-dumping measures is likely to result in increased competition on the Russian steel market. Furthermore, the continuing negotiations on the terms of Russia’s accession to the World Trade Organisation may result in the undertaking of the Russian Federation to liberalise its steel market and lift import restrictions with respect to steel and related products. The occurrence of any of the above events may have a negative impact on Evraz Group’s business, financial condition, results of operations and prospects.

Rouble Appreciation

The principal operating assets of Evraz Group are located in the Russian Federation. Evraz Group calculates its costs and generates most of its revenues in Roubles. The appreciation of the Rouble against the U.S. dollar in real terms over the last two years has increased the costs of production of Evraz Group. The continued appreciation of the Rouble against the U.S. dollar may adversely affect Evraz Group’s competitiveness in the export markets (particularly, in South East Asia and the Middle East) and may have a negative impact on Evraz Group’s business, financial condition, results of operations and prospects.

Raw Materials, Energy and Transportation Costs

The continuous supply of raw materials (including coal and iron ore) and energy (electricity) is fundamental in the context of the steel production. The availability of raw materials and electricity are influenced by a number of factors which may be beyond Evraz Group’s control including, but not limited to, supply interruptions, price and transport costs fluctuations, planned reform of the Russian electricity system and natural disasters. Furthermore, the increases of tariffs in 2003 have resulted in increased raw materials’ and electricity prices. Steel and steel products manufactured by Evraz Group are delivered to its customers predominantly through the rail freight network operated by the Railways Ministry of the Russian Federation. The increase in the rail freight tariffs in 2003 has increased Evraz Group’s transportation costs. Although Evraz Group endeavours to adjust its prices to factor in increases in the cost of production of steel and steel products (including energy and transportation tariffs), it may not be able to maintain this practice going forward. Furthermore, any continuous interruption in the supply of raw materials or electricity, or increase in the their costs could adversely affect Evraz Group’s business, financial condition, results of operations and prospects.

Environmental Risks

An important risk inherent in the steel production industry in Russia is the impact of operations on the environment. Pollution risks and related clean-up charges are impossible to assess unless environmental audits are performed systematically and environmental laws are strictly enforced. Russian environmental legislation consists of numerous federal and regional regulations, which often conflict with each other and are difficult to interpret consistently. As a result, full environmental compliance may not always be ensured. Furthermore, Russian federal, regional and local authorities may engage in more stringent enforcement of existing laws and regulations. Although the measures taken by operating subsidiaries of Evraz Group to comply with health, safety and environmental laws and regulations have not had a material adverse effect on their financial condition or results of operation to date, no assurance can be given that the costs of such compliance in the future or that environmental related liabilities incurred by operating subsidiaries of Evraz

Group, will not be material. Evraz Group incurs, and expects to continue to incur, substantial capital and operating costs in order to seek to comply with increasingly complex laws and regulations covering the protection of environment and human health and safety. These include costs to reduce certain types of air emissions and discharges and to remediate contamination at various owned facilities and at third party sites where Evraz Group's products or wastes have been handled or disposed. New laws and regulations, the imposition of more rigid requirements with respect to obtaining licences, or the discovery of previously unknown areas of contamination may require further expenditures to modify operations, install pollution control equipment, perform site clean-ups, curtail or cease operations, or result in Evraz Group having to pay fees or fines or make other payments for discharges or other breaches of environmental standards. Any of the above factors may have a material adverse effect on Evraz Group's business, financial condition, results of operations and prospects.

Risks Relating to the Russian Federation

Set out below is a description of some of the risks relevant to an investment linked to a business operating in the Russian Federation.

Political and Social Risks

Since 1980s, the former Union of Soviet Socialist Republics, including the Russian Federation, has been undergoing a substantial political transformation from a centrally-controlled command economy under communist rule to a pluralist market-oriented democracy. There can be no assurance that the political and economic reforms necessary to complete such a transformation will continue. In its current relatively nascent stage, the Russian political system is vulnerable to the population's dissatisfaction with reforms, social and ethnic unrest and changes in governmental policies, any of which could have a material adverse effect on Evraz Group and its ability to meet its obligations under the Notes.

The Russian Government has been highly unstable, having experienced five changes in prime minister since March 1998, as well as the resignation of former President Yeltsin on 31 December 1999 and the subsequent election of President Putin on 26 March 2000. Although political stability has improved substantially since Mr Putin's election, the various government institutions and the relations between them, as well as the Russian Government's policies and the political leaders who formulate and implement them, are subject to rapid change. Any major changes in, or rejection of, current policies favouring political or economic reform by the Russian Government may have a material adverse effect on Evraz Group.

Russia is a federation of republics, territories, regions, districts, cities of federal importance and autonomous areas. The delineation of authority among the constituent entities of the Russian Federation and federal government authorities is often uncertain and at times contested. Lack of consensus between local and regional authorities and the Russian Government often results in the enactment of conflicting legislation at various levels, and may result in political instability. The lack of consensus may have negative economic effects on Evraz Group, which could have a material adverse effect on its ability to meet its financial obligations.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tension and, in certain cases, military conflict. Russian military and paramilitary forces have been engaged in Chechnya in the recent past and continue to maintain a presence there. The spread of violence, or its intensification, could have significant political consequences. These include the imposition of a state of emergency in some parts of or throughout the Russian Federation. These events could have a material adverse effect on the investment environment in the Russian Federation.

The failure of some Russian companies to pay full salaries on a regular and timely basis, and the failure of salaries and benefits to keep pace with the increasing cost of living, could lead in the future to labour and social unrest. This may have political, social and economic consequences, such as increased support for a renewal of centralised authority, increased nationalism with restrictions on foreign involvement in the Russian economy and increased violence, any of which could have a material adverse effect on Evraz Group.

Economic Risks

Simultaneously with the enactment of political reforms, the Russian Government has been attempting to implement policies of economic reform and stabilisation. These policies have involved liberalising prices, reducing defence expenditures and subsidies, privatising state-owned enterprises, reforming the tax and bankruptcy systems, and introducing legal structures designed to facilitate private, market-based activities, foreign trade and investment.

After an initial post reform period, the Russian economy was characterised by declining industrial production, significant inflation, a managed but unstable currency, rising unemployment and underemployment, high government debt relative to gross domestic product, high levels of corporate insolvency with little recourse to restructuring or liquidation in bankruptcy proceedings, a weak banking system providing limited liquidity to Russian enterprises, widespread tax evasion, high levels of corruption, the penetration of organised crime into the economy, and the impoverishment of a large portion of the Russian population.

The Russian economy has been subject to abrupt downturns. The events and aftermath of 17 August 1998 - the Russian Government's default on its short-term Rouble-denominated treasury bills and other Rouble-denominated securities, the abandonment by the CBR of the Rouble currency band and efforts to maintain the Rouble/U.S. dollar rate within it and the temporary moratorium on certain hard-currency payments to foreign counterparties - led to a severe devaluation of the Rouble, a sharp increase in the rate of inflation, a significant decrease in the credibility of the country's banking system with western financial institutions, significant defaults on hard currency obligations, a dramatic decline in the prices of Russian debt and equity securities, and an inability to raise funds on international capital markets. While the Russian economy has improved in a number of respects since 1998, there can be no assurance that these recent positive trends in the Russian economy will continue or will not be reversed.

Over the past four years, the Russian Federation has experienced economic growth and improved economic stability in certain sectors. However, there can be no assurance that economic growth will continue in the future and the Russian legal system, in particular with respect to bankruptcy proceedings, remains underdeveloped. Tax evasion, extensive impoverishment and the proliferation of organised crime continue to plague the Russian economy.

Although economic conditions in the Russian Federation have improved in the last two and a half years, the prospect still exists of widespread bankruptcy, mass unemployment and the deterioration of certain sectors of the Russian economy. No assurance can be given that reform policies will continue to be implemented and, if implemented, will be successful, that the Russian Federation will remain receptive to foreign trade and investment, or that the Russian economy will improve.

Dependence on High Oil and Gas Prices

As the Russian Federation produces and exports large amounts of oil and gas, the Russian economy is especially vulnerable to the price of such commodities on the world market. While the oil and gas prices remained high over the last few years, there can be no assurance that this trend will continue. Any decline in the oil and gas prices may slow or disrupt the Russian economy, limit the Russian companies' access to capital and have a material adverse effect on the business, financial condition and prospects of Evraz Group.

Funding from International Organisations; Access to the International Capital Markets

The Russian Federation has in the past received substantial financial assistance from several foreign governments and international organisations, including the International Monetary Fund. No assurances can be given that further financial assistance will be made available to the Russian Federation and, without such financial assistance, Russian economic development may be adversely affected.

Moreover, due to previous defaults on certain obligations and other factors, it may be difficult for the Russian Government to raise funds on international capital markets, which may lead to direct or indirect monetary financing of the budget deficit, putting further pressure on inflation and the value of the Rouble.

The considerable external debt of the Russian Federation, as well as the failure to obtain funding from foreign governments and international organisations, or increased rates of inflation or devaluation arising from the need to resort to monetary financing of the budget deficit in the absence of access to the international capital markets, could have a material adverse effect on the Russian economy and consequently on Evraz Group's business, financial condition and results of operations.

Lack of Liquidity

Russian companies may face significant liquidity problems due to a limited supply of domestic savings, few foreign sources of funds, high taxes, limited lending by the banking sector to the industrial sector and other factors. Many Russian companies cannot make timely payments for goods or services and owe large amounts of overdue federal and local taxes, as well as wages to employees. Many Russian companies have also resorted to paying their debts or accepting settlement of accounts receivable through barter arrangements or through the use of promissory notes.

These problems were magnified by a Russian banking crisis in 1995 and by the impact on the Russian banking system of the events of August 1998, which further impaired the ability of the banking sector to act as a consistent source of liquidity to Russian companies. A re-emergence of the problems in the Russian banking system could have a material adverse effect on Evraz Group's business, financial condition and results of operations.

Difficulty in Enforcing Foreign Court Judgements or Arbitral Awards

The Russian Federation is not a party to any multilateral or bilateral treaties with most western jurisdictions for the mutual enforcement of court judgements. Consequently, should a judgement be obtained from a court in any such jurisdictions it is highly unlikely to be given direct effect in Russian courts. The Russian Federation (as successor to the Soviet Union) is a party to the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Accordingly, the Trust Deed and Deeds of Guarantee contain a provision allowing for arbitration of disputes. A foreign arbitral award obtained in a state which is party to that convention (including the United Kingdom) should be recognised and enforced by a Russian court (subject to the qualifications provided for in the convention and requirements established by Russian legislation). As of September 2002, the new Arbitrazh Procedural Code of the Russian Federation came into force providing for the procedure of recognition and enforcement of foreign court judgements and introducing an exhaustive list of grounds for refusal of such recognition and enforcement. However, the Russian procedural legislation might be further changed and, therefore, there may be further grounds preventing foreign court judgements from being recognised and enforced in the Russian Federation. In practice, reliance upon international treaties may meet with resistance or a lack of understanding on the part of a Russian court or other officials, thereby introducing delay and unpredictability into the process of enforcing any foreign judgement or any foreign arbitral award in the Russian Federation.

Russia's Physical Infrastructure

The physical infrastructure of the Russian Federation largely dates back to Soviet times and has not been adequately funded and maintained over the past decades. Particularly affected are the rail and road networks, power generation and transmission, communication systems and building stock. Road conditions throughout the Russian Federation are poor, with many roads not meeting minimum quality requirements. The federal government is actively considering plans to reorganise the nation's rail, electricity and telephone systems. Any such reorganisation may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems.

The deterioration of Russia's physical infrastructure harms the national economy, disrupts the transportation of goods and supplies, adds costs to doing business in Russia and can interrupt business operations. This could directly or indirectly have a material adverse effect on Evraz Group.

Exchange Rates, Exchange Controls and Repatriation Restrictions

In recent years, the Rouble has experienced a significant depreciation relative to the U.S. dollar, particularly following the financial crisis of August 1998. Before the crisis, the CBR had been trying to support the Rouble within a certain band. However, after the dramatic devaluation of the Rouble in 1998, the band was cancelled. The ability of the Russian Government and the CBR to maintain the stability of the Rouble will depend on many political and economic factors, including the ability of the government to control inflation and the availability of foreign currency.

The Rouble is not convertible outside the Russian Federation. A market exists within the Russian Federation for the conversion of Rouble into other currencies, but it is limited in size and is subject to rules limiting the purposes for which conversion may be effected. The relative stability of the exchange rate of the Rouble against the U.S. dollar since 1999 has mitigated risks associated with conversion, but no assurance can be given that such stability will continue.

Lack of Reliable Official Data

Official statistics and other data published by Russian federal, regional and local governments, and federal agencies are substantially less complete or reliable than those of western countries, and there can be no assurance that the official sources from which certain of the information set forth herein has been drawn are reliable or complete. Official statistics may also be produced on different bases than those used in western countries. Any discussion of matters relating to the Russian Federation herein must therefore be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Taxation

Taxes payable by Russian companies are substantial and include value added tax, excise duties, profit taxes, payroll-related taxes, property taxes and other taxes. Historically, the system of tax collection has been relatively ineffective, resulting in the imposition of new taxes in an attempt to increase government revenues. However, the Russian Government has initiated reforms of the tax system that have resulted in some improvement in the tax climate.

Russian tax laws and regulations are subject to frequent change, varying interpretation and inconsistent enforcement. In some instances, even though unconstitutional, Russian tax authorities have applied certain taxes retroactively. In addition to the usual tax burden imposed on Russian taxpayers, these conditions complicate tax planning and related business decisions. In addition, tax laws are unclear with respect to deductibility of certain expenses. This uncertainty could possibly expose Evraz Group to significant fines and penalties and to enforcement measures despite its best efforts at compliance, and could result in a greater than expected tax burden.

In addition, transfer pricing legislation became effective in the Russian Federation on 1 January 1999. This legislation allows the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, provided that the transaction price differs from the market price by more than 20 per cent. and in respect of all transactions involving the trading of securities and derivatives. Controlled transactions include transactions with related parties, commodity swap (barter) transactions, foreign trade transactions and transactions with unrelated parties if the price of the transactions differs from the price of similar transactions by more than 20 per cent. within a short period of time. To date, there has been no formal guidance as to how these rules will be applied. If the tax authorities imposed significant additional tax liabilities as a result of transfer pricing adjustments, it could have a material adverse impact on Evraz Group. Russia's largely ineffective tax collection system and continuing budget requirements increase the likelihood that Russia will impose arbitrary or onerous taxes and penalties in the future, which could have a material adverse effect on Evraz Group's business, financial condition and results of operations.

It is expected that Russian tax legislation will become more sophisticated and introduce additional revenue raising measures. Although it is unclear how these provisions will operate, introduction of these

provisions may affect Evraz Group's overall tax efficiency and may result in significant additional taxes becoming payable. Although Evraz Group will undertake to minimise such exposures with effective tax planning, it cannot offer any assurance that additional tax exposure will not arise while the Notes are outstanding. Additional tax exposure could have a material adverse effect on the business, financial condition and results of operations of Evraz Group.

Risks Related to the Notes

Risk of Early Redemption

In the event that the Issuer is obliged to increase the amounts payable under the Notes including in the event that any tax is or becomes applicable to such payments, the Issuer may, at its option, prepay the Notes. If the Issuer redeems the Notes under such circumstances, the redemption prices will be equal to 100 per cent. of the principal amount of the Notes plus any accrued interest and additional amounts due. See "Conditions of the Notes - Redemption for Taxation Reasons". Also, all, but not some only, of the Notes may be redeemed at the option of the Issuer at their Applicable Premium (as defined in Condition 10.2 (*Interpretation*)) and their principal amount (together with accrued interest to but excluding the date of redemption) on any following Interest Payment Date (as defined in the Conditions of the Notes).

No Existing Market and Market Volatility

Application has been made to list the Notes on the Luxembourg Stock Exchange. However, there can be no assurance that an active trading market for the Notes will develop, or, if one does develop, that it will be maintained. If an active trading market for the Notes does not develop or is not maintained, the market price of the Notes may be adversely affected. The market for securities issued by Russian companies is influenced by economic and market conditions in other Eastern European countries and other emerging markets and has experienced volatility in the past. Although international markets have stabilised since the Asian crisis in 1997 and the devaluation of the Rouble in 1998, there can be no assurance that events will not cause a recurrence of such market volatility or that such volatility will not adversely affect the price of the Notes.

Russian Insolvency Legislation

Russian insolvency legislation is in a state of constant development and is subject to varying, often conflicting, interpretations. Under the Civil Code of the Russian Federation (the "**Civil Code**"), in the event of insolvency of any of the Russian Guarantors, its obligations to the Noteholders under the Guarantee would be subordinated to: (a) workplace injury obligations; (b) severance pay, employment-related obligations and royalties; (c) creditors secured by pledge; and (d) tax and other obligatory payments due to the Government.

However, under the Law On Insolvency (Bankruptcy) (the "**Insolvency Law**") pledged assets will be separated from the other assets of an insolvent entity and claims of creditors secured by pledges will be settled with the proceeds of sale of such pledged assets. Claims of creditors secured by pledged assets will be subordinated to: (i) injury obligations and moral damages obligations and (ii) severance pay, employment-related obligations and royalties, if such obligations arose prior to the creation of pledge. Claims of creditors secured by pledged assets which remain unsatisfied following the sale of pledged assets would be ranked as claims of unsecured creditors (i.e., after satisfaction of the obligations mentioned in (i) and (ii) above, irrespective of the moment of creation thereof). This creditors' ranking, however, is not consistent with the Civil Code and it is yet to be seen how the Insolvency Law will be implemented. There is not enough precedent to be able to predict how claims of the Noteholders against the Russian Guarantors under the Guarantee would be resolved in the event of insolvency.

Upon insolvency of any of the Russian Guarantors, the Noteholders' claims under the Guarantee will be effectively subordinated to claims of creditors of the relevant Russian Guarantor who has the benefit of security in the form of pledges over production assets and inventory.

Approval of the Guarantee

The Russian Joint Stock Company Law provides that a transaction must be approved as an “interested party transaction” if, among other things, one of the shareholders of the company in question, which, together with its affiliates, holds at least 20 per cent. of the company’s voting shares also holds (again, separately or together with its affiliates) 20 per cent. or more of shares (participatory interests) in a company that is a counterparty to a transaction, whether directly or as a representative or intermediary, or a beneficiary to a transaction.

Russian law requires approval by a majority vote of “disinterested directors” or “disinterested shareholders” generally depending on the size of the transaction. Failure to approve an “interested party” transaction in accordance with the procedure set out in the Joint Stock Company Law will render such transaction voidable and those transactions may be challenged in court by the company, any of its shareholders or, on commencement of insolvency proceedings with respect to a company, by a court appointed external manager of that company.

The concept of “interested party” transaction is defined with reference to the concepts of “affiliate”, “group of persons”, “transaction” and “beneficiary” which may be subject to different interpretations. Therefore, it is not entirely clear whether the issue of the Guarantee by the Russian Guarantors constitutes an “interested party” transaction. In particular, the Russian courts may consider the issue of the Guarantee to be an “interested party transaction” if they construe the concepts of “transaction” and “beneficiary” in a wider sense as including any other transactions or commitments entered into by other entities as part of the issue of the Notes and indirect beneficiaries of the Guarantee, respectively. The possible construction of the issue of the Guarantee as an “interested party” transaction by a Russian court may lead to the invalidity of the Russian Guarantors’ obligations under the Guarantee

At the moment, there is no Russian court practice which would support such a wider construction of the issue of the Guarantee as an “interested party” transaction and the risk of such interpretation of Russian law is considered to be remote. However, there can be no assurance that Russian courts would maintain this position in the future.

Ferrotrade UK

Ferrotrade UK is a limited partnership registered under the Limited Partnership Act 1907, which acts through its general partner Marteck International Ltd. Marteck International Ltd. is a holding company which was the ultimate holding company of Evraz Group prior to the incorporation of Mastercroft. If Marteck International Ltd. becomes insolvent, Ferrotrade UK will be dissolved and the Notes will become immediately due and repayable at their principal amount together with accrued interest.

In addition, although under English law a claim of any creditor of Marteck International Ltd. which relates to the assets of Ferrotrade UK will rank behind any claim by a Noteholder pursuant to the Guarantee and any other creditor of Ferrotrade UK, laws of other jurisdictions may not recognise such ranking of claims. If a creditor of Marteck International Ltd. makes claims to the assets of Ferrotrade UK in a jurisdiction which does not recognise such ranking of claims, this may have a material adverse effect on the ability of Ferrotrade UK to make payments under the Guarantee.

Russian Taxation

In general, interest or other income payments on borrowed funds made by a Russian entity to a non-resident are subject to Russian withholding tax at a rate of 20 per cent. if a lender is not an individual, unless they are reduced or eliminated pursuant to the terms of an applicable double tax treaty. If the Issuer fails to pay any amounts due under the Notes, the Guarantors are obliged to pay such amounts due under the Notes. Due to the lack of clarity in Russian tax legislation, there is a risk that payments under the Guarantee from the Russian Guarantors may be characterised as Russian source income that would be subject to a withholding tax.

Under the Conditions and the Deeds of Guarantee the Russian Guarantors are obliged to pay additional amounts as may be necessary to ensure that the Noteholders receive a net amount that will not be less than the amount they would have received in the absence of such withholding.

Under the Russian tax legislation, each person is required to pay taxes individually, whereas gross-up provisions can be interpreted as requiring the Russian Guarantors to pay tax liabilities of the Issuer and the Noteholders. Accordingly, it is not entirely clear whether the gross-up arrangements the Russian Guarantors intend to enter into under the Guarantee are enforceable under Russian law.

Withholding Tax on the Sale of Notes

If an individual Noteholder (which is considered to be a non-resident for Russian tax purposes) sells Notes to a Russian tax resident, there is a risk that the proceeds from such sale may be subject to a withholding tax on any gain realised, subject to any available double tax treaty relief. There is no assurance that advance double tax treaty relief would be granted, and obtaining a refund can involve considerable practical difficulties. The withholding tax rate applicable to proceeds from the sale of Notes to a purchaser within Russia by an individual non-resident holder is 30 per cent. The imposition or possibility of the imposition of this withholding tax could adversely affect the value of the Notes. See “Taxation” below.

Credit Ratings

Outstanding Eurobonds of the Russian Federation are rated “Ba2” (outlook stable) by Moody’s Investor Services, “BB” (outlook stable) by Standard & Poor’s Ratings Services, a division of the McGraw-Hill Companies, Inc. and “BB+” (outlook stable) by Fitch, Inc. Evraz Group (represented by Mastercroc as the holding company of Evraz Group) has received a senior implied rating of B1 from Moody’s Investors Services Limited and a foreign currency senior unsecured rating of B from Fitch Ratings Ltd. The Notes are to be rated B3 by Moody’s Investors Services Limited and B by Fitch Ratings Ltd. Any negative change in the credit rating of either of the Russian Federation or Evraz Group could adversely affect the trading price for the Notes. See “Risks Relating to the Russian Federation” above. A negative change in the credit rating of one or more corporate Russian borrowers could also adversely affect the trading price for the Notes. A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation.

CONDITIONS OF THE NOTES

The following is the text of the Conditions of the Notes which (subject to modification) will be endorsed on each Note in definitive form (if issued):

The U.S.\$150,000,000 8.875 per cent. Guaranteed Notes due 2006 (the **Notes**, which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 17 and forming a single series with the Notes) of Evraz Securities société anonyme (the **Issuer**) are constituted by a Trust Deed dated 25 September 2003 (the **Trust Deed**) made between the Issuer, Mastercroft Limited (**Mastercroft**), Ferrotrade & Co. (acting through its general partner Marteck International Ltd.) (**Ferrotrade UK**), Ferrotrade Limited (**Ferrotrade Gibraltar** and, together with Mastercroft, Ferrotrade UK, NTMK (as defined below) and ZapSib (as defined below), the **Guarantors** and each a **Guarantor**) and J.P. Morgan Corporate Trustee Services Limited (the **Trustee**, which expression shall include its successor(s)) as trustee for the holders of the Notes (the **Noteholders**) and the holders of the interest coupons appertaining to the Notes (the **Couponholders** and the **Coupons** respectively). In addition to the guarantee contained in the Trust Deed, the Notes have the benefit of a Deed of Guarantee dated 25 September 2003 (the **NTMK Deed of Guarantee**) made between OJSC Nizhny Tagil Iron and Steel Plant (**NTMK**) and the Trustee, and a Deed of Guarantee dated 25 September 2003 (the **ZapSib Deed of Guarantee**) made between OJSC Siberian Iron and Steel Plant (**ZapSib**) and the Trustee.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed, the NTMK Deed of Guarantee and the ZapSib Deed of Guarantee. Copies of the Trust Deed, the NTMK Deed of Guarantee, the ZapSib Deed of Guarantee, the Paying Agency Agreement dated 25 September 2003 (the **Agency Agreement**) made between the Issuer, Mastercroft, Ferrotrade UK, Ferrotrade Gibraltar, the initial Paying Agents named therein and the Trustee, the NTMK Paying Agency Agreement dated 25 September 2003 (the **NTMK Agency Agreement**) made between the Issuer, NTMK, the initial Paying Agents named therein and the Trustee and the ZapSib Paying Agency Agreement dated 25 September 2003 (the **ZapSib Agency Agreement**) made between the Issuer, ZapSib, the initial Paying Agents named therein and the Trustee are available for inspection during normal business hours at the registered office for the time being of the Trustee, being at the date of issue of the Notes at Trinity Tower, 9 Thomas More Street, London E1W 1YT and at the specified office of each of the Paying Agents. The Noteholders and the Couponholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the NTMK Deed of Guarantee, the ZapSib Deed of Guarantee, the Agency Agreement, the NTMK Agency Agreement and the ZapSib Agency Agreement applicable to them.

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Notes are in bearer form, serially numbered, in the denomination of U.S.\$10,000 each with Coupons attached on issue.

1.2 Title

Title to the Notes and to the Coupons will pass by delivery.

1.3 Holder Absolute Owner

The Issuer, the Guarantors, any Paying Agent and the Trustee may (to the fullest extent permitted by applicable laws) deem and treat the bearer of any Note or Coupon as the absolute owner for all purposes (whether or not the Note or Coupon shall be overdue and notwithstanding any notice of ownership or writing on the Note or Coupon or any notice of previous loss or theft of the Note or Coupon or of any trust or interest therein) and shall not be required to obtain any proof thereof or as to the identity of such bearer.

2. STATUS OF THE NOTES

The Notes and the Coupons are direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and (subject as provided above) rank and will rank *pari passu*, without any preference among themselves, and *pari passu* in right of payment with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

3. GUARANTEE

3.1 Guarantee

The payment of the principal and interest in respect of the Notes and all other moneys payable by the Issuer under or pursuant to the Trust Deed has been unconditionally and irrevocably guaranteed on a joint and several basis by the Guarantors (the **Guarantees** and each a **Guarantee**) in the Trust Deed, the NTMK Deed of Guarantee and the ZapSib Deed of Guarantee.

3.2 Status of the Guarantee

The obligations of each Guarantor under the relevant Guarantee constitute direct, unconditional and (subject to the provisions of Condition 4) unsecured obligations of each Guarantor and (subject as provided above) rank and will rank *pari passu* in right of payment with all other outstanding unsecured and unsubordinated obligations of such Guarantor, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

4. COVENANTS

Limitation on Indebtedness

None of the Issuer, Mastercrocft or any other Guarantor will, and none of the Issuer, Mastercrocft or any other Guarantor will cause or permit any of its Restricted Subsidiaries to, create, issue, incur, assume, guarantee or otherwise in any manner become directly or indirectly liable for the payment of or otherwise incur, contingently or otherwise (collectively, **incur**), any Indebtedness (including any Acquired Indebtedness), unless such Indebtedness is incurred by (i) Mastercrocft, Ferrotrade UK or any of Mastercrocft's Restricted Subsidiaries or (ii) a Securitisation Entity in connection with a Qualified Securitisation Transaction that is Non-Recourse Indebtedness with respect to the Issuer, Mastercrocft, any other Guarantor or any of their respective Restricted Subsidiaries (except for Standard Securitisation Undertakings); in each case if, on the date of such incurrence and after giving effect thereto on a *pro forma* basis, no Potential Event of Default (as defined in the Trust Deed) or Event of Default has occurred and is continuing, and Mastercrocft's Consolidated Leverage Ratio for the two most recent semi-annual periods for which financial statements are available preceding the incurrence of such Indebtedness taken as one period is less than 3.0:1.0.

Notwithstanding the foregoing, Mastercrocft and, to the extent specifically set forth below, the Issuer, the Guarantors and Restricted Subsidiaries of Mastercrocft may incur each and all of the following and, in each case only if, on the date of such incurrence and after giving effect thereto on a *pro forma* basis no Potential Event of Default or Event of Default has occurred and is continuing (collectively, the **Permitted Indebtedness**):

- (a) Indebtedness of the Issuer pursuant to the Notes (but not any further Notes issued pursuant to Condition 17) and Indebtedness of the Guarantors pursuant to their respective Guarantees;
- (b) Indebtedness of Mastercrocft or any Guarantor owing to a Restricted Subsidiary of Mastercrocft; provided that any disposition or transfer of any such Indebtedness to a Person (other than a disposition or transfer to a Restricted Subsidiary of Mastercrocft) shall be deemed to be an incurrence of such Indebtedness by the Issuer or other obligor not permitted by this paragraph (b);

- (c) Indebtedness of a Restricted Subsidiary of Mastercrocft owing to the Issuer, Mastercrocft or another Restricted Subsidiary of Mastercrocft; provided that any disposition or transfer of any such Indebtedness to a Person (other than a disposition or transfer to the Issuer, Mastercrocft or a Restricted Subsidiary of Mastercrocft) shall be deemed to be an incurrence of such Indebtedness by the obligor not permitted by this paragraph (c);
- (d) obligations of the Issuer, Mastercrocft, any Guarantor or any Restricted Subsidiary of Mastercrocft entered into in the ordinary course of business for *bona fide* business purposes and not for speculative purposes (i) pursuant to Interest Rate Agreements designed to protect the Issuer, Mastercrocft or any Restricted Subsidiary against fluctuations in interest rates in respect of Indebtedness of the Issuer or any Restricted Subsidiary as long as the notional amount of such obligations do not exceed the aggregate principal amount of such Indebtedness then outstanding or (ii) under any Currency Hedging Agreements or Commodity Derivative Agreements; provided, however, that such Currency Hedging Agreements and Commodity Derivative Agreements do not increase the Indebtedness or other obligations of the Issuer, Mastercrocft or any Restricted Subsidiary of Mastercrocft outstanding, other than as a result of fluctuations in foreign currency exchange rates or commodity prices, as applicable or by reason of fees, indemnities and compensation payable thereunder;
- (e) Indebtedness of Mastercrocft or any Restricted Subsidiary of Mastercrocft incurred in respect of Capital Expenditure Indebtedness (including, without limitation, guarantees permitted to be incurred in respect of joint ventures described in the definition of “Permitted Investments”) of Mastercrocft or any Restricted Subsidiary of Mastercrocft, provided that (i) the aggregate principal amount of such Indebtedness does not exceed the Fair Market Value of the property or assets acquired or constructed (including the cost of design, development, construction, installation or integration thereof), (ii) the property or assets acquired or constructed are used in a Related Business; and (iii) the aggregate principal amount outstanding of all Indebtedness Incurred under this paragraph (e) does not exceed U.S.\$200 million; and
- (f) Indebtedness of the Issuer, Mastercrocft or any Restricted Subsidiary of Mastercrocft incurred pursuant to paragraphs (a) or (b) represented by Permitted Refinancing Indebtedness.

For purposes of determining compliance with this “*Limitation on Indebtedness*” covenant, in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness permitted by this covenant, Mastercrocft in its sole discretion shall classify such item of Indebtedness and only be required to include the amount of such Indebtedness as one of such types.

For purposes of determining any particular amount of Indebtedness under this “*Limitation on Indebtedness*” covenant, guarantees, Liens or obligations with respect to letters of credit supporting Indebtedness otherwise included in the determination of a particular amount will not be included.

For purposes of determining compliance with this “*Limitation on Indebtedness*” covenant, the principal amount of Indebtedness issued at a price that is less than the principal amount thereof will be equal to the amount of the liability in respect thereof determined in conformity with IFRS. Accrual of interest, accrual of dividends, the accretion of accreted value and the payment of interest in the form of additional shares of Preferred Stock will not be deemed to be an incurrence of Indebtedness for purposes of this covenant.

For purposes of determining compliance with any restriction on the incurrence of Indebtedness in U.S. dollars where Indebtedness is denominated in a different currency, the amount of such Indebtedness will be the U.S. dollar Equivalent determined on the date of such determination; provided, however, that if any such Indebtedness that is denominated in a different currency is subject to a Currency Hedging Agreement with respect to U.S. dollars covering principal amounts payable on such Indebtedness, the amount of such Indebtedness expressed in U.S. dollars will be adjusted to take into account the effect of such agreement. The principal amount of any Indebtedness incurred pursuant to paragraph (f) above incurred in the same currency as the Indebtedness being refinanced will be the U.S. dollar Equivalent of the Indebtedness refinanced determined on the date such Indebtedness being refinanced was initially incurred.

Notwithstanding any other provision of this “*Limitation on Indebtedness*” covenant, the maximum amount that Mastercrocft, the Issuer or a Restricted Subsidiary may incur pursuant to this “*Limitation on Indebtedness*” covenant shall not be deemed to be exceeded, with respect to any outstanding Indebtedness, due solely to the result of fluctuations in the exchange rates of currencies.

Limitation on Restricted Payments

- (a) None of the Issuer, Mastercrocft or any other Guarantor will, and none of the Issuer, Mastercrocft or any other Guarantor will cause or permit any of their respective Restricted Subsidiaries to, directly or indirectly:
 - (i) declare or pay any dividend on, or make any distribution on Mastercrocft’s, Ferrotrade UK’s or the Issuer’s Capital Stock to any Person (other than dividends or distributions payable solely in shares of its Qualified Capital Stock or in options, warrants or other rights to acquire shares of such Qualified Capital Stock);
 - (ii) purchase, redeem, defease or otherwise acquire or retire for value, directly or indirectly, Mastercrocft’s, Ferrotrade UK’s or the Issuer’s Capital Stock or any Capital Stock of any Affiliate of the Issuer held by Persons other than Mastercrocft, the Issuer or a Restricted Subsidiary of Mastercrocft or options, warrants or other rights to acquire such Capital Stock;
 - (iii) make any principal payment on, or repurchase, redeem, defease, retire or otherwise acquire for value, prior to any scheduled principal payment, sinking fund payment or maturity, any Subordinated Indebtedness;
 - (iv) declare or pay any dividend or distribution on any Capital Stock of any Restricted Subsidiary of Mastercrocft or Ferrotrade UK to any Person (other than (A) to the Issuer, Mastercrocft or any of its Restricted Subsidiaries, (B) dividends or distributions made by a Restricted Subsidiary of Mastercrocft on a *pro rata* basis to all stockholders of such Restricted Subsidiary or (C) dividends or distributions payable solely in its Qualified Capital Stock or in options, warrants or other rights to acquire shares of such Qualified Capital Stock); or
 - (v) make any Investment in any Person (other than any Permitted Investments),

(any of the foregoing actions described in paragraphs (i) through (v), other than any such action that is a Permitted Payment (as defined below), collectively, **Restricted Payments**) (the amount of any such Restricted Payment, if other than cash, shall be the Fair Market Value of the assets proposed to be transferred, as determined by the board of directors of the Issuer, whose determination shall be conclusive and evidenced by a board resolution).

- (b) Notwithstanding paragraph (a) above, Mastercrocft and any of its Restricted Subsidiaries may make a Restricted Payment described in paragraph (a) above if (A) immediately before and immediately after giving effect to such proposed Restricted Payment on a *pro forma* basis, no Potential Event of Default or Event of Default shall have occurred and be continuing; (B) immediately before and immediately after giving effect to such Restricted Payment on a *pro forma* basis, Mastercrocft could incur U.S.\$1.00 of additional Indebtedness (other than Permitted Indebtedness) under the provisions described under “*Limitation on Indebtedness*”; and (C) after giving effect to the proposed Restricted Payment, the aggregate amount of all such Restricted Payments declared or made after the date of the Trust Deed does not exceed the sum of:
 - (i) 50 per cent. of the aggregate Consolidated Net Profit of Mastercrocft accrued on a cumulative basis during the period beginning on 1st January, 2003 and ending on the last day of the most recent period for which consolidated financial information of Mastercrocft is available ending prior to the date of the Restricted Payment (or, if such

aggregate cumulative Consolidated Net Profit shall be a loss, minus 100 per cent. of such loss);

- (ii) the aggregate Net Cash Proceeds received after 1st January, 2003 by Mastercrocft either (A) as capital contributions to Mastercrocft in respect of Qualified Capital Stock of Mastercrocft or (B) from the issuance or sale (other than to any of its Subsidiaries) of Qualified Capital Stock of Mastercrocft or any options, warrants or rights to purchase such Qualified Capital Stock of Mastercrocft (except, in each case, to the extent such proceeds are used to purchase, redeem or otherwise retire Capital Stock or Subordinated Indebtedness as set forth below in paragraphs (c)(i) or (c)(ii) below) (and excluding the Net Cash Proceeds from the issuance of Capital Stock financed, directly or indirectly, using funds borrowed from Mastercrocft or any Subsidiary until and to the extent such borrowing is repaid in cash);
- (iii) the aggregate Net Cash Proceeds received after 1st January, 2003 by Mastercrocft (other than from any of its Subsidiaries or Ferrotrade UK) upon the exercise of any options, warrants or rights to purchase Qualified Capital Stock of Mastercrocft (and excluding the Net Cash Proceeds from the exercise of any options, warrants or rights to purchase Qualified Capital Stock financed, directly or indirectly, using funds borrowed from Mastercrocft, Ferrotrade UK or any of their respective Subsidiaries until and to the extent such borrowing is repaid);
- (iv) the aggregate Net Cash Proceeds received after 1st January, 2003 by Mastercrocft from the conversion or exchange, if any, of debt securities or Redeemable Capital Stock of Mastercrocft or its Restricted Subsidiaries into or for Qualified Capital Stock of Mastercrocft plus, to the extent such debt securities or Redeemable Capital Stock were issued after the date of the Trust Deed, the aggregate of Net Cash Proceeds from their original issuance (in the case of Redeemable Capital Stock only to the extent such Redeemable Capital Stock was originally sold for cash or Temporary Cash Investments) (and excluding the Net Cash Proceeds from the conversion or exchange of debt securities or Redeemable Capital Stock financed, directly or indirectly, using funds borrowed from Mastercrocft, Ferrotrade UK or any of their respective Subsidiaries until and to the extent such borrowing is repaid); and
- (v) the amount equal to the net reduction in an Investment that had been a Restricted Payment made by Mastercrocft, Ferrotrade UK or any of their respective Restricted Subsidiaries in any Person resulting from:
 - (A) repurchases or redemptions of such Investments by such Person, proceeds realised upon the sale of such Investment, repayments of loans or advances or other transfers of assets (including by way of dividend or distribution) by such Person to Mastercrocft or any Restricted Subsidiary of Mastercrocft; or
 - (B) the redesignation of Unrestricted Subsidiaries as Restricted Subsidiaries not to exceed, in the case of any Unrestricted Subsidiary, the lesser of the Fair Market Value of Mastercrocft or the relevant Restricted Subsidiary's interest in such Unrestricted Subsidiary and the amount of Investments previously made by Mastercrocft or any Restricted Subsidiary in such Unrestricted Subsidiary,

which amount in each case under this paragraph (v) was included in the calculation of the amount of Restricted Payments; provided, however, that no amount will be included under this paragraph (v) to the extent it is already included in Consolidated Net Profit.

- (c) Notwithstanding the foregoing, and in the case of paragraphs (ii) through (vi) below, so long as no Potential Event of Default or Event of Default is continuing or would arise therefrom, the foregoing provisions shall not prohibit the following actions (each of paragraphs (i) through (vi) being referred to as a Restricted Payment that is a **Permitted Payment**):

- (i) the payment of any dividend within 60 days after the date of declaration thereof, if at such date of declaration such payment was permitted by the provisions of paragraph (b) of this covenant and such payment shall have been deemed to have been paid on such date of declaration;
- (ii) the repurchase, redemption, or other acquisition or retirement for value of any shares of any class of Capital Stock of Mastercrocft in exchange for (including any such exchange pursuant to the exercise of a conversion right or privilege in connection with which cash is paid in lieu of the issuance of fractional shares or scrip), or out of the Net Cash Proceeds of a substantially concurrent issuance and sale for cash (other than to a Subsidiary and excluding the Net Cash Proceeds from the issuance of any Capital Stock financed, directly or indirectly, using funds borrowed from Mastercrocft, Ferrotrade UK or any of their respective Subsidiaries until and to the extent such borrowing is repaid in cash), of other shares of Qualified Capital Stock of or a capital contribution to Mastercrocft; provided that the Net Cash Proceeds from the issuance of such shares of Qualified Capital Stock (to the extent the Net Cash Proceeds are used to repurchase, redeem, acquire or retire for value such Capital Stock) are excluded from paragraph (b)(B) of this covenant;
- (iii) the repurchase, redemption, defeasance, retirement or acquisition for value or payment of principal of any Subordinated Indebtedness in exchange for, or in an amount not in excess of the Net Cash Proceeds of, a substantially concurrent issuance and sale for cash (other than to any Subsidiary of Mastercrocft or Ferrotrade UK) of any Qualified Capital Stock of or a capital contribution to the Issuer; provided that the Net Cash Proceeds from the issuance of such shares of Qualified Capital Stock (to the extent the Net Cash Proceeds are used to repurchase, redeem, defease, retire or acquire such Subordinated Indebtedness) are excluded from paragraph (b)(B) of this covenant;
- (iv) the repurchase, redemption, defeasance, retirement, refinancing, acquisition for value or payment of principal of any Subordinated Indebtedness (other than Redeemable Capital Stock) through the substantially concurrent issuance of new Subordinated Indebtedness of Mastercrocft that qualifies as Permitted Refinancing Indebtedness;
- (v) the repurchase, redemption, defeasance, retirement, refinancing or other acquisition of any Capital Stock of Mastercrocft held by any member of Mastercrocft's (or any of its Subsidiaries) management; provided that the aggregate price paid for all such Capital Stock may not exceed U.S.\$5 million; and
- (vi) any Investment made in a Securitisation Entity in connection with a Qualified Securitisation Transaction, which Investment consists of the transfer of Receivables and Related Assets.

In determining the amount of Restricted Payments permissible under this covenant amounts expended pursuant to paragraphs (i), (v) and (vi) of the immediately preceding paragraph shall be included as Restricted Payments and amounts expended pursuant to paragraphs (ii), (iii) and (iv) shall be excluded. The amount of any non-cash Restricted Payment shall be deemed to be equal to the Fair Market Value thereof at the date of the making of such Restricted Payment.

Limitation on Transactions with Affiliates

None of the Issuer, Mastercrocft or any other Guarantor will, and none of the Issuer, Mastercrocft or any other Guarantor will cause or permit any of their respective Restricted Subsidiaries to, directly or indirectly, enter into any transaction or series of related transactions (including, without limitation, the sale, purchase, exchange or lease of assets, property or services) with any Affiliate of the Issuer, Mastercrocft or any other Guarantor (other than the Issuer, Mastercrocft, any other Guarantor or a Restricted Subsidiary of Mastercrocft) unless such transaction or series of related transactions is entered into in good faith and in writing and:

- (a) such transaction or series of related transactions is on terms that are no less favourable to the Issuer, Mastercrocft or such Restricted Subsidiary, as the case may be, than those that would be available in a comparable transaction in arm's-length dealings with an unrelated third party;
- (b) with respect to any transaction or series of related transactions involving aggregate value in excess of U.S.\$10 million, either (i) such transaction or series of related transactions has been approved by a majority of the Disinterested Directors of the board of directors of Mastercrocft, or in the event there is only one Disinterested Director, by such Disinterested Director, or (ii) Mastercrocft delivers to the Trustee a written opinion of an accounting, appraisal or investment banking firm of international standing, or other recognised independent expert with experience appraising the terms and conditions of the type of transaction or series of related transactions for which an opinion is required, stating that the transaction or series of related transactions is on terms not less favourable than might have been obtained in a comparable transaction at such time on an arms-length basis from a Person who is not an Affiliate; and
- (c) with respect to any transaction or series of related transactions involving aggregate value in excess of U.S.\$20 million, (i) such transaction or series of related transactions has been approved by a majority of the Disinterested Directors of the board of directors of Mastercrocft, or in the event there is only one Disinterested Director, by such Disinterested Director and (ii) Mastercrocft delivers to the Trustee a written opinion of an accounting, appraisal or investment banking firm of international standing, or other recognised independent expert with experience appraising the terms and conditions of the type of transaction or series of related transactions for which an opinion is required, stating that the transaction or series of related transactions is on terms not less favourable than might have been obtained in a comparable transaction at such time on an arms-length basis from a Person who is not an Affiliate,

provided, however, that this provision shall not apply to:

- (i) any employment agreement, collective bargaining agreement, employee benefit arrangements with any officer or director of the Issuer, Mastercrocft or any Restricted Subsidiary of Mastercrocft, including under any stock option or stock incentive plans, entered into in the ordinary course of business;
- (ii) payment of reasonable fees and compensation to employees, officers, directors, consultants or agents in the ordinary course of business;
- (iii) transactions between or among the Mastercrocft and its Restricted Subsidiaries or between or among Restricted Subsidiaries of Mastercrocft;
- (iv) any Restricted Payment, Permitted Payment and any Permitted Investment referred to in paragraph (a) of the definition of Permitted Investment permitted to be made pursuant to the covenant described under "*Limitation on Restricted Payments*" above;
- (v) transactions undertaken pursuant to contractual obligations or rights in existence on the Issue Date (as in effect on the Issue Date) or any amendment thereto after the Issue Date (so long as such amendment is not disadvantageous to the Noteholders in any material respect in the reasonable opinion of the Issuer);
- (vi) transactions with customers, clients, suppliers, purchasers or sellers of goods or services, in each case, in the ordinary course of business and otherwise in compliance with the terms of these Conditions which are on terms at least as favourable to Mastercrocft or the relevant Restricted Subsidiary of Mastercrocft as might reasonably be obtained at such time from an unaffiliated party;
- (vii) sales of Capital Stock (other than Redeemable Capital Stock) of Mastercrocft; or
- (viii) sales or other transfers or dispositions of accounts receivable and other related assets customarily transferred in an asset securitisation transaction involving accounts receivable in

connection with a Qualified Securitisation Transaction, and acquisitions of Permitted Investments in connection with a Qualified Securitisation Transaction.

Limitation on Liens

None of the Issuer, Mastercrocft or any other Guarantor will, and none of the Issuer, Mastercrocft or any other Guarantor will cause or permit any of their respective Restricted Subsidiaries to, directly or indirectly, create, incur, assume, affirm or suffer to exist any Lien (including pursuant to any Sale and Leaseback Transaction) of any kind upon any property or assets of the Issuer, Mastercrocft, any other Guarantor or any of their respective Restricted Subsidiaries, including any shares of stock or intercompany notes or other indebtedness of any such Restricted Subsidiary, owned on the date of the Trust Deed or acquired after the date of the Trust Deed, or any income, profits or proceeds therefrom, or assign or convey any right to receive any income or profits therefrom, unless the Notes (or a Guarantee in the case of Liens of a Guarantor) are directly secured equally and rateably with (or, in the case of Subordinated Indebtedness, prior or senior thereto, with the same relative priority as the Notes or such Guarantee shall have with respect to such Subordinated Indebtedness) the obligation or liability secured by such Lien, except for any Permitted Liens; provided, that the aggregate value of debt secured by such Liens (including Permitted Liens) granted shall not exceed 40 per cent. of Mastercrocft's consolidated net plant property and equipment (including inventory) and 30 per cent. of Mastercrocft's export receivables, calculated on an annualised basis.

Limitation on Sale of Assets

- (a) None of the Issuer, Mastercrocft or any other Guarantor will, and none of the Issuer, Mastercrocft or any other Guarantor will cause or permit any of their respective Restricted Subsidiaries to, directly or indirectly, consummate an Asset Sale unless Mastercrocft, such Guarantor or such Restricted Subsidiary receives consideration at the time of such Asset Sale at least equal to the Fair Market Value of the shares or assets subject to such Asset Sale (as determined by the board of directors of Mastercrocft and evidenced in a board resolution).
- (b) If all or a portion of the Net Cash Proceeds of any Asset Sale are not required to be applied to repurchase or repay permanently any Indebtedness under any Credit Facilities then outstanding as required by the terms thereof, or Mastercrocft, any other Guarantor or any of their respective Restricted Subsidiaries determines not to apply such Net Cash Proceeds to the permanent prepayment of such Indebtedness under the Credit Facilities or other Indebtedness of its Restricted Subsidiaries that is not Pari Passu Indebtedness or Subordinated Indebtedness, or if no such Indebtedness is then outstanding, then Mastercrocft, such Guarantor or such Restricted Subsidiary shall within 365 days of the Asset Sale invest the Net Cash Proceeds in properties and other assets (including Capital Stock of a business) that (as determined by the board of directors of Mastercrocft and evidenced by a board resolution) replace the properties and assets that were the subject of the Asset Sale or in properties and assets that will be used in a Related Business.

Limitation on Issuance of Guarantees of Indebtedness by Restricted Subsidiaries

- (a) None of the Issuer, Mastercrocft or any other Guarantor will, and none of the Issuer, Mastercrocft or any other Guarantor will cause or permit any of their respective Restricted Subsidiaries (which is not a Guarantor), directly or indirectly, to guarantee, assume or in any other manner become liable with respect to any Indebtedness of the Issuer, Mastercrocft or any Restricted Subsidiary which is a Guarantor unless such Restricted Subsidiary simultaneously executes and delivers a supplemental trust deed to the Trust Deed or a deed of guarantee each providing for a Guarantee of the Notes on the same terms *mutatis mutandis* as the guarantee of such Indebtedness except that:
 - (i) no Guarantee shall be required as a result of any guarantee of Indebtedness that existed at the time such Person became a Restricted Subsidiary if the guarantee was not incurred

- in connection with, or in contemplation of, such Person becoming a Restricted Subsidiary;
- (ii) such guarantee need not be secured unless required pursuant to the “*Limitation on Liens*” covenant; and
 - (iii) if such Indebtedness is by its terms expressly subordinated to the Notes or any Guarantee, any such assumption, guarantee or other liability of such Restricted Subsidiary with respect to such Indebtedness shall be subordinated to such Restricted Subsidiary’s Guarantee of the Notes at least to the same extent as such Indebtedness is subordinated to the Notes or any other Guarantee.
- (b) After the Issue Date, Mastercrocft will cause each Restricted Subsidiary created or acquired by Mastercrocft or one or more of its Restricted Subsidiaries to execute and deliver to the Trustee a Guarantee in the form set out in the Trust Deed pursuant to which such Guarantor will unconditionally Guarantee, on a joint and several basis, the full and prompt payment (to the extent allowed by applicable law) of the principal of, premium, if any and interest on the Notes on a senior basis, provided that no Guarantee shall be required from such Restricted Subsidiary unless and until the total fixed assets or revenues, respectively, determined by reference to the most recent period for which financial statements are available, of such Restricted Subsidiary equal or exceed either 10 per cent. of Mastercrocft’s consolidated fixed assets or 10 per cent. of Mastercrocft’s consolidated revenues, respectively; and provided, further, the amount of any Guarantee shall be limited to an amount equal to the 49 per cent. of such Restricted Subsidiary’s total assets.
 - (c) Notwithstanding the foregoing, any Guarantee by a Restricted Subsidiary of the Notes may provide by its terms that it shall, and in the case of sub-paragraph (i)(A) of this paragraph (c) it shall, be automatically and unconditionally released and discharged upon:
 - (i) any sale, exchange or transfer, (A) made in compliance with the covenant “*Restrictions on Transfer of Ferrotrade UK’s Assets*” or (B) to any Person not an Affiliate of Mastercrocft, of all of the Capital Stock held by Mastercrocft and other Restricted Subsidiaries of Mastercrocft in, or all or substantially all the assets of, such Restricted Subsidiary (which sale, exchange or transfer is not prohibited by these Conditions) and such Restricted Subsidiary is released from all guarantees, if any, by it of other Indebtedness of the Issuer, Mastercrocft or any Restricted Subsidiaries; and
 - (ii) (with respect to any Guarantee created after the date of the Trust Deed) the release by the holders of the Indebtedness of Mastercrocft described in paragraph (a) above of their security interest or their Guarantee by such Restricted Subsidiary at such time as (A) no other Indebtedness of Mastercrocft or any other Restricted Subsidiary has been secured or guaranteed by such Restricted Subsidiary, as the case may be, or (B) the holders of all such other Indebtedness which is secured or guaranteed by such Restricted Subsidiary also release their security interest in or Guarantee by such Restricted Subsidiary.
 - (d) The Issuer will give notice in accordance with Condition 13 of any Restricted Subsidiary becoming or ceasing to be a Guarantor to the Noteholders and, so long as the Notes are listed on the Luxembourg Stock Exchange, shall comply with applicable rules of the Luxembourg Stock Exchange (including preparation of a Supplemental Offering Circular) in relation any Restricted Subsidiary becoming or ceasing to be a Guarantor.

Limitation on Subsidiary Capital Stock

None of the Issuer, Mastercrocft or any other Guarantor will, and none of the Issuer, Mastercrocft or any other Guarantor will permit any of their respective Restricted Subsidiaries to issue, sell, lease, transfer or otherwise dispose of any Capital Stock of a Restricted Subsidiary, except for:

- (a) Capital Stock issued or sold to, held by or transferred to the Issuer, Mastercrocft or a Restricted Subsidiary of Mastercrocft; and
- (b) any issuance, sale, lease, transfer or other disposition of the Capital Stock of such Restricted Subsidiary made in compliance with the covenant under “*Limitation on Sale of Assets*” if, immediately after giving effect to such sale or other disposition, either (i), such Restricted Subsidiary continues to be a Restricted Subsidiary of Mastercrocft or (ii) such sale or disposition is of all the Capital Stock of such Restricted Subsidiary. The foregoing restriction shall not apply to the ownership by directors of directors’ qualifying shares of Capital Stock of any Restricted Subsidiary of Mastercrocft to the extent required by applicable law.

Limitation on Dividend and Other Payment Restrictions Affecting Subsidiaries

None of the Issuer, Mastercrocft or any other Guarantor will, and none of the Issuer, Mastercrocft or any Guarantor will cause or permit any of its Restricted Subsidiaries to, directly or indirectly, create or otherwise cause to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to:

- (a) pay dividends or make any other distribution on its Capital Stock or any other interest or participation in or measured by its profits to the Issuer, Mastercrocft or any Restricted Subsidiary;
- (b) pay any Indebtedness owed to the Issuer, Mastercrocft or any other Restricted Subsidiary;
- (c) make any loans or advances to the Issuer, Mastercrocft or any other Restricted Subsidiary; or
- (d) transfer any of its properties or assets to the Issuer, Mastercrocft or any other Restricted Subsidiary;

except for:

- (i) any encumbrance or restriction pursuant to any agreement in effect on the date of the Trust Deed;
- (ii) any encumbrance or restriction with respect to a Restricted Subsidiary of Mastercrocft that is not a Restricted Subsidiary of Mastercrocft on the date of the Trust Deed in existence at the time such Person becomes a Restricted Subsidiary of Mastercrocft and not incurred in connection with, or in contemplation of, such Person becoming a Restricted Subsidiary of Mastercrocft; provided that such encumbrances and restrictions are not applicable to Mastercrocft or any Restricted Subsidiary of Mastercrocft or the properties or assets of Mastercrocft or any Restricted Subsidiary of Mastercrocft other than such Subsidiary which is becoming a Restricted Subsidiary;
- (iii) any encumbrance or restriction under these Conditions and the Notes, including the Guarantees;
- (iv) with respect to paragraphs (a) and (d) above only, any encumbrance or restriction under Purchase Money Obligations and Capital Lease Obligations in the ordinary course of business that impose restrictions with respect only to the property the subject thereof of the nature described in paragraph (v) on the property so acquired;
- (v) with respect to paragraph (d) above only, any encumbrance or restriction (A) that restricts in a customary manner the subletting, assignment or transfer of any property or asset that is subject to a lease, license or similar contract, (B) by virtue of any transfer of, agreement to transfer, option or right with respect to or Lien on, any property or assets of Mastercrocft or any Restricted Subsidiary of Mastercrocft not otherwise prohibited by these Conditions, or (C) contained in security agreements or mortgages securing Indebtedness to the extent such encumbrance or restriction restricts the transfer of the property subject to such security agreements or mortgages;

- (vi) contracts for the sale of assets, including any restriction with respect to a Restricted Subsidiary of Mastercrocft imposed pursuant to an agreement entered into for the sale or disposition of all or substantially all of the Capital Stock or assets of such Restricted Subsidiary pending the closing of such sale or disposition;
- (vii) restrictions on cash or other deposits or net worth imposed by leases or other agreements entered into in the ordinary course of business;
- (viii) any encumbrance or restriction applicable to a Restricted Subsidiary of Mastercrocft that is contained in an agreement or instrument governing Indebtedness if both (A) the encumbrance or restriction applies only in the event of a payment default or a default with respect to the payment of one or more financial maintenance ratios contained in the terms of such Indebtedness and (B) Mastercrocft in good faith determines, as set forth in a resolution of its Board of Directors delivered to the Trustee prior to the creation of such restriction or encumbrance, that such encumbrance or restriction (I) is not materially more disadvantageous to the Holders than is customary in comparable financings and (II) will not materially affect the ability of the Issuer or any of the Guarantors to pay interest on or principal payments on the Notes;
- (ix) any encumbrances or restrictions required by any law or governmental, local or regulatory authority having jurisdiction over the Issuer, Mastercrocft or any of its Restricted Subsidiaries or any of their businesses;
- (x) with respect to paragraphs (b), (c) and (d) above, customary provisions in joint venture agreements of Mastercrocft or any Restricted Subsidiary of Mastercrocft; provided, however, that such encumbrance or restriction is applicable only to such Restricted Subsidiary and provided, further, that Mastercrocft determines that any such encumbrance or restriction will not materially affect the ability of any Guarantor or the Issuer to make any anticipated principal or interest payments on the Notes;
- (xi) with respect to paragraphs (a) and (d) above only, encumbrance or restrictions existing by reason of any lien permitted under “*Limitation on Liens*”;
- (xii) customary restrictions imposed on the transfer of copyrighted or patented materials;
- (xiii) any encumbrance or restriction under any instrument governing Acquired Indebtedness, which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person or properties or assets of the Person so acquired;
- (xiv) any encumbrance or restriction existing under any agreement that extends, renews, refinances or replaces the agreements containing the encumbrances or restrictions in the foregoing paragraphs (i) through (xiii), or in this paragraph (xiv); provided that the terms and conditions of any such encumbrances or restrictions are no more restrictive in any material respect than those under or pursuant to the agreement evidencing the Indebtedness so extended, renewed, refinanced or replaced; and
- (xv) any encumbrance or restriction with respect to a Securitisation Entity in connection with a Qualified Securitisation Transaction; provided, however, that such encumbrances and restrictions are customarily required by the institutional sponsor or arranger of such Qualified Securitisation Transaction in similar types of documents relating to the purchase of similar receivables in connection with the financing thereof.

Limitation on Unrestricted Subsidiaries

Mastercrocft may designate after the date of the Trust Deed any Subsidiary (other than a Guarantor) as an “Unrestricted Subsidiary” under these Conditions (a **Designation**) only if:

- (a) no Potential Event of Default or Event of Default shall have occurred and be continuing at the time of or after giving effect to such Designation;
- (b) Mastercrocft would be permitted to make an Investment at the time of Designation (assuming the effectiveness of such Designation) pursuant to the first paragraph of “*Limitation on Restricted Payments*” above in an amount (the **Designation Amount**) equal to the greater of (i) the net book value of Mastercrocft’s interest in such Subsidiary calculated in accordance with IFRS or (ii) the Fair Market Value of Mastercrocft’s interest in such Subsidiary as determined in good faith by Mastercrocft’s board of directors;
- (c) Mastercrocft would be permitted under these Conditions to incur U.S.\$1.00 of additional Indebtedness (other than Permitted Indebtedness) pursuant to the covenant described under “*Limitation on Indebtedness*” at the time of such Designation (assuming the effectiveness of such Designation);
- (d) such Unrestricted Subsidiary does not own any Capital Stock of any Restricted Subsidiary of Mastercrocft which is not simultaneously being designated an Unrestricted Subsidiary;
- (e) such Unrestricted Subsidiary is not liable, directly or indirectly, with respect to any Indebtedness other than Unrestricted Subsidiary Indebtedness, provided that an Unrestricted Subsidiary may provide a Guarantee for the Notes;
- (f) such Unrestricted Subsidiary is not a party to any agreement, contract, arrangement or understanding at such time with the Issuer, any Guarantor or any Restricted Subsidiary unless the terms of any such agreement, contract, arrangement or understanding are no less favourable to the Mastercrocft or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of Mastercrocft or any Restricted Subsidiary or, in the event such condition is not satisfied, the value of such agreement, contract, arrangement or understanding to such Unrestricted Subsidiary shall be deemed a Restricted Payment;
- (g) such Unrestricted Subsidiary, either alone or in the aggregate with all other Unrestricted Subsidiaries, does not operate, directly or indirectly, all or substantially all of the business of Mastercrocft and its Subsidiaries or all or substantially all of the business of Ferrotrade UK as it exists and is operated on the date of the Trust Deed; and
- (h) such Unrestricted Subsidiary is a Person with respect to which none of Mastercrocft, any Guarantor or any of their respective Restricted Subsidiaries has any direct or indirect obligation to:
 - (i) subscribe for additional Capital Stock of such Person; or
 - (ii) maintain or preserve such Person’s financial condition or to cause such Person to achieve any specified levels of operating results.

In the event of any such Designation, Mastercrocft will be deemed to have made an Investment constituting a Restricted Payment pursuant to the covenant “*Limitation on Restricted Payments*” for all purposes of these Conditions in the Designation Amount.

None of the Issuer, Mastercrocft or any other Guarantor will and none of the Issuer, Mastercrocft or any other Guarantor will cause or permit any of their respective Restricted Subsidiaries to at any time (a) provide a guarantee of, or similar credit support for, or subject any of its property or assets (other than the Capital Stock of any Unrestricted Subsidiary) to the satisfaction of, any Indebtedness of any Unrestricted Subsidiary (including any undertaking, agreement or instrument evidencing such Indebtedness), (b) be directly or indirectly liable for any Indebtedness of any Unrestricted Subsidiary or (c) be directly or indirectly liable for any other Indebtedness that provides that the holder thereof may (upon notice, lapse of time or both) declare a default thereon (or cause the payment thereof to be accelerated or payable prior to its final scheduled maturity) upon the occurrence of a default with respect to any other Indebtedness that is Indebtedness of an Unrestricted Subsidiary (including any corresponding right to take enforcement action against such Unrestricted Subsidiary), except, in the case of paragraphs (a) or (b), to the extent permitted under the

covenant “*Limitation on Restricted Payments*”. For purposes of the foregoing, the Designation of a Subsidiary of Mastercrocft as an Unrestricted Subsidiary shall be deemed to be the Designation of all of the Subsidiaries of such Subsidiary as Unrestricted Subsidiaries.

Mastercrocft may revoke any Designation of a Subsidiary as an Unrestricted Subsidiary (a **Revocation**) if:

- (a) no Potential Event of Default or Event of Default shall have occurred and be continuing at the time of and after giving effect to such Revocation;
- (b) all Liens and Indebtedness of such Unrestricted Subsidiary outstanding immediately following such Revocation would, if incurred at such time, have been permitted to be incurred for all purposes of these Conditions; and
- (c) unless such redesignated Subsidiary shall not have any Indebtedness outstanding (other than Indebtedness that would be Permitted Indebtedness), immediately after giving effect to such proposed Revocation, and after giving *pro forma* effect to the incurrence of any such Indebtedness of such redesignated Subsidiary as if such Indebtedness was incurred on the date of the Revocation, Mastercrocft could incur U.S.\$1.00 of additional Indebtedness (other than Permitted Indebtedness) pursuant to the covenant described under “*Limitation on Indebtedness*”.

All Designations and Revocations must be evidenced by a resolution of the board of directors of Mastercrocft delivered to the Trustee certifying compliance with the foregoing provisions.

Restriction on Transfer of Ferrotrade UK's Assets

Ferrotrade UK will not sell, convey, transfer or dispose of its assets or properties, other than in the normal course of business and in compliance with the Trust Deed, including transfers of its business as it is conducted on the date of the Trust Deed, to any Person other than Ferrotrade Gibraltar.

Limitation on Issuer Activities

The Issuer will not engage in any business activity or undertake any other activity, except any activity (a) relating to the offering, sale or issuance of Indebtedness or the lending or otherwise advancing the proceeds thereof to Mastercrocft, (b) undertaken with the purpose of, and directly related to, fulfilling its obligations under the Notes and these Conditions, or (c) directly related to the establishment and maintenance of the Issuer's corporate existence, including the repayment of any amounts loaned to the Issuer by Mastercrocft in order to pay incorporation duties and similar taxes. The net proceeds of the offering will be lent to Mastercrocft by the Issuer pursuant to a loan. The Issuer shall not issue any Capital Stock (other than to the extent required to cause it to satisfy the requirements of its exemption from the provisions of the Investment Company Act of 1940, as amended). Whenever the Issuer receives a payment or prepayment under the loan it shall use the funds received solely to satisfy its obligations (to the extent of the amount owing in respect of such obligations) under the Trust Deed pursuant to the provisions of these Conditions and the loan.

Limitation on Lines of Business

Mastercrocft will not, and will not permit any of its Restricted Subsidiaries to, engage in any business other than a Related Business.

Provision of Financial Statements

Mastercrocft will file with the Trustee and, promptly upon written request, supply copies of such documents to any prospective holder at Mastercrocft's cost: the annual consolidated audited financial statements (prepared in accordance with IFRS) within 180 days following the end of each fiscal year (the first such financial statements to be available in respect of the fiscal year ending 31 December 2003) and

semi-annual consolidated financial statements (prepared in accordance with IFRS) within 120 days following the 30th June of each fiscal year (each of the above, the **Required Filing Date**); provided further, that together with such financial statements Mastercrocft shall provide the following information: earnings before interest, taxes, depreciation and amortisation; capital expenditures; depreciation and amortisation; and profit (loss) from operations under IFRS. Contemporaneously with each such filing discussed above, Mastercrocft will also (a) file a press release with the appropriate internationally recognised wire services (including, without limitation, through the newswire service of Bloomberg) in connection with such report and (b) post such report on the Evraz Group's website.

Mastercrocft will also make any of the foregoing information available during normal business hours at the offices of the listing agent in Luxembourg if and so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the stock exchange so require.

Listing

The Issuer has applied to list the Notes for trading on the Luxembourg Stock Exchange in accordance with the rules of the Luxembourg Stock Exchange. The Issuer will use its reasonable efforts to obtain the listing of the Notes as promptly as practicable and to maintain the listing of the Notes on the Luxembourg Stock Exchange.

Consolidation, Merger, Sale of Assets

None of the Issuer, Mastercrocft or any other Guarantor will in a single transaction or through a series of related transactions, consolidate with or merge with or into any other Person or sell, assign, convey, transfer, lease or otherwise dispose of all or substantially all of its properties and assets to any Person or group of Persons, or permit any of its Restricted Subsidiaries to enter into any such transaction or series of transactions, if such transaction or series of transactions, in the aggregate, would result in a sale, assignment, conveyance, transfer, lease or disposition of all or substantially all of the properties and assets of Mastercrocft, and its Restricted Subsidiaries on a Consolidated basis to any other Person or group of Persons, unless at the time of the transaction and after giving effect thereto:

- (a) either:
 - (i) Mastercrocft will be the continuing corporation; or
 - (ii) the Person (if other than Mastercrocft) formed by such consolidation or into which Mastercrocft is merged or the Person which acquires by sale, assignment, conveyance, transfer, lease or disposition all or substantially all of the properties and assets of Mastercrocft and its Restricted Subsidiaries on a Consolidated basis (the **Surviving Entity**) will be a corporation duly organised and validly existing under the laws of the Russian Federation, any EU state which is a member of the EU on the date of the Trust Deed or the United States, any state thereof or the District of Columbia and such Person *inter alia*, expressly assumes, by a deed supplemental to the Trust Deed, the NTMK Deed of Guarantee and/or the ZapSib Deed of Guarantee in a form reasonably satisfactory to the Trustee, all the obligations of the Issuer under the Notes, the Trust Deed, the NTMK Deed of Guarantee and the ZapSib Deed of Guarantee, and the Notes, the Trust Deed, the NTMK Deed of Guarantee and the ZapSib Deed of Guarantee will remain in full force and effect as so supplemented (and any Guarantees will be confirmed as applying to such Surviving Entity's obligations);
- (b) immediately before and immediately after giving effect to such transaction on a *pro forma* basis (and treating any Indebtedness not previously an obligation of Mastercrocft or any of its Restricted Subsidiaries which becomes the obligation of Mastercrocft or any of its Restricted Subsidiaries as a result of such transaction as having been incurred at the time of such transaction), no Potential Event of Default or Event of Default will have occurred and be continuing;

- (c) immediately after giving effect to such transaction on a *pro forma* basis (on the assumption that the transaction occurred on the first day of the four-quarter period for which financial statements are available ending immediately prior to the consummation of such transaction with the appropriate adjustments with respect to the transaction, including treating any obligation incurred by Mastercrocft or any Restricted Subsidiary in connection with or as a result of such transaction or series of transactions, as having been incurred by Mastercrocft or such Restricted Subsidiary at the time of such transaction, being included in such *pro forma* calculation), Mastercrocft (or the Surviving Entity if Mastercrocft is not the continuing obligor under the Trust Deed) could incur U.S.\$1.00 of additional Indebtedness (other than Permitted Indebtedness) under the provisions of “*Limitation on Indebtedness*”; and
- (d) at the time of the transaction, the Issuer, Mastercrocft and each other Guarantor, unless it is the other party to the transactions described above, will have by a deed supplemental to the Trust Deed, the NTMK Deed of Guarantee and/or the ZapSib Deed of Guarantee confirmed the Notes or that its Guarantee shall apply to such Person’s obligations under the Trust Deed, the NTMK Deed of Guarantee, the ZapSib Deed of Guarantee and the Notes,

and at the time of the transaction, Mastercrocft or the Surviving Entity will have delivered, or caused to be delivered, to the Trustee, in form and substance reasonably satisfactory to the Trustee, an officers’ certificate and an opinion of independent counsel, each to the effect that such consolidation, merger, transfer, sale, assignment, conveyance, lease or other transaction and the deed supplemental to the Trust Deed, the NTMK Deed of Guarantee and/or the ZapSib Deed of Guarantee in respect thereof comply with the Trust Deed, the NTMK Deed of Guarantee and the ZapSib Deed of Guarantee and that all conditions precedent therein provided for relating to such transaction have been complied with.

5. INTEREST

5.1 Interest Rate and Interest Payment Dates

The Notes bear interest from and including 25 September 2003 at the rate of 8.875 per cent. per annum, payable semi-annually in arrear in equal instalments on 25 March and 25 September (each an **Interest Payment Date**). The first payment shall be made on 25 March 2004.

5.2 Interest Accrual

Each Note will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event interest shall continue to accrue as provided in the Trust Deed.

5.3 Calculation of Broken Interest

When interest is required to be calculated in respect of a period of less than six months, it shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

6. PAYMENTS

6.1 Payments in respect of Notes

Payments of principal and interest in respect of each Note will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the Note, except that payments of interest due on an Interest Payment Date will be made against presentation and surrender (or, in the case of part payment only, endorsement) of the relevant Coupon, in each case at the specified office outside the United States of any of the Paying Agents.

6.2 Method of Payment

Payments will be made by credit or transfer to an account in United States dollars maintained by the payee, with or, at the option of the payee, by a cheque in United States dollars drawn on, a bank in New York City.

6.3 U.S. Paying Agents

Notwithstanding the foregoing, payments will be made at the specified office in the United States of any Paying Agent and (if no such appointment is then in effect) the Issuer shall, subject to the prior written approval of the Trustee, appoint and maintain a Paying Agent with a specified office in New York City at which payments will be made:

- (a) if (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that the Paying Agents would be able to make payment at the specified offices outside the United States of the full amount payable with respect to the Notes in the manner provided above when due, (ii) payment of the full amount due in U.S. dollars at all specified offices of the Paying Agents outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) the payment is then permitted under United States law; or
- (b) at the option of the relevant holder, if the payment is then permitted under United States law without involving, in the opinion of the Issuer, adverse tax consequences for the Issuer or any Guarantor.

6.4 Missing Unmatured Coupons

Each Note should be presented for payment together with all relative unmatured Coupons, failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 8) in respect of the relevant Note (whether or not the Coupon would otherwise have become void pursuant to Condition 8), but not thereafter.

6.5 Payments subject to Applicable Laws

Payments in respect of principal and interest on the Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 8.

6.6 Payment only on a Presentation Date

A holder shall be entitled to present a Note or Coupon for payment only on a Presentation Date and shall not, except as provided in Condition 5, be entitled to any further interest or other payment if a Presentation Date is after the due date.

Presentation Date means a day which (subject to Condition 9):

- (a) is or falls after the relevant due date;
- (b) is a Business Day in the place of the specified office of the Paying Agent at which the Note or Coupon is presented for payment; and
- (c) in the case of payment by credit or transfer to a United States dollar account in New York City (as referred to above), is a Business Day in New York City.

In this Condition, **Business Day** means, in relation to any place, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in that place.

6.7 Initial Paying Agents

The names of the initial Paying Agents and their initial specified offices are set out at the end of these Conditions. The Issuer and the Guarantors reserve the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent and to appoint additional or other Paying Agents provided that they will at all times maintain:

- (a) if any European Union Directive on the taxation of savings implementing the conclusions of the ECOFIN Council Meeting of 26th-27th November, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive is introduced, a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to any such Directive or law; and
- (b) a Paying Agent having its specified office in Luxembourg.

Notice of any termination or appointment and of any changes in specified offices will be given to the Noteholders promptly by the Issuer in accordance with Condition 13.

7. REDEMPTION AND PURCHASE

7.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 25 September 2006.

7.2 Redemption for Taxation Reasons

If the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that:

- (a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 8), or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after 24 September 2003, on the next Interest Payment Date either (i) the Issuer would be required to pay additional amounts as provided or referred to in Condition 8 or (ii) the Guarantors would be unable for reasons outside their control to procure payment by the Issuer and in making payment themselves one or more Guarantors would be required to pay such additional amounts; and
- (b) the requirement cannot be avoided by the Issuer or, as the case may be, the relevant Guarantor(s) taking reasonable measures available to it or them,

the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 13 (which notice shall be irrevocable), redeem all the Notes, but not some only, at any time at their principal amount together with interest accrued to but excluding the date of redemption. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee a certificate signed by two Directors of the Issuer or, as the case may be, each relevant Guarantor stating that the requirement referred to in (a) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer or, as the case may be, the relevant Guarantor taking reasonable measures available to it, and the Trustee shall be entitled to accept the certificate as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders and the Couponholders. No such notice of redemption pursuant to this Condition shall be given (a) earlier than 90 days prior to the earliest date on which the Issuer, or as the case may be, one or more of the Guarantor(s), would

be obliged to pay such additional amounts were a payment in respect of the Notes then due, or (b) if the Issuer has already given a notice of redemption under Condition 7.3.

7.3 Redemption at the Option of the Issuer

The Issuer may, having given:

- (a) not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 13; and
- (b) notice to the Trustee and the Principal Paying Agent not less than 30 days before the giving of the notice referred to in (a),

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all (but not some only) of the Notes on any following Interest Payment Date at the amount equal to the sum of their Applicable Premium and principal amount together with interest accrued to but excluding the date of redemption.

7.4 Purchases

The Issuer, each Guarantor or any of the Guarantors' Subsidiaries (as defined below) may at any time purchase Notes (provided that all unmatured Coupons appertaining to the Notes are purchased with the Notes) in any manner and at any price.

7.5 Cancellations

All Notes which are (a) redeemed or (b) purchased by or on behalf of the Issuer, a Guarantor or any of the Guarantors' Subsidiaries will forthwith be cancelled, together with all relative unmatured Coupons attached to the Notes or surrendered with the Notes, and accordingly may not be held, reissued or resold.

7.6 Notices Final

Upon the expiry of any notice as is referred to in paragraph 7.2 or 7.3 above the Issuer shall be bound to redeem the Notes to which the notice refers in accordance with the terms of such paragraph.

8. TAXATION

8.1 Payment without Withholding

All payments in respect of the Notes by or on behalf of the Issuer or a Guarantor shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature (**Taxes**) imposed or levied by or on behalf of any of the Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer or, as the case may be, the relevant Guarantor will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders and Couponholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes or, as the case may be, Coupons in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note or Coupon:

- (a) presented for payment by or on behalf of a holder who is liable to the Taxes in respect of the Note or Coupon by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Note or Coupon; or
- (b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any European Union Directive on the taxation of savings implementing

the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or

- (c) presented for payment by or on behalf of a holder who would be able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union; or
- (d) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Presentation Date.

8.2 Interpretation

In these Conditions:

- (a) **Relevant Date** means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 13; and
- (b) **Relevant Jurisdiction** means Luxembourg or any political subdivision or any authority thereof or therein having power to tax (in the case of payments by the Issuer) or the Russian Federation or Luxembourg or any political subdivision or any authority thereof or therein having power to tax (in the case of payments by NTMK or ZapSib) or the United Kingdom or the British Virgin Islands or Luxembourg or any political subdivision or any authority thereof or therein having power to tax (in the case of payments by Ferrotrade UK) or Gibraltar or Luxembourg or any political subdivision or any authority thereof or therein having power to tax (in the case of Ferrotrade Gibraltar) or Cyprus or Luxembourg or any political subdivision or any authority thereof or therein having power to tax (in the case of payments by Mastercroft) or in any case any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer or a Guarantor, as the case may be, becomes subject in respect of payments made by it of principal or interest on the Notes and Coupons.

8.3 Additional Amounts

Any reference in the Trust Deed, the NTMK Deed of Guarantee, the ZapSib Deed of Guarantee, the Notes or the Coupons to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed, the NTMK Deed of Guarantee, the ZapSib Deed of Guarantee, the Notes or the Coupons.

9. PRESCRIPTION

Notes and Coupons will become void unless presented for payment within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the Notes or, as the case may be, the Coupons, subject to the provisions of Condition 6.

10. EVENTS OF DEFAULT AND INTERPRETATION

10.1 Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified and/or secured to its satisfaction), give notice to the Issuer and each Guarantor that the Notes are, and shall accordingly forthwith become,

immediately due and repayable at their principal amount, together with accrued interest as provided in the Trust Deed, the NTMK Deed of Guarantee or the ZapSib Deed of Guarantee, in any of the following events (**Events of Default**):

- (a) there shall be a default in the payment of any interest or additional amounts on any Note when it becomes due and payable, and such default shall continue for a period of 30 days;
- (b) there shall be a default in the payment of the principal of (or premium, if any, on) any Note at its Maturity;
- (c)
 - (i) there shall be a default in the performance, or breach, of any covenant or agreement of the Issuer, Mastercrocft or any other Guarantor under the Trust Deed, the NTMK Deed of Guarantee or the ZapSib Deed of Guarantee, or any Guarantee (other than a default in the performance, or breach, of a covenant or agreement which is specifically dealt with in paragraph (a) or in (ii) of this paragraph (c)) and such default or breach shall continue for a period of 30 days after written notice has been given, by certified mail, (A) to Mastercrocft by the Trustee or (B) to Mastercrocft and the Trustee by the holders of at least 25 per cent. in aggregate principal amount of the outstanding Notes; or
 - (ii) there shall be a default in the performance or breach of the provisions described in “*Consolidation, Merger, Sale of Assets*”;
- (d) any default in the payment of the principal, premium, if any, or interest on any Indebtedness shall have occurred under any of the agreements, deeds, indentures or instruments under which the Issuer, any Guarantor or any Restricted Subsidiary then has outstanding Indebtedness in excess of U.S.\$7.5 million (or its equivalent in another currency) in the aggregate;
- (e) any Guarantee shall for any reason cease to be, or shall for any reason be asserted in writing by the Issuer or any Guarantor not to be, in full force and effect and enforceable in accordance with its terms, except to the extent contemplated by these Conditions, the NTMK Deed of Guarantee, the ZapSib Deed of Guarantee and any such Guarantee;
- (f) one or more judgments, orders or decrees of any court or regulatory or administrative agency for the payment of money in excess of U.S.\$7.5 million (or its equivalent in another currency), either individually or in the aggregate, shall be rendered against the Issuer, any Guarantor or any Restricted Subsidiary or any of their respective properties and shall not be discharged and there shall have been a period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of an appeal or otherwise, shall not be in effect;
- (g) any holder or holders of at least U.S.\$7.5 million (or its equivalent in another currency) in aggregate principal amount of Indebtedness of the Issuer, any Guarantor or any Restricted Subsidiary of Mastercrocft after a default under such Indebtedness shall notify the Trustee of the intended sale or disposition of any assets of the Issuer, any Guarantor or any Restricted Subsidiary of Mastercrocft that have been pledged to or for the benefit of such holder or holders to secure such Indebtedness or shall commence proceedings, or take any action (including by way of set-off, distress, execution or other similar process, including the appointment of a receiver, administrative receiver, manager or similar officer), to retain in satisfaction of such Indebtedness or to collect on, seize, dispose of or apply in satisfaction of Indebtedness, assets of the Issuer, any Guarantor or any Restricted Subsidiary of Mastercrocft (including funds on deposit or held pursuant to lock-box and other similar arrangements);
- (h) any failure to obtain a preliminary consent from or provide notification to the Russian Antimonopoly Agency where so required; or
- (i) if (I) proceedings are initiated against the Issuer, Mastercrocft, any other Guarantor or any Restricted Subsidiary of Mastercrocft under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator

or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer, any Guarantor or any Restricted Subsidiary of Mastercrocft or, as the case may be, in relation to the whole or any part of the undertaking or assets of any of them or an encumbrancer takes possession of the whole or any part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any part of the undertaking or assets of any of them, and (II) in any such case (other than the appointment of an administrator) unless initiated by the relevant company, is not discharged within 14 days,

PROVIDED THAT, in the case of any Event of Default described in paragraph (c) above, the Trustee has certified to the Issuer, Mastercrocft and each other Guarantor that the Event of Default is, in its opinion, materially prejudicial to the interests of the Noteholders.

10.2 Interpretation

For the purposes of the Trust Deed, the NTMK Deed of Guarantee, the ZapSib Deed of Guarantee, the Notes and the Coupons:

Acquired Indebtedness means Indebtedness of a Person:

- (a) existing at the time such Person becomes a Restricted Subsidiary;
- (b) assumed in connection with the acquisition of assets from such Person; or
- (c) at the time it merges or consolidates with Mastercrocft, the Issuer or any Restricted Subsidiary,

in each case, other than Indebtedness incurred in connection with, or in contemplation of, such Person becoming a Restricted Subsidiary or such acquisition, as the case may be.

Acquired Indebtedness shall be deemed to be incurred on the date of the related acquisition of assets from any Person, the date the acquired Person becomes a Restricted Subsidiary or at the time of such merger or consolidation, as the case may be.

Affiliate means, with respect to any specified Person:

- (a) any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person;
- (b) any other Person that owns, directly or indirectly, 5 per cent. or more of such specified Person's Capital Stock or any officer or director of any such specified Person or other Person or, with respect to any natural Person, any person having a relationship with such Person by blood, marriage or adoption not more remote than first cousin; or
- (c) any other Person, 5 per cent. or more of the Voting Stock of which is beneficially owned or held, directly or indirectly, by such specified Person.

For the purposes of this definition, **control** when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through ownership of voting securities, by contract or otherwise; and the terms **controlling** and **controlled** have meanings correlative to the foregoing.

Applicable Premium means, with respect to a Note on any redemption date, the greater of:

- (a) 1.0 per cent. of the principal amount of such Note; and
- (b) the excess of (i) the present value at such redemption date of (A) the principal amount of the Note at maturity, plus (B) all required interest that would otherwise be due to be paid on such Note during the period from and including the redemption date to but excluding 25 September 2006 and excluding accrued but unpaid interest payable on such redemption date, calculated

using a discount rate equal to the Treasury Rate, at such redemption date, plus 0.5 per cent., over (ii) the principal amount of the Note at maturity.

Asset Sale means any sale, issuance, conveyance, transfer, lease or other disposition (including, without limitation, by way of merger, consolidation or sale and leaseback transaction) (collectively, a **transfer**), directly or indirectly, in one or a series of related transactions, of:

- (a) any Capital Stock of any Restricted Subsidiary (other than directors' qualifying shares);
- (b) all or substantially all of the properties and assets of any division or line of business of the Mastercrocft, the Issuer or any Restricted Subsidiary; or
- (c) any other properties or assets of Mastercrocft, the Issuer or any Restricted Subsidiary other than in the ordinary course of business.

For the purposes of this definition, the term **Asset Sale** shall not include any transfer of properties and assets:

- (i) that is governed by the provisions described under "*Consolidation, Merger, Sale of Assets*";
- (ii) that is by Mastercrocft to any Restricted Subsidiary of Mastercrocft, or by any Restricted Subsidiary to Mastercrocft or any Restricted Subsidiary of Mastercrocft in accordance with the terms of these Conditions;
- (iii) that is of obsolete equipment, inventory or accounts receivable in the ordinary course of business that is no longer useful in the conduct of the business of Mastercrocft or any Restricted Subsidiary of Mastercrocft;
- (iv) of any assets, whether in one transaction or in a series of related transactions, the value of which does not exceed 5 per cent. of the total consolidated net assets of Mastercrocft in any 12 month period; or
- (v) the sale, transfer or other disposition of Receivables and Related Assets in connection with a Qualified Securitisation Transaction.

Attributable Indebtedness in respect of a Sale and Leaseback Transaction means, as at the time of determination, the present value (discounted at the interest rate borne by the Notes, compounded semi-annually) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale and Leaseback Transaction (including any period for which such lease has been extended).

Average Life means, as of the date of determination with respect to any Indebtedness, the quotient obtained by dividing:

- (a) the sum of the products of:
 - (i) the number of years from the date of determination to the date or dates of each successive scheduled principal payment of such Indebtedness; multiplied by
 - (ii) the amount of each such principal payment by;
- (b) the sum of all such principal payments.

Bankruptcy Law means any law relating to bankruptcy, insolvency, receivership, winding-up, liquidation, reorganisation or relief of debtors or any amendment to, succession to or change in any such law, including, without limitation, Title 11 of the United States Code (the US Bankruptcy Code of 1978), as amended, the UK Insolvency Law 1985, the Federal Law of the Russian Federation No. 127-FZ "On Insolvency (Bankruptcy)" dated 26th October, 2002 and Luxembourg law, including Luxembourg insolvency laws.

Capital Expenditure Indebtedness means Indebtedness (including Capital Lease Obligations) incurred by Mastercrocft or any Guarantor to finance a capital expenditure related to the Related Business so long as: (a) such capital expenditure is or should be included as an addition to “Tangible Fixed Assets or Intangible Fixed Assets, at cost” in accordance with IFRS; (b) such Indebtedness is Incurred within 180 days of the date such capital expenditure is made; and (c) such Indebtedness does not exceed the Fair Market Value of the assets acquired or constructed.

Capital Lease Obligation of any Person means any obligation of such Person and its Restricted Subsidiaries on a Consolidated basis under any capital lease of (or other agreement conveying the right to use) real or personal property which, in accordance with IFRS, is required to be recorded as a capitalised lease obligation.

Capital Stock of any Person means any and all shares, interests, participations, rights in or other equivalents (however designated) of such Person’s capital stock, other equity interests whether now outstanding or issued after the date of the Trust Deed, partnership interests (whether general or limited), any other interest or participation that confers on a Person that right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person and any rights (other than debt securities convertible into Capital Stock), warrants or options exchangeable for or convertible into such Capital Stock.

Commodity Derivative Agreements means one or more of the following agreements: commodity swaps, caps, floors, collars, options and similar agreements and/or other types of commodity derivative agreements and transactions from time to time.

Consolidated EBITDA for any period means, without duplication, the Consolidated Net Profit for such period, plus the following to the extent deducted in calculating such Consolidated Net Profit:

- (a) Consolidated Interest Expense;
- (b) Consolidated Income Tax Expense;
- (c) consolidated depreciation expense;
- (d) consolidated amortisation of intangibles; and
- (e) other non-cash charges reducing Consolidated Net Profit (excluding any such non-cash charge to the extent it represents an accrual of or reserve for cash charges in any future period or amortisation of a prepaid cash expense that was paid in a prior period not included in the calculation).

Notwithstanding the preceding sentence, paragraphs (b) through (e) above relating to amounts of a Restricted Subsidiary of a Person will be added to Consolidated Net Profit to compute Consolidated EBITDA of such Person and, to the extent the amounts set forth in paragraph (a) above and paragraphs (c) through (e) above are in excess of those necessary to offset a net loss of such Restricted Subsidiary or if such Restricted Subsidiary has net profit for such period included in Consolidated Net Profit, only if a corresponding amount would be permitted at the date of determination to be dividended, loaned or advanced to Mastercrocft by such Restricted Subsidiary, pursuant to the terms of its charter and all agreements, instruments, judgments, decrees, orders, statutes, rules and governmental regulations applicable to that Restricted Subsidiary or its stockholders.

Consolidated Income Tax Expense of any Person means, for any period, the provision for federal, state and local income taxes of Russia or any other jurisdiction of such Person and its consolidated Restricted Subsidiaries for such period as determined in accordance with IFRS.

Consolidated Interest Expense of any Person means, without duplication, for any period, the sum of:

- (a) cash and non-cash interest expense (net of interest income) of such Person and its Restricted Subsidiaries for such period, determined on a Consolidated basis in accordance with IFRS

(excluding any amortisation of debt issuance costs), including, without limitation (whether or not interest expense in accordance with IFRS):

- (i) amortisation of debt discount;
 - (ii) the net costs associated with Interest Rate Agreements and Currency Hedging Agreements and Commodity Derivative Agreements (including amortisation of fees and discounts);
 - (iii) the interest portion of any deferred payment obligation;
 - (iv) all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing; and
 - (v) accrued interest; plus
- (b) (i) the interest component of the Capital Lease Obligations accrued by such Person and its Restricted Subsidiaries during such period; and
- (ii) all capitalised interest of such Person and its Restricted Subsidiaries in each case determined on a consolidated basis in accordance with IFRS; plus
- (c) the interest expense under any Guaranteed Debt of such Person and any Restricted Subsidiary to the extent not included under clause (a)(iv) above, whether or not paid by such Person or its Restricted Subsidiaries determined on a consolidated basis in accordance with IFRS (excluding any amortisation of debt issuance costs), provided such payments have been made in compliance with the covenant described in "*Limitation on Restricted Payments*".

Consolidated Leverage Ratio, as of any date of determination, means the ratio of:

- (a) the sum of the aggregate outstanding Indebtedness of Mastercroft and its Restricted Subsidiaries as of the date of calculation on a consolidated basis in accordance with IFRS to;
- (b) Consolidated EBITDA of Mastercroft and its Restricted Subsidiaries for the period of the most recent two semi-annual periods ending prior to the date of such determination;

provided, however, that:

- (c) if Mastercroft or any Restricted Subsidiary:
 - (i) has incurred any Indebtedness since the beginning of such period that remains outstanding on such date of determination or if the transaction giving rise to the need to calculate the Consolidated Leverage Ratio is an incurrence of Indebtedness, Indebtedness at the end of such period, Consolidated EBITDA and Consolidated Interest Expense for such period will be calculated after giving effect on a *pro forma* basis to such Indebtedness as if such Indebtedness had been incurred on the first day of such period (except that in making such computation, the amount of Indebtedness under any revolving credit facility outstanding on the date of such calculation will be computed based on:
 - (A) the average daily balance of such Indebtedness during such two semi-annual periods or such shorter period for which such facility was outstanding; or
 - (B) if such facility was created after the end of such two semi-annual periods, the average daily balance of such Indebtedness during the period from the date of creation of such facility to the date of such calculation, and the discharge of any other Indebtedness repaid, repurchased, defeased or otherwise discharged with the proceeds of such new Indebtedness as if such discharge had occurred on the first day of such period; or

- (ii) has repaid, repurchased, defeased or otherwise discharged any Indebtedness since the beginning of the period that is no longer outstanding on such date of determination or if the transaction giving rise to the need to calculate the Leverage Ratio involves a discharge of Indebtedness (in each case other than Indebtedness incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and the related commitment terminated), Indebtedness, Consolidated EBITDA and Consolidated Interest Expense for such period will be calculated after giving effect on a *pro forma* basis to such discharge of such Indebtedness, including with the proceeds of such new Indebtedness, as if such discharge had occurred on the first day of such period;
- (d) if since the beginning of such period Mastercrocft or any Restricted Subsidiary of Mastercrocft will have made any Asset Sale or if the transaction giving rise to the need to calculate the Consolidated Leverage Ratio is an Asset Sale:
 - (i) Indebtedness at the end of such period will be reduced by an amount equal to the Indebtedness discharged, defeased or retired with the Net Available Cash of such Asset Sale and the assumption of Indebtedness by the Transferee;
 - (ii) Consolidated EBITDA for such period will be reduced by an amount equal to the Consolidated EBITDA (if positive) directly attributable to the assets which are the subject of such Asset Sale for such period or increased by an amount equal to the Consolidated EBITDA (if negative) directly attributable thereto for such period; and
 - (iii) Consolidated Interest Expense for such period will be reduced by an amount equal to the Consolidated Interest Expense directly attributable to any Indebtedness of Mastercrocft or any Restricted Subsidiary of Mastercrocft repaid, repurchased, defeased or otherwise discharged with respect to Mastercrocft and its continuing Restricted Subsidiaries in connection with such Asset Sale for such period (or, if the Capital Stock of any Restricted Subsidiary of Mastercrocft is sold, the Consolidated Interest Expense for such period directly attributable to the Indebtedness of such Restricted Subsidiary to the extent Mastercrocft and its continuing Restricted Subsidiaries are no longer liable for such Indebtedness after such sale);
- (e) if since the beginning of such period Mastercrocft or any Restricted Subsidiary (by merger or otherwise) of Mastercrocft will have made an Investment in any Restricted Subsidiary (or any Person which becomes a Restricted Subsidiary of Mastercrocft or is merged with or into Mastercrocft) or an acquisition of assets, including any acquisition of assets occurring in connection with a transaction causing a calculation to be made hereunder, which constitutes all or substantially all of an operating unit, division or line of business, Indebtedness, Consolidated EBITDA and Consolidated Interest Expense for such period will be calculated after giving *pro forma* effect thereto as if such Investment or acquisition occurred on the first day of such period; and
- (f) if since the beginning of such period any Person (that subsequently became a Restricted Subsidiary or was merged with or into Mastercrocft or any Restricted Subsidiary of Mastercrocft since the beginning of such period) will have incurred any Indebtedness or made any Asset Sale or any Investment or acquisition of assets that would have required an adjustment pursuant to paragraphs (a), (b) or (c) above if made by Mastercrocft or a Restricted Subsidiary of Mastercrocft during such period, Indebtedness, Consolidated EBITDA and Consolidated Interest Expense for such period will be calculated after giving *pro forma* effect thereto as if such incurrence of Indebtedness or Asset Sale or Investment occurred on the first day of such period.

The *pro forma* calculations will be determined in good faith by a reasonable financial or accounting officer of Mastercrocft (including *pro forma* expense and cost reductions calculated on a basis consistent with Regulation S-X under the Securities Act). If any Indebtedness bears a floating rate of interest and is being given *pro forma* effect, the interest expense on such Indebtedness will be

calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any Interest Rate Agreement applicable to such Indebtedness if such Interest Rate Agreement has a remaining term in excess of 12 months).

Consolidated Net Profit (Loss) of any Person means, for any period, the Consolidated net profit (or loss) of such Person and its Restricted Subsidiaries for such period on a Consolidated basis as determined in accordance with IFRS, adjusted, to the extent included in calculating such net profit (or loss), by excluding, without duplication:

- (a) all extraordinary gains or losses net of taxes (less all fees and expenses relating thereto);
- (b) the portion of net profit (or loss) of such Person and its Restricted Subsidiaries on a consolidated basis allocable to interests in unconsolidated Persons or Unrestricted Subsidiaries to the extent that cash dividends or distributions have not actually been received by such Person or one of its consolidated Restricted Subsidiaries (except to the extent any loss has been funded with cash from the Issuer, Mastercrocft or a Restricted Subsidiary);
- (c) net profit (or loss) of any Person combined with such Person or any of its Restricted Subsidiaries on a “pooling of interests” basis attributable to any period prior to the date of combination;
- (d) any gain or loss, net of taxes, realised upon the termination of any employee pension benefit plan;
- (e) gains or losses, net of taxes (less all fees and expenses relating thereto), in respect of dispositions of assets other than in the ordinary course of business;
- (f) the net profit of any Restricted Subsidiary to the extent that the declaration of dividends or similar distributions by that Restricted Subsidiary of that income is not at the time permitted, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree, order, statute, rule or governmental regulation applicable to that Restricted Subsidiary or its shareholders other than by encumbrances which are permitted by paragraphs (d)(i), (d)(iv) or (d)(viii) of the covenant “*Limitation on Dividend and other Payment Restrictions Affecting Subsidiaries*”;
- (g) any restoration to net profit of any contingency provision, except to the extent provision for such reserve was made out of income accrued at any time following the date of the Trust Deed;
- (h) any net gain arising from the acquisition of any securities or extinguishment, under IFRS, of any Indebtedness of such Person; or
- (i) the cumulative effect of changes in accounting principles.

Consolidated Non-cash Charges of any Person means, for any period, the aggregate depreciation, amortisation and other non-cash charges of such Person and its Restricted Subsidiaries on a Consolidated basis for such period, as determined in accordance with IFRS (excluding any non-cash charge which requires an accrual or reserve for cash charges for any future period).

Consolidation means, with respect to any Person, the consolidation of the accounts of such Person and each of its subsidiaries if and to the extent the accounts of such Person and each of its subsidiaries would normally be consolidated with those of such Person, all in accordance with IFRS. The term **Consolidated** shall have a similar meaning.

Controlled Entity means, with respect to any Person, any corporation, association, partnership or other business entity of which more than 50 per cent. of the total voting power of shares, participations or other ownership interests, as the case may be, of Voting Stock is at the time owned or controlled, directly or indirectly, by: (a) such Person; (b) such Person and one or more Controlled Entities of such Person; or (c) one or more Controlled Entities of such Person.

Credit Facilities means, with respect to any Guarantor and the Restricted Subsidiaries, one or more debt facilities or commercial paper facilities with banks, insurance companies or other institutional lenders providing for revolving credit loans, term loans, notes, receivables financing (including through the sale or factoring of receivables to such lenders or to special purpose entities formed to borrow from or issue securities to such lenders against such receivables), letters of credit or other forms of guarantees and assurances or other credit facilities, including overdrafts, in each case, as amended, restated, modified, renewed, refunded, replaced or refinanced in whole or in part from time to time, provided, however, that **Credit Facilities** will not mean any Indebtedness that expressly provides that it is subordinated in right of payment to any other Indebtedness.

Currency Hedging Agreements means one or more of the following agreements: foreign exchange contracts, currency swap agreements or other similar agreements or arrangements designed to protect against the fluctuations in currency values.

Disinterested Director means, with respect to any transaction or series of related transactions, a member of the board of directors of Mastercrocft who does not have any material direct or indirect financial interest in or with respect to such transaction or series of related transactions.

Fair Market Value means, with respect to any asset or property, the sale value that would be obtained in an arm's-length free market transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy. Fair Market Value shall be determined by the board of directors of Mastercrocft acting in good faith and shall be evidenced by a resolution of the board of directors.

Guaranteed Debt of any Person means, without duplication, all Indebtedness of any other Person referred to in the definition of Indebtedness below guaranteed directly or indirectly in any manner by such first Person, or in effect guaranteed directly or indirectly by such Person through an agreement:

- (a) to pay or purchase such Indebtedness or to advance or supply funds for the payment or purchase of such Indebtedness;
- (b) to purchase, sell or lease (as lessee or lessor) property, or to purchase or sell services, primarily for the purpose of enabling the debtor to make payment of such Indebtedness or to assure the holder of such Indebtedness against loss;
- (c) to supply funds to, or in any other manner invest in, the debtor (including any agreement to pay for property or services without requiring that such property be received or such services be rendered);
- (d) to maintain working capital or equity capital of the debtor, or otherwise to maintain the net worth, solvency or other financial condition of the debtor or to cause such debtor to achieve certain levels of financial performance; or
- (e) otherwise to assure a creditor against loss; provided that the term "guarantee" shall not include endorsements for collection or deposit, in either case in the ordinary course of business.

Guarantor means any Guarantor named herein and any Subsidiary of such Guarantor which is a guarantor of the Notes, including any Person that is required after the date of the Trust Deed to execute a guarantee of the Notes pursuant to the "*Limitation on Issuance of Guarantees of Indebtedness by Restricted Subsidiaries*" covenant until a successor replaces such party pursuant to the applicable provisions of these Conditions and, thereafter, shall mean such successor excluding those Subsidiaries that have ceased to be a Guarantor pursuant to these Conditions.

Hedging Obligations means, with respect to any Person, the obligations of such Person under Interest Rate Agreements, Currency Hedging Agreements and Commodity Derivative Agreements.

IFRS means the International Financial Reporting Standards.

Indebtedness means, with respect to any Person, without duplication:

- (a) all indebtedness, obligations and liabilities of such Person for borrowed money or for the principal component of all obligations of such Person to pay the deferred purchase price of property or services, excluding any trade payables and other accrued current liabilities arising in the ordinary course of business, but including, without limitation, all obligations, contingent or otherwise, of such Person in connection with any letters of credit issued under letter of credit facilities, acceptance facilities or other similar facilities (including reimbursement obligations with respect thereto except to the extent such reimbursement obligation relates to a trade payable and such obligation is satisfied within 30 days of incurrence);
- (b) all obligations of such Person evidenced by bonds, notes, debentures or other similar instruments;
- (c) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (even if the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property), but excluding trade payables arising in the ordinary course of business;
- (d) all obligations under Interest Rate Agreements and Currency Hedging Agreements of such Person (the amount of any such obligations to be equal at any time to the termination value of such agreement or arrangement giving rise to such obligation that would be payable by such Person at such time);
- (e) all Capital Lease Obligations and all Attributable Indebtedness of such Person;
- (f) all Indebtedness referred to in paragraphs (a) through (e) above of other Persons and all dividends of other Persons, the payment of which is secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien, upon or with respect to property (including, without limitation, accounts and contract rights) owned by such Person, even though such Person has not assumed or become liable for the payment of such Indebtedness, (provided, however, that the amount of such indebtedness will be the lesser of (i) the Fair Market Value of such asset at the date of determination and (ii) the amount of such Indebtedness of such other Person);
- (g) all Guaranteed Debt of such Person;
- (h) all Redeemable Capital Stock issued by such Person valued at the greater of its voluntary or involuntary maximum fixed repurchase price plus accrued and unpaid dividends;
- (i) Preferred Stock of any Restricted Subsidiary of the Issuer or any Guarantor; and
- (j) any amendment, supplement, modification, deferral, renewal, extension, refunding or refinancing of any liability of the types referred to in paragraphs (a) through (h) above.

For purposes hereof, the **maximum fixed repurchase price** of any Redeemable Capital Stock which does not have a fixed repurchase price shall be calculated in accordance with the terms of such Redeemable Capital Stock as if such Redeemable Capital Stock were purchased on any date on which Indebtedness shall be required to be determined pursuant to these Conditions, and if such price is based upon, or measured by, the Fair Market Value of such Redeemable Capital Stock, such Fair Market Value to be determined as set forth herein.

Interest Rate Agreements means one or more of the following agreements: interest rate protection agreements (including, without limitation, interest rate swaps, caps, floors, collars, options and similar agreements) and/or other types of interest rate hedging agreements from time to time.

Investment means, with respect to any Person, directly or indirectly, any advance (other than advances to customers in the ordinary course of business), loan (including guarantees), or other extension of credit (including guarantees) or capital contribution to (by means of any transfer of cash

or other property to others or any payment for property or services for the account or use of others), or any purchase, acquisition or ownership by such Person of any Capital Stock, bonds, notes, debentures or other securities (including, without limitation, any interests in any partnership or joint venture) or evidence of indebtedness issued or owned by any other Person and all other items that would be classified as investments on a balance sheet prepared in accordance with IFRS; provided that:

- (a) Hedging Obligations entered into in the ordinary course of business and in compliance with these Conditions, the NTMK Deed of Guarantee and the ZapSib Deed of Guarantee; and
 - (b) endorsements of negotiable instruments and documents in the ordinary course of business,
- shall in each case not be deemed to be an Investment.

For purposes of “*Limitation on Restricted Payments*”:

- (a) **Investment** will include the portion (proportionate to the Mastercrocft’s equity interest in a Restricted Subsidiary to be designated as an Unrestricted Subsidiary) of the Fair Market Value of the net assets of such Restricted Subsidiary of Mastercrocft at the time that such Restricted Subsidiary is designated an Unrestricted Subsidiary; provided, however, that upon a redesignation of such Subsidiary as a Restricted Subsidiary, Mastercrocft will be deemed to continue to have a permanent “Investment” in an Unrestricted Subsidiary in an amount (if positive) equal to (a) Mastercrocft’s “Investment” in such Subsidiary at the time of such redesignation less (b) the portion (proportionate to the Issuer’s equity interest in such Subsidiary) of the Fair Market Value of the net assets (as conclusively determined by the Board of Directors of Mastercrocft in good faith) of such Subsidiary at the time that such Subsidiary is so re-designated a Restricted Subsidiary; and
- (b) any property transferred to or from an Unrestricted Subsidiary will be valued at its Fair Market Value at the time of such transfer, in each case as determined in good faith by the Board of Directors of the Issuer as evidenced by a resolution of the board of directors of Mastercrocft.

Issue Date means the original issue date of the Notes.

Lien means any mortgage or deed of trust, charge, pledge, lien (statutory or otherwise), security interest, assignment, hypothecation, claim, preference, priority or other encumbrance upon or with respect to any property of any kind (including any conditional sale, capital lease or other title retention agreement and any leases in the nature thereof), real or personal, movable or immovable, now owned or hereafter acquired. A Person will be deemed to own subject to a Lien any property which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, Capitalised Lease Obligation or other title retention agreement.

Maturity means, when used with respect to the Notes, the date on which the principal of the Notes becomes due and payable as therein provided or as provided in the Trust Deed, the NTMK Deed of Guarantee or the ZapSib Deed of Guarantee whether at Stated Maturity or the redemption date and whether by declaration of acceleration, call for redemption or otherwise.

Net Cash Proceeds means:

- (a) with respect to any Asset Sale by any Person, the proceeds thereof (without duplication in respect of all Asset Sales) in the form of cash or Temporary Cash Investments including payments in respect of deferred payment obligations when received in the form of, or stock or other assets when disposed of for, cash or Temporary Cash Investments (except to the extent that such obligations are financed or sold with recourse to Mastercrocft or any Restricted Subsidiary) net of:
 - (i) brokerage and sales commissions and other reasonable fees and expenses (including, without limitation, fees and expenses of counsel, accountants, financial advisors, and investment bankers) related to such Asset Sale;

- (ii) provisions for all taxes payable as a result of such Asset Sale;
 - (iii) payments made to retire Indebtedness where payment of such Indebtedness is secured by the assets or properties the subject of such Asset Sale;
 - (iv) amounts required to be paid to any Person (other than Mastercrocft or any Restricted Subsidiary) owning a beneficial interest in the assets subject to the Asset Sale;
 - (v) appropriate amounts to be provided by Mastercrocft or any Restricted Subsidiary, as the case may be, as a reserve, in accordance with IFRS, against any liabilities associated with such Asset Sale and retained by Mastercrocft or any Restricted Subsidiary, as the case may be, after such Asset Sale, including, without limitation, pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as reflected in an officers' certificate delivered to the Trustee; and
 - (vi) pension and other post-employment benefit liabilities.
- (b) with respect to any capital contributions, issuance or sale of Capital Stock or options, warrants or rights to purchase Capital Stock, or debt securities or Capital Stock that have been converted into or exchanged for Capital Stock as referred to under "*Limitation on Restricted Payments*", the proceeds of such issuance or sale in the form of cash or Temporary Cash Investments including payments in respect of deferred payment obligations when received in the form of, or stock or other assets when disposed of for, cash or Temporary Cash Investments (except to the extent that such obligations are financed or sold with recourse to the Issuer or any Restricted Subsidiary), net of attorney's fees, accountant's fees and brokerage, consultation, underwriting and other fees (including placement agents' fees, listing fees, or other discounts and commissions) and expenses actually incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof.

New York Business Day means a date other than a Saturday, Sunday or other day on which banking institutions in the City of New York are authorised or required by law or executive order to close.

Non-Recourse Indebtedness means Indebtedness (a) as to which none of the Issuer, Mastercrocft, any other Guarantor or any of their respective Restricted Subsidiaries (other than a Securitisation Entity) (i) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness), (ii) is directly or indirectly liable (as a guarantor or otherwise) or (iii) constitutes the lender, (b) as to which no default (including any rights that the holders thereof may have to take enforcement action against an Unrestricted Subsidiary) would permit (upon notice, lapse of time or both) any holder of any other Indebtedness of the Issuer, Mastercrocft, any other Guarantor or any of their respective Restricted Subsidiaries (other than a Securitisation Entity) to declare a default on such other Indebtedness or cause the payment thereof to be accelerated or payable prior to its Stated Maturity and (c) as to which the lenders have been notified in writing they will not have recourse to the shares or assets of the Issuer, Mastercrocft, any other Guarantor or any of their respective Restricted Subsidiaries (other than a Securitisation Entity).

Pari Passu Indebtedness means (a) any Indebtedness of the Issuer that is *pari passu* in right of payment to the Notes and (b) with respect to any Guarantee, Indebtedness which ranks *pari passu* in right of payment to such Guarantee.

Permitted Investment means:

- (a) Investments in (i) the form of loans or advances (including guarantees) to Mastercrocft or the Issuer, (ii) any Restricted Subsidiary of Mastercrocft (including the purchase of Capital Stock of any Restricted Subsidiary from a Person other than an Affiliate of Mastercrocft) or (iii) any Person which, as a result of such Investment, (A) becomes a Restricted Subsidiary of Mastercrocft or (B) is merged or consolidated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, the Issuer or any Restricted Subsidiary of Mastercrocft;

- (b) Indebtedness of Mastercraft or a Restricted Subsidiary of Mastercraft described under paragraphs (d), (e) and (f) of the definition of Permitted Indebtedness in Condition 4;
- (c) Investments in any of the Notes;
- (d) cash and Temporary Cash Investments;
- (e) Investments acquired by Mastercraft or any Restricted Subsidiary of Mastercraft in connection with an Asset Sale permitted under “*Limitation on Sale of Assets*” to the extent such Investments are non-cash proceeds as permitted under such covenant;
- (f) Investments in existence on the date of the Trust Deed;
- (g) receivables owing to Mastercraft or any Restricted Subsidiary of Mastercraft created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; provided, however, that such trade terms may include such concessionary trade terms as Mastercraft or any such Restricted Subsidiary deems reasonable under the circumstances;
- (h) payroll, travel and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;
- (i) loans or advances to employees made in the ordinary course of business consistent with past practices of the Mastercraft or such Restricted Subsidiary not to exceed U.S.\$5 million in the aggregate at any one time outstanding;
- (j) stock, obligations or other securities received in satisfaction of judgments or pursuant to any plan of reorganisation or similar arrangement upon the bankruptcy or insolvency of a debtor, or in settlement or resolution of *bona fide* claims or disputes with third parties;
- (k) Hedging Obligations, which transactions or obligations are incurred in compliance with “*Limitation on Indebtedness*”;
- (l) any Investments received in compromise of ordinary course obligations of trade creditors or customers acquired in the ordinary course of business;
- (m) lease, utility and other similar deposits in the ordinary course of business;
- (n) Investments in OAO Rospadskaya Mine, for so long as such joint venture is primarily engaged in a Related Business, not to exceed U.S.\$50 million in the aggregate outstanding at any one time, provided, that 50 per cent. of all such amounts invested pursuant to this clause shall be counted against amounts available pursuant to the covenant “*Limitation on Restricted Payments*”; and
- (o) Investments in OAO Yuzkuzbassugol, for so long as such joint venture is primarily engaged in a Related Business, not to exceed U.S.\$80 million in the aggregate outstanding at any one time provided, that, 50 per cent. of all such amounts invested pursuant to this clause shall be counted against amounts available pursuant to the covenant “*Limitation on Restricted Payments*”; and
- (p) Investments in joint ventures that are 50 per cent. owned or controlled by Mastercraft but that are not Restricted Subsidiaries of Mastercraft and are primarily engaged in a Related Business not to exceed U.S.\$100 million in the aggregate outstanding at any one time provided, that 50 per cent. of all such amounts invested pursuant to this clause shall be counted against amounts available pursuant to the covenant “*Limitation on Restricted Payments*”.

In connection with any assets or property contributed or transferred to any Person as an Investment, such property and assets shall be equal to the Fair Market Value at the time of Investment.

Permitted Lien means:

- (a) any Lien arising by reason of:
 - (i) any judgment, decree or order of any court and any Liens that are required to protect or enforce any rights in any administrative, arbitration or other court proceedings in the ordinary course of business;
 - (ii) taxes, assessments or other governmental charges not yet delinquent or which are being contested in good faith;
 - (iii) security for payment of workers' compensation, unemployment insurance, other insurance or other types of social security (including general liability exposure of Mastercrocft and its Restricted Subsidiaries);
 - (iv) good faith deposits in connection with tenders, bids, leases and contracts (other than contracts for the payment of money);
 - (v) zoning restrictions, easements, licences, reservations, title defects, rights of others for rights of way, utilities, sewers, electric lines, telephone or telegraph lines, and other similar purposes, provisions, covenants, conditions, waivers, restrictions on the use of property or minor irregularities of title (and with respect to leasehold interests, mortgages, obligations, liens and other encumbrances incurred, created, assumed or permitted to exist and arising by, through or under a landlord or owner of the leased property, with or without consent of the lessee), none of which materially impairs the use of any parcel of property material to the operation of the business of the Mastercrocft or any Restricted Subsidiary of Mastercrocft or the value of such property for the purpose of such business;
 - (vi) deposits to secure public or statutory obligations, or in lieu of surety or appeal bonds; or
 - (vii) operation of law in favour of mechanics, carriers, warehousemen, landlords, materialmen, labourers, employees or suppliers, incurred in the ordinary course of business for sums which are not yet delinquent or are being contested in good faith by negotiations or by appropriate proceedings which suspend the collection thereof;
- (b) any Lien to secure the performance bids, trade contracts, leases (including, without limitation, statutory and common law landlord's liens), statutory obligations, surety and appeal bonds, letters of credit, bankers' acceptances and other obligations of a like nature and incurred in the ordinary course of business of Mastercrocft or any Restricted Subsidiary of Mastercrocft;
- (c) any Lien securing Indebtedness permitted to be incurred under Hedging Obligations;
- (d) any Lien securing Capital Expenditure Indebtedness permitted by paragraph (e) of the definition of "Permitted Indebtedness"; provided that such Liens only extend to such acquired, developed or constructed property and such Liens secure Indebtedness in an amount not in excess of the original purchase price or the original cost of any such assets or repair, addition or improvement thereto;
- (e) any Lien securing Indebtedness permitted by the first paragraph of the covenant "*Limitation on Indebtedness*";
- (f) Liens in favour of the Issuer, Mastercrocft or any Restricted Subsidiary;
- (g) Liens arising solely by virtue of any statutory or common law provisions relating to banker's Liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a depository institution; provided that such deposit account is not intended by the Issuer, Mastercrocft or any Restricted Subsidiary of Mastercrocft to provide collateral to the depository institution;

- (h) (i) mortgages, liens, security interests, restrictions, encumbrances or any other matters or record that have been placed by any developer, landlord or other third party on property over which the Issuer, Mastercrocft or any Guarantor has easement rights or on any real property leased by the Issuer, Mastercrocft or any Guarantor and subordination or similar agreements relating thereto and (ii) any condemnation or eminent domain proceedings or compulsory purchase order affecting real property;
- (i) any provision for the retention of title to any asset by the vendor or transferor of such asset which asset is acquired by Mastercrocft or any Guarantor in a transaction entered into the ordinary course of business of Mastercrocft or such Guarantor and for which kind of transaction it is normal market practice for such retention of title provision to be included; or
- (j) Liens securing Permitted Refinancing Indebtedness incurred to refinance Indebtedness that was previously so secured, provided that any such Lien is limited to all or part of the same property or assets (plus improvements, accessions, proceeds or dividends or distributions in respect thereof) that secured (or, under the written arrangements under which the original Lien arose, could secure) the Indebtedness being refinanced or is in respect of property that is the security for a Permitted Lien hereunder.

Permitted Refinancing Indebtedness means any Indebtedness that renews, extends, repays, prepays, refunds, redeems, substitutes, refinances or replaces (collectively, **refinances**, **refinanced** and **refinancing** shall have correlative meanings) any Indebtedness, including any successive refinancings, so long as:

- (a) such Indebtedness is in an aggregate principal or commitment amount (or, if incurred with original issue discount, an aggregate issue price) not in excess of the sum of (i) the aggregate principal or commitment amount (or, if incurred with original issue discount, the aggregate accreted value) then outstanding or in effect, respectively, of the Indebtedness being refinanced and (ii) an amount necessary to pay any fees and expenses, including premiums and defeasance costs, related to such refinancing; and
- (b) (i) the Average Life of such Indebtedness is equal to or greater than the Average Life of the Indebtedness being refinanced, (ii) the Stated Maturity of such Indebtedness is no earlier than the Stated Maturity of the Indebtedness being refinanced and (iii) in the case of Subordinated Indebtedness, such Indebtedness being refinanced is subordinated to the Notes, provided that Permitted Refinancing Indebtedness shall not include:
 - (i) Indebtedness of the Issuer or a Restricted Subsidiary that refinances Indebtedness of an Unrestricted Subsidiary;
 - (ii) Indebtedness of a Subsidiary that refinances Indebtedness of the Issuer; or
 - (iii) Indebtedness of a non-guarantor Subsidiary refinancing Indebtedness of a Guarantor.

Person means any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organisation or government or any agency or political subdivision thereof.

Preferred Stock means, with respect to any Person, any Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over the Capital Stock of any other class in such Person.

Purchase Money Obligation means any Indebtedness secured by a Lien incurred for the purpose of financing all or any part of the purchase price, or other cost of improvement or construction of any property or assets (including financing provided by the vendor of such property or assets) related to the business of Mastercrocft and any additions and accessions thereto, which are purchased by Mastercrocft or any Restricted Subsidiary of Mastercrocft at any time after the Notes are issued, provided that:

- (a) the security agreement or conditional sales or other title retention contract pursuant to which the Lien on such assets is created (collectively a **Purchase Money Security Agreement**) shall be entered into within 180 days after the purchase or substantial completion of the construction of such assets and shall at all times be confined solely to the assets so purchased or acquired, any additions and accessions thereto and any proceeds therefrom;
- (b) at no time shall the aggregate principal amount of the outstanding Indebtedness secured thereby be increased, except in connection with the purchase of additions and accessions thereto and except in respect of fees and other obligations in respect of such Indebtedness; and
- (c) (i) the aggregate outstanding principal amount of Indebtedness secured thereby (determined on a per asset basis in the case of any additions and accessions) shall not at the time such Purchase Money Security Agreement is entered into exceed 100 per cent. of the purchase price to the Issuer or any Restricted Subsidiary of the assets subject thereto or (ii) the Indebtedness secured thereby shall be with recourse solely to the assets so purchased or acquired, any additions and accessions thereto and any proceeds therefrom.

Qualified Capital Stock of any Person means any and all Capital Stock of such Person other than Redeemable Capital Stock.

Qualified Securitisation Transaction means any transaction or series of transactions that may be entered into by Mastercrocft or any Restricted Subsidiary of Mastercrocft, or any other Guarantor, pursuant to which Mastercrocft or any Restricted Subsidiary of Mastercrocft, or any other Guarantor, may sell, convey or otherwise transfer to (a) a Securitisation Entity (in the case of a transfer by Mastercrocft or any Restricted Subsidiary of Mastercrocft, or any other Guarantor) and (b) any other Person (in the case of a transfer by a Securitisation Entity), or may grant a security interest in Receivables and Related Assets.

Receivables and Related Assets means any accounts receivable (whether now existing or arising thereafter) of Mastercrocft or any Restricted Subsidiary of Mastercrocft, or any other Guarantor, and any assets related thereto including all collateral securing such accounts receivable, all contracts and contract rights and all guarantees or other obligations in respect of such accounts receivable, proceeds of such accounts receivable and other assets which are customarily transferred or in respect of which security interests are customarily granted in connection with asset securitisation transactions involving accounts receivable.

Redeemable Capital Stock means any Capital Stock that, either by its terms or by the terms of any security into which it is convertible or exchangeable or otherwise, is or upon the happening of an event or passage of time would be, required to be redeemed prior to the final Stated Maturity of the principal of the Notes or is redeemable at the option of the holder thereof at any time prior to such final Stated Maturity, or is convertible into or exchangeable for debt securities at any time prior to such final Stated Maturity at the option of the holder thereof.

Related Business means (a) the production, selling and marketing of iron, steel and iron and steel products; (b) the ownership or operation of any mines or similar sites the primary purpose of which is to supply any Restricted Subsidiary of Mastercrocft with feedstock or other raw materials; (c) the handling, distribution and transportation of iron, steel and iron and steel products, raw materials and other supplies relating thereto; (d) the generation and transmission of electricity and other energy sources, and (e) investment in or acquisition of real estate and other property (in the case of (c) through (e), save only to the extent such activities are related, ancillary or complimentary to the production, selling and marketing of iron, steel and iron and steel products) and any business or services related, ancillary or complimentary to the foregoing.

Restricted Subsidiary means any Subsidiary that has not been designated as an Unrestricted Subsidiary pursuant to and in compliance with the covenant described under "Limitation on Unrestricted Subsidiaries".

Sale and Leaseback Transaction means any arrangement relating to property now owned or hereafter acquired whereby Mastercrocft or any Restricted Subsidiary transfers such property to a Person and Mastercrocft or a Restricted Subsidiary leases it from such Person.

Securitisation Entity means a wholly owned Restricted Subsidiary (or a wholly owned Controlled Entity of another Person in which Mastercrocft, any other Guarantor or any Controlled Entity of Mastercrocft or another Guarantor makes an Investment and to which Mastercrocft, any other Guarantor or any Controlled Entity of Mastercrocft or any other Guarantor transfers Receivables and Related Assets) that engages in no activities other than in connection with the financing of accounts receivable and that is designated by the board of directors of Mastercrocft or such Guarantor (as provided below) as a Securitisation Entity and:

- (a) no portion of the Indebtedness or any other obligations (contingent or otherwise) of which:
 - (i) is guaranteed by Mastercrocft or any Restricted Subsidiary of Mastercrocft, or any other Guarantor (excluding guarantees of obligations, (other than the principal of, and interest on, Indebtedness) pursuant to Standard Securitisation Undertakings);
 - (ii) is recourse to or obliges Mastercrocft or any Restricted Subsidiary of Mastercrocft, or any other Guarantor (other than such Securitisation Entity), in any way other than pursuant to Standard Securitisation Undertakings;
 - (iii) subjects any property or asset of Mastercrocft or any Restricted Subsidiary of Mastercrocft, or any other Guarantor (other than such Securitisation Entity), directly or indirectly, contingently or otherwise, to the satisfaction thereof, other than pursuant to Standard Securitisation Undertakings;
- (b) with which none of Mastercrocft, any Restricted Subsidiary of Mastercrocft or any other Guarantor, (other than such Securitisation Entity) has any material contract, agreement, arrangement or understanding other than on terms no less favourable to Mastercrocft, such Restricted Subsidiary or such Guarantor than those that might be obtained at the time from Persons that are not Affiliates of Mastercrocft, other than fees payable in the ordinary course of business in connection with servicing accounts receivable of such entity; and
- (c) to which none of Mastercrocft, any Restricted Subsidiary of Mastercrocft or any other Guarantor, (other than such Securitisation Entity) has any obligation to maintain or preserve such entity's financial condition or cause such entity to achieve certain levels of operating results.

Any designation of a Restricted Subsidiary or a Controlled Entity as a Securitisation Entity shall be evidenced to the Trustee by filing with the Trustee a certified copy of the resolution of the board of directors giving effect to the designation and any officers' certificate certifying that the designation complied with the preceding conditions and was permitted by these Conditions.

Stated Maturity means, when used with respect to any Indebtedness or any instalment of interest thereon, the date specified in such Indebtedness as the fixed date on which the principal of such Indebtedness or such instalment of interest, as the case may be, is due and payable.

Standard Securitisation Undertakings means representations, warranties, covenants and indemnities entered into by Mastercrocft, a Restricted Subsidiary of Mastercrocft, or any other Guarantor, that are reasonably customary in an accounts receivable securitisation transaction.

Subordinated Indebtedness means Indebtedness of the Issuer, Mastercrocft or another Guarantor subordinated in right of payment to the Notes or a Guarantee, as the case may be.

Subsidiary of a Person means (a) any corporation more than 50 per cent. of the outstanding voting power of the Voting Stock of which is owned or controlled, directly or indirectly, by such Person or by one or more other Subsidiaries of such Person, or by such Person and one or more other Subsidiaries thereof, (b) any limited partnership of which such Person or any Subsidiary of such Person is a general partner or (c) any other Person in which such Person, or one or more other

Subsidiaries of such Person, or such Person and one or more other Subsidiaries, directly or indirectly, has more than 50 per cent. of the outstanding partnership or similar interests or has the power, by contract or otherwise, to direct or cause the direction of the policies, management and affairs thereof.

Temporary Cash Investments means:

- (a) any evidence of Indebtedness, maturing not more than one year after the date of acquisition, issued by the United Kingdom, Belgium, France, Germany, Japan, Switzerland or the United States or an instrumentality or agency thereof, including any political subdivision of such countries, and guaranteed fully as to principal, premium, if any, and interest by the United Kingdom, Belgium, France, Germany, Japan, Switzerland or the United States;
- (b) any certificate of deposit, maturing not more than one year after the date of acquisition, issued by, or time deposit of, a commercial banking institution that is a member of the Federal Reserve System or a bank or trust company organised in the United Kingdom, Belgium, France, Germany, Japan, Switzerland or the United States and that has combined capital and surplus and undivided profits of not less than \$500 million, whose debt has a rating, at the time as of which any investment therein is made, of “P-1” (or higher) according to Moody’s Investors Service, Inc. (**Moody’s**) or any successor rating agency or “A-1” (or higher) according to Standard & Poor’s Ratings Services, a division of the McGraw-Hill Companies, Inc. (**S&P**) or any successor rating agency;
- (c) commercial paper, maturing not more than one year after the date of acquisition, issued by a corporation (other than an Affiliate or Subsidiary of the Issuer) organised and existing under the laws of the United Kingdom, Belgium, France, Germany, Japan, Switzerland or the United States, any state thereof or the District of Columbia with a rating, at the time as of which any investment therein is made, of “P-1” (or higher) according to Moody’s or “A-1” (or higher) according to S&P;
- (d) any money market deposit accounts issued or offered by a commercial bank organised in the United Kingdom, Belgium, France, Germany, Japan, Switzerland or the United States having capital and surplus in excess of U.S.\$500 million; provided that the short term debt of such commercial bank has a rating, at the time of Investment, of “P-1” (or higher) according to Moody’s or “A-1” (or higher) according to S&P; and
- (e) investments in money market funds which invest substantially all their assets in the securities described in paragraphs (a) through (d) above.

Treasury Rate means the yield to maturity at the time of computation of U.S. Treasury securities with a constant maturity most nearly equal to the period from the redemption date to 25 September 2006. Mastercrocft will obtain such yield to maturity from information compiled and published in the most recent Federal Reserve Statistical Release H.15(519) which has become publicly available at least two New York Business Days prior to the redemption date. If such Statistical Release is no longer published, Mastercrocft will use any publicly available source or similar market data. If the period from the redemption date to 25 September 2006 is not equal to the constant maturity of a U.S. Treasury security for which a weekly average yield is given, Mastercrocft will obtain the Treasury Rate by linear interpolation, calculated to the nearest one-twelfth of a year, from the weekly average yields of U.S. Treasury securities for which such yields are given. If the period from the redemption date to 25 September 2006 is less than one year, Mastercrocft will use the weekly average yield on actually traded U.S. Treasury securities adjusted to a constant maturity of one year to make such calculation.

Unrestricted Subsidiary means any Subsidiary of Mastercrocft (other than a Guarantor) designated as such pursuant to and in compliance with the covenant described under “*Limitation on Unrestricted Subsidiaries*”.

Unrestricted Subsidiary Indebtedness of any Unrestricted Subsidiary means Indebtedness of such Unrestricted Subsidiary:

- (a) as to which none of the Issuer, Mastercrocft or any Restricted Subsidiary is directly or indirectly liable (by virtue of the Issuer or any such Restricted Subsidiary being the primary obligor on, guarantor of, or otherwise liable in any respect to, such Indebtedness), except Guaranteed Debt of the Issuer, Mastercrocft or any Restricted Subsidiary to any Affiliate, in which case (unless the incurrence of such Guaranteed Debt resulted in a Restricted Payment at the time of incurrence) Mastercrocft shall be deemed to have made a Restricted Payment equal to the principal amount of any such Indebtedness to the extent guaranteed at the time such Affiliate is designated an Unrestricted Subsidiary; and
- (b) which, upon the occurrence of a default with respect thereto, does not result in, or permit any holder of any Indebtedness of Mastercrocft or any Subsidiary to declare, a default on such Indebtedness of Mastercrocft or any Subsidiary or cause the payment thereof to be accelerated or payable prior to its Stated Maturity; provided that notwithstanding the foregoing any Unrestricted Subsidiary may guarantee the Notes.

U.S. dollar Equivalent means, with respect to any monetary amount in a currency other than dollars, at any time of determination thereof, the amount of dollars obtained by translating such other currency involved in such computation into dollars at the spot rate for the purchase of dollars with the applicable other currency as published in the *Financial Times* on the date two business days in London prior to such determination.

Voting Stock of a Person means Capital Stock of such Person of the class or classes pursuant to which the holders thereof have the general voting power under ordinary circumstances to elect at least a majority of the board of directors, managers or trustees of such Person (irrespective of whether or not at the time Capital Stock of any other class or classes shall have or might have voting power by reason of the happening of any contingency).

11. ENFORCEMENT

11.1 Enforcement by the Trustee

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer and/or the Guarantors (or any of them) as it may think fit to enforce the provisions of the Trust Deed, the NTMK Deed of Guarantee, the ZapSib Deed of Guarantee, the Notes and the Coupons, but it shall not be bound to take any such proceedings or to take any other action in relation to the Trust Deed, the NTMK Deed of Guarantee, the ZapSib Deed of Guarantee, the Notes or the Coupons unless (a) it has been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-fifth in principal amount of the Notes then outstanding and (b) it has been indemnified and/or secured to its satisfaction.

11.2 Enforcement by the Noteholders

No Noteholder or Couponholder shall be entitled to proceed directly against the Issuer or a Guarantor unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

12. REPLACEMENT OF NOTES AND COUPONS

To the extent permitted by applicable laws and regulations, should any Note or Coupon be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Principal Paying Agent or the Paying Agent in Luxembourg upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

13. NOTICES

All notices to the Noteholders will be valid if published in a leading English language daily newspaper published in London or such other English language daily newspaper with general circulation in Europe as the Trustee may approve and, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, in one daily newspaper having general circulation in Luxembourg approved by the Trustee. It is expected that publication will normally be made in the *Financial Times* and the *Luxemburger Wort* or the *Tageblatt*. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules and regulations of any other stock exchange or authority on which the Notes are for the time being listed or by which they have been admitted to listing. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers. If publication as provided above is not practicable, notice will be given in such other manner, and shall be deemed to have been given on such date, as the Trustee may approve. Couponholders will be deemed for all purposes to have notice of the contents of any notice given to the Noteholders in accordance with this Condition.

14. MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION

14.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed, the NTMK Deed of Guarantee, the ZapSib Deed of Guarantee, the Notes or the Coupons. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50 per cent. in principal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that, at any meeting the business of which includes the modification or abrogation of certain of the provisions of these and certain of the provisions of the Trust Deed, the NTMK Deed of Guarantee, the ZapSib Deed of Guarantee, the Notes and the Coupons the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting, and on all Couponholders.

14.2 Modification, Waiver, Authorisation and Determination

The Trustee may agree, without the consent of the Noteholders or Couponholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed, the NTMK Deed of Guarantee, the ZapSib Deed of Guarantee, the Notes or the Coupons or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default shall not be treated as such, provided that, in any such case, so to do is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders, or may agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest or proven error.

14.3 Trustee to have Regard to Interests of Noteholders as a Class

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders or Couponholders (whatever their number) and, in particular but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders or Couponholders (whatever their number) resulting from

their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer, a Guarantor, the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed, the NTMK Deed of Guarantee or the ZapSib Deed of Guarantee.

14.4 Notification to the Noteholders

Any modification, abrogation, waiver, authorisation or determination shall be binding on the Noteholders and the Couponholders and, unless the Trustee agrees otherwise, any such modification shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 13. For the avoidance of doubt, the provisions of Articles 86 to 94-8 of the Luxembourg Law dated 10 August 1915 on commercial companies, as amended, are hereby excluded.

15. INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER AND A GUARANTOR

15.1 Indemnification of the Trustee

The Trust Deed, the NTMK Deed of Guarantee and the ZapSib Deed of Guarantee contain provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified to its satisfaction.

15.2 Trustee Contracting with the Issuer and a Guarantor

The Trust Deed, the NTMK Deed of Guarantee and the ZapSib Deed of Guarantee also contain provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or a Guarantor and/or any of the Guarantors' Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or a Guarantor and/or any of the Guarantors' Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders or Couponholders and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

16. GOVERNING LAW AND SUBMISSION TO JURISDICTION

16.1 Governing Law

The Trust Deed (including the Guarantees), the NTMK Deed of Guarantee, the ZapSib Deed of Guarantee, the Notes and the Coupons are governed by, and will be construed in accordance with, English law.

16.2 Jurisdiction of English Courts

Each of the Issuer and the Guarantors has irrevocably agreed in the Trust Deed, the NTMK Deed of Guarantee and/or the ZapSib Deed of Guarantee for the benefit of the Trustee, the Noteholders and the Couponholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed, the NTMK Deed of Guarantee, the ZapSib Deed of Guarantee, the Notes or the Coupons and accordingly has submitted to the exclusive jurisdiction of the English courts.

Each of the Issuer and the Guarantors has in the Trust Deed, the NTMK Deed of Guarantee and/or the ZapSib Deed of Guarantee waived any objection to the courts of England on the grounds that they are

an inconvenient or inappropriate forum. The Trustee, the Noteholders and the Couponholders may take any suit, action or proceeding arising out of or in connection with the Trust Deed, the NTMK Deed of Guarantee and the ZapSib Deed of Guarantee, the Notes or the Coupons respectively (together referred to as **Proceedings**) against the Issuer or any Guarantor in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

16.3 Appointment of Process Agent

Each of the Issuer and the Guarantors has, in the Trust Deed, the NTMK Deed of Guarantee, and/or the ZapSib Deed of Guarantee, irrevocably and unconditionally appointed Clifford Chance Secretaries Limited at the latter's registered office for the time being as its agent for service of process in England in respect of any Proceedings and has undertaken that in the event of such agent ceasing so to act it will appoint such other person as the Trustee may approve as its agent for that purpose.

16.4 Arbitration

If any dispute or difference of whatever nature howsoever arises from or in connection with the Trust Deed, the NTMK Deed of Guarantee, the ZapSib Deed of Guarantee, the Notes or the Coupons (each a **Dispute**), the Trustee, the Noteholders and the Couponholders may elect, by notice in writing to the Issuer and the Guarantors, to settle such claim by arbitration in accordance with the following provisions. Each of the Issuer and the Guarantors agrees that (regardless of the nature of any Dispute) any Dispute may be settled by arbitration in accordance with the UNCITRAL Arbitration Rules (the **Rules**) as at present in force by a panel of three arbitrators (or a sole arbitrator as the parties may agree) appointed in accordance with the Rules. The seat of any reference to arbitration shall be London, England. The procedural law of any reference to arbitration shall be English law. The language of any arbitral proceedings shall be English. The appointing authority for the purposes set forth in Article 7(2) of the Rules shall be the London Court of International Arbitration.

17. FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Noteholders or Couponholders to create and issue further notes ranking *pari passu* in all respects (save for the issue price and the first payment of interest thereon) and so that the same shall be consolidated and form a single series with the Notes. Any such further notes shall be constituted by a deed supplemental to the Trust Deed, the NTMK Deed of Guarantee and the ZapSib Deed of Guarantee.

18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE REPRESENTED BY THE GLOBAL NOTES

The following is a summary of the provisions to be contained in the Trust Deed to constitute the Notes and in the Global Notes which will apply to, and in some cases modify, the Conditions while the Notes are represented by the Global Notes.

1. Exchange

The Permanent Global Note will be exchangeable in whole but not in part (free of charge to the holder) for definitive Notes only:

- (a) upon the happening of any of the events defined in the Trust Deed as “Events of Default”;
- (b) if either Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so and no alternative clearing system satisfactory to the Trustee is available; or
- (c) if the Issuer would suffer a disadvantage as a result of a change in laws or regulations (taxation or otherwise) or as a result of a change in the practice of Euroclear and/or Clearstream, Luxembourg which would not be suffered were the Notes in definitive form and a certificate to such effect signed by two Directors of the Issuer is given to the Trustee.

Thereupon (in the case of (a) and (b) above) the holder of the Permanent Global Note (acting on the instructions of one or more of the Accountholders (as defined below)) or the Trustee may give notice to the Issuer and (in the case of (c) above) the Issuer may give notice to the Trustee and the Noteholders, of its intention to exchange the Permanent Global Note for definitive Notes on or after the Exchange Date (as defined below).

On or after the Exchange Date the holder of the Permanent Global Note may or, in the case of (c) above, shall surrender the Permanent Global Note to or to the order of the Principal Paying Agent. In exchange for the Permanent Global Note the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of definitive Notes (having attached to them all Coupons in respect of interest which has not already been paid on the Permanent Global Note), security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Trust Deed. On exchange of the Permanent Global Note, the Issuer will procure that it is cancelled and, if the holder so requests, returned to the holder together with any relevant definitive Notes.

For these purposes, “**Exchange Date**” means a day specified in the notice requiring exchange falling not less than 60 days after that on which such notice is given and on which banks are open for general business in the place in which the specified office of the Principal Paying Agent is located and, except in the case of exchange pursuant to (b) above, in the place in which the relevant clearing system is located.

2. Payments

On and after 4 November 2003, no payment will be made on the Temporary Global Note unless exchange for an interest in the Permanent Global Note is improperly withheld or refused. Payments of principal and interest in respect of Notes represented by a Global Note will, subject as set out below, be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of such Global Note to the order of the Principal Paying Agent or such other Paying Agent as shall have been notified to the Noteholders for such purposes. A record of each payment made will be endorsed on the appropriate part of the schedule to the relevant Global Note by or on behalf of the Principal Paying Agent, which endorsement shall be *prima facie* evidence that such payment has been made in respect of the Notes. Payments of interest on the Temporary Global Note (if permitted by the first sentence of this paragraph) will be made only upon certification as to non-U.S. beneficial ownership unless such certification has already been made.

3. Notices

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg (as the case may be) for communication to the relative Accountholders rather than by publication as required by Condition 13, provided that, so long as the Notes are listed on the Luxembourg Stock Exchange, notice will also be given by publication in a daily newspaper published in Luxembourg if and to the extent that the rules of the Luxembourg Stock Exchange so require. Any such notice shall be deemed to have been given to the Noteholders on the second day after the day on which such notice is delivered to Euroclear and/or Clearstream, Luxembourg (as the case may be) as aforesaid.

Whilst any of the Notes held by a Noteholder are represented by a Global Note, notices to be given by such Noteholder may be given by such Noteholder (where applicable) through Euroclear and/or Clearstream, Luxembourg and otherwise in such manner as the Principal Paying Agent and Euroclear and Clearstream, Luxembourg may approve for this purpose.

4. Accountholders

For so long as all of the Notes are represented by one or both of the Global Notes and such Global Note(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg as the holder of a particular principal amount of such Notes (each an “Accountholder”) (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such principal amount of such Notes for all purposes (including but not limited to, for the purposes of any quorum requirements of, or the right to demand a poll at, meetings of the Noteholders and giving notice to the Issuer pursuant to Condition 13) other than with respect to the payment of principal and interest on such principal amount of such Notes, the right to which shall be vested, as against the Issuer and the Trustee, solely in the bearer of the relevant Global Note in accordance with and subject to its terms and the terms of the Trust Deed. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the bearer of the relevant Global Note.

5. Prescription

Claims against the Issuer and any of the Guarantors in respect of principal and interest on the Notes represented by a Global Note will be prescribed after 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date (as defined in Condition 8).

6. Cancellation

Cancellation of any Note represented by a Global Note and required by the Conditions of the Notes to be cancelled following its redemption or purchase will be effected by endorsement by or on behalf of the Principal Paying Agent of the reduction in the principal amount of the relevant Global Note on the relevant part of the schedule thereto.

7. Euroclear and Clearstream, Luxembourg

References in the Global Notes and this summary to Euroclear and/or Clearstream, Luxembourg shall be deemed to include references to any other clearing system approved by the Trustee.

USE OF PROCEEDS

The net proceeds of the issue of the Notes, expected to amount to approximately U.S.\$146,000,000, will be on-lent by the Issuer to Mastercrocft, which would on-lend those funds to Sibmetinvest. The participatory interests in Sibmetinvest are held by Mastercrocft (50 per cent.), NTMK (25 per cent.) and ZapSib (25 per cent.). Sibmetinvest is incorporated as a limited liability company in the Russian Federation. Sibmetinvest intends to use the loan to fund acquisitions of mining and steel production assets, including the acquisition of certain assets currently held within the Crosland Group (see “Strategy” section for further description of contemplated acquisitions of Evraz Group) as well as for general corporate purposes of companies within Evraz Group.

THE ISSUER

EVRAZSECURITIES S.A.

Incorporation and Status

EvrazSecurities S.A. (the “**Issuer**”) was incorporated on 21 August 2003 as a Luxembourg société anonyme for an unlimited period of time under the laws of the Grand Duchy of Luxembourg. The registered office of the Issuer is at 33 Boulevard du Prince Henri, L-1724 Luxembourg. The Issuer is registered with the Register of Commerce and Companies, with the registration number B95437. The publication of the Articles of Incorporation of the Issuer in the *Mémorial, Journal Officiel du Grand-Duché de Luxembourg, Recueil des Sociétés et Associations* is pending. The Issuer has no subsidiaries.

Objects

The objects of the Issuer, as set out in Article three of its articles of incorporation, are to:

- raise funds, including the issue of bonds, notes, obligations and obtain loans and on-lend the proceeds thereof to Mastercroc in order to finance, directly or indirectly, transactions and operations of Evraz Group;
- enter into any guarantee, pledge or any other form of security, whether by personal covenant or by mortgage or charge upon all or part of the undertaking, property assets (present or future) or by all or any of such methods, for the performance of any contracts or obligations of the Issuer or any of its subsidiaries or affiliates, if any;
- enter into agreements, including, but not limited to, underwriting agreements, agency agreements, listing agreements and listing applications, interest and/or currency exchange agreements, option agreements and other financial derivative agreements concluded in relation with the operations mentioned above, bank and cash administration agreements, liquidity facility agreements, credit insurance agreements and security agreements in connection with the objects mentioned above;
- issue any certificates in connection with the objects mentioned above; and
- perform all legal, commercial, technical and financial investments of operation and in general all transactions which are necessary to fulfil its object as well as operations connected, directly or indirectly, with facilitating the accomplishment of its purpose in all areas described above, however without taking advantage of the act of 31 July 1929 on Holding Companies.

Share Capital

The Issuer’s share capital is EUR 31,000 represented by thirty one (31) shares with a nominal value of EUR 1,000 each, carrying one voting right in the general assembly. All shares are in registered form. The shareholders of the Issuer are: Financial Trustees Limited, a company incorporated under the laws of the British Virgin Islands, with office in Mill Mall, P.O. Box 964, Road Town, Tortola, British Virgin Islands, as trustee of EvrazSecurities Trust, holding thirty (30) shares and TMF Corporate Services S.A., a company incorporated under the laws of the Grand Duchy of Luxembourg, having its registered office at 33, boulevard du Henri, L-1724 Luxembourg, holding one (1) share.

Directors

The directors of the Issuer are TMF Corporate Services S.A., TMF Secretarial Services S.A., a company incorporated under the laws of the Grand Duchy of Luxembourg, having its registered address at 33, boulevard du Henri, L-1724 Luxembourg and TMF Administrative Services S.A., a company incorporated under the laws of the Grand Duchy of Luxembourg, having its registered address at 33, boulevard du Henri, L-1724 Luxembourg.

Auditors

The Issuer has appointed Ernst & Young S.A. with registered office at 6 Rue Jean Monnet, L-2180 Luxembourg as its auditors.

Financial Year

The Issuer's financial year corresponds to the calendar year. Since the date of its incorporation, the Issuer has not published any audited or unaudited financial statements. For so long as the Notes are listed on the Luxembourg Stock Exchange, the most recently published consolidated and non-consolidated audited annual financial statements and consolidated unaudited semi-annual interim financial statements of the Issuer (together with English language translations thereof where applicable), may be obtained during normal business hours at the Specified Office of each Paying Agent. The first annual accounts of the Issuer are expected to be prepared for the period commencing on 21 August 2003 and ending on 31 December 2003.

Capitalisation and Indebtedness

The following table sets out the capitalisation and indebtedness of the Issuer as at 1 September 2003, adjusted to give effect to the issue of the Notes. There has been no material change in the capitalisation or indebtedness of the Issuer since 1 September 2003.

	As at 1 September 2003
	(in U.S.\$)⁽¹⁾ (unaudited)
Short-term debt	—
Long-term debt	
The Notes	150,000,000
Shareholders' equity	
Issued and fully subscribed share capital.	33,740 ⁽¹⁾
Total shareholders' equity	33,740
Total capitalisation	<u>150,033,740</u>

(1) The Issuer's issued share capital of EUR 31,000 has been translated into U.S. dollars solely for the convenience of the reader. Translation was made at a rate of EUR 1 = U.S.\$ 1.0884, which approximates the rate prevailing on 1 September 2003.

BUSINESS

Overview

Crosland Group

Evraz Group is part of a wider group of businesses referred to herein as the “Crosland Group”. For a chart outlining the general structure of the Crosland Group, see “Summary” above.

Crosland Limited is a limited liability company incorporated in Cyprus with its principal address at Julia House, 3 Themistocles Dervis Street, CY-1066 Nicosia, Cyprus. Crosland Limited was originally incorporated in 31 December 2002 with capital of 1,000 Cypriot pounds. The principal business of Crosland Limited is to function as a holding company of the Crosland Group. The shares of Crosland Limited are beneficially held by the small number of individuals who do not disclose the details of their beneficial ownership of such shares.

As shown in “Summary” above, Crosland Limited holds the shares in NTMK and ZapSib through wholly-owned subsidiaries of Mastercrocft. In addition to controlling interests in NTMK and ZapSib, the assets of the Crosland Group include an over 75 per cent. interest in VGOK (a major sinter supplier to NTMK), a 50 per cent. interest in OJSC Kuznetskugol (a coal mining company), and a 20 per cent. interest in OJSC Raskadskaya Mine (a coal supplier). Crosland Group also controls over 75 per cent. of the OJSC Nakhodka Commercial Sea Port (a port in the south-east of Russia providing access to Far East markets). The Crosland Group has also acquired assets of KMK which were offered for sale as part of KMK’s recently completed liquidation. It is contemplated that a portion of the issue proceeds of the Notes would be used by Evraz Group to acquire some of those assets currently held at the Crosland level.

Evraz Group

Evraz Group is one of the largest steel production conglomerates and industrial groups in the Russian Federation. Evraz Group is a group of companies owned by, or affiliated with, Mastercrocft. Evraz Group’s principal operating assets are shares in two integrated steel production companies – NTMK (74.2 per cent. shareholding as of 1 September 2003) and ZapSib (79.4 per cent. shareholding as of 1 September 2003). The combined production of NTMK and ZapSib in 2002 amounted to 11 million tonnes of steel (compared to 10.8 million tonnes of steel in 2001), ranking Evraz Group as one of the largest producers of steel and steel products in Russia and the 16th-17th largest steel producer in the world. In the first three months of 2003, Evraz Group’s steel production reached 2.80 million tonnes (compared to 2.59 million tonnes in the same period of 2002). Evraz Group’s revenues (based on the pro forma consolidated financial information of Mastercrocft) and EBITDA in 2002 amounted to U.S.\$ 2,064 million and U.S.\$ 327 million, respectively (compared to U.S.\$ 2,083 million and U.S.\$ 127 million, respectively in 2001). In the first three months of 2003, Evraz Group’s revenues were U.S.\$ 645 million and EBITDA equalled U.S.\$ 170 million.

History

Evraz Group started its history in 1992 and developed from a limited liability company “Evrazmetall” (“EvrazMetal”). EvrazMetal was incorporated on 28 February 1992 and was set up by a group of Russian scientists and engineers led by Alexander Abramov and specialised in marketing metal products, supplying raw materials and equipment to Russian and Ukrainian mining and metallurgical enterprises. In 1995, EvrazMetal and its affiliates (the “Original Group”) expanded its operations into trading on international markets in partnership with Duferco S.A. (an international metals trading company).

In mid-1990s, major metals traders on the Russian market (including the Original Group), as part of their trading activity, financed production of steel plants (including NTMK and ZapSib) from which they bought steel. As a result, the Original Group (as well as other major metals traders) became the largest creditors of both NTMK and ZapSib. In 1997, a group of creditors and the management of NTMK agreed on a debt-to-equity swap. As a result of this, the Original Group (together with Duferco S.A. and CJSC Interural (another metals trading company)) became NTMK’s shareholders.

Initially the Original Group acquired approximately 10 per cent. of NTMK's shares, but over the following two years the Original Group accumulated additional NTMK shares through further share issues and purchases of shares on the secondary market (in particular, through purchases of NTMK shares from the other metals traders, including Duferco S.A.). By mid-1999, the Original Group's shareholding in NTMK had increased to approximately 20 per cent.

In 1999, following the Russian financial crisis in 1998, NTMK's creditors initiated insolvency proceedings against NTMK. In the course of these insolvency proceedings the Original Group, through purchases of NTMK's debts and shares, took control over the management of NTMK. Upon the conclusion of the amicable settlement agreement and the termination of insolvency proceedings against NTMK, the Original Group continued to accumulate NTMK shares, obtained board representation in 1998 and, by the end of 1999, had the controlling stake in NTMK.

Upon acquiring the controlling stake in NTMK, the Original Group decided to acquire ZapSib, another major Russian steel producer. The choice of the acquisition target was primarily driven by the fact that, although insolvency proceedings against ZapSib were initiated in 1996, the Original Group's management believed that the debt-to-equity swap would allow them to recover debts due from ZapSib. In addition, the Original Group's management believed that the experience gained from the acquisition of NTMK would facilitate the acquisition of ZapSib, a company with similar economic profile and complementary product range.

In 2001, prior to entering into a settlement agreement (see "ZapSib" – "Insolvency and Restructuring"), ZapSib issued new shares with a view to repay its debts. Due to a limited demand, the issue proceeds were only sufficient to repay ZapSib's debts to the Russian budget (tax arrears and social contribution payments). Following this share issuance, the Original Group was holding 35 per cent. of ZapSib shares and the Russian Government retained a 23 per cent. stake (which was later sold in a privatisation auction to the Original Group). The Original Group continued accumulation of ZapSib shares and acquired the controlling stake and took management control over ZapSib in April 2002, following the termination of the insolvency proceedings against ZapSib.

Reorganisation of the Original Group and Structure of Evraz Group

By 2002, the Original Group had grown into a conglomerate of companies involved in the steel and mining business. At the end of 2002, the Original Group's management decided to commence a multi-stage reorganisation in order to accomplish the following objectives:

- to arrange all of the companies of the Original Group into a structure which would improve the legal and financial transparency of the group (in particular, to create a clearer ownership structure and facilitate financial reporting); and
- to optimise the taxation of the proceeds of the Original Group's export sales.

Set out below are the chronological steps performed as part of the reorganisation.

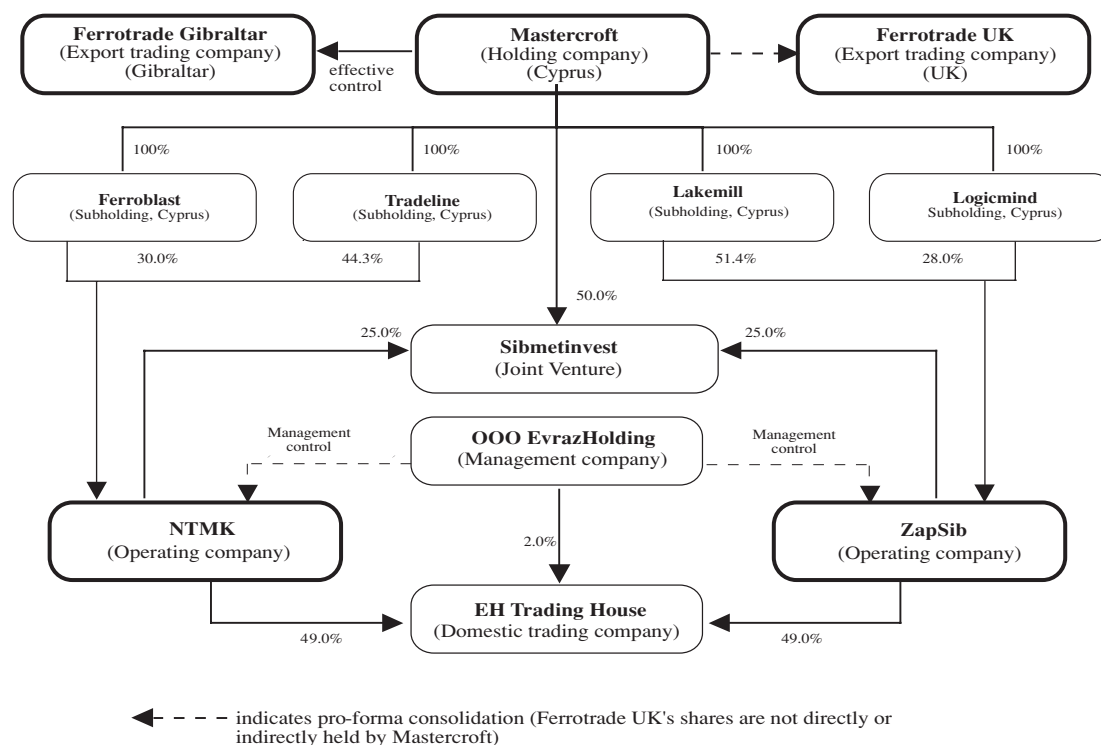
Mastercroft, Ferroblast Overseas Investments Limited ("**Ferroblast**"), Tradeline and Logicmind were incorporated and registered in Cyprus.

Crosland Limited became the sole shareholder of Mastercroft, which, in turn, acquired 100 per cent. of the shares in each of Ferroblast, Tradeline, Logicmind and Lakemill (a Cypriot company already in existence (then wholly-owned by Marteck International Ltd.) and holding 51 per cent. of ZapSib's issued share capital).

In early 2003, Ferroblast and Tradeline were capitalised via the transfer of shares in NTMK and Logicmind was capitalised via the transfer of shares in ZapSib then owned by a number of holding companies incorporated in various jurisdictions. As a result, Mastercroft became the controlling shareholder of NTMK and ZapSib through four wholly-owned sub-holding companies (two for each of NTMK and ZapSib).

Evraz Group's management has also decided to transfer the export trading function of Ferrotrade UK to Ferrotrade Gibraltar, a limited company incorporated and registered in Gibraltar. The business and assets of Ferrotrade UK are currently being migrated to Ferrotrade Gibraltar and the transfer of the business, operations and assets of Ferrotrade UK to Ferrotrade Gibraltar is expected to be completed in the first quarter of 2004 (see below under "Ferrotrade UK." and "Ferrotrade Gibraltar"). The transfer of the offshore trading function is expected to result in the optimisation of the taxation of Evraz Group's export sale proceeds and allow for greater flexibility in the export sales of Evraz Group.

The corporate structure of Evraz Group following the reorganisation is outlined in the following chart:



OOO EuroasiaHolding (trading under the name EvrazHolding) ("**OOO EvrazHolding**") has been appointed by the shareholders of NTMK and ZapSib as the management company of both companies. OOO EvrazHolding functions as the sole executive body of NTMK and ZapSib (thus replacing the position of a general director with respect to the two companies) although the boards of directors of the two companies retain responsibility to shareholders and certain management decisions are reserved to the relevant board of directors. This appointment was approved by the Ministry of Anti-Monopoly Policy and came into effect in October 2002. OOO EvrazHolding is owned by a group of individuals and has no direct ownership link to Mastercroft. Mastercroft, however, holds an option to acquire all of the interests in OOO EvrazHolding at par (thus enabling Mastercroft to have ultimate management control over NTMK and ZapSib). OOO EvrazHolding does not carry on any other commercial activity apart from managing NTMK and ZapSib (see "Management" below).

In order to consolidate domestic sales and the procurement of certain non-core raw materials, EH Trading House was established in the Russian Federation and became operational in September 2002. EH Trading House is 49 per cent. owned by each of NTMK and ZapSib and 2 per cent. owned by OOO EvrazHolding. Although EH Trading House's operations are largely concentrated on sales, it is also responsible for the procurement of iron scrap and ferroalloys (but not iron ore and coal) and is also involved in the supply of the spare parts to NTMK and ZapSib. In its activity, EH Trading House acts as an agent of NTMK and ZapSib and receives agency commission for its services (1 per cent. and 0.5 per cent. of the amount of the total sales and procurement with respect to NTMK and ZapSib, respectively). EH Trading House sells solely the production of Evraz Group.

As explained above, Ferrotrade UK is the principal entity through which NTMK and ZapSib export their products. Following the completion of the business migration, Ferrotrade Gibraltar and East Metals S.A. will assume the export sale function (see "Ferrotrade Gibraltar" below).

Evraz Group also intends to acquire certain mining and steel production assets. As noted above (see “Use of Proceeds”), this exercise will be funded by the proceeds from the issue of the Notes and certain other funds. These acquisitions will allow Evraz Group to streamline management control and management procedures with respect to these assets and facilitate transfer of those companies to IFRS accounting.

Strategy

Evraz Group is guided by the following major aims:

- ***Achieve lowest-cost steel production.*** Evraz Group's management believes that producing lowest-cost liquid steel products is key for ensuring the competitiveness of its plants. To achieve low-cost production, Evraz Group must control the supply and price of its raw materials, maximise its steel production volumes, and ensure that the production technology used by its plants is sufficiently up-to-date to allow Evraz Group to produce competitive (but not overengineered) products. To achieve this aim, Evraz Group plans to acquire further mining and steel production assets. Technologically, Evraz Group will upgrade its steel production plants to 100 per cent. continuous casting technology and shut down Siemens-Martin furnaces.
- ***Maintain its position as one of the largest steel companies in Russia.*** Evraz Group's management believes that maintaining critical mass is crucial to the group's success in the future. Large size allows the Evraz Group to realise economies of scale through a favourable bargaining position with suppliers, transportation companies, and off-takers. Being one of the largest steel groups in Russia also allows Evraz Group to gain access to, and influence, decision makers at all political and regulatory levels. This reduces any potential political risks that may affect the group's business.

The Crosland Group has also acquired assets of KMK which were offered for sale as part of KMK's recently completed liquidation. Those assets are currently being held at the Crosland level and it is intended that such assets will be acquired by Evraz Group funded in part by the proceeds of the Notes.

- ***Maintain a leading position in long products in Russia.*** Evraz Group intends to maintain its leading position in the production of rails and other related products and also construction steel.

Evraz Group's management is aware of the impact of rail transportation costs on the prices of its products. By being the near monopoly supplier of rails and related products, Evraz Group will obtain more leverage in negotiating with the railway authorities regarding increasing its prices in line with price increases set by the government for the use of railways. The recent acquisition of KMK's assets is an important step in this direction in that it places Evraz Group in a near monopoly position as a producer in the Russian rails market.

In addition, Evraz Group intends to concentrate on production of construction steel products which would allow Evraz Group to maintain its position as one of the major suppliers of steel to one of the fastest growing and dynamic sectors of the Russian economy.

As part of the above aims of Evraz Group's strategy, a range of potential acquisitions is being considered. In order to secure the continuous supply of iron ore and coal, Evraz Group is contemplating acquiring a stake in VGOK by purchasing VGOK's shares from Crosland Limited's subsidiaries, acquiring stakes in the iron ore mines in Kuzbass and Krasnoyarsk Regions and mines that could supply sinter and iron ore to ZapSib. Evraz Group is also considering acquiring interests in energy production facilities to ensure electricity and heat energy supply to its production facilities.

- ***Achieve a balance between export and domestic sales with an increased focus on Russian domestic market.*** Evraz Group's management believes (i) that demand in the domestic market is less volatile than in its export markets, (ii) that the domestic market growth is more sustainable and easier to forecast and, (iii) that it is easier to sell higher value-added products in the Russian domestic markets. Accordingly, Evraz Group intends to increase its presence on the Russian domestic market. In particular, Evraz Group plans to develop its business to benefit

from increased steel consumption in the Russian Federation (and, in particular, by Russian construction and oil and gas sectors). Evraz Group is also seeking to develop its export sales and look for new export markets (including Iran and Canada) in order to mitigate any potential adverse effects from fluctuations in domestic demand and to maintain flexibility in terms of production sales.

- ***Build own distribution for sales in the domestic market.*** Instead of relying on third-party traders to sell the products produced by NTMK and ZapSib, Evraz Group intends to develop its own domestic distribution network through EH Trading House. It is expected that this will allow Evraz Group to build a longer-term relationship with its domestic customers as well as to increase its sales prices by eliminating intermediaries and reduce receivables risk.
- ***Simplify the structure of its operating companies.*** As a legacy of the way in which major operating companies were structured in the past, NTMK and ZapSib own a number of assets that are ancillary to their core activities. These include a number of social infrastructure assets (for example, housing facilities, medical services, nurseries and kindergartens, food and transport divisions, various sports facilities – see Note 2 to the parent company financial statements of NTMK and Note 2 to the parent company financial statements of ZapSib included in this Offering Circular). Evraz Group intends to rationalise and simplify its operations by transferring some of these social infrastructure assets to municipal authorities and divesting or, in some cases, closing down certain of these companies. This may result in laying off, redundancy or transfer of the relevant employees to other businesses.

Management

All decisions related to Mastercrocft are approved by Crosland Limited.

In order to take a more integrated control over the activities of NTMK and ZapSib, in October 2002, OOO EvrazHolding was appointed by the shareholders of NTMK and ZapSib as the management company for NTMK and ZapSib. The management contracts were approved by a resolution of the shareholders' meetings of NTMK and ZapSib. The management contracts transfer all executive power, which is not under direct control of the relevant board of directors, to OOO EvrazHolding. Pursuant to the management contracts, OOO EvrazHolding exercises managing powers of a sole executive body of the companies, including entering into transactions on behalf of NTMK and ZapSib (within the limits provided for in the legislation), operating their bank accounts, and representing them in various state and judicial agencies. Management of NTMK and ZapSib is exercised by an officer of OOO EvrazHolding acting under a power of attorney. The fixed management fee payable to OOO EvrazHolding by each of NTMK and ZapSib is U.S.\$ 150,000 per month.

In May 2003, the shareholders of each of NTMK and ZapSib have extended the term of appointment of OOO EvrazHolding as the management company of NTMK and ZapSib until 2008. The new management contracts are to be concluded on substantially the same terms and are to be signed in October 2003.

Prior to October 2002, a traditional reporting structure existed at each of NTMK and ZapSib, under which heads of departments reported to the managing director, appointed by the relevant board of directors. However, this management and reporting structure was not sufficiently flexible and did not allow for Evraz Group to realise maximum efficiencies, such as economies of scale. As part of the new management structure, top managers of NTMK and ZapSib became employees of OOO EvrazHolding.

Mastercrocft sets the strategies to be employed by OOO EvrazHolding and the latter implements those strategies with respect to NTMK and ZapSib, subject to the approval by the board of directors of NTMK and ZapSib, as appropriate.

Financing arrangements have been streamlined by reducing the number of active credit lines to 5-7 and establishing long-term relationship with the leading Russian and Western banks. While the terms of the credit lines are negotiated by Evraz Group's management, credit agreements are entered into individually by NTMK and ZapSib. OOO EvrazHolding is also currently establishing standard procedures for NTMK and

ZapSib, including procedures related to budgeting, the approval of investments and capital expenditures and management information systems.

Upon acquiring management control of NTMK and ZapSib, OOO EvrazHolding implemented a budgeting process. There is an annual budget and monthly budgets. The implementation of the budgeting process has led to an improvement in the management of payment flows, costs and revenues.

Board of Directors

The Board of Directors of OOO EvrazHolding consists of the following members:

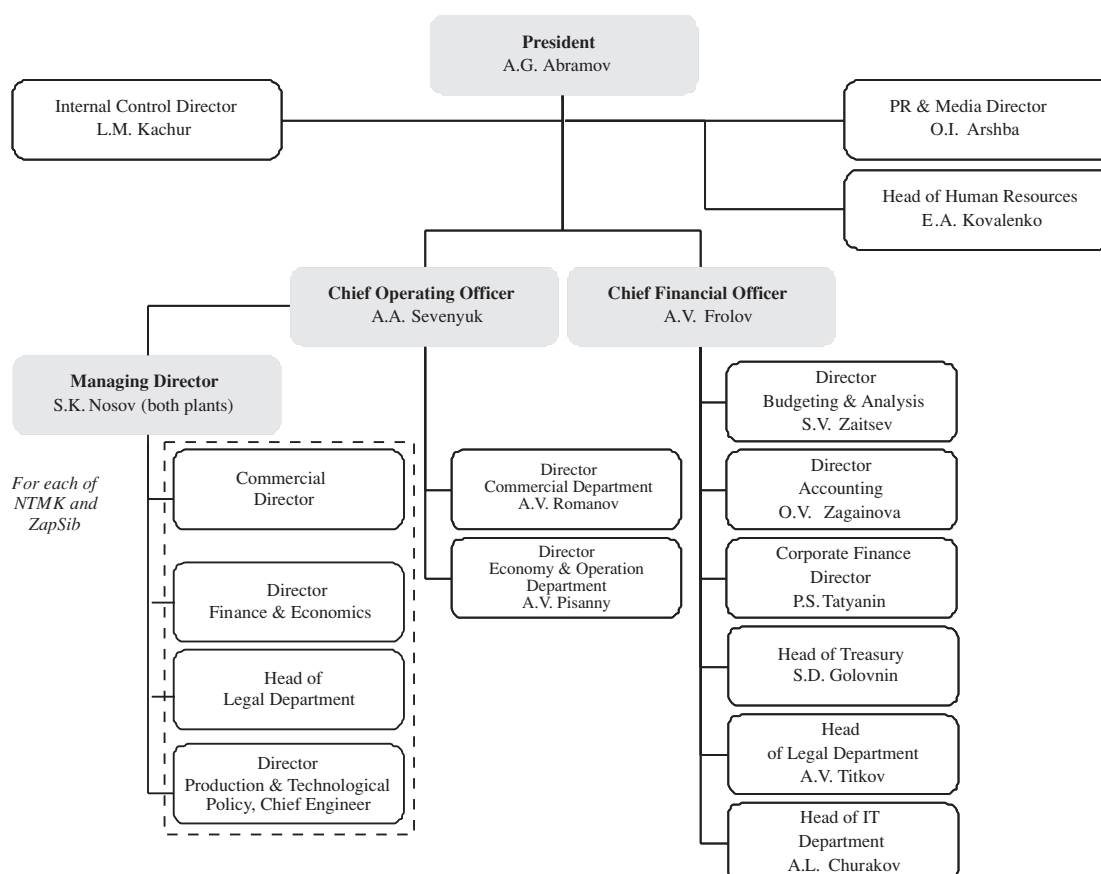
Oleg V. Boiko is the Chairman of the Board of Directors of OOO EvrazHolding. Mr. Boiko joined Evraz Group in 1999. Mr Boiko is also a member of the board of directors of OJSC EvrazRuda, LLC Eurostar Development, LLC Finstroy Capital and LLC Finstar-Holding. He is also a General Director of LLC Finstar-holding and the Adviser to the Head of the Representative Office of Wolf Investments Ltd. Mr. Boiko also obtained an executive MBA degree from the Academy of National Economy in 2001.

Alexander Y. Tobak is a Board member of OOO EvrazHolding. Mr. Tobak joined Evraz Group in 1999. At present he holds a position of the Senior Managing Partner in law firm “A.Makarov and A.Tobak”. Prior to that he was a General Director for law firm “Tsels”. He graduated from the All-Russian Open Law Institute in 1981.

Nikolai D. Golovnin is a Board member of OOO EvrazHolding, Managing Vice President and the Head of Secretariat of OOO EvrazHolding. In 2002 he was also appointed a Board member at OJSC “UK KuznetskUgol”. Mr Golovnin joined Evraz Group in 1999. Before that he worked for the Central Bank of the Russian Federation as a Head of the Chairman Secretariat of the Central Bank Administrative Department. He graduated from the Economics Faculty of Moscow State University in 1974.

Organisational Structure

The chart below shows the organisational structure of OOO EvrazHolding, NTMK and ZapSib.



The Commercial Department is responsible for the development of commercial policy, strategic marketing, analysis of market and transfer prices as well as control of the commercial activities of NTMK, ZapSib and EH Trading House.

The Internal Control Department is responsible for the development and maintenance of anti-fraud systems, security, compliance and also coordination and cooperation with law enforcement agencies.

The Economy and Operation Department is responsible for financial management of NTMK and ZapSib and EH Trading House, their budgeting as well as control of budget execution. It is also in charge of current financial arrangements, current tax planning and the implementation of management information systems.

The Budgeting and Analysis Department is responsible for operational reporting, management accounting, budgeting standards and parameters, preparation of consolidated budgets, budgeting control and tax planning.

The Accounting Department is responsible for the accounting matters relating to OOO EvrazHolding and consolidation of Evraz Group's financial accounting.

The Corporate Finance Department oversees trade financing and bank relationships, project finance and capital markets activities, mergers and acquisitions, debt consolidation and corporate structuring.

The Treasury Department is responsible for liquidity management, payments, and monitoring of budget execution.

The Production and Technological Policy Department is responsible for the development and evaluation of production and technological policy, minerals utilisation policy and technical progress programmes.

The Finance and Economics Department is responsible for reporting, accounting, budgeting and tax planning with respect to each of NTMK and ZapSib.

The Board of Directors of OOO Evrazholding is responsible for determining production and sales strategy of NTMK and ZapSib and key managers of Evraz Group are in charge of implementing this strategy, both on the level of each of the plants as well as on the level of OOO EvrazHolding.

Management

Key managers of Evraz Group are shown in the table below:

	Position	Age	Years with the Original Group and Evraz Group
Alexander G. Abramov	President	43	10
Andrei A. Sevenyuk	Senior Vice President and Chief Operating Officer	32	4
Alexander V. Frolov	Senior Vice President and Chief Financial Officer	38	8
Sergei K. Nosov	Senior Vice President and Managing Director of NTMK and ZapSib	42	5
Otari I. Arshba	Senior Vice President	48	5
Ekaterina A. Kovalenko	Head of Human Resources	41	2
Leonid M. Kachur	Internal Control Director	42	10
Sergei D. Golovnin	Vice President and Head of Treasury	48	7
Pavel S. Tatyatin	Vice President and Deputy Chief Financial Officer and Head of Corporate Finance Department	29	2
Andrei L. Churakov	Head of IT Department	41	3
Andrei V. Pisanny	Vice President, Head of Economy and Operating Control Department	33	1
Alexei V. Romanov	Vice President, Commercial Director	35	4
Sergei V. Zaitsev	Head of Budgeting & Analysis Department	32	1
Olga V. Zagainova	Head of Accounting Department	39	10
Alexander V. Titkov	Head of Legal Department	38	1

Alexander G. Abramov founded OOO EvrazHolding in 1999 and has been the President of the company since its foundation. Mr. Abramov is also the Member of the Board of Directors of NTMK and ZapSib. Mr. Abramov was the founder of EvrazMetal, the predecessor of Evraz Group, which he established in 1992. Before that, Mr. Abramov worked at the Institute of High Temperatures of the USSR Academy of Sciences. In 1982, Mr. Abramov graduated from the Moscow Institute of Physics and Technology (a first-class honours degree). He holds a Ph.D. in Physics and Mathematics. Mr. Abramov is a member of the Council of Entrepreneurs set up by the government of the Russian Federation.

Andrei A. Sevenyuk is a Senior Vice President and the Chief Operating Officer of OOO EvrazHolding and is responsible for industrial policy of the group and management company strategy. Mr. Sevenyuk has worked for the Original Group since 1999. Prior to joining the Original Group, Mr. Sevenyuk operated private companies in metals and mining sector. Mr. Sevenyuk graduated from the Moscow Institute of Physics and Technology (a first-class honours degree) in 1993.

Alexander V. Frolov is a Senior Vice President and the Chief Financial Officer of OOO EvrazHolding. He is in charge of financial and international activities. Mr Frolov joined the Original Group in 1994 and held various positions at EvrazMetal. Prior to that he worked as a research fellow at the I.V. Kurchatov Institute of Atomic Energy. In 1987, Mr. Frolov graduated from the Moscow Institute of Physics and Technology (a first-class honours degree). He holds a Ph.D. in Physics and Mathematics.

Sergei K. Nosov has been the Managing Director for both NTMK and ZapSib since October 2002. Mr. Nosov joined the Original Group in 1998 as a First Deputy General Director of NTMK and was General Director of NTMK since 1999. Prior to that Mr. Nosov held various positions at MMK including position of First Deputy General Director between 1997 and 1998. Mr. Nosov graduated from Magnitogorsk Metals and

Mining institute in 1983. He holds Ph.D. degree in engineering. Mr. Nosov received Russian Federation State Prize in science and engineering in 1996.

Otary I. Arshba is a Senior Vice President and PR and Media Director of OOO EvrazHolding. Mr Arshba is also the Chairman of the Board of Directors of ZapSib. Mr. Arshba joined the Original Group in 1998. Prior to that he worked in the government security services. He graduated from Higher School of KGB USSR in 1978. Mr. Arshba holds Ph.D in political science and has been elected a corresponding member of Academy of Informatics.

Ekaterina A. Kovalenko is the head of the Human Resources Department. She is responsible for the human resources management and HR policy development. Ms Kovalenko joined the Original Group in 2001. Prior to that, she worked for JSC Nitel and JSC Transconsult. She graduated from Moscow Labour Union Cultural School in 1989. He also holds an MBA degree from Academy of National Economy.

Leonid M. Kachur is a Senior Vice President and Internal Control Director of OOO EvrazHolding. He joined the Original Group in 1993 and is responsible for the development and maintenance of anti-fraud systems, security, compliance and also coordination and cooperation with law enforcement agencies. Mr Kachur holds a masters degree in engineering.

Sergei D. Golovnin is a Vice President and Head of Treasury of OOO EvrazHolding. He is responsible for financial planning, payment flows analysis, budgeting execution monitoring and liquidity management. Mr Golovnin joined the Original Group in 1996. He graduated from the Economics Faculty of Moscow State University in 1977. Mr. Golovnin holds Ph.D in economics.

Pavel S. Tatyannin is a Vice President and Head of Corporate Finance Department of OOO EvrazHolding. He oversees trade financing, project finance and capital markets activities, mergers and acquisitions and corporate structuring of Evraz Group. Mr. Tatyannin joined the Original Group in 2001. Prior to that, he worked in CJSC Financial Corporation Adamant. He graduated from the Economics Faculty of Moscow State University in 1995 and holds a masters degree in economics.

Andrei L. Churakov is the Head of IT Department. He is responsible for the IT function of Evraz Group. Mr. Churakov joined the Original Group in 2000. Prior to that, he worked for UTS Group LLC. He graduated from Moscow Engineering and Physics Institute in 1985.

Andrei V. Pisanny is a Vice President and Head of Economy and Operating Control Department of OOO EvrazHolding and is responsible for financial management of NTMK and ZapSib, budgeting process and control of budget execution. Mr. Pisanny joined the Original Group in 2002. Prior to that, he worked for CJSC TPK Unkomtech. He graduated from the Moscow Institute of Physics and Technology in 1993.

Alexei V. Romanov is a Vice President and Commercial Director of OOO EvrazHolding. He is responsible for determining Evraz Group's commercial policy and strategic marketing and analysis. Mr. Romanov joined the Original Group in 1999. Prior to that he worked for CJSC Neste Petroleum. Mr. Romanov graduated from the Economics Faculty of Moscow State Institute of International Relations in 1992.

Sergei V. Zaitsev is the Head of Budgeting & Analysis Department of OOO EvrazHolding and is responsible for consolidated reporting, management accounting, consolidated budgeting and budgeting and tax planning. Mr. Zaitsev joined the Original Group in 2002. Prior to that he worked for Liggett-Ducat. Mr. Zaitsev graduated with honours from Moscow Engineering and Physics Institute in 1994 and Russian Economic School in 1995. He also holds an ACCA granted by the Chartered Association of Certified Accountants (UK) and is a member of the Association since April 2001.

Olga V. Zagainova is the Head of Accounting Department of OOO EvrazHolding and is responsible for Evraz Group's accounting. Ms Zagainova joined the Original Group in 1993. Prior to that she worked for Kars Agency LLC. She graduated from Moscow Institute of Public Economy in 1986.

Alexander V. Titkov is the Head of Legal Department of OOO EvrazHolding. Mr Titkov joined the Original Group in 2002. Prior to that he worked for a number of international law firms. Mr Titkov graduated

from Kiev State University in 1989 (with honours) and obtained an LL.M. degree from John Marshall Law School in 1994.

Employees

The table below sets out the number of NTMK, ZapSib and OOO Evraz Holding's employees as of 31 December 2002.

As of 31 December 2002	NTMK	ZapSib	OOO EvrazHolding	Total ¹
Management, administrative and non-production . . .	6,027	6,064	381	12,472
Production	25,110	23,685	–	48,795
Total	31,137	29,749	381	61,267

(1) As at 31 December 2002, the aggregate number of employees of Mastercroft, Ferrotrade UK and Ferrotrade Gibraltar was less than 50.

Although human resources have been historically managed at each company level, this function is gradually being centralised at the OOO EvrazHolding level.

The initial key objective of the human resources policy of OOO EvrazHolding, which was related to it assuming the management of NTMK and ZapSib, was to attract senior management. With the key top management now in place, OOO EvrazHolding is focusing on optimising the employee structure of Evraz Group, through a controlled reduction in the number of employees and promoting talented staff. While Evraz Group's management recognises that the productivity of the Evraz Group (as measured by tonnes of production per employee) is below Western standards, NTMK and ZapSib are the principal employers in their respective towns and regions and any reduction in the workforce is constrained by effective Russian labour legislation. For these reasons, Evraz Group will manage such reductions gradually and in a controlled manner.

Approximately 95.7 per cent. of employees of NTMK and over 45 per cent. of employees of ZapSib are members of trade unions. Both plants enter into collective bargaining arrangements with trade unions bi-annually. The current agreements provide for increase in employee wages within the approved budgets and contain no restrictions on layoffs.

Since Evraz Group assumed management of NTMK in 1999 and ZapSib in 2002, there have been no strikes or other cases of industrial action at NTMK or ZapSib. The relations between NTMK and ZapSib and the unions are good, in part due to the employees' recognition of the fact that NTMK and ZapSib offer attractive employment opportunities on a relative basis in their respective regions.

Competition

General

Both the Russian and international steel markets are highly competitive. Primary competitive factors include quality and price, and the use of new technologies to expand the product range.

The Russian domestic steel market is characterised by high levels of competition for customers, raw materials and capital. Two principal steel markets (one for flat products and one for long products) exist in Russia. While the Russian domestic market for flat products is dominated by MMK, Severstal and NLMK, Evraz Group maintains the leading position in the Russian domestic market for long products. Their principal competitors in this market are not the big three Russian steel companies but smaller Russian producers such as Chelyabinsk Integrated Iron & Steel Plant (Mechel), Oskol Electrometallurgical Plant (OEMK) and Orsko-Khalilovsky Integrated Iron and Steel Plant (NOSTA) (see "Market Participants" in Appendix B below).

In the Russian domestic steel market, Evraz Group's most significant competition also comes from Ukrainian steel producers, whose product range is similar to that of Evraz Group. However, the lower cost

of Ukrainian companies' production is balanced by higher transportation costs (save for Western Russian regions) and the effect of the anti-dumping and import tariff measures established and enforced in the Russian Federation (restricting access of certain steel products to the Russian market).

In the international markets, Evraz Group's major competitors are steel producers from the Ukraine, Kazakhstan, South Korea, China and Brazil.

Competitive Strengths

Evraz Group's principal competitive advantages include:

Size: The combined size of Evraz Group's operating assets establishes Evraz Group as an important component of the Russian economy and allows it to realise significant economies of scale. NTMK and ZapSib produce mainly complementary products, resulting in the diversification of Evraz Group's revenue base. Being one of the largest steel producers in the Russian Federation also gives Evraz Group a strong bargaining position when negotiating the procurement prices with its suppliers (thus reducing the cost of produced metal) and sale prices with its principal customers.

Low Production Costs: Evraz Group benefits from being able to produce hot steel at a cost of less than U.S.\$ 115 per tonne at NTMK and ZapSib. This is among the lowest of such production costs in the industry.

Product Mix Composition: Evraz Group focuses on the production of, and enjoys a dominant market position in, long products (including rails, rebars, beams, slabs) allowing it to avoid direct competition in domestic and export markets with Severstal, MMK and NLMK, which concentrate on flat steel products.

Co-ordinated Sales: Consolidated marketing and distribution, through EH Trading House in the domestic markets and Ferrotrade UK (to be replaced by Ferrotrade Gibraltar following the migration of the trading function) in the export markets, allows Evraz Group to achieve competitive pricing and payment terms, as well as to establish more efficient direct relationship with end customers.

Customer Relationship: Evraz Group has an established relationship with its customer base. Among its long-term customers are MPS, Sinarsky Pipe Plant and Pervouralsky Pipe Plant. Major international customers include Duferco (Switzerland), VSC Steel (Hong Kong), Tycoons Worldwide (Thailand), Linkful Metals (Hong Kong), Dong Kuk (South Korea) and Southern Natsteel (China).

Resilience of Products to Tariff Barriers: Billets and other semi-finished products account for approximately 45 per cent. of the combined production of Evraz Group, 74 per cent. of semi-finished products are exported. Semi-finished products are not commonly subject to import tariffs and quotas, and exports of these products are, therefore, more stable than those of higher value-added products. In addition, semi-finished products are sold entirely in the spot market and their sales can be redirected between markets to maximise margins.

Products and Sales

Product Range

In 2002, semi-finished products accounted for 52 per cent. and 41 per cent. of NTMK's and ZapSib's production volume, respectively. Finished products constituted 48 per cent. of NTMK's production and 59 per cent. of ZapSib's production. For more detailed description of the product range of each of the principal production subsidiaries of the Evraz Group, please refer to the relevant sections in the description of NTMK and ZapSib.

The table below shows the principal products and the relevant volumes of NTMK's and ZapSib's production in 2002:

Product	Year ended 31 December 2002	
	NTMK	ZapSib
	(thousand tonnes)	
Square billets	1,459	1,698
Rounds	68	141
Slabs	790	338
Blooms	33	14
Wire and wire rod	—	417
Strips	—	2
<i>Railway Transport</i>		
Rails	416	—
Wheels for rolling stock	190	—
Tyres for rolling stock	49	—
Railcar uprights	6	—
Axle blanks for railcars	36	—
<i>Construction</i>		
H-Beams	497	120
Angles	23	209
U-Channels	176	294
Rebars	—	1,331
<i>Mining</i>		
Grinding balls	137	—
Mine uprights	10	58
<i>Pipes</i>		
Pipe blanks	628	—

Sales

Sales Strategy

Evraz Group's sales strategy is aimed at achieving a balanced sales mix (its steel products are sold both in the domestic and export markets) with increasing focus on the domestic Russian market. While the spread between domestic and export prices varies depending on the particular product, domestic prices are generally 10 per cent. higher than the ex-works¹ export prices. In addition, domestic sales are more stable, and profitability and operating margins are also higher in the domestic market. As a result, the share of domestic sales has gradually been increased and, in 2002, equalled 52 per cent. (as compared to 48 per cent. in 2001) of the total production of Evraz Group.

Evraz Group's Sales

(excluding intra-group sales)

	2000	2001	2002
	(thousand tonnes)		
Domestic Sales	4,288	4,654	5,078
Export Sales	4,615	4,709	4,624
Total	8,903	9,363	9,702

1. "Ex works" is a delivery term where the delivery is made by the seller placing the goods at the disposal of the buyer at the seller's premises or another specified place (i.e. works, factory, warehouse, etc.) not cleared for export and not loaded on any collecting vehicle.

The most profitable products in Evraz Group's product range are those sold to MPS (rails and wheels), rebars, H-beams and pipe blanks.

Domestic Sales

Domestically, Evraz Group sells all but two types of its products (namely, rails and railway products and pipe blanks) through EH Trading House. NTMK and ZapSib sell to EH Trading House on a commission basis (1 per cent. with respect to the sales and procurement), which then distributes Evraz Group's products to end customers, major Russian steel traders (including Railcomplect, Dipas, Transstroï, Ferrostil and Profil) and through on-line auctions. The majority of off-take agreements require advance payments. In 2003, EH Trading House is seeking to increase the share of direct sales to end customers and building its own warehouse facilities which would allow Evraz Group to compete with other steel traders for end customers. Having direct relationship with end customers will allow Evraz Group to adjust its product range to fit customers' needs and improve the profitability of Evraz Group's operations by cutting out intermediaries.

Rails, railway products and pipe blanks are sold directly to end customers, primarily because there is only one customer for rails and railway products (MPS) and three off-takers for pipe blanks. Rails and railway products are sold based on annual agreements and require advance payment for each shipment; pipe blanks delivery contracts require payments on delivery.

(a) NTMK

NTMK's domestic customers are based all around Russia, with major economic centres being the most important markets. NTMK sells on a price basis that adjusts for the geographical location of its customers. Among NTMK's major customers are MPS and two Russian pipe plants (Sinarsky Pipe Plant and Pervouralsky Pipe Plant). Delivery terms are FCA (Free Carrier)¹ to the railway station Smychka (located within 1 kilometre of NTMK's location).

(b) ZapSib

ZapSib sells major rolled steel products for construction purposes, including rebars and common quality wire (accounting for 44 per cent. and 45 per cent. of total production in Russia, respectively). ZapSib's production is delivered to approximately 300 customers in Russia and CIS. The largest domestic customers are located in Western Siberia (31 per cent. of the customer base volume), Central Region (34 per cent. of the customer base volume) and the Urals (11 per cent. of the customer base volume). The highest demand is for round rolls, rebars and steel angles. ZapSib's production is sold mostly to major steel traders and not end customers. Delivery terms are FCA (Free Carrier) to the railway station Novokuznetsk Severniy (located within 1 kilometre of ZapSib's location).

Export Sales

In 2002, NTMK and ZapSib exported 41 per cent. and 54 per cent. of the volume of their production, respectively. In 2002, billets comprised 49 per cent. of Evraz Group's export sales, slabs amounted to 14 per cent. and pig iron, rebars and wire rods - to 11 per cent., 10 per cent. and 6 per cent., respectively. While NTMK exports are primarily comprised of semi-finished products (including slabs and square billets), it also exports finished products (mainly H-beams). ZapSib's principal export product is billets.

The principal export markets for Evraz Group are the Far East (China, Taiwan, Vietnam, South Korea and the Philippines) and the Middle East (Iran and Saudi Arabia).

Evraz Group exports its products primarily through Ferrotrade UK (to be replaced by Ferrotrade Gibraltar following the migration of the trading function) (save for exports to the CIS countries which are

1. "FCA (Free Carrier)" is a delivery term where the seller delivers the goods, cleared for export, to the carrier nominated by the buyer at the specified place.

made through EH Trading House). While in the beginning of 2002, Evraz Group's exports were routed through several traders, by the end of the year, Evraz Group's exports were consolidated through the Ferrotrade UK which currently sells approximately 95 per cent. of Evraz Group's exports. The remainder is exported through other metals traders (Duferco S.A., Interural and Starwood Trading Limited). Off-take contracts require Ferrotrade UK (to be replaced by Ferrotrade Gibraltar following the migration of the trading function) and other metals traders to pay within 90 days of the date of customs processing.

Budgeting and Planning

Prior to the acquisition of NTMK and ZapSib by the Evraz Group, budgeting and cost allocations at these plants were conducted on a daily (rather than annual and/or monthly) basis. Following the acquisition of NTMK and ZapSib, Evraz Group's management commenced the implementation of new, standardised budgeting procedures.

These budgeting procedures were first introduced at NTMK in 1999 and are currently being implemented at ZapSib (which came under Evraz Group's control in mid-2002). The principal aim of the new budgeting system is to ensure that costs are allocated efficiently and to allow the analysis of revenues and expenditures within each plant, as well as across Evraz Group's other operating assets.

Annual budgets of NTMK and ZapSib are approved by the boards of directors of NTMK and ZapSib. NTMK's and ZapSib's monthly budgets are calculated as one twelfth of their annual budget, although they retain certain flexibility in terms of allocating costs during any given year.

NTMK is currently using the SAP R3 system. This system is also in the process of being installed at ZapSib (replacing the originally installed Oracle system) and throughout the rest of Evraz Group. The principal goals of this project are to allow Evraz Group to:

- improve information flow within Evraz Group;
- monitor and manage Evraz Group's operations (including procurement, production and sales);
- allow strategic management of Evraz Group as a whole and NTMK and ZapSib in particular;
- monitor performance against budget;
- facilitate business planning;
- increase efficiency in the real-time analysis of Evraz Group's operations; and
- facilitate the analysis of Evraz Group's consolidated financial results.

Successful implementation of this project will allow Evraz Group to monitor, control and manage the financial and production flows across Evraz Group and enhance efficiency. The SAP R3 system will also provide OOO EvrazHolding with on-line access to the consolidated operational information base. It is expected that SAP R3 system will become fully operational at NTMK by the end of 2003 and at ZapSib (and certain other companies within Evraz Group) by the end of 2005.

Capital Investment Programme

Evraz Group's capital investment programme is designed to increase productivity, improve product quality and develop the product mix offered to its customers. The programme does not provide for any investment in new production capacity, but focuses on technical modernisation and improved efficiency and capacity of existing production facilities. Evraz Group also plans to increase the share of higher value-added products within its existing product range, without entering into new market segments (for example, cold-rolled steel production).

The capital expenditure programmes for NTMK and ZapSib differ from each other: ZapSib's relatively modern technology requires limited investments to upgrade and maintain the plant and, therefore, investment is concentrated on maintaining equipment. Funds allocated to NTMK's investment programme, on the other hand, will be concentrated on the reconstruction and modernisation of various parts of the production process. For a more detailed description of the plants' investment programmes, please see the relevant sections in the description of NTMK and ZapSib below.

The management of Evraz Group intends to finance the capital investment programme by increasing leverage, with the aim of increasing return on equity. Evraz Group plans to attract long-term loans (with tenures of 5 to 7 years) both domestically and internationally. Evraz Group may also attract short-term working capital loans which may be secured by pledges over plant equipment. Purchases of equipment from major European producers will be backed by European export credit agencies ("ECA"). In particular, Evraz Group contemplates working with Hermes (Germany), OeKB (Austria), KUKE (Poland), SACE (Italy), ODL (Luxembourg), EGAP (Czech Republic) and Slovak Ex-Im (Slovakia). Evraz Group has already entered into a 7 year EUR 65 million credit facility with Bayerische Landesbank, insured by OeKB and KUKE for the purpose of financing of building and commissioning by Voest-Alpine Industrieanlagenbau GmbH (Austria) of a continuous casting machine at NTMK.

Recent Developments

On 16 January 2003, NTMK signed a EUR 8.5 million purchase contract with VAI for engineering, procurement, and installation of certain equipment for automation of blast furnace No. 6.

On 14 February 2003, NTMK signed a contract with SMS-Eumuco GmbH for the supply of technology and certain rolling and pressing equipment for the project of reconstruction of the hard tire rolling shop, amounting to EUR 20.9 million.

On 27 February 2003, NTMK signed an equipment purchase contract with Paul WURTH S.A. (Luxembourg) amounting to EUR 5.8 million. This contract is financed with the borrowing facility provided by MDM-Bank. The liability under this credit line bears fixed interest of 6.88 per cent. per annum. The maturity date of the loan is 30 December 2009. NTMK's equipment with an approximate carrying value of U.S.\$ 2.1 million was pledged as collateral under the credit line agreement.

On 15 April 2003, NTMK made a contribution of RUR 250,000 (U.S.\$ 8 thousand at the exchange rate as of 15 April 2003) to the charter capital of a new entity OOO Sibmetinvest. NTMK will own 25 per cent. of the new entity's capital.

In July 2003, Office Ducroire de Luxembourg provided cover for a EUR 5.2 million six-year financing for the ECA-eligible portion of a contract between NTMK and Paul Wurth S.A. of Luxembourg for the supply of equipment to be utilised in the reconstruction of blast furnace "No. 6" at the NTMK plant. This cover was released in July 2003 by Société Générale through MDM Bank OAO.

In August 2003, Oesterreichische Kontrollbank provided cover for a EUR 7.2 million seven-year financing for the ECA-eligible portion of a contract between NTMK and Voest-Alpine Industrieanlagenbau GmbH for the supply of automation equipment for use in the reconstruction of blast furnace "No. 6" at the NTMK plant. This cover was released in August 2003 by Bayerische Hypo-und Vereinsbank through Gazprombank.

In August 2003, EGAP (Czech Republic) issued preliminary approval for cover for a U.S.\$ 2.2 million five-year financing for the ECA-eligible portion of a contract between NTMK and Vitkovice Strojirenstvi A.S. (Czech Republic) for the supply of a bell-less top charger for use in the reconstruction of blast furnace "No. 6" at the NTMK plant. This cover is expected to be released in October 2003 by ING Praha through the Russian Development Bank.

In August 2003, Hermes (Germany) issued a preliminary approval of cover for a EUR 17.7 million nine-year financing for the ECA-eligible portion of a contract between NTMK and SMS-Eumuco GmbH of Witten, Germany for the supply of pressing and rolling technology for use in the reconstruction of the railway wheel shop at the NTMK plant. This cover is expected to be released in December 2003 by Commerzbank AG.

In August 2003, Crosland Group entered into an agreement to acquire the shares of Nizhnesaldinsky Steel Works, a relatively small plant producing specialist steel fixing products for use in the railway industry. Nizhnesaldinsky Steel Works sources the majority of its raw materials from NTMK and the acquisition presents significant potential for synergies both in terms of technological process and product range for the railway industry.

On 23 January 2003, Noble Resources Ltd., served a request for arbitration against ZapSib at the International Court of Arbitration in London. Noble Resources' total claim for damages is the approximate amount of U.S.\$ 48.0 million. A provision of U.S.\$ 5.0 million was recorded in the accompanying parent company financial statements as at 31 December 2002. In management's opinion, the ultimate resolution of this matter will not have a material adverse effect on ZapSib's results of operations and financial position in excess of the amount accrued.

On 6 June 2003, ZapSib made a contribution of RUR 250,000 (U.S.\$ 8 thousand at the exchange rate as of 6 June 2003) to the charter capital of a new entity OOO Sibmetinvest. ZapSib will own 25 per cent. of the new entity's capital.

On 27 May 2003, ZapSib issued a guarantee to MDM-Bank of obligations of OOO EvrazInvest, a related party, under the loan agreement between OOO EvrazInvest and MDM-Bank for U.S.\$ 11.1 million bearing interest of 9 per cent. per annum and maturing on 27 November 2003.

On 30 May 2003, ZapSib issued a guarantee to Alfa-Bank of liabilities of Yuzhkuzbassugol under the loan agreement between Yuzhkuzbassugol and Alfa-Bank. The loan amounts to U.S.\$ 15.0 million and bears interest of 11.25 per cent. per annum and matures on 27 May 2005.

On 4 July 2003, ZapSib signed a contract with Seding-M d.o.o for the purchase of production equipment for the revamping of coke oven No.1, amounting to U.S.\$ 9.0 million.

ZapSib is in negotiations with the Bank for Foreign Trade of the Russian Federation ("VTB") in relation to a U.S.\$ 80 million credit facility, the proceeds of which will be used to repay the current debts of NTMK and ZapSib as well as being used as working capital by both companies. The interest rate of the credit facility is expected to be 9 per cent. per annum and will have a maximum term of six months and an availability period of two months. This facility will be secured on the assets of NTMK and ZapSib. The credit facility agreement is expected to be signed in the first half of September 2003 and the first draw-down is expected to take place before the end of September 2003. The remainder of the credit line may be utilised during the two months following the first draw-down under this credit facility.

Evraz Group have entered into a 7-year EUR 65 million credit facility with Bayerische Landesbank, guaranteed by OeKB (Austria) and KUKA (Poland), for the purposes of financing the building and commissioning by Voest-Alpine Industrieanlagenbau GmbH (Austria) of a continuous casting machine at the NTMK plant. The average interest rate for draw-downs under the credit facility is expected to remain under 6 per cent. per annum. This transaction has received all necessary regulatory approvals and the first draw-down under this credit facility is expected to take place later this year.

In June 2003, OOO EvrazHolding awarded the mandate for a 3-year U.S.\$ 100 million pre-export finance facility in relation to NTMK and ZapSib to Commerzbank AG, Moscow Narodny Bank Limited and Société Générale. Each of NTMK and ZapSib will have the benefit of a U.S.\$ 50 million facility, the proceeds of which will be used by NTMK and ZapSib as working capital and for the purposes of financing of the capital expenditure programme. The facility is secured on the proceeds of NTMK and ZapSib's export sales of steel products and is guaranteed by Ferrotrade UK and Mastercroft. The interest rate is 1-month LIBOR plus a margin of 3.7 per cent. per annum with equal monthly repayments commencing in June 2004.

From April to June 2003, Ferrotrade UK provided several zero-interest rate loans to its general partner, Marteck International Ltd., totaling US\$64.9 million. The loans ranged in size from US\$3 million to US\$8 million and are all scheduled to mature prior to 31 December 2003. These loan transactions formed part of the general cash management activities of Ferrotrade UK and are of a similar nature to certain related party transactions carried out by Ferrotrade UK in 2001 and 2002, which are recorded in Ferrotrade UK's financial statements for the relevant periods. Evraz Group expects the full principal amount of these loans to be repaid by Marteck International Ltd. before the end of 2003. Any further transactions of this type following the issue of the Notes may only be made when permitted to do so in accordance with the Conditions of the Notes.

Following the migration and transfer of the business and operations of Ferrotrade UK to Ferrotrade Gibraltar, Evraz Group does not contemplate Ferrotrade Gibraltar entering into loan transactions of this

nature. Evraz Group intends instead to manage such cash management activities by way of dividend payments by Ferrotrade Gibraltar to Mastercroat, which may make payments to Marteck International Ltd. when permitted to do so by the Conditions of the Notes.

Litigation

NTMK/ZapSib

NTMK and ZapSib have been and continue to be the subject of legal proceedings and adjudications from time to time, none of which (save for the insolvency proceedings terminated following the conclusion of the settlement agreements with respect to each of NTMK and ZapSib and an arbitration with respect to ZapSib details of which are set out below) has had, individually or in aggregate, a material adverse effect on NTMK or ZapSib. Each of NTMK and ZapSib is not the subject of, nor aware of any pending legal action which, in the opinion of their respective management, individually or in aggregate could have a material adverse effect on NTMK or ZapSib, their operations or financial condition (save for the risk of resumption of insolvency proceedings if NTMK and/or ZapSib fail to meet the terms of the settlement agreements).

On 12 May 2003, Noble Resources Limited served a statement of case against ZapSib with the London Court of International Arbitration. This statement of case sets out the claim for the repayment by ZapSib of U.S.\$ 6,791,156. Noble Resources Limited also claims damages for failure to deliver goods, damages for loss of profit and other relief, including the cost of arbitration and interest. Evraz Group's management estimates that the risk of the acknowledgement of the above claim is low.

Ferrotrade UK

Ferrotrade UK has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which has had, individually or in aggregate, a material adverse effect on Ferrotrade UK. Ferrotrade UK is not the subject of, nor aware of any pending legal action which, in the opinion of Ferrotrade UK's management, individually or in aggregate could have a material adverse effect on Ferrotrade UK, its operations or financial condition

Ferrotrade Gibraltar

Ferrotrade Gibraltar is not involved in any litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Notes and, so far as the Ferrotrade Gibraltar's management is aware, no such litigation or arbitration proceedings is pending or threatened.

Mastercroat

Mastercroat is not involved in any litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Notes and, so far as the Mastercroat's management is aware, no such litigation or arbitration proceedings is pending or threatened.

THE GUARANTORS

NTMK

Overview

NTMK is located in Nizhny Tagil, the Sverdlovsk region, about 140 kilometres to the north of Ekaterinburg and about 1,100 kilometres to the north-east of Moscow. Nizhny Tagil is one of the oldest mining and steel production centres in Russia. Located in the Urals, which serve as a crossroads connecting the western part of Russia with Siberia and the Far East, NTMK has railroad access to all major Russian regions and CIS countries. It currently occupies an area of approximately 1,150 hectares.

NTMK plays an important role in maintenance and development of Nizhny Tagil's infrastructure which has a population of more than 400 thousand people.

NTMK Performance

	As at and for the year ended 31 December	
	2002	2001
	U.S.\$ million	
Net sales	810.4	838.1
Operating profit	38.5	24.3
Total assets	727.6	787.9
Interest bearing debt ⁽¹⁾	40.3	73.9

(1) Interest bearing debt consists of long-term loans and short-term loans and does not include, *inter alia*, liabilities under the settlement agreement and restructured taxes.

History

NTMK's history dates back to 1940, when production started after 10 years of construction. It further developed during World War II. At that time, armour plate was the major product and every third Soviet combat tank was armoured with steel manufactured in Nizhny Tagil.

In the plant's post-war history, NTMK developed by improving the overall production performance and implementing new technologies, many of which were improved at NTMK itself. NTMK has improved the blast oxygen process, the duplex technology of V iron manufacturing, unique rail body quenching technology, continuous casting process and the world's largest H beam shop.

Privatisation

In 1992, NTMK was privatised and transformed into a joint stock company under Russian law economically independent from the state. NTMK was registered as an open joint stock company on 31 December 1992 and received a registration certificate series YI-TI #000313. NTMK's principal office is at 1 Metallurgov Street, Nizhny Tagil 622025, Sverdlovsk Region, Russia.

Social Object

As is the case with many Russian companies, NTMK's Charter (articles of association) establish a multitude of aims of its activity. Among other things, the list of NTMK's principal activities (contained in Article 3 of the Charter) include development of mineral deposits, extraction and processing of iron ore, production of cast iron, steel, rolled stock, refractory products and coke and coking by-products.

Insolvency and Restructuring

In 1999, due to poor market conditions and inefficient management, NTMK failed to make payments on some of its debt and trade obligations. Consequently, creditors of the company filed a bankruptcy petition

against the company with the Sverdlovsk Region Arbitration Court. The Court appointed an external manager for the plant on 15 April 1999. On 26 November 1999, NTMK and its creditors signed a settlement agreement, which was approved by the court on 9 December 1999 and ended the bankruptcy proceedings. Under the settlement agreement, a total of RUR 6 billion (approximately U.S.\$ 189.7 million at the exchange rate as of 31 December 2002) of NTMK's debt and trade payables were rescheduled over 8 years with a 1 year grace period and zero interest rate. The liability under the settlement agreement in the IFRS parent company financial statements of NTMK was measured at amortised cost. The cost of the liabilities as of the date of restructuring was determined based on the future cash payments discounted at the annual rates of 20 per cent. with respect to liabilities denominated in Roubles and 12 per cent. with respect to liabilities denominated in U.S. dollars and Euros. Debt to the Russian budget (tax arrears and social contribution payments) in the amount of RUR 1.8 billion (approximately U.S.\$ 57.6 million at the exchange rate as of 31 December 2002) was restructured in a separate agreement pursuant to Russian legislation. The amortised cost of the outstanding amounts equalled U.S.\$ 17.7 million as of 31 December 2002 (compared to U.S.\$ 34.7 million as of 31 December 2001). See Note 17 to the parent company financial statements of NTMK.

To date, NTMK has been in full compliance with the terms of the settlement agreement. As of 31 December 2002, the nominal outstanding amount under the settlement agreement amounted to U.S.\$ 116.6 million (compared to U.S.\$ 143.6 million as at 31 December 2001). The amortised cost of the outstanding amount under the settlement agreement equalled U.S.\$ 78.7 million as of 31 December 2002 (compared to U.S.\$ 83.9 million as of 31 December 2001).

Share Capital

NTMK's issued share capital consists of 1,310,002,966 ordinary shares, each with a par value of RUR 1. NTMK also has 1,310,002,966 authorised but unissued ordinary shares. According to its Charter, NTMK has the right to issue preferred shares, the nominal value of which cannot exceed 25 per cent. of its share capital.

NTMK's principal shareholders (as at 1 September 2003)

Shareholder	Number of Shares	Percentage
Ferroblast Overseas Investments Ltd	392,318,491	30.0
Tradeline Enterprises Limited	467,430,075	35.7
General Refractories Limited	140,370,872	10.7
CJSC "Depositarno-Kliringovaya Kompaniya" (nominee account)	132,224,477	10.1 ⁽¹⁾
Depositarno-Raschetniy Soyuz (nominee account)	61,266,194	4.7
Others (including employees)	116,392,857	8.8
Total	1,310,002,966	100.0

(1) including 112,818,030 ordinary shares (representing 8.6 per cent. of NTMK's share capital) held on behalf of Tradeline.

As of 1 September 2003, Evraz Group effectively held approximately 74.2 per cent. of NTMK's share capital.

NTMK's shares are currently admitted to trading on the Russian Trading System ("RTS") (one of the largest Russian trading systems). As of 22 August 2003, the weighted average bid price of NTMK shares on the RTS was U.S.\$ 0.21.

Debt Obligations and Other Commitments

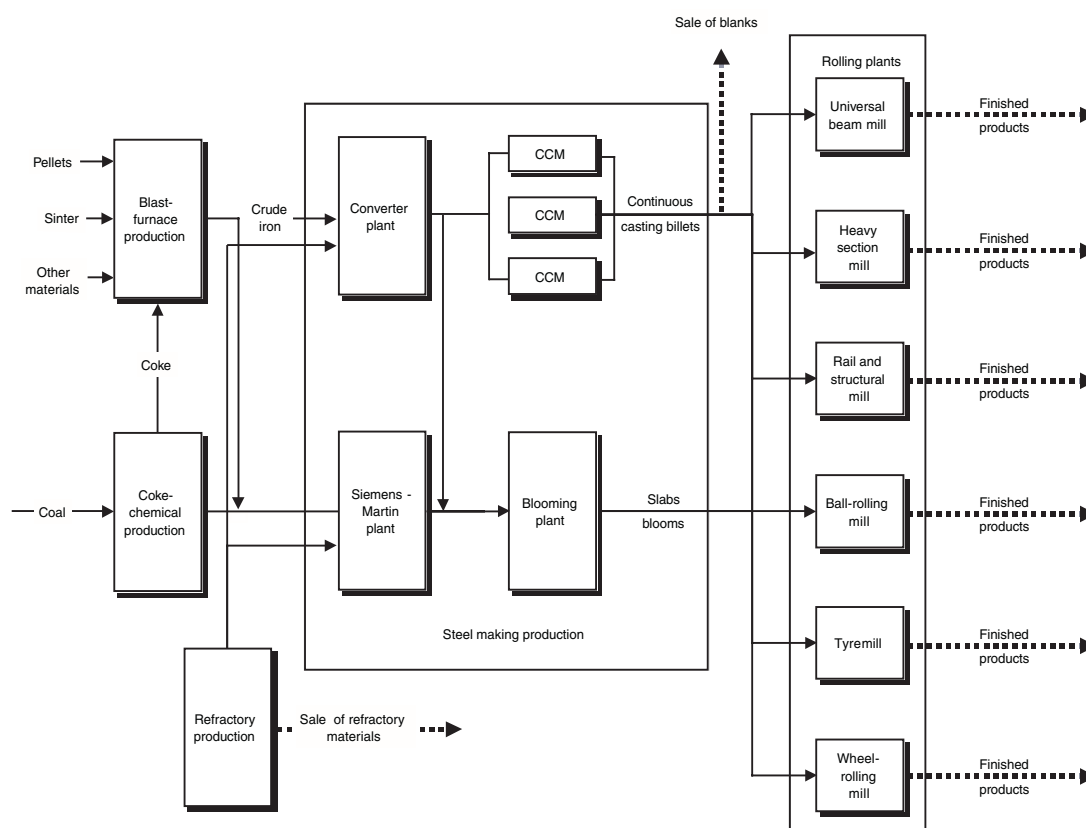
As of 1 July 2003, the aggregate debt obligations of NTMK (including short- and long-term borrowings and the indebtedness under the settlement agreement) equalled U.S.\$ 127 million (including U.S.\$ 5 million of

secured debt). Short-term indebtedness represents approximately 13 per cent. of the aggregate amount of NTMK's indebtedness.

Production

NTMK is an integrated steel production plant. It comprises coke-chemical production, six blast furnaces, steel making facilities (blast oxygen furnaces as well as Siemens-Martin), three continuous casting machines and six rolling mills.

The following diagram illustrates the principal steps in NTMK's production process:



The production steps in the above diagram are described in more detail in Appendix B ("Overview of the Global/Russian Steel Industry") hereto.

Iron Production

Coke-chemical production

The coke-chemical production currently consists of two coking plants, which currently operate six coking batteries.

The first coking plant comprises four coke oven batteries with 21.6 m³ chamber capacity (commissioned in 1954-57) and produces wet quenched coke.

The second coking plant comprises two coke oven batteries with 41.3 m³ chamber capacity (commissioned in 1986 and 1989) and produces dry quenched coke.

Four coking batteries are undergoing a U.S.\$ 47.5 million capital repair programme which will last until 2005 and is aimed at restoring their standard production rates, extending their useful lives of these plants and reducing their dust emissions.

There are also by-products production facilities (e.g. chemical plants-coke pitch plant, pitch distillation and rectification plant).

Blast Furnaces

There are six blast furnaces, with different working volumes, all of which have significantly depreciated and have relatively low productivity rates. All the blast furnace slag is granulated at a plant several kilometres away from NTMK and then used at cement plants in the region.

NTMK's blast furnaces were commissioned in the period from 1940 to 1969 and the annual capacity of each blast furnace varies from 750 to 1,620 thousand tonnes. The aggregate capacity of the blast furnaces is 6,380 thousand tonnes.

The aggregate production of the blast furnaces increased from 4,266.4 thousand tonnes in 2000 to 4,700.7 thousand tonnes in 2002 and the utilisation levels rose from 86.6 per cent. in 2000 to 94.9 per cent. in 2002.

One of the blast furnaces is being reconstructed during 2002-2003, with many changes to its design and operating practices. Once this blast furnace has been re-commissioned, the same modifications will be made to the other blast furnaces.

NTMK produces two types of crude iron: (i) steel making iron and (ii) natural alloy vanadic crude iron. The unique vanadium ferrous ore from Kachkanarsky Mining and Dressing Complex ensures natural ferro-alloying of steel, which allows NTMK to produce steel and finished products with improved characteristics for operation in low temperatures. Vanadium, which is a by-product of the iron production process is sold to JSC Tulachermet, a steel production plant in Tula.

There are two pig iron casting machines for casting hot metal into pig iron for sale as foundry iron.

Steel Production

The steel production shop comprises an oxygen converter plant and a Siemens-Martin plant and currently has the annual capacity to produce up to 3.2 and 2.0 million tonnes of high quality steel in each plant, respectively. The oxygen converter plant annual capacity potentially can be increased to 4.3 million tonnes.

60 per cent. of NTMK's steel is produced in the oxygen converter plant and the remainder — in the Siemens-Martin plant.

Steel production

	Annual design capacity (thousand tonnes)	1997	1998	1999	2000	2001	2002
Total – oxygen converter	3,200	2,265	1,528	2,129	2,833	3,153	3,304
Total — Siemens-Martin	2,000	1,785	1,113	1,952	2,038	2,064	1,987
Grand total.	5,200	4,050	2,641	4,081	4,871	5,217	5,291
Growth (decline) rate (%)		–	(34.8%)	54.5%	19.4%	7.1%	1.4%

Oxygen Converter Facilities

The oxygen converter facilities design is outdated and it is intended to upgrade the facilities which would allow NTMK to increase its steel-making capacity by approximately 35 per cent.

Continuous casting machines

There are three modern continuous casting machines in the converter shop with an aggregate production capacity of 2.57 million tonnes a year. The first continuous casting machine was installed in 1995 and produces round billets for rolling railway wheels and tyres, as well as rectangular cross section billets

for rolling rails, H-beams and pipes. The second continuous casting machine was commissioned in 1996 and can produce both slabs and large blooms, but mainly produces small slabs. The third continuous casting machine was commissioned in 2000 and produces five types of shaped billets for rolling H-beams, channels and sheet piles.

Siemens-Martin Facilities

The Siemens-Martin facilities currently in operation were assembled at NTMK in 1950 and at present, five furnaces are operational.

Since 1993, the Siemens-Martin process has been gradually replaced by the oxygen converter process which is more cost efficient and, consequently, more profitable. NTMK plans to build a fourth continuous casting machine (to be supplied by Voest-Alpine Industrieranlagenbau GmbH) and has already signed an agreement with banks for the financing of the project. Once this caster becomes operational in the second or third quarter of 2004, the remaining furnaces of the Siemens-Martin plant may be shut down depending on the future economic environment.

Blooming plant

NTMK also has a blooming plant. In 2002, 2,030 thousand tonnes of billets were produced in the blooming plant (83 per cent. of the production in 2001). The blooming plant will close after the fourth continuous casting machine becomes fully operational.

Rolling plants

NTMK's rolling production uses six primary rolling mills (an universal beam mill, a heavy section mill, a rail and structural mill, a ball-rolling mill, a wheel-rolling mill and a tyre mill). The design of these mills allows a certain flexibility in terms of product mix.

Production Output

In 2002, NTMK produced 4,701 thousand tonnes of pig iron (compared to 4,625 thousand tonnes in 2001), 5,291 thousand tonnes of steel (compared to 5,217 thousand tonnes in 2001) and 4,663 thousand tonnes of rolled products (compared to 4,455 thousand tonnes in 2001).

Between 1998 and 2002, steel production at NTMK grew by approximately 20 per cent. compound annual growth rate ("CAGR"), reaching 4,706 thousand tonnes in 2002.

The table below shows developments in NTMK's capacity utilisation. Currently, through a more effective use of production facilities, the production of steel exceeds design capacity. Provided that Siemens-Martin furnaces are not phased out, once a fourth continuous casting machine is commissioned and improvements to the oxygen converter plant now in progress are completed, the overall steel production capacity can be substantially increased.

NTMK – Capacity utilisation	1998	1999	2000	2001	2002
			(per cent.)		
Iron, total	48.3	73.7	86.6	93.5	94.9
Steel, total	50.8	78.1	93.6	100.3	101.7
— Oxygen converter plant	47.8	69.6	88.6	98.5	103.2
— Siemens-Martin steel	55.6	92.7	101.8	103.2	99.4
Universal beam mill	46.9	84.6	82.1	89.7	95.9
Heavy section mill	52.1	86.3	82.1	89.7	83.1
Rail and structural mill	28.7	55.2	63.2	69.8	70.3
Ball-rolling mill	60.3	47.6	54.2	76.6	76.0
Tyre mill	22.3	23.9	31.2	35.6	34.3
Wheel-rolling mill	25.3	36.6	64.6	81.1	90.3

Quality Control

NTMK products for sale on the domestic market as well as for exports have to adhere to strict specifications and standards. NTMK operates a quality assurance system certified under DIN EN ISO 9002.

NTMK products have received various certifications, both domestic and foreign, including:

- certification of railway products (rails, tyres and wheels) by the Federal Railways Register of Russia,
- certification of rolled steel for shipbuilding by the Russian Marine Shipping Register,
- certification of rolled steel in accordance with the technical requirements set forth by AD-WO/TRD 100, and
- certification of continuous casting billets by Lloyd's Register.

Products and Sales

NTMK allocates its production capacity on a monthly basis depending on the demand and profitability of a particular product. In Russia the majority of NTMK metal products are sold to railway, construction, mining and pipe manufacturing industries.

Production Output by Sectors

	1998	1999	2000	2001	2002	CAGR ⁽¹⁾ (98-02)	Growth (02/01)
Thousand tonnes							
Railway	302	385	497	569	692	23%	22%
Construction	321	226	699	621	674	20%	9%
Mining	116	92	104	148	147	6%	(1%)
Pipe blanks	53	241	273	496	628	86%	27%
Semi-finished products	1,227	2,288	2,397	2,400	2,280	9%	(5%)
Other	228	187	161	250	285	6%	14%
Total	2,247	3,419	4,131	4,484	4,706	20%	5%

(1) Compound Annual Growth Rate

Railway sector

NTMK products made for the railway transportation sector include rails, wheels, rough tyres, axle blanks and railcar uprights. NTMK sells railway products primarily to MPS. Given the significant under investment in the Russian railway system in the past, NTMK expects there to be significant future demand for all of its railway-related products. However, prices for these products would have to be agreed with MPS.

Rails

Historically, there were three rail producers in the Soviet Union, each serving a particular geographic area: Azovstal supplied the European part of the country, NTMK the Urals region and KMK Siberia and the Russian Far East. Following the collapse of the Soviet Union, Azovstal, located in the Ukraine, ceased deliveries to Russia, leaving NTMK and KMK as the only two participants in the Russian market. KMK currently accounts for approximately 60 per cent. of the market and NTMK the remainder.

In 2002, NTMK sold 416 thousand tonnes of rails including 55 thousand tonnes for export (compared with 2001 sales of 330 thousand tonnes and 42 thousand tonnes, respectively). In terms of tonnage, NTMK's sales of rails grew at 18 per cent. CAGR during 1998-2002. NTMK sells rails primarily via Ferrotranztrade,

a representative appointed by MPS, which then on-sells to end customers. Contract terms require advance payment for each shipment. In 2003, sales to Ferrotranstrade are made through EH Trading House.

In 1988, production of rails totalled 900 thousand tonnes. Investments by MPS into, among other things, building of telecom capacity during 1990s resulted in under investment into railway infrastructure and created a backlog in replacement of rails.

NTMK is looking for new markets in which to sell rails and has recently commenced rails shipments to Ukraine, Turkey, Iran and Canada. Another promising market is Kazakhstan which has placed U.S.\$ 9 million order in the beginning of 2003.

Wheels

There are two railway wheel manufacturers in Russia: NTMK and Vyksunsky Metallurgical Plant (located in the Nizhny Novgorod region). NTMK's market share currently stands at approximately 40 per cent.

In 2002, NTMK sold 190 thousand tonnes of wheels including 8 thousand tonnes for export (compared with 2001 sales of 166 thousand tonnes and 4 thousand tonnes, respectively). In terms of tonnage, NTMK's sales of wheels grew at 38 per cent. CAGR during 1998-2002.

Over 50 per cent. of domestic wheel shipments are made to GP Roszheldorsnab, a state-owned entity appointed by MPS, independent operators and private companies. The remaining portion of sales is carried out through direct sales to regional railway companies. Sales are made based on annual contracts which provide for payment upon delivery of wheels to Smychka.

Rough tyres

Being the only producer of rough tyres in Russia, NTMK enjoys a monopoly position in this market.

In 2002, NTMK sold 45 thousand tonnes of rough tyres including 3 thousand tonnes for export (compared with 2001 sales of 44 thousand tonnes and 2 thousand tonnes, respectively). In terms of tonnage NTMK's sales of rough tyres grew by 11 per cent. CAGR during 1998-2002. Further growth is expected to come only from a higher use of railway services in Russia.

Construction sector

NTMK's principal products made for the construction sector include H-beams and channels. Other products include angles and sheet piles. NTMK sells all construction sector products via EH Trading House.

H-beams

NTMK is a dominant producer of H-beams in Russia. With 322 thousand tonnes sold domestically in 2002, NTMK has an 84 per cent. market share in Russia (with ZapSib having another 8 per cent. of the market).

In 2002, NTMK sold 497 thousand tonnes of H-beams including 175 thousand tonnes for export (compared with 2001 sales of 502 thousand tonnes and 212 thousand tonnes, respectively). Overall sales grew at 23 per cent. CAGR during 1998-2002 with U.S. dollar prices being stable through 2001-2002. NTMK's main domestic competitors are Azovstal (Ukraine), MMK, ZapSib and KMK. Azovstal has a certain geographical advantage in the southern regions, where NTMK's market share is only 40 per cent. In addition, Azovstal offers lower prices and more flexible payment terms, whereas EH Trading House, in line with its Russian competitors, requires prepayment. In the other regions NTMK dominates the market. The main export markets for H-beams are Iran, the Middle East and the Philippines.

Channels

The largest players in the channels market are ZapSib (with a 42 per cent. market share), NTMK (28 per cent.) and KMK (8 per cent.), while the remaining 22 per cent. is controlled by other, mainly Ukrainian, producers. NTMK currently produces four types of channels. NTMK competes with Ukrainian producers who offer more aggressive prices and payment terms with respect to two of these four types. NTMK is the only producer of the other two types. Competition is strongest in the southern and north-western regions of Russia. In the southern regions, Ukrainian producers have a 59 per cent. market share, while ZapSib, NTMK and KMK have a combined market share of 41 per cent.

In 2002, NTMK sold 176 thousand tonnes of channels including 31 thousand tonnes for export (compared with 2001 sales of 119 thousand tonnes and 31 thousand tonnes, respectively). Driven by the competitive environment described above, sales of channels grew at 14 per cent. CAGR between 1998-2002.

Mining sector

Grinding balls are NTMK's major product for the mining sector. NTMK sells grinding balls primarily to ore enrichment plants. Its major customer in this sector is MGOK, which is located in the Kursk region, Central Russia. Smaller shipments are made to KGOK and Norilsk Mining Company.

In 2002, NTMK sold 137 thousand tonnes of grinding balls, including 11 thousand tonnes for export (compared with 2001 sales of 138 thousand tonnes and 17 thousand tonnes, respectively). NTMK's sales of grinding balls in terms of tonnage grew at 6 per cent. CAGR during 1998-2002.

Semi-finished products

Pipe blanks

Pipe blanks have been NTMK's most successful product on the domestic market. In 2002, NTMK sold 628 thousand tonnes of pipe blanks (all on the domestic market) (compared with 2001 sales of 496 thousand tonnes, including 6 thousand tonnes sold for export). Sales grew at 85 per cent. CAGR between 1998 and 2002. This increase was due to (1) an improvement in the operating performance of the NTMK's two major clients for pipe blanks — Sinarsky Pipe Plant and Pervouralsky Pipe Plant, on the back of a booming oil and gas sector and (2) a decline in shipments of NTMK's competitors, Oskolsky Metallurgical Plant and NOSTA, which are located farther from the major pipe plants, because of increases in railway tariffs which resulted in their products being no longer as competitively priced. For large pipes, Russian steel companies do not yet have the capacity to produce wide blanks. As average life expectancy of a pipe is 30 years, Gazprom will need to replace many of its pipes over the next decade. New pipelines for oil transport are also currently under discussion. NTMK is addressing these issues in its "Large diameter pipe project" (see below).

Other semi-finished products

NTMK mainly sells semi-finished products (billets, slabs and blooms) to export markets. Billets are sold to Taiwan, China, the Middle East and South Korea. Slabs are sold to Taiwan, China and Thailand. NTMK also ships small amounts to the Russian market, mainly square billets to KGOK and Bogoslovskoe Mining Company ("BRU") (686 thousand tonnes or 91 per cent. of all domestic deliveries of billets by NTMK in 2002).

In 2002, NTMK sold 2,280 thousand tonnes of semi-finished products including 1,522 thousand tonnes for export (compared with 2001 sales of 2,400 thousand tonnes and 1,597 thousand tonnes, respectively). NTMK's sales of semi-finished products in terms of tonnage grew at 17 per cent. CAGR during 1998-2002.

Procurement and Transportation

Raw materials

The principal materials which are used by NTMK to produce steel include iron ore, sinter, pellets, coke and refractory products.

Iron ore, sinter and pellets

NTMK's principal suppliers of iron ore concentrate are BRU and Goroblogodatskoe Mining Company ("GBRU"). GBRU is a fully owned subsidiary of NTMK and, in 2002, its estimated geological reserves amounted to 230 million tonnes of ore.

BRU supplies iron ore concentrate to VGOK, which in turn supplies sintered materials to NTMK.

NTMK's principal suppliers of sinter and pellets are KGOK, VGOK and GBRU. The total supplies of sinter and pellets to NTMK during 2002 amounted to 8,079 thousand tonnes, of which approximately 89 per cent. came from such principal suppliers.

Principal Suppliers

(a) Kachkanarsky Mining and Dressing Complex

KGOK is NTMK's largest supplier of sinter and pellets. It is located 150 km away from NTMK, which is relatively close in comparison to other large suppliers of sinter and pellets. In 2002, it supplied NTMK with 5,131 thousand tonnes of sinter and pellets, or approximately 64 per cent. of the sintered materials required for the blast furnaces at NTMK. KGOK supplies NTMK with Vanadium oxide rich sinter, NTMK has only been able to process this material since it developed the techniques required for the blast furnace process route. Sinter supplied by KGOK is more expensive than sinter from other suppliers as the iron content of KGOK sinter is very low and the ore has to undergo enrichment and concentration before it is turned into sinter that is made up of about a 55 per cent. iron content. Purchases of sinter and pellets from KGOK are settled by deliveries of rolled steel products manufactured by NTMK.

(b) Vysokogorsky Mining and Dressing Complex

VGOK is located near the city of Nizhny Tagil (10 km from NTMK) and is over 75 per cent. owned by Crosland Group. In 2002, it supplied 22 per cent. of the total sinter and pellets for NTMK's blast furnaces. VGOK can produce approximately 2 million tonnes of sinter per annum. VGOK produces sinter from its own ore and from concentrate supplied by BRU under a tolling scheme BRU has entered into with NTMK. VGOK iron ore reserves are estimated at 300 million tonnes and its annual production capacity is 2.3 million tonnes of sinter.

(c) Goroblagodatskoye Mining Company

GBRU is located in Kushva (40 km from NTMK) and operates three sinter machines with a total production capacity of 2 million tonnes per annum. The iron content in ore concentrate mined by GBRU is approximately 34 per cent., which is lower than the iron content in ore concentrates of other NTMK suppliers. GBRU satisfies approximately 10 per cent. of NTMK's demand for sinter and pellets.

Coke

The quality of coke used in the blast furnace process is one of the most important factors determining overall costs of steel and rolled products. The cost of coke production is the largest cost item in the blast furnace production process. NTMK obtains all of the coke it requires from its own coke batteries and also sells excess coke it produces to other companies.

NTMK's coke-chemical production mainly uses coal concentrate extracted from the Kuznetsky basin located approximately 1,700 km from NTMK. NTMK's principal supplier of coal is Kuzbassuglepostavka ("KUP").

NTMK operates a tolling scheme in relation to coal supplied from KUP. This allows NTMK to focus on sales of core products and to ensure stable supply of coke for the steel production. NTMK processes all coal concentrate, while KUP remains the owner of the processed coal concentrate and the coke-chemical output and pays NTMK for the processing. NTMK then buys from KUP the amount of coke necessary for its steel production. KUP makes no margin on resale of coke to NTMK.

Historically prices of coke have been stable, growing in line with inflation. NTMK expects the average price of coke to increase by 14 per cent. in 2003.

Refractory materials

NTMK purchases refractory materials from several suppliers, mainly Pervouralsky Dinasovy Zavod, Spetsoborudovaniye i Materialy, TD BKO, Ogneupori, Ogneupor-M, D.E. Metals and Ogneuporniye Technologii. NTMK also purchases raw materials for its own refractory production.

Energy and Transportation

More than 80 per cent. of NTMK's energy related costs is comprised, in approximately equal measures, of electricity and natural gas costs. Transportation costs influence NTMK's operations indirectly – as part of NTMK's raw material costs as well as by impacting the prices NTMK can charge customers for its products (as customers pay the cost of transportation from Smychka).

Electricity

The steelmaking process requires significant amounts of electricity and heat energy to power the blast furnaces and other facilities. NTMK's electricity power requirements total approximately 250 MW.

Electricity is supplied to NTMK by Sverdlovskenergo, a subsidiary of RAO UES. From 1 January 2000 to 1 January 2003, electricity tariffs have increased from RUR 284 (approximately U.S.\$ 10.3 at then current exchange rate) per 1,000 kWh to RUR 526 (approximately U.S.\$ 16.5) per 1,000 kWh.

NTMK estimates that the cost of internally generated electricity is currently about half of the cost of purchasing it from Sverdlovskenergo. NTMK's own generation capacity is currently insignificant. In 2001, NTMK produced 12 MWh of electricity or less than 10 per cent. of total electricity consumed. In order to mitigate the risks associated with the likely increases in electricity tariffs, NTMK plans to invest U.S.\$ 20 million in increasing its internal electricity generation capacity. This project will enable NTMK to cover more than 50 per cent. of its electricity requirements from internal sources by early 2004 and up to 67 per cent. by 2007. (see subsection 'Investment Programme' below). For example, NTMK intends to generate electricity using internally produced steam and furnace gases at zero raw material cost.

Natural gas

NTMK's main supplier of the natural gas consumed by its blast furnace process and heating power plants is Uraltransgas, a subsidiary of Gazprom. Gas tariffs are currently quite low in Russia and stand at about 30-35 per cent. of European levels.

Transportation

NTMK's main provider of rail transportation services for factory-bound shipments is MPS, although for short distances (in-plant transportation and to and from the railway station) NTMK uses its own transportation facilities, which include 400 km of railways, 94 locomotives, 1,300 railway cars and 18 railway cranes.

Prices for rail shipments are set by the Ministry of Transport. A discounted price applies where NTMK's own railcars are used to transport materials on MPS's infrastructure. In order to increase reliability and efficiency of operations by working towards just-in-time delivery, NTMK has a medium-term plan to establish a joint-venture with an independent operator to invest in its own railcars.

Investment Programme

NTMK's investment programme involves the reconstruction and modernisation of various elements of the production process. The programme aims to increase the production capacity of the steel plant, reduce costs and bring about the manufacture of a broader range of rolled iron products complying with ISO-9002 quality requirements.

NTMK's planned investments relating to maintenance of existing facilities up to 2006 will amount to U.S.\$ 76.2 million (with U.S.\$ 24 million to be spent in 2003, U.S.\$ 28.1 million in 2004, U.S.\$ 14.1 million in 2005 and U.S.\$ 10 million in 2006). Investments in new facilities and quality improvement will amount to U.S.\$ 139.9 million (with U.S.\$ 94.9 million to be spent in 2003, U.S.\$ 27.8 million in 2004, U.S.\$ 9.3 million in 2005 and U.S.\$ 7.9 million in 2006). Investments are scheduled to decrease between 2003 and 2006, mainly because much of the capital investments on new facilities and quality improvements is planned to be implemented up front in 2003.

Coke-chemical production

The repair of four coking batteries is included in the long-term capital repair programmes. The estimated cost of this project is U.S.\$ 47.5 million. The aim of the repair is to increase their useful life and production efficiency. If necessary, NTMK could delay this project by a year or two and/or spread out over a longer period as this would not affect NTMK's competitive position.

Blast furnaces

In the next two to three years, NTMK intends to reconstruct its blast furnaces with the aim of increasing their useful lives and increasing production efficiency. The estimated costs of this project amount to U.S.\$ 110 million.

The reconstruction of two blast furnaces aims to reduce their coke consumption by 37 kilograms per tonne and adapt their operation in a manner that allows the high Vanadium ore to be processed more efficiently. The other four furnaces will be upgraded gradually over the long-term without affecting the overall plant output.

Oxygen Converter Facilities

The objective is to increase the oxygen converter facilities' output from 3.2 million tonnes per annum to 4.3 million tonnes per annum with the subsequent shut-down of the Siemens-Martin facilities. The oxygen converter vessel shells are close to the end of their working lives and will be replaced in sequence with modern shells of the same size. This would also allow the plant to produce 4.3 million tonnes of steel a year. The approximate costs of the upgrade for 2003 and 2004 are in the region of U.S.\$ 4.9 million.

The works to be carried out also include the complete replacement of two furnaces. The majority of work will involve the replacement of the converter hoods and fume scrubbing system, which currently restricts the output. This investment is necessary to ensure sufficient supply of liquid steel for the continuous casting machines.

Rail and structural mill

The project to renovate the rail and structural mill includes the installation of two rail processing lines and new rail hardening technology and the implementation of high quality control standards. These changes are being made with a view to producing rails of internationally acceptable quality.

Wheel-rolling mill

NTMK plans to modernise its wheel-rolling mill. The main objective of this plan is to improve the quality of railway wheel production as well as to increase output. The investment will total U.S.\$ 42.1 million and involves installing two new presses and a new quality control line (the old mills were built in 1938 and still operate much of the original equipment). NTMK aims, upon completion of this project, to increase its railway wheel annual production capacity and sell higher quality wheels and tyres to MPS at a price higher than that it currently charges.

Large diameter pipe project and construction of a new continuous casting machine

NTMK is involved in a project to construct a large diameter pipe production plant (“LDPP”). LDPP which will produce plates and 1,420 mm-diameter pipes is being constructed on a project finance basis. The project company is owned by NTMK (25 per cent.), the Russian Government (25 per cent.), Duferco S.A. (30.1 per cent.) and Gazprom (19.9 per cent.). The registered capital of the company will be RUR 1.2 billion (approximately U.S.\$ 37.9 million). NTMK does not expect that any further equity contributions will be required and any debt financing that may be raised by the company will be without recourse to NTMK. The LDPP is still evaluating the final scope of the project as well as its timing.

The construction of a fourth continuous casting machine is the first element of the future pipe production complex to be constructed. It will cost approximately EUR 85 million and its completion is envisaged regardless of the success of the large diameter pipe project. An agreement with banks for the financing of the construction of this continuous casting machine has already been signed.

Electricity generation

NTMK currently meets approximately 10 per cent. of its electricity requirements from in-plant facilities. In order to mitigate the risks associated with the likely increases in electricity tariffs, NTMK intends to increase its internal electricity generation capacity to cover more than 50 per cent. of its electricity requirements by early 2004 and up to 67 per cent. by 2007. The cost of this project will be approximately U.S.\$ 20 million. As part of this project, technology will be introduced that utilises waste gases from coke production and blast furnace production and also waste steam as energy resources.

Environmental control

NTMK’s capital repairs and replacement programmes is also expected to result in reduced emissions. In addition, there are plans to invest over RUR 76 million (approximately U.S.\$ 2.37 million) over the next four years specifically to address environmental concerns. These investments should reduce the penalty payments. Also see “Environmental Matters” below.

Insurance

In addition to maintaining obligatory insurance policies required by Russian law and employees’ insurance policies required by the terms of the collective bargaining agreements, following the independent appraisal of property conducted by American Appraisal in 2002, NTMK has obtained a property insurance policy from “AIG Russia”. This insurance policy covers the majority of NTMK’s production risks. Evraz Group’s management believes that the insurance policies established and maintained with respect to NTMK are adequate and consistent with international steel industry practices and standards.

Environmental Matters

NTMK has all the necessary environmental licences, including a licence for utilisation of water resources and a licence for waste management.

Pollution up to certain levels (determined by regional authorities) is permitted by law. Penalties are applied to pollution above the permitted levels. Most authorities allow for penalties to be applied to financing of environmental upgrades in a company. As a result, only 20 per cent. of the penalty is actually paid to the

local budget, whereas 80 per cent. of the penalty can be used to fund environment-related capital expenditures within NTMK.

As a result of a number of technological innovations, between 1998 and 2002 NTMK reduced the volume of discharge by approximately 62 per cent., to 110 thousand tonnes from 289 thousand tonnes. The amount of pollution penalties incurred by NTMK has decreased from RUR 101.7 million (then equalling approximately U.S.\$ 10.2 million) in 1998 to RUR 31.7 million (approximately U.S.\$ 1 million at then current exchange rate) in 2002.

The principal factors behind the reduction of polluting emissions were the following:

- Commissioning of three continuous casting machines which allowed a reduction in production by the Siemens-Martin plant. This resulted in a 78 per cent. reduction in waste discharge.
- Commissioning of a new continuous oven in place of four old ones in the rail and structural steel mill.
- Commissioning of waste processing plant in 1996 (capacity 3 million tonnes per annum). During the last 50 years the plant accumulated over 50 million tonnes of slag as well as other iron-containing wastes. The special waste processing plant was constructed to utilise newly produced and accumulated wastes and carry out subsequent revegetation of the land. The programme of utilisation of accumulated wastes will take from 15 to 20 years.

Planned future activities, which are expected to reduce NTMK's unit discharge to 16 thousand tonnes per annum by 2007 (from 23 thousand tonnes per annum currently), are as follows:

- Decommissioning of the Siemens-Martin facilities once the fourth continuous casting machine is put into operation;
- Decommissioning of the blooming plant;
- Reconstruction of the largest blast furnaces in order to shut down two older blast furnaces; and
- Resurfacing of four coke oven batteries.

Management

The Board of Directors of NTMK consists of eleven members. Unless otherwise stated, the directors mentioned below have no material functions outside Evraz Group.

Alexander T. Shamrin is a Chairman of the Board of Directors of NTMK and a member of the Board of Directors of NTMK since 2002. He is also the general director (CEO) of the Federal Project Finance Centre.

Alexander G. Abramov founded OOO EvrazHolding in 1999 and has been the President of the company since its foundation. Mr. Abramov is also the Member of the Board of Directors of NTMK and ZapSib. Mr. Abramov was the founder of EvrazMetal, the predecessor of Evraz Group, which he established in 1992. Before that, Mr. Abramov worked at the Institute of High Temperatures of the USSR Academy of Sciences. In 1982, Mr. Abramov graduated from the Moscow Institute of Physics and Technology (a first-class honours degree). He holds a Ph.D. in Physics and Mathematics. Mr. Abramov is a member of the Council of Entrepreneurs set up by the government of the Russian Federation.

Viktor A. Akimov is a member of the Board of Directors of NTMK since 2003. Prior to that, Mr. Akimov worked for "A. Makarov and A. Tobak" law firm and was a vice-chairman of the Bashkortostan Republic Supreme Court. He graduated from Bashkir State University in 1977.

Polina E. Zabanova is a member of the Board of Directors of NTMK since 2003. Prior to that, Ms. Zabanova worked for "A.Makarov and A.Tobak" law firm. She graduated from Moscow State University of International Relations in 2000.

Alexander V. Katunin is a member of the Board of Directors of NTMK since 1998 and a Senior Vice President of OOO EvrazHolding. Prior to that, Mr. Katunin held the position of a senior researcher at the Kurchatov Institute of Atomic Energy. He graduated from the Moscow Institute of Physics and Technology (a first class honours degree) and holds a Ph.D. in Physics and Mathematics.

Vladislav V. Kopeika is a member of the Board of Directors of NTMK since 1998. He is also a financial manager of Starwood Trading Limited, a metals trading company.

Georgy A. Lordkimanidze is a member of the Board of Directors of NTMK since 2003. Prior to that, Mr. Lordkimanidze worked for “A.Makarov and A.Tobak” law firm. He graduated from Moscow State University of International Relations in 1999.

Sergei K. Nosov has been the Managing Director for both NTMK and ZapSib since October 2002. Mr. Nosov joined the Original Group in 1998 as a First Deputy General Director of NTMK and was General Director of NTMK since 1999. Prior to that Mr. Nosov held various positions at MMK including position of First Deputy General Director between 1997 and 1998. Mr. Nosov graduated from Magnitogorsk Metals and Mining institute in 1983. He holds Ph.D. degree in engineering. Mr. Nosov received Russian Federation State Prize in science and engineering in 1996.

Andrei V. Pisanny is a Vice President and Head of Economy and Operating Control Department of OOO EvrazHolding and is responsible for financial management of NTMK and ZapSib, budgeting process and control of budget execution. Mr. Pisanny joined the Original Group in 2002. Prior to that, he worked for CJSC TPK Unkomtech. He graduated from the Moscow Institute of Physics and Technology in 1993.

Andrei A. Sevenyuk is a Senior Vice President and the Chief Operating Officer of OOO EvrazHolding and is responsible for industrial policy of the group and management company strategy. Mr. Sevenyuk has worked for the Original Group since 1999. Prior to joining Evraz Group, Mr. Sevenyuk operated private companies in metals and mining sector. Mr. Sevenyuk graduated from the Moscow Institute of Physics and Technology (a first-class honours degree) in 1993.

Alexander V. Frolov is a Senior Vice President and the Chief Financial Officer of OOO EvrazHolding. He is in charge of financial and international activities. Mr Frolov joined the Original Group in 1994 and held various positions at EvrazMetal. Prior to that he worked as a research fellow at the I.V. Kurchatov Institute of Atomic Energy. In 1987, Mr. Frolov graduated from the Moscow Institute of Physics and Technology (a first-class honours degree). He holds a Ph.D. in Physics and Mathematics.

Auditors

OJSC “Unicon/MS Consulting Group” are the auditors of NTMK’s Russian statutory financial statements. Ernst & Young (CIS) Limited are the auditors of the financial statements of NTMK prepared in accordance with IFRS.

Financial Year

NTMK’s financial year corresponds to the calendar year.

Capitalisation of NTMK

The following table sets out the capitalisation of NTMK as at 31 March 2003 and is derived from the management estimation of the parent company balance sheet of NTMK as at 31 March 2003 prepared in accordance with IFRS. There has been no material change in the capitalisation of NTMK since 31 March 2003.

	As at 31 March 2003
	(unaudited) (U.S.\$ thousands)
Issued capital	55,775
Share premium	5,856
Accumulated profits	349,767
Total equity	411,398
Long-term loans	33,020
Liabilities under the Settlement Agreement	59,914
Promissory notes payable	7,254
Restructured taxes payable	13,478
Finance lease obligations	4,172
Deferred income tax liabilities	90,466
Other LT liabilities/Provisions	268
Total non-current liabilities	208,572
Total current liabilities	116,128
TOTAL CAPITALISATION	736,098

Summary Financial Information relating to NTMK

The following tables set out in summary form balance sheet and income statement information relating to NTMK. Such information is derived from the audited parent company financial statements of NTMK as at and for the years ended 31 December 2002 and 31 December 2001. The financial statements of NTMK are prepared in accordance with IFRS. Such financial statements, together with the reports of Ernst & Young (CIS) Limited (whose report contained a qualified opinion) and the accompanying notes, appear elsewhere in this Offering Circular. The financial information presented below should be read in conjunction with such financial statements, reports and the notes thereto.

SUMMARY BALANCE SHEETS

	Year ended	
	31 December 2002	31 December 2001
	(U.S.\$ thousands)	
ASSETS		
Non-current assets		
Property, plant and equipment, net	586,622	638,096
Other non-current assets	16,810	18,309
	<u>603,432</u>	<u>656,405</u>
Current assets		
Inventories	45,471	55,266
Trade and other receivables, net	18,519	15,976
Cash and cash equivalents	13,892	3,851
Other current assets	46,320	56,407
	<u>124,202</u>	<u>131,500</u>
TOTAL ASSETS	<u><u>727,634</u></u>	<u><u>787,905</u></u>
EQUITY AND LIABILITIES		
Total equity	397,088	385,084
Total non-current liabilities	207,085	205,599
Total current liabilities	<u>123,461</u>	<u>197,222</u>
TOTAL EQUITY AND LIABILITIES	<u><u>727,634</u></u>	<u><u>787,905</u></u>

SUMMARY INCOME STATEMENTS

	Year ended	
	31 December 2002	31 December 2001
	(U.S.\$ thousands)	
Revenues	810,406	838,090
Cost of revenues	(687,123)	(763,733)
Gross profit	<u>123,283</u>	<u>74,357</u>
Selling, general and administrative expenses	(70,755)	(73,467)
Foreign exchange losses, net	(7,407)	(11,499)
Gain on net monetary position	28,996	47,949
Other operating expenses	(40,086)	(16,455)
Other operating income	4,429	3,406
Profit from operating activities	<u>38,460</u>	<u>24,291</u>
Interest expense	(27,503)	(22,858)
Gain on extinguishment of debts	12,482	26,240
Profit before income taxes	<u>23,439</u>	<u>27,673</u>
Income tax (expense) benefit	(11,435)	31,962
NET PROFIT	<u><u>12,004</u></u>	<u><u>59,635</u></u>

ZAPSIB

Overview

ZapSib is the largest steel mill in the Siberian region and the easternmost steel mill in the Russian Federation. It currently occupies an area of approximately 3,000 hectares, 25 kilometres away from the city of Novokuznetsk, in the Kemerovo Region.

ZapSib Performance

	As at and for the year ended 31 December	
	2002	2001
	U.S.\$ million	
Net sales	712.0	685.9
Operating profit (loss)	1.3	(124.0)
Total assets	554.5	608.6
Interest bearing debt ⁽¹⁾	50.5	23.0

(1) Interest bearing debt includes interest bearing loans and borrowings and does not include, *inter alia*, liabilities under the settlement agreement and restructured taxes.

History

The construction of the plant began in 1961 and, in 1964, ZapSib produced its first steel. The technological capability of ZapSib has developed over the years: first rolled products were manufactured in 1965; the converter shop (the first in the Soviet Union) was commissioned in 1968 and the blooming shop and continuous billet mill became operational in 1969 and 1970, respectively. In the course of 1970s, ZapSib's production facilities were further extended following the commissioning of a new blast furnace, coke-oven battery, oxygen converter facilities shop and a wire-drawing shop for the metalware division.

Privatisation

ZapSib was privatised and transformed into an open joint stock company under Russian law in 1992. ZapSib was registered as an open joint stock company on 30 November 1992 and received a registration certificate No. 235/92-343-NKG. ZapSib's principal office is at: 16 Kosmicheskoye Shosse, Novokuznetsk 654043, Kemerovo Region, Russia.

Social Object

As is the case with many Russian companies, ZapSib's Charter (Articles of Association) establishes a multitude of aims of its activity. Among other things, the list of ZapSib's principal activities (contained in Article 3 of the Charter) include production of the principal iron and steel products; organisation of supplies, marketing and logistical support; and research and development.

Insolvency and Restructuring

In 1996, due to poor financial management, ZapSib failed to make principal payments on some of its debt obligations. Consequently, Alfa Bank, which was one of ZapSib's largest creditors at the time, filed a bankruptcy petition against ZapSib. On 24 June 1997, the Kemerovo region arbitration court declared ZapSib insolvent, initiated bankruptcy proceedings, and installed external management at ZapSib for 18 months. In 1999, the arbitration court reviewed the results of the installation of the external management and extended their stay for another 10 years. On 14 November 2001, ZapSib and its creditors signed a settlement agreement, approved by the Russian arbitration court on 29 November 2001, thus ending the bankruptcy proceedings. According to the settlement agreement, RUR 8.0 billion (approximately U.S.\$ 250.3 million) of ZapSib's debt and trade payables were rescheduled over 25 years, with 57 per cent. of debts payable after 2021 with zero per cent. interest payable on such debts. The restructuring of the liabilities under the

settlement agreement was accounted for in the IFRS parent company financial statements of ZapSib as extinguishment of the existing financial liabilities and recognition of the new financial liabilities on different terms. The liability under the settlement agreement was measured at amortised cost in the IFRS parent company financial statements of ZapSib. The cost of the liabilities as of the date of restructuring was discounted at the annual rates of 20 per cent. with respect to liabilities denominated in Roubles and 12 per cent. with respect to liabilities denominated in U.S. dollars. In addition, a total nominal amount of RUR 3.6 billion (approximately U.S.\$ 114.1 million at the exchange rate as of 31 December 2002) of ZapSib's tax, pension and social fund liabilities were rescheduled over a 4 to 5 year period under a separate agreement which provided that over 50 per cent. of the liabilities will be written off provided that ZapSib makes timely payments of its current tax liabilities. The amortised cost of the outstanding obligations under that additional agreement was U.S.\$ 24 million as of 31 December 2002.

To date, ZapSib has been in full compliance with the terms of the amicable agreement, as well as the tax, pension and social fund restructuring. As of 31 December 2002, the nominal outstanding amount under the settlement agreement amounted to U.S.\$ 197.8 million (compared with U.S.\$ 250.3 million as of 31 December 2001). The amortised cost of the outstanding amount under the settlement agreement as of 31 December 2002 was U.S.\$ 51.8 million (compared to U.S.\$ 78.8 million as of 31 December 2001).

Share Capital

ZapSib's issued share capital consists of 13,387,549 shares, each with a par value of RUR 10 (comprising 12,782,723 ordinary shares and 604,826 type A preferred shares). ZapSib does not have any authorised but unissued shares.

ZapSib's Principal Shareholders (as at 1 September 2003)

Shareholder	Number of Ordinary Shares	Number of Preferred Shares	Percentage
Lakemill	6,625,080	260,064	51.4
Logicmind	3,704,677	37,307	28.0
Ferrotrade UK	1,819,940	51,480	14.0 ⁽¹⁾
Others (including employees)	633,026	255,975	6.6
Total	12,782,723	604,826	100.0

(1) Ferrotrade has entered into an agreement to sell its shares in ZapSib to a third party not related to Evraz Group or Crosland Group and the transfer of shares is to be completed shortly.

As of 1 September 2003, Evraz Group held approximately 79.4 per cent. of ZapSib's share capital.

ZapSib's shares are currently traded on RTS. As of 22 August 2003, the weighted average bid price of ZapSib shares on the RTS was U.S.\$ 16.5.

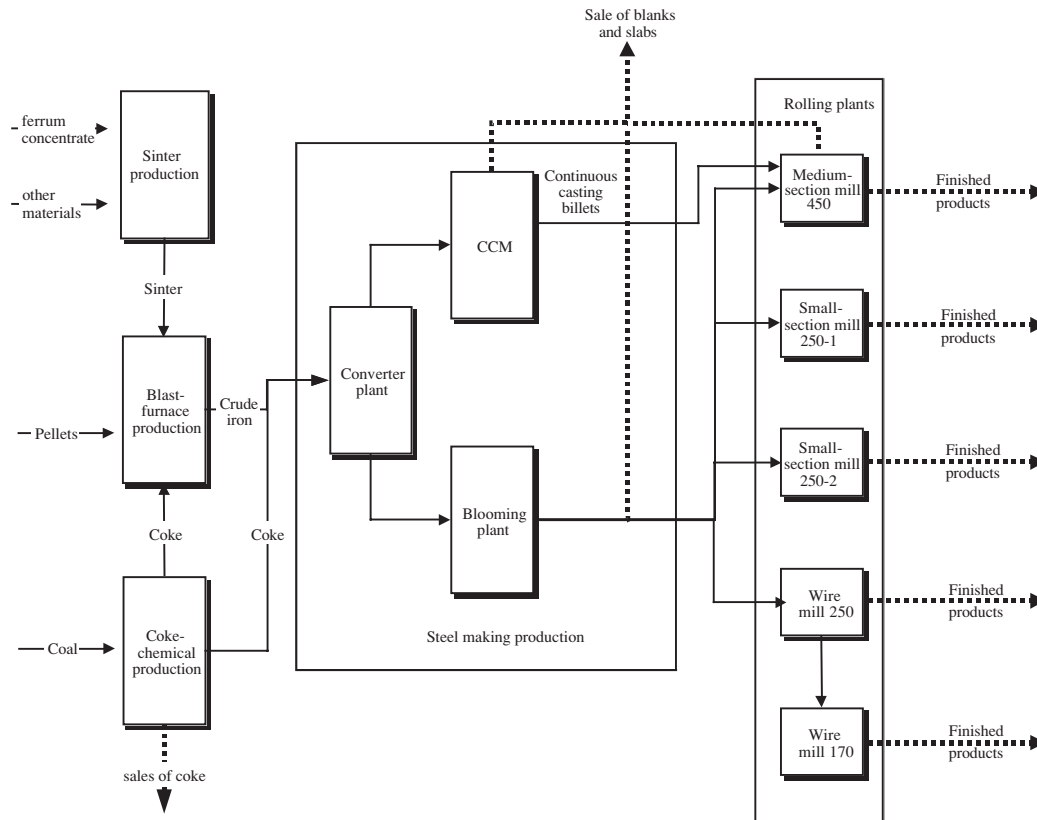
Debt Obligations and Other Commitments

As of 1 July 2003, the aggregate debt obligations of ZapSib (including short- and long-term borrowings and the indebtedness under the settlement agreement) equalled U.S.\$ 69 million (including U.S.\$ 11 million of secured debt). Short-term indebtedness represents approximately 49 per cent. of the aggregate amount of ZapSib's indebtedness.

Production

ZapSib is an integrated steel plant. It comprises coke-chemical production, sinter production, three blast furnaces, steel making facilities (using only blast oxygen furnaces), a blooming plant, a continuous casting machine and five rolling mills.

The following diagram illustrates the principal steps in ZapSib's production process:



The production steps in the above diagram are described in more detail in Appendix B (“Overview of the Global/Russian Steel Industry”) hereto.

Iron Production

Coke-chemical production

The coke-chemical production includes a coal preparation shop, a coal enrichment shop, two coke shops, two gas recovery shops, a rectification shop, a tar processing shop and a phthalic anhydride shop. There are five coking batteries, the coke output from which is sufficient for the active blast furnaces.

ZapSib produces dry-quenched coke, which it consumes in blast-furnace production and sells to other companies.

In 2002, ZapSib produced 3,319 thousand tonnes of coke, which represents a 2 per cent. decrease in comparison to 2001.

Sinter production

Sinter production contains four shops: sintering, crushing-sorting, baking plant and mud plant. The sintering shop is equipped with three sintering machines. The system of assembly lines delivers sinter to blast furnaces. Sinter output grew 3.1 per cent. in 2002 to 7.1 million tonnes.

Blast Furnaces

The blast furnace shop has three blast furnaces with a total volume capacity of 8,000 m³.

In 2002, ZapSib produced 4,612 thousand tonnes of iron which was a 1.5 per cent. increase in comparison to 2001.

The raw materials used in the blast furnace are: sinter, pellets and coke. Sinter and coke are produced at ZapSib.

Steel Production

All steel produced at ZapSib is produced in two oxygen converter plants.

To produce steel, ZapSib uses liquid blast-furnace crude iron produced in-house. The alloying of metal is performed by adding various ferroalloys.

Continuous casting machines

ZapSib originally operated two continuous casting machines which produced steel products which had a limited demand (e.g., large diameter rounds) on the market. Following market assessment, ZapSib modified one of the continuous casting machines to produce square billets. The total capacity of this machine is expected to be 1.3 million tonnes per year.

Blooming plant

ZapSib has a blooming plant with a capacity of 6,480 thousand tonnes per annum. In 2002 it produced 5,090 thousand tonnes of slabs and square billets.

Rolling plants

ZapSib's rolling plants use five rolling mills (three rolled steel mills and two wire mills).

ZapSib's production of rolled products (including semi-finished products) has increased from 2,865 thousand tonnes in 1997 to 5,023 thousand tonnes in 2002. Production of wire has increased from 165 thousand tonnes in 1997 to 202 thousand tonnes in 2002.

Production Output

In 2002, ZapSib produced 4,612 thousand tonnes of pig iron (compared to 4,550 thousand tonnes in 2001), 5,715 thousand tonnes of steel (compared to 5,540 thousand tonnes in 2001) and 5,023 thousand tonnes of rolled products (compared to 4,893 thousand tonnes in 2001).

Between 2000 and 2002, steel production at ZapSib grew by 2 per cent. CAGR, reaching 5,011 thousand tonnes in 2002, or approximately 96 per cent. of the capacity of ZapSib's steel making plant. At this rate, the iron production plant ran at 98 per cent. of its capacity, the small section mills were running at around 61 per cent. of their capacity and the medium-section mill and the wire mill at approximately 78 per cent. and 90 per cent. of their capacity, respectively.

ZapSib – Capacity utilisation

	1999	2000	2001	2002
	(per cent.)			
Iron, total	87.8	95.8	96.3	97.6
Steel, total	58.8	67.3	69.1	71.3
Blooming mill	72.8	83.4	85.7	92.0
Medium-section mill	81.9	82.3	81.7	77.5
Small-section mills 250-1	58.0	62.0	63.8	60.9
Small-section mills 250-2	41.6	49.8	59.8	62.3
Wire rod mill	78.9	88.4	86.6	92.7
Wire mills	82.5	90.3	90.6	86.8

Quality Control

ZapSib operates a quality assurance system certified under ISO-9002, which it originally received in 1994 and renewed in 1997. It also received a Lloyd's Register Certificate of conformity to the Standards of the Quality Control System BSEN ISO 9001:2000. It was renewed recently and will be valid until 2006.

ZapSib also obtained three Lloyd's Register Certificates for its rolled products. Its products for shipping are certified by the Russian Shipping Register.

Products and Sales

ZapSib allocates its production capacity on a monthly basis depending on the demand and profitability of a particular product. ZapSib's major products are semi-finished products (billets, slabs and blooms), rebars, round rolls, channels, H-beams, angles and wire).

Semi-finished products

Semi-finished products are low margin products and include billets, slabs and blooms. They are mainly produced for export.

In 2002, ZapSib sold 2,049 thousand tonnes of semi-finished products including 1,680 thousand tonnes for export (compared with 2001 sales of 1,999 thousand tonnes and 1,739 thousand tonnes, respectively). Semi-finished products are sold mainly to China, the Philippines, and Vietnam. In Russia slabs are sold to strategic customers such as Novosibirsk Metallurgical Plant (8.4 per cent. of total volume of domestic sales).

Construction Sector – Rebars

Rebars are one of ZapSib's fastest growing products. In 2002, ZapSib sales of rebars rose to 1,331 thousand tonnes including 479 thousand tonnes for export (compared with 2001 sales of 1,207 thousand tonnes and 459 thousand tonnes, respectively). Sales volumes of rebars have increased on average by 16 per cent. per annum since 2000, mainly due to the economic expansion in Russia in general, and the construction sector in particular. The increased demand for these products has led to a strong growth in domestic prices while export prices remained stable.

In 2002, ZapSib exported 170 thousand tonnes per annum of rebars to Kazakhstan (100 per cent. increase from 2001), which is about 40 per cent. of the local consumption of such products.

On the domestic market ZapSib controls about 50 per cent. of the market for rebars. Mechel is the second largest producer with about 30 per cent. and Severstal and MMK control about 10 per cent. each. Because the market is efficient and the quality is standard, market share depends mainly on price. Currently the market is balanced. However, the situation may change if the Russian government lifts the 21 per cent. import tariff on Ukrainian rebars.

Round rolls

Round rolls include wire rod and other round rolls.

In 2002, ZapSib sold 729 thousand tonnes of round rolls including 372 thousand tonnes for export (compared with 2001 sales of 718 thousand tonnes and 373 thousand tonnes, respectively). Sales of round rolls have been stable. Exports consist almost exclusively of wire rod and are sold mainly to Taiwan, South Korea and Iran. Domestically, ZapSib sells both wire rod (60 per cent. of domestic sales in this category) and other round rolls (40 per cent.). Domestic prices have grown between 2000 and 2002, while export prices increased by 16 per cent. in 2002 year on year.

Other rolled steel

Products in this category include channels, H-beams and angles. These products are mainly sold in the Russian market.

In 2002, ZapSib's sales of other rolled steel declined by six per cent. 2002 sales amounted to 700 thousand tonnes including 175 thousand tonnes for export (compared with 2001 sales of 746 thousand tonnes and 186 thousand tonnes, respectively).

Wire

Wire is one of ZapSib's most profitable products.

Wire is sold almost exclusively to the Russian domestic market. Sales volumes of wire have been stable and accompanied by a steady growth in prices over the last three years. In 2002, ZapSib sold 202 thousand tonnes of wire (compared with 2001 sales of 211 thousand tonnes).

Procurement and Transportation

Raw materials

The principal materials which are used by ZapSib to produce steel include iron ore, coal and metal scrap.

Iron ore

ZapSib's largest suppliers of iron ore are Mikhailovsky GOK, Mundybashsky GOK, Kovdorsky GOK and Korshunovsky GOK.

ZapSib purchases iron ore from Korshunovsky GOK, Mikhailovsky GOK and Kachkanarsky GOK through the trading companies Ferrox and Sibirskaya Gornaya Company. Trading companies historically control this segment of the market and have semi-exclusive agreements with the producers.

Iron Ore

	2000	2001	2002	% of total (2002)
		(thousand tonnes)		
Mikhailovsky GOK	2,217	1,770	2,798	38%
Mundybashsky GOK	—	—	1,173	16%
Kovdorsky GOK	4	9	773	10%
Korshunovsky GOK	3,273	3,112	731	10%
Abakanskoe RU			560	8%
Kachkanarsky GOK	83	345	508	7%
Krasnokamenskoe RU	385	433	381	5%
Other	42	92	536	7%
Total	6,004	5,761	7,460	100%

In 2002, ZapSib changed its main iron ore supplier. Due to the artificially high prices of Korshunovsky GOK (a company which was historically developed to supply iron ore to ZapSib), it became more efficient to buy and ship iron ore from Mikhailovsky GOK. Though the situation is relatively stable and ZapSib does not face a shortage of supplies of cheaper iron ore, Evraz Group is addressing the issue and reviewing alternative ways to substitute existing suppliers if necessary.

Coal

ZapSib purchases approximately 500 thousand tonnes of coal and coal concentrate per month. Coal is mainly supplied from Yuzhkuzbassugol, which includes the Alardinskaya mine, the Esaulskaya and Ulyanovskaya mines and the Tomskaya mine. ZapSib processes up to 200 thousand tonnes of coal each month in its own enrichment facilities.

ZapSib's sole supplier of coal is Kuznetsk Ugol Company ("KUC") which guarantees to ZapSib stable quantities and prices under a long term contract.

ZapSib processes coal into coke under a tolling agreement with KUC and receives a processing fee for such work. Subsequently, ZapSib purchases coke in volumes required by current capacity utilisation. This allows ZapSib to operate coke batteries at full capacity, without having to focus on coke and chemical markets that are outside of the core business of the Evraz Group. KUC makes no margin on any coke it resells to ZapSib.

Transportation costs are not significant for coal supplies, as most of the mines are within 100 km from ZapSib.

Metal scrap

Metal scrap is used in the production process as a complementary raw material to iron ore and is partially purchased and partially supplied from own production. Within ZapSib, metal scrap comes from the blooming mill and other rolling mills and is used to produce steel. The most important external supplier of metal scrap is Sibvtormet.

Energy and Transportation

Energy related expenses amounted to 9.1 per cent. of ZapSib's overall costs in 2001 and 8.9 per cent. in 2002. This decline is mainly due to the increase in the cost of raw materials.

Electricity

Historically, electricity was supplied to ZapSib by Kuzbussenergo, a subsidiary of RAO UES. In November 2002, ZapSib signed a contract with an independent trader, Metallenergofinance ("MEF"), for the ongoing supply of electricity. Currently, MEF purchases electricity from Kuzbussenergo at the price agreed with the Regional Energy Commission, a local state energy tariffs regulatory body. The change in the electricity supply scheme is aimed at reducing electricity related expenses, as MEF has the ability to agree lower tariffs with the Regional Energy Commission and plans to enter FOREM (Federal Wholesale Electricity Power Market) in the future. Electricity prices paid by ZapSib between 2000 and the third quarter 2002 have increased at an annual rate of 18 per cent. in U.S. dollar terms.

Natural gas

The main supplier of natural gas consumed by the blast furnaces and heating power plants is AK Sibur, a subsidiary of Gazprom. Between 2000 and 2002, natural gas tariffs paid by ZapSib increased at less than 4 per cent. per annum in U.S. dollar terms.

Transportation

ZapSib's main provider of rail transportation services for factory-bound shipments is MPS. ZapSib also has limited transportation facilities around the plant.

Investment Programme

Since taking management control, Evraz Group is currently reviewing ZapSib's investment programme in light of standardised budgeting procedures imposed by the management company. Pending the outcome of such review, ZapSib's investment programme was reduced to very few projects in 2002 and

to date in 2003. The relatively modern technology of the plant requires limited investments into upgrades or maintenance of the plant and capital expenditure programme for 2003 was budgeted at about U.S.\$ 15 million, including U.S.\$ 12.7 million for the replacement of equipment and U.S.\$ 2.3 million for the reconstruction of the coke plant.

Future capital investment programmes will likely focus on the gradual replacement of the ingot casting by continuous casting.

Insurance

ZapSib maintains obligatory insurance policies required by Russian law and employees' insurance policies (required by the terms of the collective bargaining agreements) similar to those of NTMK. While ZapSib has not yet obtained a comprehensive property insurance policy, it is intended that such insurance will be obtained in the next 6 to 12 months.

Environmental Matters

Compared to many metallurgical plants in Russia, ZapSib uses more environmentally friendly technology (e.g., it does not operate Siemens-Martin furnaces). As a result, the amounts of environment-related payments and fines have not been material.

ZapSib has all necessary environmental licences, including a licence for the utilisation of water resources and atmospheric discharge.

ZapSib's ecological charges consist of (i) payments for atmospheric and water discharges as well as waste which are within the limits set out in licences and (ii) payments for discharge and wastes in excess of these limits.

Annual ecological charges are about U.S.\$ 1.6 million. Approximately 78 per cent. of the payments relate to atmospheric discharge, 21 per cent. to the water discharge and 1 per cent. to other pollution.

In accordance with existing discharge limits, about 80 per cent. of the payments are pertaining to discharge in excess of the relevant limits.

Management

The Board of Directors of ZapSib consists of eight members. Unless otherwise stated, the Directors mentioned below have no material functions outside Evraz Group.

Alexander G. Abramov founded OOO EvrazHolding in 1999 and has been the President of the company since its foundation. Mr. Abramov is also the Member of the Board of Directors of NTMK and ZapSib. Mr. Abramov was the founder of EvrazMetal, the predecessor of Evraz Group, which he established in 1992. Before that, Mr. Abramov worked at the Institute of High Temperatures of the USSR Academy of Sciences. In 1982, Mr. Abramov graduated from the Moscow Institute of Physics and Technology (a first-class honours degree). He holds a Ph.D. in Physics and Mathematics. Mr. Abramov is a member of the Council of Entrepreneurs set up by the government of the Russian Federation.

Otary I. Arshba is a Senior Vice President and PR and Media Director of OOO EvrazHolding. Mr. Arshba is also the Chairman of the Board of Directors of ZapSib. Mr. Arshba joined the Original Group in 1998. Prior to that he worked in the government security services. He graduated from Higher School of KGB USSR in 1978. Mr. Arshba holds Ph.D in political science and has been elected a corresponding member of Academy of Informatics.

Alexander V. Katunin is a member of the Board of Directors of ZapSib since 2002 and a Senior Vice President of OOO EvrazHolding. Prior to that, Mr. Katunin held the position of a senior researcher at the Kurchatov Institute of Atomic Energy. He graduated from the Moscow Institute of Physics and Technology (a first class honours degree) and holds a Ph.D. in Physics and Mathematics.

Alexander I. Kopytov is a member of the Board of Directors of ZapSib since 1992. He is also a Deputy Governor of Kemerovo Region with responsibility for industry, transport and communication. Mr. Kopytov graduated from Siberian Metallurgical Institute in 1971. He also holds a doctoral degree in Engineering Science and is a member of Academy of Mining Sciences.

Andrei A. Sevenyuk is a Senior Vice President and the Chief Operating Officer of OOO EvrazHolding and is responsible for industrial policy of the group and management company strategy. Mr. Sevenyuk has worked for the Original Group since 1999. Prior to joining Evraz Group, Mr. Sevenyuk operated private companies in metals and mining sector. Mr. Sevenyuk graduated from the Moscow Institute of Physics and Technology (a first-class honours degree) in 1993.

Dmitry V. Sorokin is a member of the Board of Directors of ZapSib. He is also a Senior Vice-President and a Deputy CEO of OOO EvrazHolding. Mr. Sorokin joined the Original Group in 2000. Prior to that he was a Chief Operating Officer at KMK.

Pavel S. Tatyannin is a Vice President and Head of Corporate Finance Department of OOO EvrazHolding. He oversees trade financing, project finance and capital markets activities, mergers and acquisitions and corporate structuring of Evraz Group. Mr. Tatyannin joined the Original Group in 2001. Prior to that, he worked in CJSC Financial Corporation Adamant. He graduated from the Economics Faculty of Moscow State University in 1995 and holds a masters degree in economics.

Alexander V. Frolov is a Senior Vice President and the Chief Financial Officer of OOO EvrazHolding. He is in charge of financial and international activities. Mr Frolov joined the Original Group in 1994 and held various positions at EvrazMetal. Prior to that he worked as a research fellow at the I.V. Kurchatov Institute of Atomic Energy. In 1987, Mr. Frolov graduated from the Moscow Institute of Physics and Technology (a first-class honours degree). He holds a Ph.D. in Physics and Mathematics.

Auditors

ZAO “Unicon/MS Consulting Group” are ZapSib’s auditors of its Russian statutory financial statements. Ernst & Young (CIS) Limited are the auditors of the financial statements of ZapSib prepared in accordance with IFRS.

Financial Year

ZapSib’s financial year corresponds to the calendar year.

Capitalisation of ZapSib

The following table sets out the capitalisation of ZapSib as at 31 March 2003 and is derived from the management estimation of the parent company balance sheet of ZapSib as at 31 March 2003 prepared in accordance with IFRS. There has been no material change in the capitalisation of ZapSib since 31 March 2003.

	As at 31 March 2003
	(unaudited) (U.S.\$ thousands)
Issued capital	27,794
Share premium	15,821
Accumulated profits	146,354
Total equity	189,969
Liabilities under the Settlement Agreement	24,511
Restructured taxes payable	11,156
Finance lease obligations	2,099
Deferred income tax liabilities	65,498
Other LT liabilities/Provisions	7,897
Total non-current liabilities	111,161
Total current liabilities	244,573
TOTAL CAPITALISATION	545,703

Summary Financial Information relating to ZapSib

The following tables set out in summary form balance sheet and income statement information relating to ZapSib. Such information is derived from the audited parent company financial statements of ZapSib as at and for the years ended 31 December 2002 and 31 December 2001. The financial statements of ZapSib are prepared in accordance with IFRS. Such financial statements, together with the report of Ernst & Young (CIS) Limited (whose report contained a qualified opinion) and the accompanying notes, appear elsewhere in this Offering Circular. The financial information presented below should be read in conjunction with such financial statements, reports and the notes thereto.

SUMMARY BALANCE SHEETS

	31 December 2002	31 December 2001
	(U.S.\$ thousands)	
ASSETS		
Non-current assets		
Property, plant and equipment, net	398,526	444,389
Other non-current assets	13,181	15,056
	<u>411,707</u>	<u>459,445</u>
Current assets		
Inventories	68,422	82,281
Trade and other receivables, net	11,935	20,164
Cash and cash equivalents	553	3,791
Other current assets	61,882	42,881
	<u>142,792</u>	<u>149,117</u>
TOTAL ASSETS	<u>554,499</u>	<u>608,562</u>
EQUITY AND LIABILITIES		
Total equity	177,752	188,068
Total non-current liabilities	108,920	197,378
Total current liabilities	<u>267,827</u>	<u>223,116</u>
TOTAL EQUITY AND LIABILITIES	<u>554,499</u>	<u>608,562</u>

SUMMARY INCOME STATEMENTS

	Year ended 31 December 2002	Year ended 31 December 2001
	(U.S.\$ thousands)	
Revenues	711,995	685,935
Cost of revenues	<u>(640,003)</u>	<u>(661,477)</u>
Gross profit	71,992	24,458
Selling, general and administrative expenses	(80,633)	(87,451)
Tax-related fines and penalties	(7,210)	(104,433)
Foreign exchange losses, net	(7,074)	(13,835)
Gain on net monetary position	34,022	74,467
Other operating expenses	(14,518)	(22,368)
Other operating income	4,723	5,148
Profit (loss) from operating activities	<u>1,302</u>	<u>(124,014)</u>
Interest expense	(19,630)	(2,303)
Gain on extinguishment of debts	3,820	94,519
Loss before income taxes	<u>(14,508)</u>	<u>(31,798)</u>
Income tax benefit	2,293	14,457
Net loss from ordinary activities	<u>(12,215)</u>	<u>(17,341)</u>
Extraordinary item – gain on extinguishment of debts under the Settlement Agreement (net of income tax of U.S.\$ 599 and U.S.\$ 38,568)	1,899	122,120
NET (LOSS) PROFIT	<u>(10,316)</u>	<u>104,779</u>

FERROTRADE UK

Overview

On 23 December 1991, Ferrotrade UK was registered under the name Nera & Co. in England as a limited partnership under the Limited Partnerships Act 1907 under Number LP 004162. Ferrotrade UK adopted its current name on 23 August 1999. Marteck International Ltd. is the general partner (the “**General Partner**”) and Ferrotrade Services Limited is the limited partner. Ferrotrade UK, as an English limited partnership, is not a legal entity separate from its partners. The principal place of business of Ferrotrade UK is S.401, 302 Regent Street, London W1R 6HH, United Kingdom.

Object

The object of Ferrotrade UK, as set out in the limited partnership agreement dated 15 January 2002 (the “**Partnership Agreement**”), is to carry on the business of general traders.

Capital

The partnership capital of Ferrotrade UK is U.S.\$ 3 million. The initial capital of Ferrotrade UK as set out in the Partnership Agreement amounted to GBP 2. Ferrotrade Services Limited is entitled to 0.001 per cent. of the profits of Ferrotrade UK only where such profits exceed GBP 10 million. The General Partner is entitled to all other profits of Ferrotrade UK. All the losses of Ferrotrade UK are liabilities of the General Partner.

As of 1 July 2003, the aggregate debt obligations of Ferrotrade UK equalled U.S.\$ 140.9 million (all of this indebtedness being secured and short-term).

General Partner

Marteck International Ltd. was incorporated in the British Virgin Islands as an international business company with limited liability on 5 February 1996.

Limited Partner

Ferrotrade Services Limited is a private limited company incorporated on 11 August 1999 in England.

Subsidiary

East Metals S.A. (“**East Metals**”) is a wholly-owned subsidiary of Ferrotrade UK. East Metals was incorporated under the laws of Switzerland on 4 July 2002. East Metals acts as a service provider to Ferrotrade UK.

History

An Irish company, Ferrotrade Ltd. began trading steel and steel products exported from Russia in 1994. In 1999, Ferrotrade Ltd. transferred its entire business to Ferrotrade UK (an English limited partnership that had just changed its name from Nera & Co), which carried on such trading in steel and steel products exported from Russia. The assets of the Irish company, Ferrotrade Ltd. were transferred to Marteck International Ltd. at the same time.

The following table sets out the 2002 quarterly sales of Ferrotrade UK by producers:

Producer	1 Quarter 2002	2 Quarter 2002	3 Quarter 2002	4 Quarter 2002
	(thousand tonnes)			
NTMK	499	458	518	606
ZapSib	529	515	541	526
KMK	389	324	296	350
Total	1,417	1,297	1,355	1,482

Business

Ferrotrade UK is engaged in the export of steel products from Russia and is the principal entity through which NTMK and ZapSib export their steel products from Russia.

As at the end of 2002, Ferrotrade UK had bought and re-sold more than 95 per cent. of both of NTMK's and ZapSib's exports for that year. Steel products manufactured by NTMK and ZapSib amounted for 76 per cent. of all steel products sold by Ferrotrade UK. The remaining 24 per cent. of Ferrotrade UK sales consisted mainly of products produced by KMK.

Ferrotrade UK purchases steel products from NTMK and ZapSib on its own account. These purchases are financed by letters of credit, trade finance credit lines and loans. Financing provided to Ferrotrade UK to enable it to purchase products is normally secured on the export receivables on such products.

The following table sets out Ferrotrade UK's shipments (by volume) by country in 2002:

China	16.6%
Taiwan	15.4%
Vietnam	14.0%
South Korea	12.1%
Philippines	8.3%
Thailand	7.2%
Hong Kong	6.3%
Iran	3.0%
Saudi Arabia	1.7%
Turkey	1.1%
Other	14.3%

There are 5 principal markets to which Ferrotrade UK sells in the Far East, with annual volumes ranging from 600 thousand to 1 million tonnes. These markets are Taiwan, China, Vietnam, South Korea and the Philippines. Other major customers of Ferrotrade UK are located in the Middle East, specifically Iran. Ferrotrade UK's principal customers include Duferco (Switzerland), VSC Steel (Hong Kong), Tycoons Worldwide (Thailand), Linkful Metals (Hong Kong), Dong Kuk (South Korea) and Southern Natsteel (China).

Ferrotrade UK currently sells mainly semi-finished steel products which are sold on the spot market. Ferrotrade UK aims to increase the share of value-added products, such as beams and rails, in its total sales.

The following table sets out Ferrotrade UK's export product mix in 2002 (by volume):

Semi-finished products, including:	
Square billets	49.6%
Slabs	14.6%
Pig iron	11.6%
Finished products, including:	
Rebars	9.5%
Wire rods	5.6%
Beams	3.9%
Plates	3.9%
Other:	1.3%

An important factor in Ferrotrade UK's overall costs is the cost of transporting the purchased steel products to its customers. Ferrotrade UK is responsible for transportation costs from the designated off-take location (Smychka and Novokuznetsk Severniy with respect to NTMK and ZapSib, respectively) to the relevant port or transport transfer location. As of 31 December 2002, 36 per cent. of steel and steel products were shipped from Vladivostok Sea Port and 34 per cent. from Nakhodka Sea Port.

Ferrotrade UK's transportation costs incurred in the third and fourth quarters of 2001 and each of the four quarters in 2002 were stable. The weighted average transportation costs in the fourth quarter of 2002 were U.S.\$ 35.8 per tonne and U.S.\$ 36.9 per tonne with respect to the products purchased from NTMK and ZapSib, respectively. The tariffs for transporting products from NTMK and ZapSib to Nakhodka Sea Port are the same, notwithstanding the fact that NTMK is located much further away.

Management

Ferrotrade UK is managed by the General Partner.

Auditors

Ernst & Young (CIS) Limited are Ferrotrade UK's auditors.

Financial Year

Ferrotrade UK's financial year corresponds to the calendar year.

Capitalisation of Ferrotrade UK

The following table sets out the capitalisation of Ferrotrade UK as at 31 March 2003 and is derived from the management estimations of Ferrotrade UK balance sheet as at 31 March 2003. There has been no material change in the liabilities and partnership funds of Ferrotrade UK since 31 March 2003.

CAPITALISATION OF FERROTRADE UK

	As at 31 March 2003
	(unaudited) (U.S.\$ thousands)
Total current liabilities	204,867
Partnership funds:	
Partnership capital	3,000
Unrealised gain on debts of ZapSib	34,049
Accumulated profits	203,885
Total partnership funds	240,934
TOTAL CAPITALISATION	445,801

Summary Financial Information

The following tables set out in summary form balance sheet and income statement information relating to Ferrotrade UK. Such information is derived from the audited consolidated financial statements of Ferrotrade UK as at and for the years ended 31 December 2002 and 31 December 2001 prepared in accordance with IFRS. Such financial statements, together with the report of Ernst & Young and the accompanying notes, appear elsewhere in this Offering Circular. The financial information presented below should be read in conjunction with such financial statements, reports and the notes thereto.

SUMMARY BALANCE SHEETS

	31 December 2002	31 December 2001
	(U.S.\$ thousands)	
ASSETS		
Total non-current assets	19,322	45,131
Current assets		
Goods in transit	124,220	76,594
Trade accounts receivable, net	76,700	98,775
Cash	298	8
Other current assets	135,421	46,777
	<u>336,639</u>	<u>222,154</u>
TOTAL ASSETS	<u>355,961</u>	<u>267,285</u>
PARTNERSHIP FUNDS AND LIABILITIES		
Total partnership funds	152,322	113,303
Total current liabilities	203,639	153,982
TOTAL PARTNERSHIP FUNDS AND LIABILITIES	<u>355,961</u>	<u>267,285</u>

SUMMARY INCOME STATEMENTS

	Year ended 31 December 2002	2001
	(U.S.\$ thousands)	
Sales	1,024,630	982,662
Cost of sales	(740,752)	(767,133)
Gross profit	283,878	215,529
Selling, general and administrative expenses	(98,272)	(102,276)
Foreign exchange gain (loss), net	571	336
Other operating expenses	(148)	(5,647)
Other operating income	—	856
Profit from operations	186,029	108,798
Interest expense	(7,085)	(6,796)
Transfer of assets to the government of Russia at no charge	—	(4,328)
Interest income	1,026	—
NET PROFIT	<u>179,970</u>	<u>97,674</u>

FERROTRADE GIBRALTAR

Incorporation and Status

Ferrotrade Gibraltar was incorporated on 2 May 2003 as a limited company for an unlimited period of time under the laws of Gibraltar. The registered office of Ferrotrade Gibraltar is 10/8 International Commercial Centre, Casemates Square, Gibraltar. Ferrotrade Gibraltar is registered in the Registrar of the Companies under number 88 000. Ferrotrade Gibraltar has no subsidiaries.

Objects

The objects of Ferrotrade Gibraltar, as set out in Article three of its Articles of Association are, *inter alia*:

- (a) to carry on the business of general traders and to transact and do all matters and things incidental thereto and in particular, but without limitation to engage in the export of steel and refractory products and products of every description (whether for its own account or as agent or on commission or otherwise) and to finance the purchase of such products by letters of credit, trade finance credit lines and/or loans and to secure the provision of finance on the undertaking or on all or any of the assets of Ferrotrade Gibraltar including the export receivables on such products; and
- (b) to guarantee, whether or not the Ferrotrade Gibraltar receives any consideration or advantage (direct or indirect) and whether by personal obligation or covenant, any liabilities of and the performance of any obligations or commitments and the payment of any monies (whether principal, interest, premiums or without limitation otherwise) by any person, firm, unincorporated body or company, including but not limited to any company which is for the time being a holding company or a subsidiary of Ferrotrade Gibraltar or another subsidiary of any such holding company or otherwise associated with or affiliated to Ferrotrade Gibraltar.

Share Capital

Ferrotrade Gibraltar's authorised and issued share capital is GBP 2,000 represented by 200 Class A shares with a nominal value of GBP 1 each and 1,800 Class B shares with a nominal value of GBP 1 each. 200 Class A shares are held by Mastercroft Limited and 1,800 Class B shares with a nominal value of GBP 1 each are held by Jasper Investments Limited.

The Class A ordinary shares each carry one vote on all resolutions of Ferrotrade Gibraltar. In addition, the holders of the Class A shares are entitled to elect one director.

The Class B ordinary shares each carry one vote limited only to the following matters:

- the election of one director and the removal of that director;
- the liquidation of Ferrotrade Gibraltar;
- any change to the nature of the business of Ferrotrade Gibraltar or any corporate reorganisation or change of corporate status of Ferrotrade Gibraltar;
- the issue and/or allotment of new Class B ordinary shares in Ferrotrade Gibraltar;
- the reduction of the Class B ordinary shares class of the share capital of Ferrotrade Gibraltar; and
- any proposed alteration or abrogation of the rights and privileges attaching to the Class B ordinary shares.

Migration of Ferrotrade UK's business to Ferrotrade Gibraltar

Evraz Group is in the process of arranging the migration and transfer of the business and operations of Ferrotrade UK to Ferrotrade Gibraltar. The migration and transfer of the business, operations and assets of Ferrotrade UK to Ferrotrade Gibraltar is expected to be completed in the first quarter of 2004. The principal factors behind the migration include: (i) the aim to optimise the tax benefits and structure of this part of Evraz Group's activities; and (ii) the aim to achieve greater efficiency in running Ferrotrade

Gibraltar's business by having the directors of Ferrotrade Gibraltar manage the business, in contrast to the current position where the General Partner, based in the British Virgin Islands, runs Ferrotrade UK's business.

Business

Upon the completion of the transfer of Ferrotrade UK's business to Ferrotrade Gibraltar, Ferrotrade Gibraltar will operate a business as described above under Ferrotrade UK

Ferrotrade Gibraltar will purchase products from NTMK, ZapSib and the new entity to be established following the liquidation of KMK, and East Metals will act as its agent in selling the products to customers. East Metals will receive payments from Ferrotrade Gibraltar on a commissions basis which is expected to amount to 2 per cent of aggregate sales. Ferrotrade Gibraltar will instruct East Metals as to limits on sale prices and available quantities of the relevant products.

Gibraltar

Under the 1969 Gibraltar Constitution Order, the United Kingdom has responsibility for Gibraltar's defence, internal security and external affairs whilst the Gibraltar Government has, both by definition and convention, responsibility for all domestic, including fiscal, matters. Because of this constitutional relationship with the United Kingdom, the application of Community Law in Gibraltar is legislated by Gibraltar's House of Assembly.

Gibraltar entered the European Economic Community at the time of the accession of the United Kingdom in 1973. It is among the European territories for whose external relations a Member State is responsible under Article 227(4) of the Treaty. Article 28 of the Act concerning the Conditions of Accession and the Adjustments to the Treaties (which concerns the accession of the United Kingdom, Denmark and Ireland) provides that there shall be certain exceptions from Community measures with respect to Gibraltar; none of the Common Customs Tariff, the Common Agricultural and Fisheries Policies nor the requirement to introduce Value Added Tax applies to Gibraltar. Subject to these exceptions, all legislation adopted by the Community since 1973 has been applicable to Gibraltar except where Gibraltar has been excluded.

The United Kingdom and Spain periodically discuss Gibraltar on the understanding provided for in the first preamble to the Gibraltar Constitution Order 1969 that the United Kingdom will never enter into arrangements under which the sovereignty of Gibraltar would pass to Spain against the freely and democratically expressed wishes of the people of Gibraltar. It should be noted therefore that the Government of Spain has not conceded its claim to sovereignty over Gibraltar. There can be no assurance as to the outcome of any future discussions on the question of Gibraltar's sovereignty, nor of how any change of sovereignty would affect the entities incorporated or operating in Gibraltar.

Directors

The directors of Ferrotrade Gibraltar are Charles Galliano and Iain Currie. The directors are both employed by Church Lane Trustees Limited, a licenced fiduciary and provider of financial services. Their business address is at 9/13 International Commercial Centre, Casemates Square, Gibraltar.

Auditors

Due to its recent incorporation of Ferrotrade Gibraltar, its auditors are yet to be appointed.

Financial Year

Ferrotrade Gibraltar's financial year corresponds to the calendar year. Since the date of its incorporation, Ferrotrade Gibraltar has not published any audited financial statements.

Capitalisation and Indebtedness

The following table sets out the capitalisation and indebtedness of Ferrotrade Gibraltar as at 2 May 2003. There has been no material change in the capitalisation or indebtedness of Ferrotrade Gibraltar since 2 May 2003.

	As at 2 May, 2003 (in U.S.\$)
Short-term debt	—
Long-term debt	—
Shareholders' equity	
Share capital	3,207 ⁽¹⁾
Issued capital	—
Reserves	—
Retained earning	—
Total Shareholders' equity	<u>3,207</u>
Total capitalisation	<u><u>3,207</u></u>

- (1) Ferrotrade Gibraltar's share capital of GBP 2,000 has been converted into U.S. dollars solely for the convenience of the reader. The conversion was made at a rate of GBP 1 = U.S.\$ 1.6036, which was the approximate GBP/U.S.\$ rate of exchange on 2 May 2003.

MASTERCROFT

Incorporation and Status

Mastercroat was incorporated on 31 December 2002 as a limited company for an unlimited period of time under the laws of Cyprus. The registered office of Mastercroat is Julia House, 3 Themistocles, CY-1066 Nicosia, Cyprus. Mastercroat is registered in the Republic of Cyprus under number 135421.

Objects

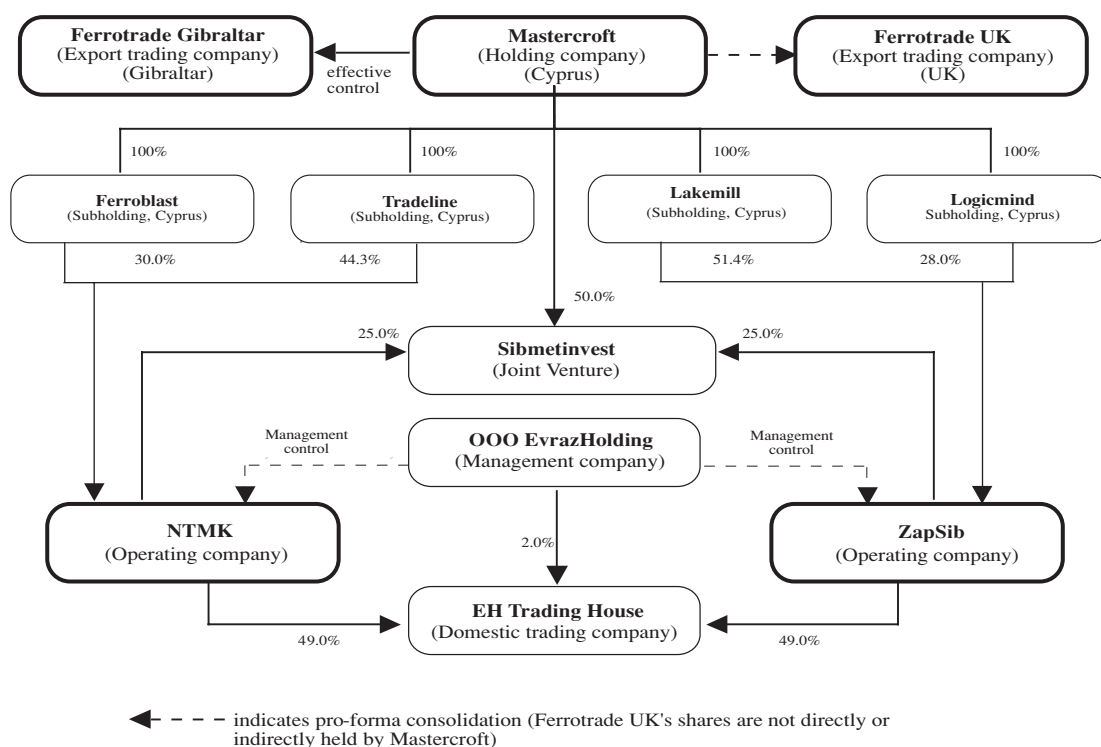
The objects of Mastercroat, as set out in its memorandum of association, are to act as an investment company.

Share Capital

Mastercroat's authorised and issued share capital is U.S.\$ 100,019,666, represented by 100,019,666 shares with a nominal value of U.S.\$ 1 each. Mastercroat Limited is a wholly-owned subsidiary of Crosland Limited (see above under "Business – Reorganisation and Structure of the Evraz Group").

Organisation and Subsidiaries

Mastercroat is the holding company of Evraz Group. The principal organisational structure of Evraz Group is outlined in the chart below:



Business

Mastercroat is the holding company of Evraz Group.

Directors

The directors of Mastercroat Limited are Charambos Michaelides (chartered accountant) and Panayiota Papademetriou (private employee). Each of the directors has his business address at City House, 19 Themistocles Dervis, 2nd Floor, CY-1066 Nicosia, Cyprus.

Auditors

Ernst & Young (CIS) Limited are Mastercraft's auditors.

Financial Year

Mastercraft's financial year corresponds to the calendar year.

Capitalisation

The following table sets out the pro-forma consolidated capitalisation of Mastercraft as at 31 March 2003 and is derived from the pro forma management estimation of the pro-forma consolidated balance sheet of Mastercraft as at 31 March 2003. There has been no material change in the pro-forma capitalisation or pro-forma indebtedness of Mastercraft since 31 March 2003. See Notes 1 and 2 to pro forma consolidated financial information of Mastercraft included in this Offering Circular for the explanation of the principles of consolidation and the assumptions underlying the pro forma adjustment.

PRO-FORMA CONSOLIDATED CAPITALISATION

	As at 31 March 2003 (unaudited) (U.S.\$ thousands)
Issued capital	74,104
Share premium	2,846
Accumulated profits	475,028
Total equity	551,978
Minority Interest	145,132
Long-term loans	34,823
Liabilities under the Settlement Agreement	49,508
Promissory notes payable	5,804
Payables to related parties	3,632
Restructured taxes payable	24,634
Finance lease obligations	12,069
Deferred income tax liabilities	155,964
Other long-term liabilities/provisions	40,456
Total non-current liabilities	326,890
Total current liabilities	516,439
TOTAL CAPITALISATION	1,540,439

The following tables set out in summary form pro forma consolidated balance sheet and pro forma consolidated income statement information of Mastercraft. Such information is derived from the pro forma consolidated financial information of Mastercraft as at and for the years ended 31 December 2002 and 31 December 2001. Such pro forma consolidated financial information, together with the examination report of Ernst & Young (CIS) Limited and the accompanying notes, appear elsewhere in this Offering Circular. The financial information presented below should be read in conjunction with such financial statements, reports and the notes thereto.

PRO FORMA CONSOLIDATED SUMMARY BALANCE SHEETS

	31 December 2002	31 December 2001
	(unaudited)	(unaudited)
	(U.S.\$ thousands)	
ASSETS		
Non-current assets		
Property, plant and equipment, net	985,148	1,082,485
Negative goodwill	(136,706)	(168,910)
Other non-current assets	71,909	83,080
	<u>920,351</u>	<u>996,655</u>
Current assets		
Inventories	235,570	211,578
Trade and other receivables, net	107,438	134,915
Cash and cash equivalents	15,748	7,660
Other current assets	166,341	140,944
	<u>525,097</u>	<u>495,097</u>
TOTAL ASSETS	<u>1,445,448</u>	<u>1,491,752</u>
EQUITY AND LIABILITIES		
Total equity	440,799	324,100
Minority interest	138,942	137,977
Total non-current liabilities	321,740	405,399
Total current liabilities	543,967	624,276
TOTAL EQUITY AND LIABILITIES	<u>1,445,448</u>	<u>1,491,752</u>

PRO FORMA CONSOLIDATED SUMMARY INCOME STATEMENTS

	Year ended 31 31 December	
	2002	2001
	(unaudited) (U.S.\$ thousands)	(unaudited)
Revenues	2,064,150	2,083,398
Cost of revenues	(1,604,821)	(1,816,319)
Amortisation of negative goodwill	32,204	20,044
Gross profit	491,533	287,123
Selling, general and administrative expenses	(241,658)	(257,158)
Tax-related fines and penalties	(15,396)	(110,501)
Foreign exchange losses, net	(14,022)	(24,931)
Gain on net monetary position	82,990	172,951
Other operating expenses	(46,026)	(30,413)
Profit from operating activities	257,421	37,071
Interest expense	(62,284)	(31,957)
Interest income	1,026	-
Gain on extinguishment of debts	46,787	138,190
Profit before income taxes	242,950	143,304
Income tax (expense) benefit	(9,161)	41,550
Minority interest	(573)	(11,786)
Net profit from ordinary activities	233,216	173,068
Extraordinary item – gain on extinguishment of debts under the Settlement Agreement (net of income tax of U.S.\$ 599 and U.S.\$ 38,568, respectively)	1,899	106,709
Minority interest in extraordinary item	(392)	(25,181)
PRO FORMA NET PROFIT	234,723	254,596

SUBSCRIPTION AND SALE

ING Bank N.V., London Branch, Joint Stock Commercial Bank Moscow Business World and Moscow Narodny Bank Limited (the “**Managers**”) have, pursuant to a Subscription Deed between the Issuer, NTMK and the Managers (the “**NTMK Subscription Deed**”), the Subscription Deed between the Issuer, ZapSib and the Managers (the “**ZapSib Subscription Deed**”) and a Subscription Agreement between the Issuer, Ferrotrade UK, Ferrotrade Gibraltar, Mastercroft and the Managers (together with the NTMK Subscription Deed and the ZapSib Subscription Deed, the “**Subscription Agreement**”) each dated 24 September 2003, jointly and severally agreed to subscribe or procure subscribers for the Notes at the issue price of 99.357 per cent. of the principal amount of Notes, less a combined management and underwriting commission of 1.335 per cent. of the principal amount of the Notes. The Issuer will also reimburse the Managers in respect of certain of their expenses and the Issuer and each Guarantor have agreed to indemnify the Managers against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances set out therein prior to payment of the Issuer.

The Managers and their affiliates have from time to time performed and in the future may perform various financial advisory, commercial banking and investment banking services for members of Evraz Group and Crosland Group and affiliated companies, for which they have received and/or will receive fees and expenses.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

United Kingdom

Each Manager has represented and agreed that, except as permitted by the Subscription Agreement:

- (a) it has not offered or sold and, prior to the expiry of the period of six months from the Closing Date, will not offer or sell any Notes to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995 (as amended);

- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and
- (c) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or any of the Guarantors.

Russian Federation

The Notes shall not be offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in Russia or to any person located within the territory of Russia unless to the extent permitted by Russian law.

Luxembourg

The Notes are not being offered to the public in Luxembourg and each Manager has represented, warranted and agreed that it will not offer the Notes or cause the offering of the Notes to the public in Luxembourg, unless all the relevant legal and regulatory requirements have been complied with. In particular, this offer has not been and will not be announced to the public and offering material will not be made available to the public. A listing of the Notes on the Luxembourg Stock Exchange does not necessarily imply that a public offering in Luxembourg has been authorised.

Cyprus

Each Manager has represented and agreed:

- (a) that in relation to the Notes, it will not provide from within Cyprus all or any “Investment Services” and “Non-Core Services” (as such terms are defined in the Investment Firms Law, Act No.148 (I) of 2002, as amended (the “**IFL**”)) or otherwise provide Investment Services and Non-Core Services from outside Cyprus to residents or persons domiciled in Cyprus or otherwise conclude in Cyprus any transaction relating to such Investment Services and Non-Core Services in contravention of the IFL and the regulations made pursuant to or in relation thereto; and
- (b) that it will not issue an offer or invitation to subscribe or purchase or otherwise procure subscribers or purchasers for the Notes within or in Cyprus except in compliance with the provisions of the Invitation to the Public to Invest Law, Act No. 149(I) of 2002 and the Companies Law, Cap 113 of the Laws of Cyprus as amended.

Without prejudice to the above, the Notes shall not be advertised, offered, transferred or sold as part of their initial distribution or at any time thereafter to or for the benefit of any persons (including legal and non-legal entities) resident, incorporated, established, domiciled or having their usual residence in Cyprus or to any such person located within the territory of Cyprus except to the extent permitted by and in accordance with Cyprus law and regulations.

Gibraltar

Each Manager has represented and agreed that:

- (a) none of the Notes will be offered or sold to persons in Gibraltar except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in Gibraltar within the meaning of

the Prospectus Ordinance and Companies Ordinance of Gibraltar and that it is not purchasing any Notes in connection with a public offering in Gibraltar;

- (b) all applicable provisions of the Financial Services Ordinance and rules and regulations made thereunder will be complied with anything done in relation to the Notes in, from or otherwise involving Gibraltar. Financial Services (Conduct of Business) Regulations 1991 provides, inter alia, that subject to certain exceptions no person other than a licensee shall issue or cause to be issued an investment advertisement or an advertisement in connection with financial services business; and
- (c) none of the proceeds of the Notes will be accepted in Gibraltar.

Since none of the Notes will be offered to the public in Gibraltar, a copy of this Offering Circular is not required to be sent for registration to the Registrar of Companies in Gibraltar.

Austria

Each Manager has represented and agreed that it will only offer the Notes in the Republic of Austria in compliance with (1) the provisions of the Austrian Capital Markets Act 1991 as amended, and (2) any other laws applicable in the Republic of Austria governing the offer and sale of Notes in the Republic of Austria.

Belgium

The Offering Circular and related documents are not approved in Belgium and are not intended to constitute, and may not be construed as, a public offering in the Kingdom of Belgium. Accordingly, these documents may not be distributed or circulated to, and the Notes may not be offered or sold to, any member of the public in the Kingdom of Belgium other than institutional investors listed in Article 3,2° of the Royal Decree of 7 July 1999 (the “**Royal Decree**”), acting for their own account, or investors subscribing for a minimum amount of EUR 250,000 each pursuant to article 3,1° of the Royal Decree, and, provided such investor qualifies as a consumer within the meaning of Article 1.7 of the law of 14 July 1991 on consumer protection and trade practices (the “**Consumer Protection Law**”), such offer or sale is made in compliance with the provisions of the Consumer Protection Law and its implementing legislation.

Republic of France

Each of the Managers, the Issuer and the Guarantors has represented and agreed that it has not offered or sold, nor will it offer or sell, directly or indirectly, Notes to the public in the Republic of France, and has not distributed or caused to be distributed and will not distribute or cause to be distributed to the public in the Republic of France, this Offering Circular or any other offering material relating to the Notes and that such offers, sales and distributions have been and will only be made in the Republic of France to qualified investors (*investisseurs qualifiés*) acting for their own account, as defined in, and in accordance with, Articles L. 411-1 and L. 411-2 of the French *Code Monétaire et Financier* and décret no. 98-880 dated 1 October 1998.

Notes may only be issued, directly or indirectly, to the public in the Republic of France in accordance with Articles L. 411-1 and L. 411-2 of the French *Code Monétaire et Financier* and décret no. 98-880 dated 1 October 1998.

Federal Republic of Germany

The Notes have not been and will not be publicly offered in the Federal Republic of Germany and, accordingly, no securities sales prospectus (*Verkaufsprospekt*) for a public offering of the Notes in the Federal Republic of Germany in accordance with the Securities Sales Prospectus Act of 9 September 1998, as amended (*Wertpapier-Verkaufsprospektgesetz*, the “**Prospectus Act**”), has been or will be published or circulated in the Federal Republic of Germany. The Notes will only be offered or sold in the Federal Republic of Germany to persons who purchase and sell securities as part of their profession or business

either for their own account or for the account of a third person pursuant to §2 No. 1 of the Prospectus Act and in accordance with the provisions of the Prospectus Act and any other laws applicable in Germany governing the issue, sale and offering of securities. Any resale of the Notes in the Federal Republic of Germany may only be made in accordance with the provisions of the Prospectus Act and any other laws applicable in the Federal Republic of Germany governing the sale and offering of securities.

Hong Kong

Each Manager represents and agrees that:

- (a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to persons whose ordinary business it is to buy or sell shares or debentures (whether as principal or agent) or (ii) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong; and
- (b) it has not issued or has in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue any advertisement, invitation or document relating to the Notes, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” within the meaning of the Securities and Futures Ordinance (Cap. 571) and any rules made thereunder.

The Republic of Italy

Each Manager has represented and agreed that it has not offered any Notes or distributed copies of this Offering Circular or any other document relating to the Notes in the Republic of Italy and will not offer, sell or deliver any notes or distribute copies of this Offering Circular or any other document relating to the Notes in the Republic of Italy other than to professional investors (*operatori qualificati*), as defined in Article 31, second paragraph, of CONSOB Regulation No. 11522 of 1 July 1998, as amended. Any offer, sale or delivery of the Notes or distribution of copies of this Offering Circular or any other document relating to the Notes in the Republic of Italy must be (a) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Legislative Decree No. 58 of 24 February 1998 and Legislative Decree No. 385 of 1 September 1993 (the “**Banking Act**”); (b) in compliance with Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy; and (c) in compliance with any other applicable laws and regulations.

In any case, the Notes shall not be placed, sold or offered either in the primary or secondary market to individuals residing in Italy.

Japan

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan (the “**Securities and Exchange Law**”) and each Manager has agreed that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

The Netherlands

Each Manager has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell in the Netherlands any Notes other than to persons who trade or invest in securities in the conduct of a profession or business (which include banks, stockbrokers, insurance

companies, investment undertakings, pension funds, other institutional investors and finance companies and treasury departments of large enterprises).

Singapore

This Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act (Cap.289) (the “**Securities and Futures Act**”) and the Notes to be offered by the Issuer are offered pursuant to exemptions invoked under Section 274 and/or Section 275 of the Securities and Futures Act. Accordingly, each Manager has represented and agreed that such Notes may not be offered or sold or made the subject of an invitation for subscription or purchase nor may this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of such Notes be circulated or distributed, whether directly or indirectly, to the public or any member of the public in Singapore other than (a) to an institutional investor or other person specified in Section 274 of the Securities and Futures Act, (b) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the Securities and Futures Act or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Spain

The Notes may not be offered or sold in Spain by means of a public offer as defined and construed by Spanish law but may be offered or sold in Spain in compliance with the requirements of Law 24/1998, of 28 July (as amended by Law 37/1998, of 16 November), on the Spanish Securities Market and the Royal Decree 291/1992, of 27 March (as amended by the Royal Decree 2590/1998, of 7 December), on issues and public offers for the sale of securities.

Switzerland

No offers or sales have been or will be made, directly or indirectly, in Switzerland, by means of any document, any Swiss franc denominated or Swiss franc related Notes other than in compliance with the guidelines of the Swiss National Bank regarding the issue of Swiss franc denominated or Swiss franc related debt securities; such guidelines currently require the involvement of a bank domiciled in Switzerland that is regulated under the Federal Act on Banks of 1934 (as amended) or a securities manager domiciled in Switzerland that is regulated under the Swiss Stock Exchange Act of 1997, acting as lead manager of the Swiss franc or Swiss franc related issue.

General

No action has been taken by the Issuer, any of the Guarantors or any of the Managers that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

TAXATION

Prospective purchasers of the Notes are advised to consult their own tax advisers as to the consequences of a purchase of Notes, under the tax laws of the country of which they are residents including but not limited to, the consequences of receipt of interest and sale or redemption of the Notes. The following is a general description of certain tax laws relating to the Notes as in effect on the date hereof and does not purport to be a comprehensive discussion of the tax treatment of the Notes.

The Russian Federation

General

The following general summary of the principal Russian tax consequences relevant to purchase, ownership, and disposal of the Notes and the payment of interest pursuant to the Notes is based upon the tax laws of the Russian Federation and the interpretations thereof by the Russian Ministry of Taxes and Levies as in effect on the date of this Offering Circular and is subject to change that may come into effect after that date. The summary does not seek to address the applicability of, and procedures in relation to, taxes levied by regions, municipalities or other non-federal authorities of Russia, nor does the summary seek to address the availability of any double tax treaty relief in respect of the Notes, or practical difficulties involved in obtaining such double tax treaty relief. Prospective investors should consult their own tax advisers regarding the tax consequences of investing in the Notes in their own particular circumstances. No representation with respect to the Russian tax consequences to any particular holder is made hereby.

Many aspects of Russian tax law are subject to significant uncertainty. Moreover, the provisions of the Russian tax law applicable to financial instruments may be subject to more rapid and unpredictable change and inconsistency than in jurisdictions with more developed financial markets or more developed taxation systems.

For purposes of this summary, a “non-resident holder” means a physical person actually present in Russia for an aggregate period of less than 183 days in a given calendar year (not counting days of arrival into Russia but counting days of departure from Russia) or a legal person or organisation in each case not organised under Russian law which holds and disposes of the Notes other than through a permanent establishment in Russia.

Taxation of Gains from Disposal of the Notes

Russian Resident Individuals and Legal Persons

A holder of the Notes who is a physical or legal person resident in Russia for tax purposes is subject to all applicable Russian taxes.

Non-Resident Individuals

Non-resident Noteholders who are individuals will not be subject to Russian taxation on income or capital gains if disposal of their holdings takes place outside the Russian Federation. If the Notes are disposed of to a resident of the Russian Federation and payment is made within or from the Russian Federation, the proceeds from such disposal may be recognised for personal income tax purposes as income from a source within Russia. If so, the payer, if it is a Russian entity, individual entrepreneur, a Russian permanent establishment or a registered representative office of a foreign organisation, is required to withhold tax at the rate of 30 per cent. from the gross proceeds less available cost deductions (which includes the purchase price of the Notes).

There is a risk that the taxable base may be affected by changes in the exchange rates between the currency of acquisition of the Notes, the currency of sale and the Rouble.

If the payer is an individual but not an entrepreneur, it is not required to withhold income tax. In this case, income tax is paid by the Noteholder directly. The withholding (income) tax may be reduced or

eliminated pursuant to the provisions of any applicable double tax treaty. However, it is not certain that an advance relief will be available and obtaining a refund can be extremely difficult, if not impossible.

Non-Resident Legal Persons and Organisations

Non-resident Noteholders which are legal persons or organisations generally should not be subject to any Russian withholding (income) taxes in respect of any gain realized on the sale, exchange, or other disposition of Notes.

However, there is some residual uncertainty regarding the treatment of any part of such gain which is attributable to accrued interest on the Notes when the payment is made by a Russian legal entity or by a permanent establishment of a foreign legal entity. Accrued interest may be distinguished from the total gain and taxed at a rate of 20 per cent. The separate taxation of the interest accrued may create a tax liability in relation to interest even in a situation of a capital loss on the disposal of the Notes. Withholding tax on interest may be reduced or eliminated in accordance with the provisions of any applicable double tax treaty. However, there is no assurance that advance treaty relief would be granted and obtaining a refund can be extremely difficult, if not impossible. Non-resident holders that are legal persons should consult their own tax advisors with respect to this possibility.

Payments under the Guarantee

Russian tax legislation in respect of withholding tax on payments to non-residents under the Guarantee is complex and unclear.

Non-Resident Legal Persons and Organisations

In general, payments under the guarantee to a non-resident legal entity should not be subject to Russian withholding tax to the extent that such payments do not represent payments of interest on the Notes. Payments representing interest on the Notes made by NTMK and/or ZapSib under the guarantee to a non-resident legal entity are likely to be characterised as Russian source income subject to withholding tax. If the Russian tax authorities took such a position, those payments would be subject to 20 per cent. withholding tax at source. This tax may be reduced under any applicable double tax treaty.

Non-Resident Individuals

If payments under the guarantee are made within or from the Russian Federation, such payments may be recognised for personal income tax purposes as income from a source within Russia. If so, the payments are subject to Russian withholding tax at the rate of 30 per cent. from the gross proceeds less available cost deductions (which includes the purchase price of the Notes). The withholding (income) tax may be reduced or eliminated pursuant to the provisions of any applicable double tax treaty.

Availability of Double Tax Treaty Relief

Based on professional advice it has received, the Issuer believes that payments under the Deeds of Guarantee made by NTMK and/or ZapSib in favour of the Noteholders are unlikely to benefit from provisions of any applicable double tax treaty. Therefore there is a significant risk that the part of the guarantee payments related to interest on the Notes and even potentially the whole amount of the payments may be subject to Russian withholding tax at the rate of 20 per cent. where the Noteholders are legal entities and 30 per cent. if the Noteholders are individuals.

VAT on Payments under the Guarantee

Any payments under the Guarantee should not be subject to VAT.

Grand Duchy of Luxembourg

General

The following is a general summary of certain Luxembourg tax considerations regarding the purchase, ownership and disposition of the notes and based upon the tax laws of Luxembourg which were in effect on the date of this offering memorandum and are subject to any change that may come into effect after that date.

Taxation of a Noteholder's Income

Under the existing laws of Luxembourg:

- (a) All payments of interest (or coupon) and principal by the issuer under the notes can be made free of withholding, or deduction for, or on account of any taxes of whatever nature imposed, levied, withheld, or assessed by Luxembourg or any political subdivision or taxing authority thereof or therein to the extent that such interest is at arm's length and is not profit participating;
- (b) A holder of a note who derives income from a note or who realizes a gain on the disposal or redemption of a note will not be subject to Luxembourg taxation on income or capital gains unless:
 - The holder is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or
 - Such income or gain is attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in Luxembourg;
- (c) Luxembourg net wealth tax will not be levied on a holder of a note unless:
 - The holder is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or
 - Such a note is attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in Luxembourg;
- (d) Luxembourg gift or inheritance taxes will not be levied on the transfer of a note by way of gift by, or on the death of, a holder unless:
 - The holder is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or
 - The transfer is construed as an inheritance or as a gift made by or on behalf of a person who, at the time of death or gift, is, or is deemed to be, resident in Luxembourg for the purpose of the relevant provisions; or
 - Such a note is attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in Luxembourg; or
 - The gift is registered in Luxembourg, which is not mandatory.
- (e) There is no Luxembourg registration tax, capital tax, stamp duty or any other similar tax or duty (other than nominal court fees and contributions for the registration with the Chamber of Commerce) payable in Luxembourg in respect of or in connection with the execution, delivery and enforcement by legal proceedings (including any foreign judgment in the courts of Luxembourg) of the notes or the performance of the Issuer's obligations under the notes, except in the case of court proceedings in a Luxembourg court or the presentation of the documents relative to the notes issue to an "autorité constituée," such court or "autorité constituée" may require registration thereof, in which case the documents will be subject to registration duties

depending on the nature of the documents and, in particular, a loan will be subject to an ad valorem registration duty of 0.24 per cent. calculated on the amounts mentioned therein;

- (f) There is no Luxembourg VAT payable in respect of payments in consideration for the issue of the notes or in respect of the payment of interest or principal under the notes or the transfer of a note, bearing in mind that Luxembourg VAT may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg VAT purposes such services are rendered, or are deemed to be rendered, in Luxembourg and an exemption from VAT does not apply with respect to such services; and
- (g) A holder of a note will not become resident, or is not deemed to be resident, in Luxembourg by reason only of the holding of a note or the execution, performance, delivery and/or enforcement of the note.

Proposed EU Savings Directive

On 3 June 2003, the European Council of Economics and Finance Ministers agreed on proposals under which Member States will be required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State, except that, for a transitional period, Belgium, Luxembourg and Austria will instead be required to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). The proposals are anticipated to take effect from 1 January 2005.

Cyprus

Payment under the Guarantee by Mastercraft Limited

The following is tax consequences, from a Cyprus tax perspective, of guarantee payments made by Mastercraft Limited on the Notes issued by EvrazSecurities S.A.

Taxation of payments made under the Guarantee will depend on nature of the payment (interest or principal of the Notes) and the status of the Noteholders.

Capital

Under the new Cyprus tax legislation, which is effective as from 1 January 2003, repayment of capital is not subject to withholding tax in Cyprus.

Interest

Individuals Residents

An individual is considered a tax-resident of Cyprus if he/she is resident of Cyprus for more than 183 days in a year.

Legal Entities Residents

A company is a tax resident of Cyprus if it is managed and controlled in Cyprus. The term “managed and controlled in Cyprus” is relatively new and there is no clear guidance how they will be applied.

Taxation

Interest payments made to residents of Cyprus may be subject to withholding tax in Cyprus at the rate of 10 per cent., depending on whether such interest is characterised as “active” or “passive” income.

If “active”, the interest received is not liable to any withholding taxes. Interest earned is classified as “active” if it is derived from the company’s ordinary course of business (e.g. banks) or if it is derived from

activities, which are closely connected with the ordinary carrying on of the business (e.g. construction and insurance companies).

If “passive”, then the interest income is subject to withholding tax at 10 per cent.

Payments to International Business Companies (“IBC”) that have opted to be taxed under the transitional rules in Cyprus will not be liable to this withholding tax for any interest received until 31 December 2005. As from 1 January 2006, these companies will be subject to the same rules as described above.

Non-residents

Interest payments made to non-residents of Cyprus are not subject to any withholding taxes in Cyprus.

British Virgin Islands

Payment under the Guarantee by Marteck International Ltd.

Marteck International Ltd. will be exempt from all income taxes in the British Virgin Islands however generated or realised, and is not required to be registered with any tax authority in the British Virgin Islands or to have any registration number for tax purposes. Marteck International Ltd. will therefore not be liable for the payment of any withholding or other taxes in the British Virgin Islands in respect of payments made by Marteck International Ltd., including but not limited to any payments made by Marteck International Ltd. under guarantee as a general partner of Ferrotrade UK.

There are no capital gains taxes, capital transfer taxes, estate duties, inheritance duties or value added taxes in the British Virgin Islands.

The statements made in this Offering Memorandum are not intended to be a complete analysis of the tax consequences relating to an investor participating in the Eurobonds issue. As the particular circumstances of each investor may differ, prospective investors should obtain independent advice on the tax issues associated with an investment in the Eurobonds issue.

Marteck International Ltd. and its Directors can in no way be held responsible for the personal tax liabilities of any shareholder or investor as a consequence of applying for bonds, or, investing in the Eurobonds issue.

United Kingdom

Payment under the Guarantee by Ferrotrade & Co.

This section provides an overview of the taxation consequences in the United Kingdom of a payment being made under the terms of the Guarantee by Ferrotrade UK.

Withholding Tax

In principle, where annual interest payments are made by a company in the United Kingdom, the person by or through whom such payments are made is required to deduct United Kingdom income tax from such payments at a rate of 20 per cent. For these purposes, annual interest is interest payable on a money debt where the obligation created by that debt is capable of exceeding one year.

There are certain exemptions to this requirement to deduct income tax. These exemptions include interest paid on quoted Eurobonds, which are defined as any security which is issued by a company, is listed on a recognised stock exchange (which includes the Luxembourg Stock Exchange) and carries a right to interest.

Where a payment is made under a guarantee of a loan, United Kingdom case law provides that the payment is deemed to have the same characteristics as the payment on the loan in satisfaction of which the payment under the guarantee is made. Accordingly, where a payment is made under a guarantee in

satisfaction of interest, the payment would be deemed to be a payment of interest. Accordingly, the guarantee payment could, depending on the particular circumstances of the loan, be subject to deduction of United Kingdom income tax (although, in practice, it is unusual to see guarantee payments made subject to deduction of United Kingdom income tax). However, it would be iniquitous for there to be a requirement to deduct income tax from a guarantee payment in respect of a loan in satisfaction of interest when no such requirement exists in relation to the interest payments on the loan.

Therefore, in principle, there could be a requirement to deduct United Kingdom income tax from payments made under the Guarantee which are attributable to Limited Partner and are made in satisfaction of interest. However, since there would be no requirement to deduct United Kingdom income tax from such payments on the Notes, it is unlikely that any requirement to deduct income tax would arise in respect of a payment under the Guarantee.

However, holders who are individuals may wish to note that the Inland Revenue has power to obtain information (including the name and address of the beneficial owner of the interest) from any person in the United Kingdom who either pays interest to or receives interest for the benefit of an individual. Information so obtained may, in certain circumstances, be exchanged by the Inland Revenue with the tax authorities of the jurisdiction in which the holder is resident for tax purposes.

Gibraltar

The summary below does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes. Prospective investors in the Notes should consult their own tax advisers on the tax consequences of the purchase, beneficial ownership and disposition of the Notes including the effect of any changes to the tax laws. Some comments also relate only to the taxation of Ferrotrade Gibraltar.

Ferrotrade Gibraltar has a Taxation Exemption Certificate issued under the Companies (Taxation and Concessions) Ordinance in consequence of which Ferrotrade Gibraltar is currently liable to tax at the fixed annual rate of £225. However, the European Commission has adopted a recommendation for the abolition or reform of the Exempt Company regime in Gibraltar by 2005.

It is expected that the Exempt Company regime will be abolished as part of the Government of Gibraltar's reforms of the corporate tax system in Gibraltar. The intended reforms are the subject of a European Commission investigation for compatibility with EU state aid rules.

The following is a summary of the tax position in Gibraltar as in effect on the date of this Offering Circular and is subject to such changes to the tax legislation as may come into effect after such date:

Taxes on payments under the Guarantee

Any payment made by Ferrotrade Gibraltar under the Guarantee may be made without deduction of Gibraltar income tax. However, such payment would be taxed in the hands of a Noteholder resident in Gibraltar except in the case where the Noteholder is exempt from Gibraltar income tax.

Gains on Sale or Redemption

Gibraltar does not levy taxes on capital gains. However, Noteholders resident in Gibraltar for tax purposes in any tax year whose business involves trading in bonds or securities may be subject to Gibraltar income tax on profits derived from the sale or purchase of the Notes, except in the case of a Noteholder who is exempt from Gibraltar income tax.

Corporate Taxation

For as long as Ferrotrade Gibraltar maintains its tax exempt status, it will not be liable to pay any Gibraltar income tax on income arising outside Gibraltar provided that such income is not income arising

from an obligation of an obligor resident in Gibraltar for the purposes of Gibraltar income tax, and interest arising from Gibraltar deposits.

Stamp, Issue and Other Taxes

Since Ferrotrade Gibraltar is registered as a tax exempt company, no stamp duty, issue or similar taxes are imposed in Gibraltar in connection with the issue and enforcement of the Guarantee in Gibraltar.

Taxes on assets

Gibraltar does not levy taxes on assets. Accordingly, the assets of Ferrotrade Gibraltar will not be subject to the imposition of any other taxes.

Inheritance Taxes

Gibraltar does not levy inheritance taxes.

GENERAL INFORMATION

1. The creation and issue of the Notes has been authorised by a resolution of the Board of Directors of the Issuer dated 22 September 2003.

The giving of the Guarantee in respect of the Notes has been authorised by,

- (a) a resolution of the Board of Directors of Mastercroft dated 23 September 2003;
 - (b) a resolution of the sole shareholder of Mastercroft dated 23 September 2003;
 - (c) a resolution of the Board of Directors of NTMK dated 29 July 2003;
 - (d) a resolution of the Board of Directors of ZapSib dated 25 July 2003;
 - (e) a resolution of the Board of Directors of Ferrotrade Gibraltar dated 19 September 2003; and
 - (f) a resolution of the General Partner of Ferrotrade UK dated 9 September 2003.
2. Save as disclosed in this Offering Circular, none of the Issuer, Mastercroft, NTMK, ZapSib, Ferrotrade Gibraltar, Ferrotrade UK or any of their respective subsidiaries is involved in any litigation or arbitration proceedings relating to claims or amounts which are material in the context of the issue of the Notes nor, so far as the Issuer, Mastercroft, NTMK, ZapSib, Ferrotrade Gibraltar and Ferrotrade UK are aware, is any such litigation or arbitration proceedings pending or threatened.
 3. Save as disclosed in this Offering Circular, there has been no material adverse change, or any development reasonably likely to involve a material adverse change, in the condition (financial or otherwise), general affairs or prospects of the Issuer, Mastercroft, NTMK, ZapSib, Ferrotrade Gibraltar, Ferrotrade UK or any of their respective subsidiaries since, in the case of the Issuer and Ferrotrade Gibraltar, their respective dates of incorporation and, in the case of Mastercroft, NTMK, ZapSib, and Ferrotrade UK and their respective subsidiaries, 31 December 2002, that is material in the context of the issue of the Notes.
 4. For so long as any of the Notes are outstanding, copies of the Paying Agency Agreement, NTMK Agency Agreement, ZapSib Agency Agreement (together, the “**Agency Agreement**”), the Trust Deed and Deeds of Guarantee may be inspected during normal business hours at the Specified Office of each Paying Agent.
 5. For so long as any of the Notes are outstanding, copies of the following documents (together with English translations thereof where applicable) may be obtained during normal business hours at the specified office of each Paying Agent:
 - (a) the unaudited pro forma consolidated financial information with respect to Mastercroft for the years ended 31 December 2002 and 31 December 2001;
 - (b) the audited parent company financial statements of NTMK for the years ended 31 December 2002 and 31 December 2001;
 - (c) the audited parent company financial statements of ZapSib for the years ended 31 December 2002 and 31 December 2001;
 - (d) the audited consolidated financial statements of Ferrotrade UK for the years ended 31 December 2002 and 31 December 2001;
 - (e) the latest published unaudited semi-annual interim and audited year-end consolidated (if applicable) financial statements of the Issuer and the Guarantors.

Neither the Issuer nor Ferrotrade Gibraltar has published any financial statements as at the date of this Offering Circular.

6. In connection with the application for the Notes to be listed on the Luxembourg Stock Exchange, copies of (i) the articles of incorporation of the Issuer; (ii) the Memorandum of Association of Mastercroft, (iii) the Charter and the Certificate of Inclusion in the Unified State Register of Legal Entities of NTMK; (iv) the Charter and the Certificate of Inclusion in the Unified State Register of Legal Entities of ZapSib; (v) the Articles of Association of Ferrotrade Gibraltar; and (vi) the Partnership Agreement of Ferrotrade UK (together with English translations thereof where applicable) and a legal notice relating to the issue of the Notes will be deposited prior to listing with the *Registre de Commerce et des Sociétés*, Luxembourg, where they may be inspected and copies obtained upon request.
7. The Notes and any Coupons appertaining thereto will bear a legend to the following effect: “Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code.” The sections referred to in such legend provide that a United States person who holds a Note or Coupon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Note or Coupon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.
8. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS0176677184 and the Common Code is 017667718.

INDEPENDENT AUDITORS

The Issuer and Ferrotrade Gibraltar have not produced financial statements since the date of their incorporation. However, the Issuer have appointed Ernst & Young S.A. as their auditors. Due to its recent incorporation, Ferrotrade Gibraltar is yet to appoint its auditors.

The IFRS parent company financial statements of NTMK as at and for the years ended 31 December 2002 and 31 December 2001 included in this Offering Circular have been audited by Ernst & Young (CIS) Limited, independent accountants. Ernst & Young (CIS) Limited in their audit report expressed a qualified opinion on these statements. The opinion was qualified for a) the effects of such adjustments, if any, as might have been determined to be necessary had the auditors been able to examine evidence as to the carrying value of a certain portion of assets under construction of NTMK with a carrying value of U.S.\$ 15,730,000 and U.S.\$ 20,645,000 as of 31 December 2002 and 31 December 2001, respectively, and a certain portion of machinery and equipment of NTMK with a carrying value of U.S.\$ 3,683,000 and U.S.\$ 0 as of 31 December 2002 and 31 December 2001, respectively; and b) the omission of consolidated financial statements.

The IFRS parent company financial statements of ZapSib as at and for the years ended 31 December 2002 and 31 December 2001 included in this Offering Circular have been audited by Ernst & Young (CIS) Limited, independent accountants. Ernst & Young (CIS) Limited in their audit report expressed a qualified opinion on these statements. The opinion was qualified for the omission of consolidated financial statements.

The IFRS consolidated financial statements of Ferrotrade UK as at and for the years ended 31 December 2002 and 31 December 2001 included in this Offering Circular have been audited by Ernst & Young (CIS) Limited, independent accountants. Ernst & Young (CIS) Limited in their audit report expressed an unqualified opinion on these statements.

The pro forma consolidated financial information of Mastercroft as at and for the years ended 31 December 2002 and 31 December 2001 included in this Offering Circular have been examined by Ernst & Young (CIS) Limited, independent accountants. Ernst & Young (CIS) Limited issued an examination report on this information.

Ernst & Young (CIS) Limited has given and not withdrawn its written permission to the inclusion of its reports appearing in this Offering Circular in the form and context in which they appear.

PRODUCT DESCRIPTION

Angle	Angle-shaped section for construction.
Axle blank	A round, semi-finished product used for production of railcar axles.
Billet	A usually square, semi-finished product obtained by continuous casting or rolling of blooms. Sections, rails, wire rod and other rolled products are made from billets.
Bloom	A usually square, semi-finished product obtained by continuous casting or rolling of ingots. Blooms are used to make billets and in the manufacture of structural steel products.
Channel	U-shaped section for construction.
Converter shop	The shop where pig iron is processed into steel using Oxygen Converter Furnaces.
Duplex technology of V iron manufacturing	The technology allows to produce steel from vanadium rich iron ore separating vanadium slag while pig iron is processed into steel.
Ferroalloy	A metal product commonly used as a raw material feed in steelmaking, usually containing iron and other metals, to aid various stages of the steelmaking process such as deoxidation, desulfurisation, and adding strength. Examples: ferrochrome, ferromanganese, and ferrosilicon.
Grinding Balls	Grinding balls for mining and cement industry.
H-Beam	H-shaped section for construction.
Mine upright	V-shaped section for underground working reinforcement.
Pellets	An enriched form of iron ore shaped into small balls or pellets. Pellets are used as raw material in the steel making process.
Pig Iron	Product of Blast Furnace production used in production of steel.
Pipe blank	A round-shaped semi-finished product used in pipe manufacturing industry.
Railcar upright	Section for carriage-building industry.
Rails	A steel bar laid on the ground, forming a railway track.
Rebar (Reinforcing bar)	A commodity-grade steel used to strengthen concrete in highway and building construction.
Rounds	A round-shaped, semi-finished product normally with diameter exceeding 10 mm used in various applications of hardware & engineering sector.
Scrap	A term applied to both ferrous and nonferrous metals that have been removed from service as no longer suitable for use in their present form. Scrap is used as part of the feedstock in the steel making process through remelting and reprocessing.
Sections	Sections are manufactured by rolling reheated concast slabs, billets and blooms or ingots to produce particular product shapes. Sections are used in the constructions, engineering, hardware and mining industries and railways.
Semi-finished products	A product category that includes slabs, blooms and billets, the first solid forms in the steel making process. These usable shapes are further processed

to become more finished products - rebars and shapes, structural steel and wire rod.

Sheet Pile

Interlocking components of wood, steel, concrete, and similar material, subject to lateral pressure and driven individually to form an obstruction to percolation to prevent movement of material, used for cofferdams, stabilization of foundations, and like uses.

Sinter

An iron rich clinker formed by heating iron ore fines and coke in a sinter line.

Slabs

The most common type of semi-finished steel. Subsequent to casting, slabs are sent to the hot-strip mill to be rolled into coiled sheet and plate products.

Strips

Strips are delivered as coil, sheet and narrow strip in a wide range of alloys, widths and thicknesses and are mostly delivered to specific customer specifications.

Wire

A broad range of products produced by cold and hot reducing, or drawing, wire rod through a series of dies to reduce the diameter, improve surface finish, dimensional accuracy, and physical properties. Typical applications include nets, screws, rivets, upholstery springs, furniture wire, concrete wire, electrical conductors, rope wire and structural cables.

Wire rod

Formed from billets, wire rod in coils is an intermediate product of uniform round cross-section dimension. It is supplied in various qualities to meet a wide range of applications. Applications include music wire, rope wire, tire bead, springs, fasteners, rivets, welding rods, chain, precision nails, staples, racks and shelving.

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Mastercraft Limited

Pro Forma Consolidated Financial Information

Years ended December 31, 2002 and 2001

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Independent Accountants' Examination Report

The Board of Directors
Mastercrocft Limited

We have examined the pro forma adjustments reflecting the transactions described in Note 2 and the application of those adjustments to the historical amounts in the accompanying pro forma consolidated balance sheets of Mastercrocft Limited (the "Company") as of December 31, 2002 and 2001, and the related pro forma consolidated statements of income, cash flows and changes in equity for the years then ended. The historical financial statements are derived from the historical parent company financial statements of OAO Nizhny Tagil Iron & Steel Plant ("NTMK"), historical parent company financial statements of OAO West-Siberian Iron & Steel Plant ("ZapSib"), historical consolidated financial statements of Ferrotrade & Co. ("Ferrotrade"), historical parent company financial statements of Lakemill Trading & Investments Limited ("Lakemill"), historical financial statements of Tradeline Enterprises Limited ("Tradeline") and historical financial statements of Logicmind Investments Limited ("Logicmind") prepared in accordance with International Financial Reporting Standards ("IFRS"), appearing elsewhere herein.

The parent company financial statements of NTMK for the years ended December 31, 2002 and 2001 were audited by us and in our report dated June 27, 2003 we expressed a qualified opinion on them. The opinion was qualified for a) the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence as to the carrying value of certain portions of NTMK's assets under construction with the carrying value of \$15,730,000 and \$20,645,000 as of December 31, 2002 and 2001, respectively, and certain portions of NTMK's machinery and equipment with the carrying value of \$3,683,000 and \$0 as of December 31, 2002 and 2001, respectively; and b) the omission of consolidated financial statements.

The parent company financial statements of ZapSib for the years ended December 31, 2002 and 2001 were audited by us and in our report dated July 11, 2003 we expressed a qualified opinion on them. The opinion was qualified for the omission of consolidated financial statements.

The consolidated financial statements of Ferrotrade for the years ended December 31, 2002 and 2001 were audited by us and in our report dated April 30, 2003 we expressed an unqualified opinion on them.

The parent company financial statements of Lakemill for the years ended December 31, 2002 and 2001 were audited by us and in our report dated June 27, 2003 we expressed an unqualified opinion on the financial statements of Lakemill for the year ended December 31, 2001 and an adverse opinion on the parent company financial statements of Lakemill for the year ended December 31, 2002, because of the effects of the omission of consolidated financial statements. In accordance with International Accounting Standard ("IAS") 27, Consolidated Financial Statements and Accounting for Investments in Subsidiaries, Lakemill is required to consolidate ZapSib, Lakemill's subsidiary. Lakemill did not prepare consolidated financial statements.

The financial statements of Tradeline for the period from October 22, 2001 (inception) to December 31, 2002 were audited by us and in our report dated April 30, 2003 we expressed an adverse opinion on them, because of the effects of a departure from IAS 28, Accounting for Investments in Associates. Tradeline is required to account for its investment in NTMK under the equity method. Tradeline accounted for its investment in NTMK under the cost method.

The financial statements of Logicmind for the period from November 26, 2001 (inception) to December 31, 2002 were audited by us and in our report dated April 30, 2003 we expressed an adverse opinion on them, because of the effects of a departure from IAS 28, Accounting for Investments in Associates. Logicmind is required to account for its investment in ZapSib under the equity method. Logicmind accounted for its investment in ZapSib under the cost method.

The pro forma adjustments referred to above are based on management's assumptions described in Note 2. The Company's management is responsible for the pro forma financial information. Our responsibility is to express an opinion on the pro forma financial information based on our examination. Our examination was made in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included such procedures, as we considered necessary in the circumstances.

The objective of this pro forma financial information is to show what the significant effects on the historical financial information might have been had the transactions occurred at an earlier date. However, the pro forma consolidated financial statements are not necessarily indicative of the results of operations or related effects on the financial position that would have been attained had the above-mentioned transactions actually occurred earlier.

In our opinion, management's assumptions provide a reasonable basis for presenting the significant effects directly attributable to the above-mentioned transactions described in Note 2, the related pro forma adjustments give appropriate effect to those assumptions, and the pro forma columns reflect the proper application of those adjustments to the historical financial statement amounts in the pro forma consolidated balance sheet as of December 31, 2002 and 2001, and the pro forma consolidated statements of income, cash flows and changes in equity for the years then ended.

Ernst & Young (CIS) Limited
Moscow, Russia
August 6, 2003

Mastercroft Limited

Pro Forma Consolidated Balance Sheet as of December 31, 2002

(In thousands of US dollars)

	Elimination adjustments					Pro forma adjustments				Total
	Intragroup sales and purchases (Note 3)		Intragroup debts (Note 4)		Acquisition of NTMK and ZapSib (Notes 5, 6)		Minority interest (Note 9)		Settlement of liabilities to Marteck (Note 10)	
	NTMK	ZapSib	Ferrotrade	Lakemill	Tradeline	Logicmind				
ASSETS										
Non-current assets										
Property, plant and equipment, net	\$ 586,622	\$ 398,526	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 985,148
Negative goodwill	-	-	-	-	-	-	-	(136,706)	-	(136,706)
Investments and notes receivable	12,933	12,738	9,875	86,763	25,187	10,495	-	(40,019)	-	60,811
Input VAT relating to the Settlement Agreements	3,877	443	-	-	-	-	-	-	-	4,320
Receivables from related parties	-	-	9,447	1,011	-	-	(3,680)	-	-	6,778
	603,432	411,707	19,322	87,774	25,187	10,495	(3,680)	(40,019)	(193,867)	920,351
Current assets										
Inventories	45,471	68,422	124,220	-	-	-	(2,543)	-	-	235,570
Trade and other receivables, net	18,519	11,935	76,954	30	-	-	-	-	-	107,438
Prepayments	10,084	7,766	12,610	-	-	-	-	-	-	30,460
Receivables from related parties	11,547	20,085	99,748	484	2	2	(33,179)	(47,017)	-	51,672
Taxes receivable	24,689	34,031	-	-	-	-	-	-	-	58,720
Restricted deposits at banks	-	-	13,500	-	-	-	-	-	-	13,500
Investments and notes receivable	-	-	9,309	34,524	-	-	-	(31,844)	-	11,989
Cash and cash equivalents	13,892	553	298	2	1,002	1	-	-	-	15,748
	124,202	142,792	336,639	35,040	1,004	3	(35,722)	(78,861)	-	525,097
TOTAL ASSETS										
	\$ 727,634	\$ 554,499	\$ 355,961	\$ 122,814	\$ 26,191	\$ 10,498	\$ (39,402)	\$ (118,880)	\$ (193,867)	\$ 1,445,448

Mastercrocft Limited

Pro Forma Consolidated Balance Sheet as of December 31, 2002 (continued)

	NTMK	ZapSib	Ferrotrade	Lakemill	Tradeline	Logemind	Elimination adjustments		Pro forma adjustments			Total
							Intragroup sales and purchases (Note 3)	Intragroup debts (Note 4)	Acquisition of NTMK and ZapSib (Notes 5, 6)	Minority interest (Note 9)	Settlement of liabilities to Marteck (Note 10)	
EQUITY AND LIABILITIES												
Equity												
Issued capital	\$ 55,067	\$ 27,441	\$ 3,000	\$ -	\$ -	\$ 2	\$ -	\$ -	\$ (51,812)	\$ (19,844)	\$ 56,972	\$ 70,833
Share premium	5,781	15,620	-	-	-	-	-	-	(13,999)	(4,710)	-	2,692
Net unrealised gains on financial assets	-	-	34,049	6,520	-	-	-	(40,569)	-	-	-	-
Accumulated profits	336,240	134,691	115,273	(2,769)	(3)	(3)	(2,543)	28,832	(128,056)	(114,388)	-	367,274
Total equity	397,088	177,752	152,322	3,756	(1)	(1)	(2,543)	(11,737)	(193,867)	(138,942)	56,972	440,799
Minority interest	-	-	-	-	-	-	-	-	-	138,942	-	138,942
Non-current liabilities												
Long-term loans	31,762	-	-	1,803	-	-	-	-	-	-	-	33,565
Liabilities under the Settlement												
Agreements	61,194	21,942	-	-	-	-	-	(26,637)	-	-	-	56,499
Promissory notes payable	6,803	-	-	-	-	-	-	(1,450)	-	-	-	5,353
Payables to related parties	-	-	-	43,694	-	-	(3,680)	-	-	-	(40,014)	-
Restructured taxes payable	13,790	12,723	-	-	-	-	-	-	-	-	-	26,513
Finance lease obligations	3,971	7,518	-	-	-	-	-	-	-	-	-	11,489
Deferred income tax liabilities	89,300	64,665	-	-	-	-	-	-	-	-	-	153,965
Other longterm liabilities	265	2,072	-	32,019	-	-	-	-	-	-	-	34,356
Current liabilities	207,085	108,920	-	77,516	-	-	(3,680)	(28,087)	-	-	(40,014)	321,740
Trade and other payables	34,142	43,462	19,415	271	3	3	-	(249)	-	-	-	97,047
Advances for sale of securities	-	-	10,000	6,569	-	-	-	-	-	-	-	16,569
Advances from customers	11,132	1,052	6,820	-	-	-	-	-	-	-	-	19,004
Interest bearing loans and borrowings	8,526	50,468	146,526	15,250	-	-	-	-	-	-	-	220,770
Payables to related parties	34,015	81,481	12,993	1,551	26,189	10,496	(33,179)	(61,277)	-	-	(16,958)	55,311
Taxes payable	17,783	54,825	-	2	-	-	-	-	-	-	-	72,610
Current portion of liabilities under the Settlement Agreements	17,515	29,887	-	-	-	-	-	(17,530)	-	-	-	29,872
Current portion of finance lease obligations	348	1,652	-	-	-	-	-	-	-	-	-	2,000
Current portion of other longterm liabilities	-	-	-	17,899	-	-	-	-	-	-	-	17,899
Dividends payable	-	-	7,885	-	-	-	-	-	-	-	-	7,885
Provisions	-	5,000	-	-	-	-	-	-	-	-	-	5,000
	123,461	267,827	203,639	41,542	26,192	10,499	(33,179)	(79,056)	-	-	(16,958)	543,967
TOTAL EQUITY AND LIABILITIES	\$ 727,634	\$ 554,499	\$ 355,961	\$ 122,814	\$ 26,191	\$ 10,498	\$ (39,402)	\$ (118,880)	\$ (193,867)	\$ -	\$ -	\$ 1,445,448

Mastercraft Limited

Pro Forma Consolidated Balance Sheet as of December 31, 2001

(In thousands of US dollars)

	Elimination adjustments						Pro forma adjustments			
							Acquisition of		Settlement of	
							Intragroup sales and purchases (Note 3)	Intragroup debts (Note 4)	NTMK and ZapSib (Notes 5, 6)	Minority interest (Note 9)
NTMK	ZapSib	Ferrotrade	Lakemill	Tradeline	Logemind					Total
ASSETS										
Non-current assets										
Property, plant and equipment, net	\$ 638,096	\$ 444,389	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,082,485
Negative goodwill	—	—	—	—	—	—	—	(168,910)	—	(168,910)
Investments and notes receivable	12,915	13,476	17,895	11,754	—	—	(6,226)	(944)	—	48,870
Input VAT relating to the Settlement Agreements	5,394	1,580	—	—	—	—	—	—	—	6,974
Receivables from related parties	—	—	27,236	—	—	—	—	—	—	27,236
	656,405	459,445	45,131	11,754	—	—	(6,226)	(169,854)	—	996,655
Current assets										
Inventories	55,266	82,281	76,594	—	—	—	(2,563)	—	—	211,578
Trade and other receivables, net	15,976	20,164	98,775	—	—	—	—	—	—	134,915
Prepayments	4,867	4,449	13,180	—	—	—	—	—	—	22,496
Receivables from related parties	15,056	22,251	11,838	128	—	—	(5,249)	—	—	44,024
Taxes receivable	24,544	16,181	—	—	—	—	—	—	—	40,725
Restricted deposits at banks	—	—	8,200	—	—	—	—	—	—	8,200
Investments and notes receivable	11,940	—	13,559	—	—	—	—	—	—	25,499
Cash and cash equivalents	3,851	3,791	8	10	—	—	—	—	—	7,660
	131,500	149,117	222,154	138	—	—	(7,812)	—	—	495,097
TOTAL ASSETS										
\$ 787,905	\$ 608,562	\$ 267,285	\$ 11,892	\$ —	\$ —	\$ (7,812)	\$ (6,226)	\$ (169,854)	\$ —	\$ 1,491,752

Matercroft Limited

Pro Forma Consolidated Balance Sheet as of December 31, 2001 (continued)

	Elimination adjustments						Pro forma adjustments				Total
	NTMK	ZapSib	Ferrotrade	Lakemill	Tradeline	Logimind	Intragroup sales and purchases (Note 3)	Intragroup debts (Note 4)	Acquisition of NTMK and ZapSib (Notes 5, 6)	Minority interest (Note 9)	
EQUITY AND LIABILITIES											
Equity											
Issued capital	\$ 55,067	\$ 23,441	\$ 3,000	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ (51,812)	\$ (19,019)	\$ -
Share premium	5,781	19,620	-	-	-	-	-	-	(13,999)	(5,535)	-
Net unrealised gains on financial assets	-	-	-	-	-	-	-	-	-	-	-
Accumulated profits	324,236	145,007	110,303	(35)	-	-	(2,691)	4,469	(160,315)	(113,423)	-
Total equity	385,084	188,068	113,303	(30)	-	-	(2,691)	4,469	(226,126)	(137,977)	-
Minority interest	-	-	-	-	-	-	-	-	-	137,977	-
Non-current liabilities											
Long-term loans	-	-	-	-	-	-	-	-	-	-	-
Liabilities under the Settlement											
Agreements	76,269	48,385	-	-	-	-	-	(6,824)	-	-	-
Promissory notes payable	6,627	-	-	-	-	-	-	-	-	-	-
Payables to related parties	-	45,583	-	9,246	-	-	-	-	-	-	-
Restructured taxes payable	27,313	20,852	-	-	-	-	-	-	-	-	-
Finance lease obligations	4,877	7,030	-	-	-	-	-	-	-	-	-
Deferred income tax liabilities	90,249	73,471	-	-	-	-	-	-	-	-	-
Other long-term liabilities	264	2,057	-	-	-	-	-	-	-	-	-
	205,599	197,378	-	9,246	-	-	-	(6,824)	-	-	-
Current liabilities											
Trade and other payables	63,109	91,187	18,982	2,638	-	-	-	-	7,300	-	-
Advances for sale of securities	-	-	-	-	-	-	-	-	-	-	-
Advances from customers	2,097	1,086	1,088	-	-	-	-	-	-	-	-
Interest bearing loans and borrowings	73,944	23,034	98,610	-	-	-	-	-	-	-	-
Payables to related parties	34,383	15,634	5,890	36	-	-	(5,121)	-	48,972	-	-
Taxes payable	15,773	58,040	-	2	-	-	-	-	-	-	-
Current portion of liabilities under the Settlement Agreements	7,643	30,398	-	-	-	-	-	(3,871)	-	-	-
Current portion of finance lease obligations	273	1,027	-	-	-	-	-	-	-	-	-
Dividends payable	-	-	29,412	-	-	-	-	-	-	-	-
Provisions	-	2,710	-	-	-	-	-	-	-	-	-
	197,222	223,116	153,982	2,676	-	-	(5,121)	(3,871)	56,272	-	-
TOTAL EQUITY AND LIABILITIES	\$ 787,905	\$ 608,562	\$ 267,285	\$ 11,892	\$ -	\$ -	\$ (7,812)	\$ (6,226)	\$ (169,854)	\$ -	\$ -

Mastercroft Limited

Pro Forma Consolidated Income Statement for the year ended December 31, 2002

(In thousands of US dollars)

	Elimination adjustments					Pro forma adjustments					
						Intragroup sales and purchases (Note 3)	Intragroup debts (Note 4)	Acquisition of NTMK and ZapSib (Notes 5, 6)	Minority interest (Note 9)	Settlement of liabilities to Marteek (Note 10)	Total
NTMK		ZapSib	Ferrottrade	Lakemill	Tradeline	Logicmind					
\$	783,521	\$ 689,410	\$ 1,024,630	\$ -	\$ -	\$ -	\$ (482,881)	\$ -	\$ -	\$ -	\$ 2,014,680
Sale of goods	26,885	22,585	-	-	-	-	-	-	-	-	49,470
Rendering of services	(687,123)	(640,003)	(740,752)	-	-	-	463,057	-	-	-	(1,604,821)
Cost of revenues	-	-	-	-	-	-	-	32,204	-	-	32,204
Amortization of negative goodwill	123,283	71,992	283,878	-	-	-	(19,824)	-	-	-	491,533
Gross profit	(32,195)	(21,020)	(17,432)	-	-	-	-	-	-	-	(70,647)
Selling and distribution costs	(30,374)	(59,613)	(80,840)	(178)	(3)	(3)	-	-	-	-	(171,011)
General and administrative expenses	(8,186)	(7,210)	-	-	-	-	-	-	-	-	(15,396)
Tax-related fines and penalties	(26,002)	(2,127)	-	-	-	-	-	-	-	-	(28,129)
Social and social infrastructure maintenance expenses	(14,084)	-	-	-	-	-	-	-	-	-	(14,084)
Loss on disposal of property, plant and equipment	-	-	-	(114)	-	-	-	59	55	-	-
Loss on disposal of investments	(7,407)	(7,074)	571	(112)	-	-	-	-	-	-	(14,022)
Foreign exchange (losses) gains	28,996	34,022	-	-	-	-	19,972	-	-	-	82,990
Gain on net monetary position	-	(2,773)	-	(426)	-	-	-	-	-	-	(3,199)
Impairment of investments	4,429	(4,895)	(148)	-	-	-	-	-	-	-	(614)
Other operating income (expense)	38,460	1,302	186,029	(830)	(3)	(3)	148	59	32,259	-	257,421
Profit (loss) from operating activities	-	-	1,026	-	-	-	-	-	-	-	1,026
Interest income	(27,503)	(19,630)	(7,085)	(1,885)	-	-	-	(6,181)	-	-	(62,284)
Interest expense	12,482	3,820	-	-	-	-	-	30,485	-	-	46,787
Gain on extinguishment of debts	-	-	-	-	-	-	-	-	-	-	-
Transfer of assets to the government of Russia at no charge	-	-	-	-	-	-	-	-	-	-	-
Profit (loss) from ordinary activities before income taxes	23,439	(14,508)	179,970	(2,715)	(3)	(3)	148	24,363	32,259	-	242,950
Income tax (expense) benefit	(11,435)	2,293	-	(19)	-	-	-	-	-	-	(9,161)
Minority interest in profit from ordinary activities	-	-	-	-	-	-	-	-	(573)	-	(573)
Net profit (loss) from ordinary activities	12,004	(12,215)	179,970	(2,734)	(3)	(3)	148	24,363	32,259	(573)	233,216
Extraordinary item – gain on extinguishment of debts under the Settlement Agreement (net of income tax of \$599)	-	1,899	-	-	-	-	-	-	-	-	1,899
Minority interest in extraordinary item	-	-	-	-	-	-	-	-	(392)	-	(392)
Net profit (loss)	\$ 12,004	\$ (10,316)	\$ 179,970	\$ (2,734)	\$ (3)	\$ (3)	\$ 148	\$ 24,363	\$ 32,259	\$ (965)	\$ 234,723

Mastercrocft Limited

Pro Forma Consolidated Income Statement for the year ended December 31, 2001

(In thousands of US dollars)

		Elimination adjustments				Pro forma adjustments			
		Intragroup sales and purchases (Note 3)	Intragroup debits (Note 4)	Acquisition of NTMK and ZapSib (Notes 5, 6)	Minority interest (Note 9)	Settlement of liabilities to Marteck (Note 10)			
	NTMK	ZapSib	Ferrotrade	Lakemill	Tradeline	Logicmind			Total
Revenue									
Sale of goods	\$ 818,197	\$ 678,575	\$ 982,662	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,056,145
Rendering of services	19,893	7,360	-	-	-	-	-	-	27,253
Cost of revenues	(763,733)	(661,477)	(767,133)	-	-	-	-	-	(1,816,319)
Amortization of negative goodwill	-	-	-	-	-	-	-	-	20,044
Gross profit	74,357	24,458	215,529	-	-	(47,265)	-	-	287,123
Selling and distribution costs	(33,279)	(17,404)	(16,767)	-	-	-	-	-	(67,450)
General and administrative expenses	(34,120)	(70,047)	(85,509)	(32)	-	-	-	-	(189,708)
Tax-related fines and penalties	(6,068)	(104,433)	-	-	-	-	-	-	(110,501)
Social and social infrastructure maintenance expenses	(13,148)	(11,750)	-	-	-	-	-	-	(24,898)
Loss on disposal of property, plant and equipment	(3,307)	-	-	-	-	-	-	-	(3,307)
Loss on disposal of investments	-	-	-	-	-	-	-	-	-
Foreign exchange (losses) gains	(11,499)	(13,835)	336	67	-	-	-	-	(24,931)
Gain on net monetary position	47,949	74,467	-	-	-	47,660	2,478	-	172,951
Impairment of investments	-	(453)	(5,647)	(68)	-	-	4,715	-	(1,453)
Other operating income (expense)	3,406	(5,017)	856	-	-	-	-	-	(755)
Profit (loss) from operating activities	24,291	(124,014)	108,798	(33)	-	395	7,193	20,441	37,071
Interest income	-	-	-	-	-	-	-	-	-
Interest expense	(22,858)	(2,303)	(6,796)	-	-	-	-	-	(31,957)
Gain on extinguishment of debts	26,240	94,519	-	-	-	-	17,431	-	138,190
Transfer of assets to the government of Russia at no charge	-	-	(4,328)	-	-	-	-	4,328	-
Profit (loss) from ordinary activities before income taxes	27,673	(31,798)	97,674	(33)	-	395	24,624	24,769	143,304
Income tax benefit (expense)	31,962	14,457	-	(2)	-	-	(4,867)	-	41,550
Minority interest in profit from ordinary activities	-	-	-	-	-	-	-	(11,786)	(11,786)
Net profit (loss) from ordinary activities	59,635	(17,341)	97,674	(35)	-	395	19,757	24,769	173,068
Extraordinary item – gain on extinguishment of debts under the Settlement Agreement (net of income tax of \$38,568)	-	122,120	-	-	-	-	(15,411)	-	106,709
Minority interest in extraordinary item	-	-	-	-	-	-	-	-	(25,181)
Net profit (loss)	\$ 59,635	\$ 104,779	\$ 97,674	\$ (35)	\$ -	\$ -	\$ 4,346	\$ 24,769	\$ 254,596

Mastercraft Limited

Pro Forma Consolidated Cash Flow Statement

For the year ended December 31, 2002

(In thousands of US dollars)

	Elimination adjustments						Pro forma adjustments					
	Intragroup sales and purchases (Note 3)			Intragroup debts (Note 4)		Acquisition of NTMK and ZapSib (Notes 5, 6)		Minority interest (Note 9)		Settlement of liabilities to Marteck (Note 10)		
NTMK	ZapSib	Ferrotrade	Lakemill	Tradeline	Logicmind						Total	
Cash flows from operating activities												
Net profit (loss)	\$ 12,004	\$ (10,316)	\$ 179,970	\$ (2,734)	\$ (3)	\$ (3)	\$ 148	\$ 24,363	\$ 32,259	\$ (965)	\$ -	\$ 234,723
Adjustments to reconcile net profit to net cash provided by operating activities:												
Amortization of negative goodwill	-	-	-	-	-	-	-	-	-	-	-	(32,204)
Depreciation and amortization	80,238	72,766	-	-	-	-	-	-	-	-	-	153,004
Deferred income taxes	(949)	(9,405)	-	-	-	-	-	-	-	-	-	(10,354)
Loss on disposal of property, plant and equipment	14,084	742	-	-	-	-	-	-	-	-	-	14,826
Foreign exchange losses (gains)	7,407	(571)	-	-	-	-	-	-	-	-	-	14,022
Gain on net monetary position	(28,996)	-	-	-	-	-	(19,972)	-	-	-	-	(82,990)
Bad debt expense	3,081	7,792	574	-	-	-	-	-	-	-	-	11,447
Gain on extinguishment of debts	(12,482)	(3,820)	-	-	-	-	-	(30,485)	-	-	-	(46,787)
Impairment of investments	-	2,773	-	-	-	-	-	-	-	-	-	3,199
Minority interest	-	-	-	-	-	-	-	-	-	965	-	965
Loss on disposal of investments	-	-	-	-	-	-	-	(59)	(55)	-	-	-
Interest accrued	27,503	19,630	7,085	1,885	-	-	-	6,181	-	-	-	62,284
Extraordinary item	-	(1,899)	-	-	-	-	-	-	-	-	-	(1,899)
Changes in operating assets and liabilities:												
Inventories	9,795	5,976	(47,626)	-	-	-	4,503	-	-	-	-	(27,352)
Trade and other receivables	(6,204)	2,964	21,247	(30)	-	-	-	-	-	-	-	17,977
Prepayments	(6,530)	(4,140)	570	-	-	-	-	-	-	-	-	(10,100)
Receivables from and payables to related parties	6,019	15,730	(20,565)	135	-	-	15,321	-	-	-	-	16,640
Taxes receivable	(5,474)	(18,809)	-	-	-	-	-	-	-	-	-	(24,283)
Trade and other payables	(27,506)	(33,569)	(276)	4	3	3	-	-	-	-	-	(61,341)
Advances from customers	10,163	(141)	5,732	-	-	-	-	-	-	-	-	15,754
Taxes payable	10,110	4,424	-	-	-	-	-	-	-	-	-	14,534
Other longterm liabilities	-	1,912	-	-	-	-	-	-	-	-	-	1,912
Net cash flows from (used in) operating activities	92,263	25,662	146,140	(88)	-	-	-	-	-	-	-	263,977

Mastercraft Limited

Pro Forma Consolidated Cash Flow Statement

For the year ended December 31, 2002 (continued)

	Elimination adjustments						Pro forma adjustments				
	Intragroup sales and purchases			Acquisition of		Settlement of					
	NTMK	ZapSib	Ferrotrade	Lakemill	Tradeline	Logicmind	Intragroup debts	NTMK and ZapSib	Minority interest	liabilities to Marteck	Total
							(Note 3)	(Notes 4)	(Notes 5, 6)	(Note 9)	(Note 10)
Cash flows from investing activities											
Purchases of shares in ZapSib	-	-	-	(15,488)	-	(10,035)	-	-	25,523	-	-
Purchases of shares in NTMK	-	-	-	-	(5,920)	-	-	-	5,920	-	-
Purchases of debts of ZapSib	-	-	-	(16,128)	-	-	-	16,128	-	-	-
Proceeds from debts of ZapSib	-	-	-	16,065	-	-	-	(16,065)	-	-	-
Purchases of debts of NTMK	-	-	-	(7,456)	-	-	-	7,456	-	-	-
Proceeds from debts of NTMK	-	-	-	890	-	-	-	(890)	-	-	-
Prepayments for sales of securities	-	-	10,000	6,569	-	-	-	-	-	-	16,569
Issuance of long-term loans receivable	-	-	(2,000)	-	-	-	-	-	-	-	(2,000)
Issuance of short-term loans receivable	(1,325)	-	(21,722)	(25,203)	-	-	-	5,000	-	-	(43,250)
Proceeds from short-term loans receivable	-	-	18,201	18,498	-	-	-	(5,000)	-	-	31,699
Restricted deposits at banks	-	-	(5,300)	-	-	-	-	-	-	-	(5,300)
Payments for property, plant and equipment	(38,258)	(17,589)	-	-	-	-	-	-	-	-	(55,847)
Proceeds from the sale of property, plant and equipment	1,277	-	-	-	-	-	-	-	-	-	1,277
Payments to acquire equity of other enterprises	(18)	(178)	(1,246)	(16,931)	-	-	-	-	-	-	(18,373)
Payments to acquire debt instruments of other enterprises	-	(1,900)	-	(6,142)	-	-	-	-	-	-	(8,042)
Proceeds from the sale of debt instruments of other enterprises	9,949	-	11,342	163	-	-	-	-	-	-	21,454
(Net cash flows (used in) from investing activities	(28,375)	(19,667)	9,275	(45,163)	(5,920)	(10,035)	-	6,629	31,443	-	(61,813)

Mastercraft Limited

Pro Forma Consolidated Cash Flow Statement

For the year ended December 31, 2002 (continued)

	NTMK	ZapSib	Ferrotrade	Lakemill	Tradeline	Logiemind	Elimination adjustments		Pro forma adjustments			Total
							Intragroup sales and purchases (Note 3)	Intragroup debts (Note 4)	Acquisition of NTMK and ZapSib (Notes 5, 6)	Minority interest (Note 9)	Settlement of liabilities to Marteck (Note 10)	
Cash flows from financing activities												
Purchases of debts of ZapSib	-	-	-	-	-	-	-	(16,128)	-	-	-	(16,128)
Purchases of debts of NTMK	-	-	-	-	-	-	-	(7,456)	-	-	-	(7,456)
Purchases of shares in ZapSib	-	-	-	-	-	-	-	-	(25,523)	-	-	(25,523)
Purchases of shares in NTMK	-	-	-	-	-	-	-	-	(5,920)	-	-	(5,920)
Proceeds from short-term loans from UBS AG, Donau-Bank AG, BNP Paribas and CSFB, net	-	-	27,492	-	-	-	-	-	-	-	-	27,492
Proceeds from short-term borrowings	338,413	110,970	27,910	18,903	-	-	-	(5,000)	-	-	-	491,196
Repayments of short-term borrowings, including interest	(390,502)	(86,946)	(14,000)	(1,850)	-	-	-	5,159	-	-	-	(488,139)
Proceeds from long-term loans	31,266	-	-	30,768	6,922	10,036	-	-	-	-	-	78,992
Redemption of debt securities, including interest	(13,361)	-	-	-	-	-	-	-	-	-	-	(13,361)
Dividends paid	-	-	(196,527)	-	-	-	-	-	-	-	-	(196,527)
Payments under finance lease, including interest	(1,091)	(1,249)	-	-	-	-	-	-	-	-	-	(2,340)
Payments under the Settlement Agreements, including interest	(12,854)	(24,226)	-	-	-	-	-	16,796	-	-	-	(20,284)
Payments under promissory notes	(185)	-	-	(2,575)	-	-	-	-	-	-	-	(2,760)
Payments under restructured taxes, including interest	(4,029)	(7,518)	-	-	-	-	-	-	-	-	-	(11,547)
Net cash flows from financing activities	(52,343)	(8,969)	(155,125)	45,246	6,922	10,036	-	(6,629)	(31,443)	-	-	(192,305)
Effect of foreign exchange rate changes on cash and cash equivalents	95	4	-	(3)	-	-	-	-	-	-	-	96
Effect of hyperinflation on cash and cash equivalents	(1,599)	(268)	-	-	-	-	-	-	-	-	-	(1,867)
Net increase (decrease) in cash and cash equivalents	10,041	(3,238)	290	(8)	1,002	1	-	-	-	-	-	8,088
Cash and cash equivalents at beginning of year	3,851	3,791	8	10	-	-	-	-	-	-	-	7,660
Cash and cash equivalents at end of year	\$ 13,892	\$ 553	\$ 298	\$ 2	\$ 1,002	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,748

Mastercraft Limited

Pro Forma Consolidated Cash Flow Statement

For the year ended December 31, 2001

(In thousands of US dollars)

	NTMK	ZapSib	Ferrotrade	Lakemill	Tradeline	Logicmind	Elimination adjustments		Pro forma adjustments			Total
							Intragroup sales and purchases (Note 3)	Intragroup debts (Note 4)	Acquisition of NTMK and ZapSib (Notes 5, 6)	Minority interest (Note 9)	Settlement of liabilities to Marteck (Note 10)	
Cash flows from operating activities												
Net profit (loss)	\$ 59,635	\$ 104,779	\$ 97,674	\$ (35)	\$ -	\$ -	\$ 395	\$ 4,346	\$ 24,769	\$ (36,967)	\$ -	\$ 254,596
Adjustments to reconcile net profit to net cash provided by operating activities:												
Amortization of negative goodwill	-	-	-	-	-	-	-	-	-	-	-	(20,044)
Depreciation and amortization	66,543	76,453	-	-	-	-	-	-	(20,044)	-	-	142,996
Deferred income taxes	(43,926)	(14,457)	-	-	-	-	-	4,867	-	-	-	(53,516)
Loss on disposal of property, plant and equipment	3,307	264	-	-	-	-	-	-	-	-	-	3,571
Foreign exchange losses (gains)	11,499	13,835	(336)	(67)	-	-	-	-	-	-	-	24,931
Gain on net monetary position	(47,949)	(74,467)	-	-	-	(47,660)	-	(2,478)	(397)	-	-	(172,951)
Bad debt expense	-	1,176	718	-	-	-	-	-	-	-	-	1,894
Gain on extinguishment of debts	(26,240)	(94,519)	-	-	-	-	-	(17,431)	-	-	-	(138,190)
Impairment of investments	-	453	5,647	68	-	-	-	(4,715)	-	-	-	1,453
Transfer of assets to the government of Russia at no charge	-	-	4,328	-	-	-	-	-	(4,328)	-	-	-
Minority interest	-	-	-	-	-	-	-	-	-	36,967	-	36,967
Gain on disposal of investments	-	-	(487)	-	-	-	-	-	-	-	-	(487)
Interest accrued	22,858	2,303	6,796	-	-	-	-	-	-	-	-	31,957
Extraordinary item	-	(122,120)	-	-	-	-	-	15,411	-	-	-	(106,709)
Changes in operating assets and liabilities:												
Inventories	20,738	16,076	(16,732)	-	-	-	(110)	-	-	-	-	19,972
Trade and other receivables	4,601	25,730	(26,528)	-	-	-	-	-	-	-	-	3,803
Prepayments	2,992	3,106	(10,390)	-	-	-	-	-	-	-	-	(4,292)
Receivables from and payables to related parties	3,639	(15,083)	(7,881)	(89)	-	-	47,375	-	-	-	-	27,961
Taxes receivable	(11,197)	12,293	-	-	-	-	-	-	-	-	-	1,096
Trade and other payables	(22,010)	(39,509)	5,984	3	-	-	-	578	-	-	-	(54,954)
Advances from customers	(7,344)	(1,441)	191	-	-	-	-	-	-	-	-	(8,594)
Taxes payable	(14,534)	80,933	-	2	-	-	-	-	-	-	-	66,401
Other long-term liabilities	-	6,239	-	-	-	-	-	-	-	-	-	6,239
Net cash flows from (used in) operating activities	22,612	(17,956)	58,984	(118)	-	-	-	578	-	-	-	64,100

Mastercraft Limited

Pro Forma Consolidated Cash Flow Statement

For the year ended December 31, 2001 (continued)

	NTMK	ZapSib	Ferrotrade	Lakemill	Tradeline	Logimind	Elimination adjustments		Pro forma adjustments			Total
							Intragroup sales and purchases (Note 3)	Intragroup debits (Note 4)	Acquisition of NTMK and ZapSib (Notes 5, 6)	Minority interest (Note 9)	Settlement of liabilities to Marteck (Note 10)	
Cash flows from investing activities												
Purchases of shares in ZapSib	-	-	(4,328)	(944)	-	-	-	-	5,272	-	-	-
Purchases of debts of ZapSib	-	-	(16,088)	(972)	-	-	-	17,060	-	-	-	-
Issuance of long-term loans receivable	-	-	(13,640)	-	-	-	-	-	-	-	-	(13,640)
Proceeds from short-term loans receivable	-	-	3,831	-	-	-	-	(1,231)	-	-	-	2,600
Issuance of short-term loans receivable	-	-	(22,675)	-	-	-	-	653	-	-	-	(22,022)
Restricted deposits at banks	-	-	(3,000)	-	-	-	-	-	-	-	-	(3,000)
Payments for property, plant and equipment	(15,777)	(23,283)	-	-	-	-	-	-	-	-	-	(39,060)
Payments to acquire equity of other enterprises	(11,481)	-	-	(7,204)	-	-	-	-	-	-	-	(18,685)
Payments to acquire debt instruments of other enterprises	(11,651)	-	-	-	-	-	-	-	-	-	-	(11,651)
Proceeds from the sale of long-term investments	1,287	-	265	-	-	-	-	-	-	-	-	1,552
Net cash flows used in investing activities	(37,622)	(23,283)	(55,635)	(9,120)	-	-	-	16,482	5,272	-	-	(103,906)

Mastercrocft Limited

Pro Forma Consolidated Cash Flow Statement

For the year ended December 31, 2001 (continued)

	Elimination adjustments							Pro forma adjustments				
	NTMK	ZapSib	Ferrotrade	Lakemill	Tradeline	Logicmind	Intragroup sales and purchases (Note 3)	Intragroup debts (Note 4)	Acquisition of NTMK and ZapSib (Notes 5, 6)	Minority interest (Note 9)	Settlement of	
											liabilities to Marteck (Note 10)	
Cash flows from financing activities												
Proceeds from issuance of common shares	-	20,033	-	2	-	-	-	-	(20,033)	-	-	2
Purchases of debts of ZapSib	-	-	-	-	-	-	-	(17,060)	-	-	-	(17,060)
Purchases of shares in ZapSib	-	-	-	-	-	-	-	-	(944)	-	-	(944)
Proceeds from short-term loans from UBS AG, Donau-Bank AG, BNP Paribas and CSFB, net	-	-	27,403	-	-	-	-	-	-	-	-	27,403
Proceeds from short-term borrowings	287,724	29,426	26,802	-	-	-	-	-	-	-	-	343,952
Repayments of short-term borrowings, including interest	(265,918)	(5,194)	(12,626)	-	-	-	-	-	-	-	-	(283,738)
Proceeds from long-term loans	-	-	-	9,246	-	-	-	-	-	-	-	9,246
Redemption of debt securities, including interest	(887)	-	-	-	-	-	-	-	-	-	-	(887)
Proceeds from issuance of debt securities	12,166	-	-	-	-	-	-	-	-	-	-	12,166
Dividends paid	-	-	(45,000)	-	-	-	-	-	-	-	-	(45,000)
Payments under finance lease, including interest	(1,139)	-	-	-	-	-	-	-	-	-	-	(1,139)
Payments under the Settlement Agreements, including interest	(14,844)	-	-	-	-	-	-	-	-	-	-	(14,844)
Payments under restructured taxes, including interest	(5,485)	(488)	-	-	-	-	-	-	-	-	-	(5,973)
Net cash flows from financing activities	11,617	43,777	(3,421)	9,248	-	-	-	(17,060)	(20,977)	-	-	23,184
Effect of foreign exchange rate changes on cash and cash equivalents	238	8	-	-	-	-	-	-	-	-	-	246
Effect of hyperinflation on cash and cash equivalents	(996)	(435)	-	-	-	-	-	-	397	-	-	(1,034)
Net (decrease) increase in cash and cash equivalents	(4,151)	2,111	(72)	10	-	-	-	-	(15,308)	-	-	(17,410)
Cash and cash equivalents at beginning of year	8,002	1,680	80	-	-	-	-	-	15,308	-	-	25,070
Cash and cash equivalents at end of year	\$ 3,851	\$ 3,791	\$ 8	\$ 10	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,660

Mastercraft Limited

Pro Forma Consolidated Statement of Changes in Equity

For the year ended December 31, 2002

(In thousands of US dollars)

	NTMK	ZapSib	Ferrotrade	Lakemill	Tradeline	Logiemind	Elimination adjustments		Pro forma adjustments			Total
							Intragroup sales and purchases (Note 3)	Intragroup debts (Note 4)	Acquisition of NTMK and ZapSib (Notes 5, 6)	Minority interest (Note 9)	Settlement of liabilities to Marteck (Note 10)	
Issued capital												
Balance at December 31, 2001	\$ 55,067	\$ 23,441	\$ 3,000	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ (51,812)	\$ (19,019)	\$ -	\$ 10,682
Issue of share capital	-	4,000	-	-	2	2	-	-	-	(825)	56,972	60,151
Balance at December 31, 2002	55,067	27,441	3,000	5	2	2	-	-	(51,812)	(19,844)	56,972	70,833
Share premium												
Balance at December 31, 2001	5,781	19,620	-	-	-	-	-	-	(13,999)	(5,535)	-	5,867
Issue of share capital	-	(4,000)	-	-	-	-	-	-	-	825	-	(3,175)
Balance at December 31, 2002	5,781	15,620	-	-	-	-	-	-	(13,999)	(4,710)	-	2,692
Unrealised gains												
Balance at December 31, 2001	-	-	-	-	-	-	-	-	-	-	-	-
Net unrealised gains on financial assets	-	-	34,049	6,520	-	-	-	(40,569)	-	-	-	-
Balance at December 31, 2002	-	-	34,049	6,520	-	-	-	(40,569)	-	-	-	-
Accumulated profits (losses)												
Balance at December 31, 2001	324,236	145,007	110,303	(35)	-	-	(2,691)	4,469	(160,315)	(113,423)	-	307,551
Net profit (loss)	12,004	(10,316)	179,970	(2,734)	(3)	(3)	148	24,363	32,259	(965)	-	234,723
Dividends declared	-	-	(175,000)	-	-	-	-	-	-	-	-	(175,000)
Balance at December 31, 2002	336,240	134,691	115,273	(2,769)	(3)	(3)	(2,543)	28,832	(128,056)	(114,388)	-	367,274
Total equity	\$ 397,088	\$ 177,752	\$ 152,322	\$ 3,756	\$ (1)	\$ (1)	\$ (2,543)	\$ (11,737)	\$ (193,867)	\$ (138,942)	\$ 56,972	\$ 440,799

Mastercraft Limited

Pro Forma Consolidated Statement of Changes in Equity

For the year ended December 31, 2001

(In thousands of US dollars)

	NTMK	ZapSib	Ferrotrade	Lakemill	Tradeline	Logitemind	Elimination adjustments		Pro forma adjustments			Total
							Intragroup sales and purchases (Note 3)	Intragroup debts (Note 4)	Acquisition of NTMK and ZapSib (Notes 5, 6)	Minority interest (Note 9)	Settlement of liabilities to Marteek (Note 10)	
Issued capital												
Balance at December 31, 2000	\$ 55,067	\$ 23,028	\$ 3,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (51,399)	\$ (19,019)	\$ -	\$ 10,677
Issue of share capital	-	413	-	5	-	-	-	-	(413)	-	-	5
Balance at December 31, 2001	55,067	23,441	3,000	5	-	-	-	-	(51,812)	(19,019)	-	10,682
Share premium												
Balance at December 31, 2000	5,781	-	-	-	-	-	-	-	5,621	(5,535)	-	5,867
Issue of share capital	-	19,620	-	-	-	-	-	-	(19,620)	-	-	-
Balance at December 31, 2001	5,781	19,620	-	-	-	-	-	-	(13,999)	(5,535)	-	5,867
Unrealised gains												
Balance at December 31, 2000	-	-	-	-	-	-	-	-	-	-	-	-
Net unrealised gains on financial assets	-	-	-	-	-	-	-	-	-	-	-	-
Balance at December 31, 2001	-	-	-	-	-	-	-	-	-	-	-	-
Accumulated profits (losses)												
Balance at December 31, 2000	264,601	40,228	87,041	-	-	-	(3,086)	123	(185,084)	(76,456)	-	127,367
Net profit (loss)	59,635	104,779	97,674	(35)	-	-	395	4,346	24,769	(36,967)	-	254,596
Dividends declared	-	-	(74,412)	-	-	-	-	-	-	-	-	(74,412)
Balance at December 31, 2001	324,236	145,007	110,303	(35)	-	-	(2,691)	4,469	(160,315)	(113,423)	-	307,551
Total equity	\$ 385,084	\$ 188,068	\$ 113,303	\$ (30)	\$ -	\$ -	\$ (2,691)	\$ 4,469	\$ (226,126)	\$ (137,977)	\$ -	\$ 324,100

Mastercraft Limited

Notes to Pro Forma Consolidated Financial Information

Years ended December 31, 2002 and 2001

(All amounts are in thousands of US dollars, unless specified otherwise)

1. Corporate Information

Mastercraft Limited (the “Company”) is a limited liability company registered under the laws of Cyprus on December 31, 2002. The registered address of the Company is Themistoki Dervi 3, Julia House, P.C.1066, Nicosia, Cyprus.

The Company holds equity investments in six subsidiaries: Ferroblast Overseas Investments Limited (“Ferroblast”), Tradeline Enterprises Limited (“Tradeline”), Lakemill Trading & Investments Limited (“Lakemill”), Logicmind Investments Limited (“Logicmind”), Ferrotrade Limited and OOO Sibmetinvest (“SMI”).

Ferroblast is a limited liability company registered in Cyprus in 2002. As of August 6, 2003, Ferroblast held 392,318,491 (29.95%) common shares in OAO Nizhny Tagil Iron & Steel Plant (“NTMK”). Ferroblast acquired these shares in the period from May 2003 to July 2003 in transactions among enterprises under common control. On February 19, 2003, the Company acquired 100% ownership interest in Ferroblast in a transaction among enterprises under common control.

Tradeline is a limited liability company registered in Cyprus in 2001. As of August 6, 2003, Tradeline held 580,248,105 (44.29%) common shares in NTMK. Tradeline acquired these shares in transactions, which occurred in the period from October 2002 to August 2003, including transactions among enterprises under common control. On June 12, 2003, the Company acquired 100% ownership interest in Tradeline in a transaction among enterprises under common control.

NTMK is an open joint stock company registered in Russia and mainly involved in the production of steel products. As of August 6, 2003, Ferroblast and Tradeline, the subsidiaries of the Company, owned 74.24% of common shares in NTMK.

Lakemill is a limited liability company registered in Cyprus in 1999. Lakemill holds investments in other enterprises. As of August 6, 2003, these investments included 6,885,144 (51.43%) shares in OAO West-Siberian Iron & Steel Plant (“ZapSib”), consisting of 6,605,593 common shares and 279,551 Class A preferred shares. Lakemill acquired these shares in transactions, which occurred in the period from April 2001 to July 2003, including transactions among enterprises under common control. On June 10, 2003, the Company acquired 100% ownership interest in Lakemill in a transaction among enterprises under common control.

Logicmind is a limited liability company registered in Cyprus in 2001. As of August 6, 2003, Logicmind held 3,741,984 (27.95%) shares in ZapSib, consisting of 3,704,677 common shares and 37,307 Class A preferred shares. Logicmind acquired these shares in transactions, which occurred in the period from October 2002 to June 2003, including transactions among enterprises under common control. On March 21, 2003, the Company acquired 100% ownership interest in Logicmind in a transaction among enterprises under common control.

Mastercrocft Limited

Notes to Pro Forma Consolidated Financial Information (continued)

1. Corporate Information (continued)

ZapSib is an open joint stock company registered in Russia and mainly involved in the production of steel products. As of August 6, 2003, Lakemill and Logicmind, the subsidiaries of the Company, owned 79.38% of shares in ZapSib. Share capital of ZapSib consists of 13,387,549 shares, including 12,782,723 common shares and 604,826 Class A preferred shares.

Class A preferred shares entitle their holder to:

- (i) receive fixed dividends, totaling 10% of the Company's annual net profits per Russian statutory accounts;
- (ii) receive liquidation assets on a priority basis as compared to holders of other groups and types of shares; and
- (iii) vote to liquidate or reorganize the Company or reintroduce amendments restricting the rights of the shareholders in the charter documents.

If ZapSib does not pay dividends when net profits are available, the holders of Class A preferred shares obtain the same voting rights as the holders of common shares.

The annual meeting of shareholders of ZapSib held June 5, 2003 decided that ZapSib will not pay dividends on Class A preferred shares from net profits of 2002 per the Russian statutory accounts.

In 2003, the Company incorporated a subsidiary, Ferrotrade Limited, in Gibraltar. The Company owns 10% of the share capital of Ferrotrade Limited, but is entitled to all of the profits of Ferrotrade Limited and exercises unilateral managerial control over this subsidiary.

Ferrotrade & Co. ("Ferrotrade") is a limited partnership registered in the United Kingdom. Ferrotrade is engaged in the export of steel products from Russia. Marteck International Ltd. ("Marteck"), the general partner in Ferrotrade, is entitled to all of Ferrotrade's profits up to 10 million British pounds and to 99.999% of Ferrotrade's profits exceeding 10 million British pounds. All losses of Ferrotrade are to be borne by the general partner.

Currently, the Company and Marteck plan to transfer the business and operations of Ferrotrade to Ferrotrade Limited. Under the plan, Ferrotrade Limited will start trading activities of Ferrotrade in the end of 2003. Ferrotrade will fulfill its commitments under the existing contracts and will repay its liabilities. The transfer is expected to be completed by December 2003. Ferrotrade does not plan to enter into trading transactions after December 2003.

SMI is a limited liability company incorporated in Russia in 2003. Shares in SMI are held by Mastercrocft (50%), NTMK (25%) and ZapSib (25%). SMI intends to obtain borrowings for the purpose of acquisitions of mining and steel producing assets.

Mastercrocft Limited

Notes to Pro Forma Consolidated Financial Information (continued)

2. Basis of Preparation

The accompanying pro forma consolidated financial information of the Company for the years ended December 31, 2002 and 2001 includes the historical financial statements of NTMK, ZapSib, Ferrotrade, Lakemill, Tradeline and Logicmind prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

The financial statements of Ferrotrade are included in the accompanying pro forma consolidated financial information of the Company for the years ended December 31, 2002 and 2001 to reflect the pro forma effect of the planned transfer of Ferrotrade's business to Ferrotrade Limited, a subsidiary of the Company.

In addition, the accompanying pro forma consolidated financial information of the Company for the years ended December 31, 2002 and 2001 includes adjustments to eliminate intragroup balances and transactions, adjustments to give effect to additional capital contributions in Mastercrocft and settlement of liabilities due to Marteck as if those transactions took place on December 31, 2002 (Note 10) and adjustments to give effect to the following transactions as if those transactions took place on December 31, 2000:

- acquisition by the Company of 100% ownership interest in Ferroblast, Tradeline, Lakemill and Logicmind;
- transfer of the business and operations of Ferrotrade to Ferrotrade Limited;
- acquisition by Ferroblast of 29.95% of common shares in NTMK;
- acquisition by Tradeline of 44.29% of common shares in NTMK;
- acquisition by Lakemill of 51.43% of shares in ZapSib;
- acquisition by Logicmind of 27.95% of shares in ZapSib.

The accompanying pro forma consolidated financial information of the Company for the years ended December 31, 2002 and 2001 does not include the parent company financial statements of the Company, and the financial statements of Ferroblast and Ferrotrade Limited for the years ended December 31, 2002 and 2001, because pro forma consolidation of those enterprises has no effect on the accompanying pro forma consolidated financial information.

Mastercraft Limited

Notes to Pro Forma Consolidated Financial Information (continued)

3. Intragroup Sales and Purchases

In the years ended December 31, 2002 and 2001, Ferrotrade purchased steel products produced by NTMK and ZapSib. Ferrotrade made purchases of such products directly from NTMK and ZapSib and from intermediaries acting as sales agents of NTMK and ZapSib or as re-sellers of the products of NTMK and ZapSib.

Accounts receivable and payable, revenues and expenses and unrealised profits included in the carrying amounts of inventory relating to the transactions on the purchase of NTMK and ZapSib's steel products by Ferrotrade were eliminated in the accompanying pro forma consolidated financial information.

4. Intragroup Debts

In the years ended December 31, 2002 and 2001, Ferrotrade and Lakemill purchased debts and promissory notes of NTMK and ZapSib from other enterprises, and NTMK and ZapSib made repayments under those instruments. In addition, Ferrotrade granted loans to ZapSib and ZapSib made repayments of those loans.

Amounts receivable and payable in respect of intragroup debts, gains and losses relating to the restructuring of intragroup debts payable and re-measurement of investments in intragroup debts at fair value, and cash flows relating to intragroup investing and financing activities were eliminated in the accompanying pro forma consolidated financial information.

5. Acquisition of NTMK

The fair value of identifiable net assets of NTMK as of December 31, 2000 approximated their carrying value in the financial statements of NTMK prepared in accordance with IFRS. Negative goodwill of \$158,342 in respect of the acquisition of NTMK represented the excess of 74.24% of the fair value of net assets of NTMK as of December 31, 2000 over the cost of acquisition of 74.24% of common shares in NTMK by subsidiaries of the Company and the enterprises under common control with the Company in transactions with enterprises which were not under common control with the Company of \$62,982.

Negative goodwill was presented as a deduction from non-current assets in the accompanying pro forma consolidated balance sheets as of December 31, 2002 and 2001. Amortization of negative goodwill is recognized as income on a systematic basis over the remaining weighted average useful life of the identifiable depreciable assets, principally property, plant and equipment, recorded in the balance sheet of NTMK as of December 31, 2000.

Adjustments were recorded in the accompanying pro forma consolidated financial information to give effect of the following transaction consummated in year ended December 31, 2002 and directly linked to the acquisition of 74.24% of shares in NTMK by subsidiary of the Company, as if this transaction took place on December 31, 2000:

- acquisition by Tradeline of shares in NTMK in transactions with enterprises including transactions with enterprises under common control with the Company in the year ended December 31, 2002 for \$25,187.

Mastercraft Limited

Notes to Pro Forma Consolidated Financial Information (continued)

6. Acquisition of ZapSib

The fair value of identifiable net assets of ZapSib as of December 31, 2000 approximated their carrying value in the financial statements of ZapSib prepared in accordance with IFRS. Negative goodwill of \$30,612 in respect of the acquisition of ZapSib represented the excess of 79.38% of the fair value of net assets of ZapSib as of December 31, 2000 over the cost of acquisition of 79.38% of shares in ZapSib by subsidiaries of the Company and the enterprises under common control with the Company in transactions with enterprises which were not under common control with the Company of \$29,951.

Negative goodwill was presented as a deduction from non-current assets in the accompanying pro forma consolidated balance sheets as of December 31, 2002 and 2001. Amortization of negative goodwill is recognized as income on a systematic basis over the remaining weighted average useful life of the identifiable depreciable assets, principally property, plant and equipment, recorded in the balance sheet of ZapSib as of December 31, 2000.

Adjustments were recorded in the accompanying pro forma consolidated financial information to give effect to the following transactions consummated in the years ended December 31, 2002 and 2001 and directly linked to the acquisition of 79.38% of shares in ZapSib by subsidiaries of the Company and the enterprises under common control with the Company in transactions with enterprises which were not under common control with the Company, as if those transactions took place on December 31, 2000:

- issue of share capital of \$20,033 in the year ended December 31, 2001;
- acquisition by Ferrotrade of shares in ZapSib in transactions with enterprises which were under common control with the Company in the year ended December 31, 2002 for \$1,389;
- acquisition by Lakemill of shares in ZapSib in transactions with enterprises which were under common control with the Company in the years ended December 31, 2002 and 2001 for \$8,004 and \$0, respectively;
- acquisition by Lakemill of shares in ZapSib in transactions with enterprises which were not under common control with the Company in the years ended December 31, 2002 and 2001 for \$11,197 and \$944, respectively;
- acquisition by Logicmind of shares in ZapSib in transactions with enterprises which were under common control with the Company in the year ended December 31, 2002 for \$10,495;
- Ferrotrade's loss for \$4,328 on the transfer of shares of ZapSib to the government of Russia at no charge.

Mastercraft Limited

Notes to Pro Forma Consolidated Financial Information (continued)

7. Ferrotrade's Investment in Shares of ZapSib

As of December 31, 2002, Ferrotrade owned 1,819,490 shares of common stock in ZapSib for their subsequent sale. The contract for the subsequent sale of these shares was signed in 2002. Investment in these shares stated at \$2,947 was not eliminated and was included in investments and notes receivable in the accompanying pro forma consolidated balance sheet as of December 31, 2002.

8. General Partner's Interest in Ferrotrade and Ownership Interest in Lakemill

General partner's interest in Ferrotrade and ownership interest in Lakemill have been with the enterprises under common control with the Company since the foundation of Ferrotrade and Lakemill. Therefore, no acquisition adjustments have been made to the financial statements of Ferrotrade and Lakemill prepared in accordance with IFRS in the accompanying pro forma consolidated financial information of the Company.

9. Minority Interest

Minority interest in net assets and net profits of NTMK and ZapSib in the accompanying consolidated pro forma financial information was determined at the rates of 25.76% for NTMK and 20.62% for ZapSib.

10. Settlement of Liabilities to Marteck

In June 2003, Lakemill, Logicmind and Tradeline settled their liabilities due to Marteck by transferring promissory notes. In June 2003, those promissory notes were contributed by the owner of Mastercraft to the capital of Mastercraft, and subsequently transferred by Mastercraft to Lakemill, Logicmind and Tradeline in the form of loans.

Liabilities of Lakemill, Logicmind and Tradeline due to Marteck settled in June 2003 included the balances which existed as of December 31, 2002 in the amount of \$40,014, \$10,036 and \$6,922, respectively.

The accompanying pro forma consolidated financial information includes adjustments to give effect to the settlement of liabilities of Lakemill, Logicmind and Tradeline to Marteck in the amount of \$56,972 and capital contribution to Mastercraft in the same amount as if those transactions took place on December 31, 2002.

Mastercraft Limited

Notes to Pro Forma Consolidated Financial Information (continued)

11. Equity

Equity in the accompanying pro forma consolidated financial information as of December 31, 2002 and 2001 was determined as the sum of equity balances of NTMK, ZapSib, Ferrotrade, Lakemill, Tradeline and Logicmind in their financial statements prepared in accordance with IFRS, increased by the capital contribution of promissory notes to the capital of Mastercraft (Note 10) and reduced by the effect of the following adjustments:

- elimination of Tradeline's investment in shares of NTMK made in the year ended December 31, 2002 (Note 5);
- elimination of Lakemill's investment in shares of ZapSib made in the year ended December 31, 2002 and 2001 (Note 6);
- elimination of Ferrotrade's investment in shares of ZapSib made in the year ended December 31, 2002 (Note 6);
- elimination of Logicmind's investment in shares of ZapSib made in the year ended December 31, 2002 (Note 6);
- elimination of Ferrotrade's loss on transfer of shares of ZapSib to the government of Russia at no charge (Note 6);
- recording of minority interest (Note 9);
- recording of negative goodwill to reflect the cost of acquisition of 74.24% of common shares in NTMK and 79.38% of shares in ZapSib by the subsidiaries of the Company and the enterprises under common control with the Company in transactions with enterprises which were not under common control with the Company (Notes 5 and 6).

OA O Nizhny Tagil Iron & Steel Plant
Parent Company Financial Statements

*Years ended December 31, 2002 and 2001
with Independent Auditors' Report*

OAO Nizhny Tagil Iron & Steel Plant
Parent Company Financial Statements
Years ended December 31, 2002 and 2001

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Report of Independent Auditors

The Management Board
OAO Nizhny Tagil Iron & Steel Plant

We have audited the accompanying parent company balance sheets of OAO Nizhny Tagil Iron & Steel Plant (the "Company") as of December 31, 2002 and 2001 and the related statements of income, cash flows and changes in equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

We were unable to locate and examine documentation supporting the cost of a certain portion of the Company's assets under construction stated in the accompanying parent company financial statements at \$15,730,000 and \$20,645,000 as of December 31, 2002 and 2001, respectively, and a certain portion of the Company's machinery and equipment stated in the accompanying parent company financial statements at \$3,683,000 and \$0 as of December 31, 2002 and 2001, respectively, nor were we able to satisfy ourselves by other auditing procedures as to the carrying value of the above-mentioned assets.

In accordance with International Accounting Standard 27, Consolidated Financial Statements and Accounting for Investments in Subsidiaries, the Company is required to prepare consolidated financial statements. Management has not prepared consolidated financial statements.

In our opinion, a) except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence as to the carrying value of certain portions of the Company's assets under construction and machinery and equipment as at December 31, 2002 and 2001; and b) except for the omission of consolidated financial statements, the parent company financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young (CIS) Limited
Moscow, Russia
June 27, 2003

OAO Nizhny Tagil Iron & Steel Plant

Parent Company Balance Sheets

(In thousands of US dollars)

	Notes	December 31, 2002	2001
ASSETS			
Non-current assets			
Property, plant and equipment, net	6	\$ 586,622	\$ 638,096
Investments in subsidiaries and associates	7	12,933	12,915
Input VAT relating to the Settlement Agreement	15	3,877	5,394
		<u>603,432</u>	<u>656,405</u>
Current assets			
Inventories	8	45,471	55,266
Trade and other receivables, net	9	18,519	15,976
Prepayments		10,084	4,867
Receivables from related parties	10	11,547	15,056
Taxes receivable	11	24,689	24,544
Promissory notes receivable	12	–	11,940
Cash and cash equivalents		13,892	3,851
		<u>124,202</u>	<u>131,500</u>
TOTAL ASSETS		<u><u>\$ 727,634</u></u>	<u><u>\$ 787,905</u></u>
EQUITY AND LIABILITIES			
Equity			
Issued capital	13	\$ 55,067	\$ 55,067
Share premium		5,781	5,781
Accumulated profits		336,240	324,236
Total equity		<u>397,088</u>	<u>385,084</u>
Non-current liabilities			
Long-term loans	14	31,762	–
Liabilities under the Settlement Agreement	15	61,194	76,269
Promissory notes payable	16	6,803	6,627
Restructured taxes payable	17	13,790	27,313
Finance lease obligations	18	3,971	4,877
Deferred income tax liabilities	5	89,300	90,249
Provisions	19	265	264
		<u>207,085</u>	<u>205,599</u>
Current liabilities			
Trade and other payables	20	34,142	63,109
Advances from customers		11,132	2,097
Short-term loans	21	8,526	73,944
Payables to related parties	10	34,015	34,383
Taxes payable	22	17,783	15,773
Current portion of liabilities under the Settlement Agreement	15	17,515	7,643
Current portion of finance lease obligations	18	348	273
		<u>123,461</u>	<u>197,222</u>
TOTAL EQUITY AND LIABILITIES		<u><u>\$ 727,634</u></u>	<u><u>\$ 787,905</u></u>

The accompanying notes form an integral part of these Parent Company Financial Statements.

OAO Nizhny Tagil Iron & Steel Plant

Parent Company Income Statements

(In thousands of US dollars)

		For the years ended December 31,	
	Notes	2002	2001
Revenues			
Sale of goods		\$ 783,521	\$ 818,197
Rendering of services		26,885	19,893
		810,406	838,090
Cost of revenues	4	687,123	763,733
Gross profit		123,283	74,357
Selling and distribution costs	4	(32,195)	(33,279)
General and administrative expenses	4	(38,560)	(40,188)
Social and social infrastructure maintenance expenses	4	(26,002)	(13,148)
Loss on disposal of property, plant and equipment	6	(14,084)	(3,307)
Foreign exchange losses, net		(7,407)	(11,499)
Gain on net monetary position		28,996	47,949
Other operating income		4,429	3,406
Profit from operating activities		38,460	24,291
Interest expense		(27,503)	(22,858)
Gain on extinguishment of debts		12,482	26,240
Profit before income taxes		23,439	27,673
Income tax (expense) benefit	5	(11,435)	31,962
Net profit		\$ 12,004	\$ 59,635

The accompanying notes form an integral part of these Parent Company Financial Statements.

OAo Nizhny Tagil Iron & Steel Plant
Parent Company Cash Flow Statements
(In thousands of US dollars)

	For the years ended December 31,	
	2002	2001
Cash flows from operating activities		
Net profit	\$ 12,004	\$ 59,635
Adjustments to reconcile net profit to net cash provided by operating activities:		
Depreciation and amortization	80,238	66,543
Deferred income taxes	(949)	(43,926)
Loss on disposal of property, plant and equipment	14,084	3,307
Gain on extinguishment of debts	(12,482)	(26,240)
Foreign exchange losses	7,407	11,499
Gain on net monetary position	(28,996)	(47,949)
Bad debt expense	3,081	—
Interest accrued	27,503	22,858
Operating profit before working capital changes	101,890	45,727
Changes in operating assets and liabilities:		
Inventories	9,795	20,738
Trade and other receivables	(6,204)	4,601
Prepayments	(6,530)	2,992
Receivables from related parties	1,568	(6,778)
Taxes receivable	(5,474)	(11,197)
Trade and other payables	(27,506)	(22,010)
Advances from customers	10,163	(7,344)
Payables to related parties	4,451	10,417
Taxes payable	10,110	(14,534)
Net cash flows from operating activities	92,263	22,612
Cash flows from investing activities		
Payments for property, plant and equipment	(38,258)	(15,777)
Proceeds from the sale of property, plant and equipment	1,277	—
Payments to acquire equity of other enterprises	(18)	(11,481)
Proceeds from the sale of debt instruments of other enterprises	9,949	—
Payments for debt instruments of other enterprises	—	(11,651)
Proceeds from the sale of long-term investments	—	1,287
Loans provided to related parties	(1,325)	—
Net cash flows used in investing activities	(28,375)	(37,622)
Cash flows from financing activities		
Proceeds from short-term borrowings	328,404	287,724
Repayment of short-term borrowings, including interest	(381,063)	(265,918)
Proceeds from long-term borrowings	31,266	—
Proceeds from issuance of debt securities	—	12,166
Redemption of debt securities, including interest payments	(13,361)	(887)
Proceeds from short-term borrowings from a related party	10,009	—
Repayment of short-term borrowings from a related party	(9,439)	—
Payments under finance lease, including interest	(1,091)	(1,139)
Payments under the Settlement Agreement, including interest	(12,854)	(14,844)
Payments under long-term promissory notes	(185)	—
Payments under restructured taxes, including interest	(4,029)	(5,485)
Net cash flows (used in) from financing activities	(52,343)	11,617
Effect of foreign exchange rate changes on cash and cash equivalents	95	238
Effect of hyperinflation on cash and cash equivalents	(1,599)	(996)
Net increase/(decrease) in cash and cash equivalents	10,041	(4,151)
Cash and cash equivalents at beginning of period	3,851	8,002
Cash and cash equivalents at end of period	\$ 13,892	\$ 3,851
Supplementary cash flow information:		
Cash flows during the period:		
Interest paid	\$ 28,407	\$ 22,070
Income taxes paid	10,351	8,992

The accompanying notes form an integral part of these Parent Company Financial Statements.

OA0 Nizhny Tagil Iron & Steel Plant

Parent Company Statements of Changes in Equity

For the years ended December 31, 2002 and 2001

(In thousands of US dollars)

	Issued capital	Share premium	Accumulated profits	Total
Balance at December 31, 2000	\$ 55,067	\$ 5,781	\$ 264,601	\$ 325,449
Net profit	—	—	59,635	59,635
Balance at December 31, 2001	\$ 55,067	\$ 5,781	\$ 324,236	\$ 385,084
Net profit	—	—	12,004	12,004
Balance at December 31, 2002	\$ 55,067	\$ 5,781	\$ 336,240	\$ 397,088

The accompanying notes form an integral part of these Parent Company Financial Statements.

OAO Nizhny Tagil Iron & Steel Plant
Notes to Parent Company Financial Statements
Years ended December 31, 2002 and 2001

(All amounts are in thousands of US dollars, unless specified otherwise)

1. Corporate Information

The financial statements of OAO Nizhny Tagil Iron & Steel Plant (“NTMK” or the “Company”) for the years ended December 31, 2002 and 2001 were authorized for issue in accordance with a resolution of the Management Board on June 27, 2003. The Company commenced operations in 1940. It was registered as a Russian open joint stock company following its privatization in 1993. The registered office of the Company is located at 1 Metallurgov Street, Nizhny Tagil, the Sverdlovsk region, the Russian Federation.

NTMK is one of the major metallurgical plants in Russia. The Company is a full-cycle steel production plant, comprising an ore-mining group, coke-chemical production, blast-furnace production, steel making facilities and rolling mills.

NTMK derives approximately 90% of its revenues from sales of metal products. Other revenue sources include raw material processing fees, sales of slag, refractory materials and coke, and non-production revenues.

The Company sells metal products both domestically and abroad. For the years ended December 31, 2002 and 2001, the domestic revenues were approximately 70% and 67% of total revenues, respectively. The majority of the Company’s metal products in Russia are sold to railway transportation, construction and pipeline manufacturing industries.

At December 31, 2002, Marteck International Limited, an entity incorporated under the laws of British Virgin Islands, and its subsidiaries owned 61% of the Company’s share capital.

At December 31, 2002, the Company employed approximately 31,000 employees.

On August 1, 2002, the Company’s shareholders appointed OOO EvrazHolding (“EvrazHolding”) as a management executive body of the Company.

2. Significant Accounting Policies

Basis of Preparation

The separate parent company financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (the “IASB”) and interpretations issued by the Standing Interpretations Committee of the IASB.

The Company maintains its records and prepares its financial statements in Russian roubles (“roubles”). The accompanying parent company financial statements differ from the financial statements issued for statutory purposes in Russia in that they reflect certain adjustments, which are appropriate to present the financial position, results of operations and cash flows of the Company in accordance with IFRS issued by the IASB.

OA0 Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

The principal adjustments relate to (1) expense and revenue recognition, (2) valuation allowances for unrecoverable assets, (3) depreciation and valuation of property and equipment, (4) accounting for income taxes, (5) measurement of financial instruments, and (6) restatement of the financial statements to reflect the changes in the general purchasing power of the rouble.

According to International Accounting Standard ("IAS") 21, The Effects of Changes in Foreign Exchange Rates, and its interpretations, the Company's measurement currency, which reflects the economic substance of the underlying events and circumstances of the Company, is the rouble as the majority of the Company's revenues, costs, property and equipment purchased, and debt and trade liabilities are either priced, incurred, payable or otherwise measured in roubles. The Company operates in an economy suffering from the effect of hyperinflation, defined, among others, as one in which the cumulative inflation rate over three years is approaching, or exceeds, 100%.

Thus, as required by IAS 29, Financial Reporting in Hyperinflationary Economies, the accompanying financial statements, prepared on a historical cost approach, have been restated so that all reported amounts are expressed in terms of the value of the measuring currency at the most recent balance sheet date. For presentation purposes, the restated financial statements have been translated into US dollars, the presentation currency, at the exchange rate as of December 31, 2002, the date of the most recent balance sheet presented. The Company's presentation currency is different from its measurement currency because the presentation in US dollars is more convenient for the major current and potential users of the financial statements.

The rouble is not a fully convertible currency outside the territory of the Russian Federation. Within the Russian Federation, official exchange rates are determined daily by the Central Bank of the Russian Federation (the "CBR"). Market rates may differ from the official rates but the differences are, generally, within narrow parameters monitored by the CBR. As of December 31, 2002 and 2001 the official rates of exchange were 31.7844 roubles = US\$1 and 30.1400 roubles = US\$1, respectively. Transactions denominated in foreign currencies are recorded at the official exchange rate on the date of the transaction.

Hyperinflationary Accounting

The restatement of the accompanying parent company financial statements expressed in the measurement currency was based on the price indices derived from the Russian Federation Consumer Price Index published by the Russian State Committee on Statistics (the "RCS"). Management believes that these indices provide the most appropriate measure of inflation in the economy. According to the RCS, the price indices for the years ended December 31, 2002 and 2001 were 15.12% and 18.82%, respectively.

OA0 Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Hyperinflationary Accounting (continued)

Certain amounts presented in the accompanying parent company financial statements, and notes thereto, have been restated. The following methodologies and assumptions were used in the restatement:

- Monetary assets and liabilities, and non-monetary items stated at fair value, as of December 31, 2002 were not restated because they are already expressed in terms of the monetary unit current as of December 31, 2002.
- Monetary assets and liabilities, and non-monetary items stated at fair value, as of December 31, 2001 were restated by applying the price index for the year ended December 31, 2002.
- Non-monetary assets, liabilities and equity, including share capital contributions, were restated by applying the price indices for the period from the date of the transaction to December 31, 2002. Movements in such items and revenue and expense items for the years ended December 31, 2002 and 2001 were restated using the price indices from the date of the transaction to December 31, 2002.
- Certain income statement amounts, such as the provision for doubtful accounts, have been assumed to occur at the end of the respective year in which they were determined unless related to a specific point in time, and then the amounts are treated as occurring at that point in time.

Gain or loss on net monetary position is charged to the Company's income.

Investments

All investments, including equity investments in subsidiaries and associates in the separate parent company financial statements, are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, equity investments in subsidiaries and associates in the separate parent company financial statements are measured at cost, net of impairment.

Investments which are classified as "held for trading" and "available for sale", except for equity investments in subsidiaries and associates in the separate parent company financial statements, and except for other investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are subsequently measured at fair value, with unrealised gains or losses on trading securities recognized in income and unrealised gains or losses on available-for-sale securities reported as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in income.

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Investments (continued)

Investments which are classified as “held for trading” and “available for sale”, but do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are subsequently measured at amortized cost using the effective interest rate method. Those that do not have a fixed maturity are measured at cost.

Other long-term investments that are intended to be held to maturity, such as bonds, are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortized cost, any gain or loss is recognized in income when the investment is derecognized or impaired, as well as through the amortization process.

All purchases and sales of financial assets under contracts to purchase or sell financial assets that require delivery of the asset within the time frame generally established by regulation or convention in the market place are recognized on the settlement date i.e. the date the asset is delivered by/to the counterparty.

The Company evaluates credit risk related to its investments by assessing the financial position of investees and considering other factors on an individual basis.

Property, Plant and Equipment

Property, plant and equipment, except for assets under construction, are stated at revalued amounts less accumulated depreciation expressed in terms of the value of the measurement currency at the most recent balance sheet date, and less any accumulated impairment losses. The Company involves independent valuers to determine the fair value of its property, plant and equipment. The most recent valuation was performed at December 31, 2001.

Assets under construction are stated at cost expressed in terms of the value of the measurement currency at the most recent balance sheet date, less any accumulated impairment loss.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings and constructions	15-50 years
Machinery and equipment	6-45 years
Transport and motor vehicles	7-20 years
Other assets	3-15 years

Depreciation is charged in the month following the month in which the asset is put into use and, for disposals, in the month of disposal.

Maintenance costs relating to items of property, plant and equipment are expensed as incurred.

OA0 Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

The Company has the title to certain non-production and social assets, primarily buildings and facilities of social infrastructure, which are valued at zero. The costs to maintain such assets are expensed as incurred.

Leases

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

Impairment of Assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that an asset or a group of assets may be impaired. When there is an indication that an asset may be impaired, the asset is measured at its estimated recoverable amount, which is the higher of the net selling price and value in use.

Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, after deducting any direct incremental disposal costs. Value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life. 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.

Impairment loss is recognized for the difference between the estimated recoverable amount and the carrying value as follows:

- For property, plant and equipment at amortized revalued amounts or cost, for financial assets at amortized cost, and for equity investments in subsidiaries and associates in the separate parent company financial statements at cost – the carrying amount of the asset is reduced to its estimated recoverable amount either directly or through the use of an allowance account and the amount of the loss is included in the net profit and loss for the period; and

OAQ Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Impairment of Assets (continued)

- For financial assets at fair value – where a loss has been recognized directly in equity as a result of the write-down of the asset to recoverable amount, the cumulative net loss recognized in equity is transferred to the net profit and loss for the period.

An impairment loss is reversed if the subsequent increase in the 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, if no impairment loss had been recognized.

Cash and Cash Equivalents

Cash on hand and in banks is carried at cost.

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value. As of December 31, 2002 and 2001, cash and cash equivalents consisted primarily of cash in banks.

Accounts Receivable

Accounts receivable are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Doubtful amounts are reserved when identified.

Inventories

Inventories are valued at the lower of cost and net realizable value.

Costs are accounted for on a weighted average basis and include expenditure incurred in acquiring inventories and bringing them to their existing location and condition. The cost of finished goods and work in progress includes an appropriate share of production overheads based on normal operating capacity, but excluding borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale.

Share Capital

The Company's common shares are recognized at the fair value of the consideration received by the Company.

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Government Grants

Government grants are recognized at their fair value, where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognized as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Grants related to assets are presented in the balance sheet by deducting the grant in arriving at the carrying amount of the asset and are recognized as a deduction from depreciation expense over the life of the asset.

Accounts Payable

Accounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Social and Pension Contributions

The Company contributes to the Russian Federation state pension, social insurance, medical insurance, and unemployment funds on behalf of its employees. These contributions are expensed as incurred. They approximated 34% of the employees' salaries in the years ended December 31, 2002 and 2001.

Income Tax

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax losses can be utilized.

OA0 Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Income Tax (continued)

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Loans and Borrowings

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received, and include acquisition charges associated with the borrowing. After initial recognition, all loans and borrowings, other than liabilities held for trading, are subsequently measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on settlement. Liabilities that are held for trading are subsequently measured at fair value.

For liabilities carried at amortized cost, any gain or loss is recognized in the income statement when the liability is de-recognized, and through the amortization process.

Borrowing costs are expensed as incurred.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, consisting of short-term accounts and promissory notes receivable, short-term and long-term loans payable approximate their fair value.

Fair value of financial instruments, consisting of long-term obligations under promissory notes, the Settlement Agreement and restructured taxes was not determined because it is impracticable to determine the fair value of these financial liabilities with sufficient reliability.

Concentration of Credit Risk

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of trade accounts receivable. The Company constantly monitors the status of accounts receivable collection and the credit worthiness of the customers. In addition, the Company requires prepayments from certain customers.

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Revenue Recognition (continued)

Sale of Goods

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Title generally passes to the buyer at the railway station in the Sverdlovsk Region.

Rendering of Services

Service revenue is recognized when services are rendered. When goods are sold or services are rendered in exchange for dissimilar goods or services, the revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

Social and Social Infrastructure Maintenance Expenses

In the period prior to 1992, the Company built social infrastructure property items, such as residential apartments, schools, and hospitals for its personnel in Nizhny Tagil. Subsequent to its privatization, the Company initiated the transfer of the social infrastructure property to Nizhny Tagil local authorities. The transfer was completed in 1998. Since that time the Company has been primarily completing construction of social infrastructure items commenced prior to the transfer.

The items of social infrastructure do not meet the definition of an asset in accordance with IFRS. Cost of construction of social infrastructure items and social infrastructure maintenance costs are expensed as incurred.

Use of Estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Reclassifications

Payments of interest in the amount of \$22,070 have been reclassified from cash flows used in operating activities to cash flows used in financing activities in the accompanying statement of cash flows for the year ended December 31, 2001, to conform to the presentation of the financial statements as of and for the year ended December 31, 2002.

Certain other reclassifications have been made in 2001 balances to conform to the presentation of the financial statements as of and for the year ended December 31, 2002.

As of January 1, 2002, based on the results of an independent valuation, the Company changed the estimated remaining useful life of its property, plant and equipment as follows:

	Before the change	After the change
Buildings and constructions	35 years	15-50 years
Machinery and equipment	15 years	6-45 years
Transport and motor vehicles	7 years	7-20 years
Other assets	5 years	3-15 years

The change decreased net profit for the year ended December 31, 2002 by approximately \$20,779.

Revenues from sales of goods and cost of revenues for the years ended December 31, 2002 and 2001 in the accompanying parent company income statements include the amounts of \$97,244 and \$145,551, respectively, representing non-monetary exchange of dissimilar goods.

The following expenses were included in cost of revenues, selling and distribution costs, general and administrative expenses, and social and social infrastructure maintenance expenses for the years ended December 31:

	2002	2001
Cost of inventories recognized as expense	\$ 435,437	\$ 526,713
Staff cost, including social security taxes	107,237	98,887
Depreciation and amortization	80,238	66,543

Major components of income tax expense were as follows for the years ended December 31:

	2002	2001
<i>Current income tax</i>	\$ (12,384)	\$ (11,970)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	949	2,568
Relating to reduction in income tax rates	—	41,364
Income tax (expense)/benefit reported in the income statement	\$ (11,435)	\$ 31,962

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

5. Income Taxes (continued)

The Russian Federation was the only tax jurisdiction in which the Company's income was subject to taxation.

During the year ended December 31, 2001, the statutory income tax rate in Russia was 35%. On August 6, 2001, a law was signed which introduced certain changes in Russian tax legislation reducing the statutory income tax rate from 35% to 24% effective January 1, 2002.

Reconciliation between the income tax expense applicable to profit before income tax at the statutory tax rate to income tax expense at the Company's effective income tax rate is as follows for the years ended December 31:

	2002	2001
Profit before income tax	\$ 23,439	\$ 27,673
At Russian statutory income tax rate of 24% (35% in 2001)	(5,625)	(9,686)
Effect of capital investments deduction	–	2,942
Effect of charity expenses deduction	–	583
Effect of non-deductible expenses and other permanent differences	(5,810)	(3,241)
Effect of change in tax rate	–	41,364
Income tax (expense)/benefit reported in the income statement	<u>\$ (11,435)</u>	<u>\$ 31,962</u>

Deferred income tax assets and liabilities related to the following as of December 31:

	2002	2001
Deferred income tax liabilities:		
Property, plant and equipment	\$ 76,297	\$ 76,254
Liabilities under the Settlement Agreement and restructured taxes	11,722	15,546
Investments	751	395
Inventories	1,218	–
	<u>89,988</u>	<u>92,195</u>
Deferred income tax assets:		
Accrued liabilities	608	810
Accounts receivable	80	–
Inventories	–	1,136
	<u>688</u>	<u>1,946</u>
Net deferred income tax liability	<u>\$ 89,300</u>	<u>\$ 90,249</u>

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

6. Property, Plant and Equipment

Property, plant and equipment consisted of the following as of December 31:

	2002	2001
Valuation or cost:		
Land	\$ 6,170	\$ –
Buildings and constructions	251,279	247,127
Machinery and equipment	1,418,406	1,394,389
Transport and motor vehicles	15,754	14,927
Other assets	13,675	11,402
Assets under construction	76,670	85,345
	1,781,954	1,753,190
Accumulated depreciation:		
Buildings and constructions	(161,915)	(155,005)
Machinery and equipment	(1,003,817)	(932,906)
Transport and motor vehicles	(13,088)	(11,716)
Other assets	(6,854)	(5,074)
	(1,185,674)	(1,104,701)
Government grants:		
Machinery and equipment, net	(9,658)	(10,393)
	\$ 586,622	\$ 638,096

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of \$11,383 and \$4,036 as of December 31, 2002 and 2001, respectively.

The movement in property, plant and equipment for the year ended December 31, 2002 was as follows:

	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Other assets	Assets under construction	Total
At December 31, 2001, valuation or cost, net of accumulated depreciation and government grants	\$ –	\$ 92,122	\$ 451,090	\$ 3,211	\$ 6,328	\$ 85,345	\$ 638,096
Additions	6,170	–	–	–	869	37,740	44,779
Assets put into operation	–	4,395	29,806	830	1,405	(36,436)	–
Disposals	–	(243)	(5,789)	(3)	(1)	(9,979)	(16,015)
Depreciation charge	–	(6,910)	(70,911)	(1,372)	(1,780)	–	(80,973)
Amortization of government grants	–	–	735	–	–	–	735
At December 31, 2002, valuation or cost, net of accumulated depreciation and government grants	\$ 6,170	\$ 89,364	\$ 404,931	\$ 2,666	\$ 6,821	\$ 76,670	\$ 586,622

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

6. Property, Plant and Equipment (continued)

The movement in property, plant and equipment for the year ended December 31, 2001 was as follows:

	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Other assets	Assets under construction	Total
At December 31, 2000, valuation or cost, net of accumulated depreciation and government grants	\$ –	\$ 80,017	\$ 484,102	\$ 2,276	\$ 5,332	\$ 120,442	\$ 692,169
Additions	–	–	88	–	1,333	21,500	22,921
Assets put into operation	–	19,028	34,877	1,699	993	(56,597)	–
Government grants used	–	–	(7,144)	–	–	–	(7,144)
Disposals	–	(2,570)	(674)	(63)	–	–	(3,307)
Depreciation charge	–	(4,353)	(60,656)	(701)	(1,330)	–	(67,040)
Amortization of government grants	–	–	497	–	–	–	497
At December 31, 2001, valuation or cost, net of accumulated depreciation and government grants	\$ –	\$ 92,122	\$ 451,090	\$ 3,211	\$ 6,328	\$ 85,345	\$ 638,096

In the year ended December 31, 2002, certain items of property, plant and equipment with a carrying value of \$16,015 (2001: \$3,307) were disposed of. Proceeds from the disposal were \$1,931 (2001: \$0).

As of December 31, 2002, certain items of production equipment with an approximate carrying value of \$151,429 were pledged to banks as collateral against loans to the Company (Notes 14 and 21).

Government grants represent the reduction in ecological tax payable by the Company. Such reductions are granted to the Company for the amount of actual expenditures on the acquisition of certain assets qualifying for ecological purposes.

7. Investments

Investments in subsidiaries and associates, stated at cost, net of impairment loss, were as follows as of December 31:

	2002	2001
OAO Large-Diameter Pipe Plant	\$ 11,538	\$ 11,538
OAO Vysokogorskiy GOK	1,075	1,075
KB TagilBank	300	300
OOO Trade House EvrazHolding	16	–
OOO Trade House of OAO NTMK	2	2
OOO Financial Company EvrazHolding	1	–
OOO Uralsdomnaremont	1	–
	<u>\$ 12,933</u>	<u>\$ 12,915</u>

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

7. Investments (continued)

In 2001, the Company made a contribution in OAO Large-Diameter Pipe Plant (“LDPP”) of \$11,538. LDPP is a newly established entity, which is at a development stage. The Company owns 25% plus one share in the investee.

OAO Vysokogorskiy GOK (“GOK”) is a mining-and-processing integrated works, which supplies agglomerate and ore-materials to the Company. The Company owns 18.95% of GOK share capital and has representation on the Board of directors of the investee.

KB TagilBank (“Tagil Bank”) provides to the Company payroll payment processing services and short-term borrowings. The Company owns 19.95% of TagilBank share capital and has representation on the Board of directors of the investee.

OOO Trade House EvrazHolding (“Trade House EvrazHolding”) is a newly established entity. The Company owns 49% of the investee. Trade House EvrazHolding operates as the Company’s purchases and sales agent.

OOO Trade House of OAO NTMK (“Trade House”) is a wholly owned subsidiary of the Company. Trade House operates as the Company’s agent. The Company pays commission of one percent for the purchases and sales made by Trade House on the Company’s behalf.

OOO Financial Company EvrazHolding (“FC EvrazHolding”) is a newly established wholly owned subsidiary of the Company, created for the purpose of raising debt finance for the Company.

OOO Uraldomnaremont (“UDR”) is a newly established 70%-owned subsidiary of the Company. UDR will be involved in repair and maintenance of the Company’s blast furnaces and other items of property, plant and equipment.

8. Inventories

Inventories, at cost, consisted of the following as of December 31:

	2002	2001
Raw materials and spare parts	\$ 36,042	\$ 42,068
Work-in-progress	8,835	11,534
Finished goods	1,409	2,195
	46,286	55,797
Allowance for obsolete and slow-moving items	(815)	(531)
	\$ 45,471	\$ 55,266

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

9. Trade and Other Receivables

Trade and other receivables consisted of the following as of December 31:

	2002	2001
Trade accounts receivable	\$ 16,968	\$ 20,486
Other receivables	8,667	6,097
	25,635	26,583
Allowance for doubtful accounts	(7,116)	(10,607)
	\$ 18,519	\$ 15,976

10. Related Party Disclosures

Amounts owed by/to related parties were as follows as of December 31:

	Amounts owed by related parties		Amounts owed to related parties, except for amounts owed under the Settlement Agreement		Amounts owed to related parties under the Settlement Agreement (Note 15)	
	2002	2001	2002	2001	2002	2001
Ferrotrade & Co.	\$ 8,850	\$ 3,428	\$ 14,822	\$ 1,345	\$ –	\$ –
OAO Goroblagodatskoe Ore Mine	6,975	5,350	6	–	–	–
OAO Vysokogorskiy GOK	1,079	50	1,340	2,101	3,419	3,830
OOO Trade House of OAO NTMK	654	9,500	1,259	15,168	–	–
OOO Uraldomnaremont	552	–	138	–	–	–
Starwood Trading Ltd.	257	245	8	1,648	10	11
OOO GBRU-Yuzhnaya	201	–	–	–	–	–
OAO Poliform	148	16	4	–	–	–
OAO Large-Diameter Pipe Plant	121	994	657	–	–	–
OOO Nikom Obshepit	98	85	–	–	–	–
ZAO Interural	66	1,387	1,571	1,939	2	4
OOO Mechanical Plant Uralets	50	44	2	–	–	–
OOO Nikom Cross	32	37	–	–	–	–
OOO FOT Uralets	23	45	–	–	–	–
Lakemill Trading and Investments Ltd.	–	–	4,888	–	14,802	–
ZAO EAM Group	–	48	4,801	5,569	16,283	16,329
OOO TD EvrazHolding	–	–	3,901	–	–	–
KB TagilBank	1	4	1	1	61	1
OOO Nikomogneupor	1	–	278	758	–	–
OAO West Siberian Iron & Steel Plant	–	–	55	–	–	–
Duferco S.A.	–	89	–	5,837	63	629
OOO Nikom Torg	–	30	9	–	–	–
OOO Nikommash	–	–	–	13	–	–
ZAO NK Prinko	–	–	–	3	1,617	1,391
OOO Nikomelektrotrans	–	–	1	1	–	–
Mayerton Trading Ltd.	–	–	–	–	4,188	3,676
FC EvrazHolding	–	–	274	–	–	–
OOO Nikomproject	2	–	–	–	–	–
OOO Ust-Utka	2	–	–	–	–	–
	19,112	21,352	34,015	34,383	40,445	25,871
Less allowance for doubtful receivables	(7,565)	(6,296)	–	–	–	–
	\$ 11,547	\$ 15,056	\$ 34,015	\$ 34,383	\$ 40,445	\$ 25,871

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

10. Related Party Disclosures (continued)

In the years ended December 31, 2002 and 2001, the Company's transactions with related parties were as follows:

	Sales to related parties		Purchases from related parties	
	2002	2001	2002	2001
Ferrotrade & Co.	\$ 156,180	\$ 128,228	\$ —	\$ —
Trade House EvrazHolding	—	—	471	—
ZAO Group EAM	47,646	—	223	—
Duferco S.A.	22,317	71,326	—	—
Starwood Trading Ltd.	16,097	12,425	—	—
ZAO Interural	9,853	12,815	99	479
Vysokogorskiy GOK	3,200	3,056	32,681	24,502
OAO Goroblagodatskoe Ore Mine	904	1,861	420	1,676
OAO West Siberian Iron and Steel Plant	—	—	912	—
OAO Large-Diameter Pipe Plant	99	995	—	—
KB Tagil Bank	—	—	1,286	1,326
OOO Trade House of OAO NTMK	—	—	472	1,493

It is the nature of transactions with related parties that they cannot be presumed to be carried out on an arm's-length basis.

Ferrotrade & Co. is an entity under common control with the Company. The Company sells finished goods to Ferrotrade & Co.

Trade House EvrazHolding, the Company's associate (Note 7), operates as the Company's purchases and sales agent.

ZAO EAM Group ("EAM") is an entity under common control with the Company. As of December 31, 2002 and 2001, accounts payable to EAM represent trade accounts payable acquired by EAM from other companies.

On May 6, 2002, the Company entered into an interest free loan agreement with EAM. Under the agreement, the Company borrowed 300,000,000 roubles (\$9,439 at the exchange rate as of December 31, 2002). The loan matured on December 31, 2002 and was repaid in 2002.

Duferco S.A. is an entity under control of Duferco Participation Holdings Limited ("Duferco"), a shareholder of the Company. In 2002, Duferco sold its shares in the Company. Duferco S.A. is the Company's customer.

Starwood Trading Ltd. ("Starwood") is an entity under control of a shareholder of the Company. Starwood is the Company's customer.

OAo Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

10. Related Party Disclosures (continued)

ZAO Interural (“Interural”) is an entity under control of a shareholder of the Company. Interural is the Company’s customer.

OAo Vysokogorskiy GOK (“GOK”), the Company’s associate (Note 7), supplies raw materials to the Company and purchases services from the Company.

OAo Goroblagodatskoe Ore Mine (“GBRU”) is a wholly owned subsidiary of the Company. GBRU supplies agglomerate and buys the Company’s products. In the years ended December 31, 2002 and 2001, the Company provided short-term loans to GBRU in the amount of \$1,089 and \$7,451, respectively.

OAo West Siberian Iron & Steel Plant (“ZapSib”), an entity under common control with the Company, sold metal products to the Company and the Company provided services for ZapSib in the year ended December 31, 2002.

OAo Large-Diameter Pipe Plant (“LDPP”) is the Company’s associate (Note 7). The Company rents office space and provides services to LDPP.

KB TagilBank (“Tagil Bank”), the Company’s associate (Note 7), provides payroll payment processing services to the Company.

OOO Trade House of OAo NTMK (“Trade House”) is a wholly owned subsidiary of the Company. Trade House acts as a sales and purchase agent for the Company (Note 7).

Mayerton Trading Ltd. (“Mayerton”) is an entity under control of a shareholder of the Company. Mayerton provides services to the Company.

OOO GBRU Yuzhnaya (“GBRU Yuzhnaya”) is a newly established wholly owned subsidiary of GBRU. GBRU Yuzhnaya is a mining and processing works.

OOO Uraldomnaremont (“UDR”) is a newly established 70%-owned subsidiary of the Company (Note 7).

OOO Nikomogneupor (“Nikomogneupor”) is a wholly owned subsidiary of the Company. Nikomogneupor leases production assets to the Company (Note 18). Total lease payments for the years ended December 31, 2002 and 2001 were \$1,101 and \$1,257, respectively.

ZAO NK Prinko (“Prinko”) is a 75%-owned subsidiary of the Company. Prinko is an investment company.

OOO Financial Company EvrazHolding (“FC EvrazHolding”) is a newly established wholly owned subsidiary of the Company, created for the purpose of raising debt finance for the Company. In 2002, FC EvrazHolding provided the Company with a long-term loan in the amount of \$30,770 (Note 14).

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

10. Related Party Disclosures (continued)

Lakemill Trading & Investments Limited (“Lakemill”) is an entity under common control with the Company. In September 2002, Lakemill acquired the Company’s debts with the nominal value of \$22,490 included in the Settlement Agreement (Note 15). In December 2002, Lakemill purchased the Company’s payable on demand promissory notes with total nominal value of 155,352,000 roubles (\$4,888 at the exchange rate as of December 31, 2002) and the Company’s long-term promissory notes with the carrying value of \$1,699 (Note 16).

11. Taxes Receivable

Taxes receivable consisted of the following as of December 31:

	2002	2001
Input VAT	\$ 24,386	\$ 23,272
Other taxes	303	1,272
	\$ 24,689	\$ 24,544

As of December 31, 2002 and December 31, 2001, input VAT included the current portion of input VAT related to the restructured liabilities under the Settlement Agreement dated November 26, 1999 of \$1,489 and \$345, respectively (Note 15).

12. Promissory Notes Receivable

Notes receivable consisted of the following as of December 31:

	2002	2001
MDM-Bank	\$ –	\$ 10,649
Other	–	1,291
	\$ –	\$ 11,940

In July 2002, MDM-Bank made payments against the promissory notes.

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

13. Share Capital

The Company was reorganized to an open joint stock company following its privatization in 1993. At that time, the Company issued common shares for the amount of the identifiable net assets as it was reported in the statutory financial statements at par value.

At December 31, 2002 and December 31, 2001, the Company's authorized, issued and paid share capital consisted of 1,310,002,996 common shares, with par value of one ruble per share.

14. Long-Term Loans

Long-term loans consisted of the following as of December 31:

	2002	2001
MDM-Bank	\$ 992	\$ –
FC EvrazHolding	30,770	–
	<u>\$ 31,762</u>	<u>\$ –</u>

On April 10, 2002, the Company entered into a contract with Deutsche Voest-Alpine for the purchase and installation of equipment for Euro 6,400,000 (\$5,594 at the exchange rate as of April 10, 2002). In connection with this contract, on June 6, 2002, MDM-Bank provided the Company with a credit line of Euro 5,482,500. The liability under the credit line bears interest at an annual rate of EURIBOR plus 6% and matures on December 30, 2005. On May 27, 2002, the Company issued a guarantee to Bayerische Landesbank Girozentrale ("BLB") on all obligations of MDM-Bank under the loan agreement between MDM-Bank and BLB for Euro 5,482,500. The guarantee matures on May 31, 2009.

At December 31, 2002, the Company had equipment with a carrying value of approximately \$4,317 (Note 6) pledged as collateral under this loan agreement.

On December 6, 2002, FC EvrazHolding issued 1,000,000 of bearer coupon debt securities with a par value of 1,000 roubles each. These securities were issued at par value and mature on December 5, 2005. Interest payments on the coupons are due semi-annually from the date of issuance. First coupon bears interest of 17.70% per annum; second coupon bears 16.50% per annum; third and fourth coupons bear 15.00% per annum; fifth and sixth coupons bear 12.50% per annum. The Company guaranteed all of the liabilities of FC EvrazHolding under the debt securities.

In accordance with the loan agreement dated December 6, 2002, FC EvrazHolding provided the Company with a rouble-denominated loan of 978,000,000 roubles (\$30,770 at the exchange rate as of December 31, 2002). The loan matures on December 1, 2005. The liability under the loan agreement bears interest of 18.15%, 16.95%, 15.40% and 15.10% per annum for the first, second, third and forth, fifth and sixth semi-annual periods, respectively.

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

15. Liabilities Under the Settlement Agreement

In 1999, creditors of the Company initiated bankruptcy proceedings against the Company and filed suit with the Sverdlovsk region Arbitration court. On November 26, 1999, the Company entered into a restructuring agreement with its creditors, which was approved by the court in December 1999 (the "Settlement Agreement"). Under the Settlement Agreement, the Company's liabilities to the creditors were rescheduled for repayment as follows:

2001	5%
2002	5%
2003	10%
2004	10%
2005	10%
2006	20%
2007	20%
2008	20%

The liability under the Settlement Agreement was measured at amortized cost in the accompanying parent company balance sheets. The cost of the liabilities as of the date of restructuring was determined based on the future cash payments discounted at the annual rates of 20%, 12% and 12% for the liabilities denominated in roubles, US dollars and euros, respectively.

The nominal amount of the liability under the Settlement Agreement as of December 31, 2002 and 2001 was \$116,617 and \$143,612, respectively, including the amount of \$52,923 and \$71,839, respectively, denominated in roubles, \$47,899 and \$56,580, respectively, denominated in US dollars and \$15,795 and \$15,193, respectively, denominated in euros.

Liabilities under the Settlement Agreement, at carrying amounts, consisted of the following as of December 31:

	2002	2001
Related parties (Note 10)	\$ 40,445	\$ 25,871
Others	38,264	58,041
	78,709	83,912
Less current portion	(17,515)	(7,643)
	\$ 61,194	\$ 76,269

Input VAT relating to the liabilities under the Settlement Agreement with the nominal value of \$8,818 as of December 31, 2002 can be recovered from the tax authorities only after the repayment of respective liabilities. Input VAT relating to the Settlement Agreement was measured at the fair value in the accompanying parent company balance sheets. The fair value was determined based on the future cash receipts discounted at the annual rate of 20% and amounted to \$5,366 and \$5,739 at December 31, 2002 and 2001, respectively, including the current portion of \$1,489 and \$345, respectively, and non-current portion of \$3,877 and \$5,394, respectively.

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

15. Liabilities Under the Settlement Agreement (continued)

On April 25, 2001, the Company entered into an agreement with Erste Bank, Austria (the “Bank”) under which the debt to the Bank under the Settlement Agreement was rescheduled for payment. Under the terms of the agreement, the debt to the Bank with the nominal value of \$4,734 has been rescheduled for payment in equal quarterly installments of \$303 through December 31, 2004. The Bank will not charge an additional liability of \$706 if all the other payments are made on a timely basis.

The restructuring of the liability under the agreement with Erste Bank was accounted for as an extinguishment of the old financial liability and recognition of the new financial liability with substantially different terms. The new financial liability was measured at amortized cost in the accompanying parent company balance sheet at December 31, 2002 and December 31, 2001. The cost of the liability as of the date of restructuring was determined based on the future cash payments discounted at the annual rate of 12%. The loss on the restructuring of \$1,073 reduced the gain on extinguishment of debts in the accompanying parent company statement of income for the year ended December 31, 2001.

16. Long-Term Promissory Notes Payable

Long-term promissory notes payable consisted of the following as of December 31:

	Maturity	2002	2001
Notes payable to related parties:			
Lakemill (a)	2004-2008	\$ 1,699	\$ –
		1,699	–
Notes payable to others:			
OOO Intermetsservice (b)	December 1, 2004	3,473	3,695
AO Ural Elektromed (c)	July 11, 2004	1,776	1,669
OOO Metallenergofinance (d)	2002-2008	–	1,295
OOO Ural Company	September 13, 2004	104	95
		5,353	6,754
		7,052	6,754
Less notes with current maturities (Note 20)		(249)	(127)
		\$ 6,803	\$ 6,627

(a) In December 2002, Lakemill acquired the Company’s long-term promissory notes from OOO Intermetsservice (“IMS”), OOO Metallenergofinance (“MEF”) and OOO Project Investments.

(b) On December 1, 2001, the Company entered into an agreement with IMS, under which certain due upon demand rouble-denominated promissory notes with the total nominal value of \$6,281 payable to IMS were replaced with the Company’s promissory notes with the same nominal value and payable upon demand but not earlier than December 1, 2004.

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

16. Long-Term Promissory Notes Payable (continued)

The restructuring of the liability under promissory notes due to IMS was accounted for as an extinguishment of the old financial liability and recognition of the new financial liability with substantially different terms. The new financial liability was measured at amortized cost in the accompanying parent company balance sheets.

The cost of the liability as of the date of restructuring was determined based on the future cash payments discounted at the annual rate of 20%.

The gain on the restructuring of the liabilities of \$2,586 was included in gain on extinguishment of debts in the accompanying parent company statement of income for the year ended December 31, 2001.

- (c) On July 11, 2001, the Company entered into an agreement with AO Ural Elektromed ("Elektromed"), under which certain due upon demand rouble-denominated promissory notes with the total nominal value of \$2,688 payable to Elektromed were replaced with the Company's promissory notes with the same nominal value and payable upon demand but not earlier than July 11, 2004.

The restructuring of the liability under promissory notes due to Elektromed was accounted for as an extinguishment of the old financial liability and recognition of the new financial liability with substantially different terms. The new financial liability was measured at amortized cost in the accompanying parent company balance sheets.

The cost of the liability as of the date of restructuring was determined based on the future cash payments discounted at the annual rate of 20%.

The gain on the restructuring of the liabilities of \$1,019 was included in gain on extinguishment of debts in the accompanying parent company statement of income for the year ended December 31, 2001.

- (d) On November 28, 2001, the Company entered into an agreement, under which certain rouble-denominated debts of the Company under the Settlement Agreement dated November 26, 1999 with the total nominal value of \$2,559 were reassigned to MEF. At the date of the agreement, MEF accepted cash of \$127 and the Company's promissory notes with the nominal value of \$2,431 maturing as follows:

January 1, 2002	\$ 127
January 1, 2003	257
January 1, 2004	257
January 1, 2005	257
January 1, 2006	511
January 1, 2007	511
January 1, 2008	511

The reassignment of the liability to MEF was accounted for as an extinguishment of the old financial liability and recognition of the new financial liability with substantially different terms. The new financial liability was measured at amortized cost in the accompanying parent company balance sheets. The cost of the liability as of the date of restructuring was determined based on the future cash payments discounted at the annual rate of 20%.

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

16. Long-Term Promissory Notes Payable (continued)

The loss on the restructuring of the liabilities of \$219 reduced gain on extinguishment of debts in the accompanying parent company statement of income for the year ended December 31, 2001.

17. Restructured Taxes Payable

Restructured taxes consisted of the following as of December 31:

	2002	2001
Restructured taxes:		
Road users tax	\$ 12,104	\$ 27,386
Social insurance taxes	4,934	6,561
Tax-related fines and penalties	615	737
	17,653	34,684
Less current portion:		
Road users tax	(2,148)	(5,397)
Social insurance taxes	(1,588)	(1,828)
Tax-related fines and penalties	(127)	(146)
	(3,863)	(7,371)
	\$ 13,790	\$ 27,313

Road Users Tax

On June 24, 2002, in accordance with the Government Decree on the Restructuring of Liabilities under Road Users Tax, the Company agreed with the tax authorities to restructure its liabilities under road users tax and related fines and penalties. The tax authorities approved the restructuring agreement on June 24, 2002. Under the terms of the agreement, road users tax and related fines and penalties with the nominal value of \$26,383 were rescheduled for payment as follows. The tax principal amount of \$10,830 should be paid in equal quarterly installments through March 31, 2006. The tax-related fines and penalties of \$15,553 should be paid in equal quarterly installments from April 1, 2006 through March 31, 2010.

The restructuring of the liability under road users tax and related fines and penalties was accounted for as an extinguishment of the old financial liability and recognition of the new financial liability with substantially different terms. The new financial liability was measured at amortized cost in the accompanying parent company balance sheet as of December 31, 2002. The cost of the liability as of the date of restructuring was \$13,901 determined based on the future cash payments discounted at the annual rate of 20%.

The gain on the restructuring of the liabilities of \$12,482 was included in gain on extinguishment of debts in the accompanying parent company statement of income for the year ended December 31, 2002.

OA0 Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

17. Restructured Taxes Payable (continued)

Social Insurance Taxes

On December 20, 2001, in accordance with the Government Decree on the Restructuring of Liabilities under Social Insurance Taxes, the Company applied for a restructuring of its liabilities under social insurance taxes and related fines and penalties. The tax authorities approved the restructuring agreement on January 16, 2002. Under the terms of the agreement, social insurance taxes and related fines and penalties with the nominal value of \$29,659 were rescheduled for payment as follows. The amount of \$9,776 should be paid in equal quarterly installments through December 31, 2006. The amount of \$19,883 will be forgiven if all the other payments under the restructuring agreement and current social insurance taxes obligations are made on a timely basis.

The restructuring of the liability under social insurance taxes was accounted for as an extinguishment of the old financial liability and recognition of the new financial liability with substantially different terms at December 31, 2001, because all the requirements of the tax restructuring were met before December 31, 2001, and the approval of the tax authorities was reasonably expected. The new financial liability was measured at amortized cost in the accompanying parent company balance sheets. The cost of the liability as of the date of restructuring was determined based on the future cash payments discounted at the annual rate of 20%. The amount of \$19,883 to be forgiven if all the other payments are made on a timely basis was not included in the liabilities as of December 31, 2002 and December 31, 2001 based on the management's assessment that it is probable that the Company will comply with the payment terms of the restructuring agreement.

The gain on the restructuring of the liabilities of \$23,097 was included in gain on extinguishment of debts in the accompanying parent company statement of income for the year ended December 31, 2001.

Tax-Related Fines and Penalties

On December 28, 2001, under the Government Decree on the Restructuring of Liabilities under Tax-Related Fines and Penalties, the Company agreed with the tax authorities to restructure its liabilities under tax-related fines and penalties. Under the terms of the agreement, certain tax-related fines and penalties with the nominal value of \$1,566 were rescheduled for payment in equal quarterly installments through December 31, 2011.

The restructuring of the liability under tax-related fines and penalties was accounted for as an extinguishment of the old financial liability and recognition of the new financial liability with substantially different terms. The new financial liability was measured at amortized cost in the accompanying parent company balance sheets. The cost of the liability as of the date of restructuring was determined based on the future cash payments discounted at the annual rate of 20%.

The gain on the restructuring of the liabilities of \$830 was included in gain on extinguishment of debts in the accompanying parent company statement of income for the year ended December 31, 2001.

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

18. Finance Lease Obligations

In 2000 and 2001, the Company entered into lease agreements with OOO Nikomogneupor, the Company's subsidiary, for the lease of production assets. Under the lease agreements, the Company has an option to acquire the leased assets at the end of lease term of 10 years. The estimated average remaining useful life of leased assets is 10 years.

The lease was accounted for as a finance lease in the accompanying parent company financial statements. As of December 31, 2002 and 2001, the aggregate carrying value of the leased assets amounted to \$5,183 and \$5,880, respectively, net of accumulated depreciation of \$1,792 and \$1,094, respectively. It is included in property, plant and equipment in the accompanying parent company balance sheets.

Future minimum lease payments were as follows at December 31, 2002:

	Principal	Interest	Total
January 1, 2003 – December 31, 2003	\$ 348	\$ 825	\$ 1,173
January 1, 2004 – December 31, 2007	1,830	2,572	4,402
January 1, 2008 – March 31, 2011	2,141	557	2,698
	<u>4,319</u>	<u>3,954</u>	<u>8,273</u>
Less current portion	(348)	(825)	(1,173)
	<u><u>\$3,971</u></u>	<u><u>\$ 3,129</u></u>	<u><u>\$ 7,100</u></u>

Future minimum lease payments were as follows at December 31, 2001:

	Principal	Interest	Total
January 1, 2002 – December 31, 2002	\$ 273	\$ 994	\$ 1,267
January 1, 2003 – December 31, 2006	1,756	3,312	5,068
January 1, 2007 – March 31, 2011	3,121	1,252	4,373
	<u>5,150</u>	<u>5,558</u>	<u>10,708</u>
Less current portion	(273)	(994)	(1,267)
	<u><u>\$ 4,877</u></u>	<u><u>\$ 4,564</u></u>	<u><u>\$ 9,441</u></u>

19. Provisions

The Company utilizes a parcel of land to store sillage materials generated from the output of steel-mill production. The Company utilizes in its production process the sillage accumulated during the past years, and plans to utilize all the sillage stored by 2029. The Company has publicly announced that the parcel of land will be recreated to comply with related environmental law.

As of December 31, 2001, the Company determined that the estimated cost of recreation of the land in 2029 is \$17,406. The related provision is measured in the accompanying financial statements at the present value of expenditures expected to be incurred in 2029 discounted at a 15.54% annual rate.

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

20. Trade and Other Payables

Trade and other payables consisted of the following as of December 31:

	2002	2001
Trade accounts payable	\$ 20,416	\$ 40,845
Promissory notes with current maturities or payable on demand	1,476	13,705
Accrued payroll	5,464	5,266
Other payables	6,786	3,293
	\$ 34,142	\$ 63,109

Short-term loans and borrowings were as follows as of December 31:

	Collateral	2002	2001
Rouble-denominated loans:			
TransCreditBank	Equipment	\$ 8,526	\$ —
Alfa Bank	Equipment	—	—
Sberbank		—	15,563
MDM-Bank		—	15,086
Debt Securities		—	12,677
KB TagilBank		—	51
		8,526	43,377
US dollar-denominated loans:			
Collateralized Syndicated Credit Line			
Sberbank		—	21,834
Alfa Bank		—	3,275
Ural-Siberia Bank for Social Development		—	2,729
		—	2,729
		—	30,567
		\$ 8,526	\$ 73,944

TransCreditBank

On October 14, 2002, the Company entered into an agreement with TransCreditBank (“TCB”) for a credit line of 400,000,000 roubles (\$12,585 at the exchange rate as of December 31, 2002). The liability under this credit line bears interest of 17% per annum and matures in one year from the date of the first borrowing.

At December 31, 2002, the Company had equipment with an approximate carrying value of \$93,230 (Note 6) pledged as collateral under the loan agreement with TCB.

OA O Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

21. Short-Term Loans (continued)

Alfa Bank

On November 28, 2002, the Company entered into an agreement with Alfa Bank for a revolving credit line of 300,000,000 roubles (\$9,439 at the exchange rate as of December, 2002), which matures on August 10, 2003. Interest rate is to be agreed for each drawing under the credit line, but may not exceed 18% per annum. At December 31, 2002, there was no liability under this credit line.

At December 31, 2002, the Company had equipment with an approximate carrying value of \$53,882 (Note 6) pledged as collateral under the credit line from Alfa Bank.

On December 19, 2001, the Company entered into an agreement with Alfa Bank for a credit line of \$7,642. The credit line matured on December 18, 2002. The liability under the credit line bore interest of 8.5% per annum. The Company repaid all of the loans under the credit line in 2002.

Sberbank

At December 31, 2001, the Company entered into and had ten outstanding loan agreements with the Savings Bank of the Russian Federation ("Sberbank") for the total borrowing facility of 492,713,600 roubles (\$15,502 at the exchange rate as of December 31, 2002). The liability under the agreements bore interest of 20% per annum and matured in January-March 2002. All of the loans were repaid in 2002.

On December 17, 2001, the Company entered into an agreement for an unsecured overdraft credit line with Sberbank for total borrowing facility of 80,584,000 roubles (\$2,535 at the exchange rate as of December 31, 2002). The liability under the agreement bore interest of 18% per annum and matured on January 15, 2002. The loan was repaid in 2002.

On August 27, 2001, the Company entered into a loan agreement for \$3,275 with Sberbank. The loan bore interest of 11.5% per annum and matured on February 21, 2002. The loan was repaid in 2002.

MDM-Bank

On November 14, 2001, the Company entered into an agreement for a rouble-denominated collateralized credit line with MDM-Bank for the total borrowing facility of 345,372,000 roubles (\$10,866 at the exchange rate as of December 31, 2002). The liability under the credit line bore interest of 25% per annum and matured on December 1, 2002. The liability under the credit line was repaid in 2002.

On November 14, 2001, the Company entered into an agreement for a rouble-denominated collateralized credit line with MDM-Bank for the total borrowing facility of 91,523,580 roubles (\$2,880 at the exchange rate as of December 31, 2002). The liability under the credit line bore interest of 21% per annum and matured on January 18, 2002. The liability under the credit line was repaid in 2002.

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

21. Short-Term Loans (continued)

MDM-Bank (continued)

On December 24, 2001, the Company entered into an agreement for a rouble-denominated collateralized credit line with MDM-Bank for the total borrowing facility of 57,562,000 roubles (\$1,810 at the exchange rate as of December 31, 2002). The liability under the credit line bore interest of 21% per annum and matured on January 24, 2002. The liability under the credit line was repaid in 2002.

Debt Securities

On July 4, 2001, the Company issued 350,000 of bearer coupon debt securities with a par value of 1,000 roubles each. The debt securities were issued at par value and matured on July 3, 2002. Interest payments on the first, second and third coupons were due on the 122nd, 244th and 365th days from the date of issuance. The liability under the debt securities bore interest of 21% per annum. The Company repaid the liability under the debt securities in 2002.

Collateralized Syndicated Credit Line

On July 5, 2001, the Company entered into an agreement for a collateralized credit line of \$21,834 with joint lenders, Russian Bank for Reconstruction and Development and MDM-Bank. As at December 31, 2001, the Company borrowed \$10,917 from each lender. The credit line bore interest of 11.5% per annum and matured in one year from the date of the first drawing. The liability under the collateralized syndicated credit line was repaid in 2002.

Ural-Siberia Bank for Social Development

On August 14, 2001 and December 26, 2001, the Company entered into loan agreements with Ural-Siberia Bank for Social Development for \$1,092 and \$1,637, respectively. The loans bore interest of 13% and 14% per annum, respectively, and matured on February 28, 2002 and March 30, 2002, respectively. The loans were repaid in 2002.

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

22. Taxes Payable

Taxes payable consisted of the following as of December 31:

	2002	2001
Social insurance taxes	\$ 4,084	\$ 4,267
Income tax	3,795	1,763
VAT	2,130	–
Road users tax	2,241	–
Current portion of restructured road users tax (Note 17)	2,148	5,397
Current portion of restructured social insurance taxes (Note 17)	1,588	1,828
Current portion of restructured tax-related fines and penalties (Note 17)	127	146
Property tax	395	376
Personal income taxes	910	1,036
Other taxes, fines and penalties	365	960
	<u>\$ 17,783</u>	<u>\$ 15,773</u>

23. Commitments and Contingencies

Economic Environment

The Russian economy, while deemed to be of market status beginning in 2002, continues to display certain traits consistent with that of a market in transition. These characteristics have in the past included higher than normal historic inflation, lack of liquidity in the capital markets, and the existence of currency controls which cause the national currency to be illiquid outside of Russia. The continued success and stability of the Russian economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

The taxation system in Russia is evolving as the central government transforms itself from a command to a market oriented economy. There were many Russian Federation tax laws and related regulations introduced in 2002 and previous years which were not always clearly written and their interpretation is subject to the opinions of the local tax inspectors, Central Bank officials and the Ministry of Finance. Instances of inconsistent opinions between local, regional and federal tax authorities and between the Central Bank and the Ministry of Finance are not unusual. Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Company has accrued tax liabilities based on management's best estimate. Management's estimate of the amount of potential liabilities that can be subject to different interpretations of the tax laws and regulations and are not accrued in the accompanying financial statements could be up to approximately \$10,000. Management believes that it is not probable that the ultimate outcome of such matters would result in a liability.

OAQ Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

23. Commitments and Contingencies (continued)

Economic Environment (continued)

As of December 31, 2002, the Company does not believe that any material matters exist relating to the developing markets and evolving fiscal and regulatory environment in Russia, including current pending or future governmental claims and demands, which would require adjustment to the accompanying financial statements in order for those statements not to be misleading.

In the ordinary course of business, the Company may be party to various legal and tax proceedings, and subject to claims, certain of which relate to the developing markets and evolving fiscal and regulatory environments in which the Company operates. In the opinion of management, the Company's liability, if any, in all pending litigation, other legal proceeding or other matters other than what is discussed above, will not have a material effect upon the financial condition, results of operations or liquidity of the Company.

The Company's operations and financial position will continue to be affected by Russian political developments including the application of existing and future legislation and tax regulations. The likelihood of such occurrences and their effect on the Company could have a significant impact on the Company's ability to continue operations. The Company does not believe that these contingencies, as related to its operations, are any more significant than those of similar enterprises in Russia.

Restructured Taxes Payable

If the Company does not comply with the terms of agreements on restructuring of its taxes payable, all the restructured liabilities (Note 17) will become payable immediately. Management believes that the Company was in compliance with the terms of the agreements on restructuring and intends to comply with them in the future.

Guarantees of the Debts of Others

On October 10, 2002, the Company issued a guarantee to Alfa Bank of all the obligations of Trade House EvrazHolding under the loan agreement between Trade House EvrazHolding and Alfa Bank amounting to 336,000,000 roubles (\$10,571 at the exchange rate as of December 31, 2002). On February 13, 2003, amount under the loan agreement between Trade House EvrazHolding and Alfa Bank was increased to 384,000,000 roubles (\$12,110 at the exchange rate as of February 13, 2003). The liability under the loan agreement bears interest of 15% per annum and matures on October 10, 2003.

In connection with the loan agreement between Trade House EvrazHolding and Alfa Bank, in 2003 the Company pledged equipment with an approximate carrying value of \$36,078 as of December 31, 2002,

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

23. Commitments and Contingencies (continued)

Guarantees of the Debts of Others (continued)

The Company guaranteed all of the liabilities of FC EvrazHolding under the debt securities (Note 14).

The Company guaranteed the debts of other companies for the total amount of \$647.

Agreements with Dufin Caster Project S.A.

On December 27, 2002, the Company entered into a number of agreements with Dufin Caster Project S.A. ("Dufin"), an entity under control of Marteck. Under the agreements, the Company will acquire 99% of the share capital of OOO Continuous Casting Machine No.4 ("CCM"), a subsidiary of Dufin.

CCM, a limited liability company incorporated in the Russian Federation, is established for the purpose of owning and operating continuous casting machine No.4 ("CCM-4"). On December 27, 2002, CCM and the Company entered into an 8-year operating lease agreement, under which the Company leased out a plot of its land in Nizhny Tagil to CCM, which will be used for the construction of CCM-4. Annual lease payments are 176,096 roubles (\$6 at the exchange rate as of December 31, 2002).

Dufin and CCM contracted with Voest-Alpine Industrieanlagenbau GmbH & Co. of Austria ("VAI") for Euro 74,500,000 for the purchase and installation of equipment for CCM-4. The construction is expected to be completed in 2005. Approximately 85% of the contracts value will be financed by the borrowing facilities provided by BLB. Dufin plans to contribute the equipment acquired for CCM-4 to the charter capital of CCM.

The Company will acquire shares in CCM over a 5-year period beginning from the date of completion of the construction. The cost of acquisition will be Euro 62,000,000 and interest payable by Dufin and CCM to BLB under their loan agreements with BLB. The total principal amount under these loan agreements is Euro 64,580,000 bearing interest at rates ranging from 6% to 9% per annum. Under the agreement between the Company and Dufin, the principal is due for payment semi-annually and interest is paid on a quarterly basis. The amounts due to Dufin and ownership transfers to the Company will be as follows:

Years From the Date of Construction Completion	Transfer of Ownership in CCM, %	Amount, Euro
1	21.5	12,400,000 plus interest
2	23.0	12,400,000 plus interest
3	21.0	12,400,000 plus interest
4	18.0	12,400,000 plus interest
5	15.5	12,400,000 plus interest

OA0 Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

23. Commitments and Contingencies (continued)

Agreements with Dufin Cater Project S.A. (continued)

In connection with the loan agreements signed by Dufin and CCM, the Company issued a guarantee of obligations of Dufin and CCM to BLB in the amount of approximately Euro 83,000,000. In addition, the Company pledged equipment with an approximate carrying value of \$1,121 as collateral and issued a guarantee of CCM obligations in the amount of Euro 4,000,000 under agreements between CCM and MDM-Bank.

On December 27, 2002, Dufin and the Company signed an agreement, under which Dufin undertakes to purchase and the Company undertakes to sell metal products over a period of at least 8 years. Dufin and the Company have to ensure that commencing January 1, 2003 a minimum value of the goods shipped in each 3-month calendar period is not less than 130% of amounts to be paid by Dufin and CCM under their loan agreements with BLB.

Agreement with Vitkovice Strojirenstvi A.S.

On September 9, 2002, the Company signed a contract with Vitkovice Strojirenstvi A.S. (the Czech Republic) for the purchase of equipment of bell-less top charger for the project of reconstruction of blast furnace No.6, amounting to \$3,084.

24. Subsequent Events

On January 16, 2003, the Company signed an Euro 8,450,000 purchase contract with VAI for engineering, procurement, and installation of certain equipment for automation of blast furnace No.6.

On February 14, 2003, the Company signed a contract with SMS-Eumuco GmbH for the supply of technology and certain rolling and pressing equipment for the project of reconstruction of the hard tire rolling shop, amounting to Euro 20,850,000.

On February 27, 2003, the Company signed an equipment purchase contract with Paul WURTH S.A. (Luxembourg) amounting to Euro 5,756,500. This contract is financed with the borrowing facility provided by MDM-Bank. The liability under this credit line bears fixed interest of 6.88% per annum. Maturity date of the loan is December 30, 2009. The Company's equipment with an approximate carrying value of \$2,125 was pledged as collateral under the credit line agreement.

On April 15, 2003, the Company made a contribution of 250,000 roubles (\$8 at the exchange rate as of April 15, 2003) to the charter capital of a new entity OOO Sibmetinvest. The Company will own 25% of the new entity's capital.

OAQ West-Siberian Iron & Steel Plant

Parent Company Financial Statements

*Years ended December 31, 2002 and 2001
with Independent Auditors' Report*

OAO West-Siberian Iron & Steel Plant
Parent Company Financial Statements
Years ended December 31, 2002 and 2001

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Report of Independent Auditors

The Management Board
OAO West-Siberian Iron & Steel Plant

We have audited the accompanying parent company balance sheets of OAO West-Siberian Iron & Steel Plant (“the Company”) as of December 31, 2002 and 2001 and the related statements of income, cash flows and changes in equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In accordance with International Accounting Standard 27, Consolidated Financial Statements and Accounting for Investments in Subsidiaries, the Company is required to prepare consolidated financial statements. Management has not prepared consolidated financial statements.

In our opinion, except for the omission of consolidated financial statements, the parent company financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Ernst & Young (CIS) Limited
Moscow, Russia
July 11, 2003

OAO West-Siberian Iron & Steel Plant

Parent Company Balance Sheets

(In thousands of US dollars)

		December 31,	
	Notes	2002	2001
ASSETS			
Non-current assets			
Property, plant and equipment, net	6	\$ 398,526	\$ 444,389
Investments	7	12,738	13,476
Input VAT relating to the Settlement Agreement	13	443	1,580
		<u>411,707</u>	<u>459,445</u>
Current assets			
Inventories	8	68,422	82,281
Trade and other receivables, net	9	11,935	20,164
Prepayments		7,766	4,449
Receivables from related parties	10	20,085	22,251
Taxes receivable	11	34,031	16,181
Cash and cash equivalents		553	3,791
		<u>142,792</u>	<u>149,117</u>
TOTAL ASSETS		<u><u>\$ 554,499</u></u>	<u><u>\$ 608,562</u></u>
EQUITY AND LIABILITIES			
Equity			
Issued capital	12	\$ 27,441	\$ 23,441
Share premium		15,620	19,620
Accumulated profits		134,691	145,007
Total equity		<u>177,752</u>	<u>188,068</u>
Non-current liabilities			
Liabilities under the Settlement Agreement	10,13	21,942	48,385
Restructured taxes payable	14	12,723	20,852
Finance lease obligations	15	7,518	7,030
Deferred income tax liabilities	5	64,665	73,471
Payables to Ferrotrade & Co.	16	–	45,583
Other long-term liabilities		2,072	2,057
		<u>108,920</u>	<u>197,378</u>
Current liabilities			
Trade and other payables	17	43,462	91,187
Advances from customers		1,052	1,086
Interest bearing loans and borrowings	18	50,468	23,034
Payables to related parties	10	81,481	15,634
Taxes payable	19	54,825	58,040
Current portion of liabilities under the Settlement Agreement	10,13	29,887	30,398
Current portion of finance lease obligations	15	1,652	1,027
Provisions	20	5,000	2,710
Total current liabilities		<u>267,827</u>	<u>223,116</u>
TOTAL EQUITY AND LIABILITIES		<u><u>\$ 554,499</u></u>	<u><u>\$ 608,562</u></u>

The accompanying notes form an integral part of the Parent Company Financial Statements.

OAO West-Siberian Iron & Steel Plant

Parent Company Income Statements

(In thousands of US dollars)

		For the years ended	
		December 31,	
	Notes	2002	2001
Revenue			
Sale of goods		\$ 689,410	\$ 678,575
Rendering of services		22,585	7,360
	4	711,995	685,935
Cost of revenues	4	(640,003)	(661,477)
Gross profit		71,992	24,458
Selling and distribution costs	4	(21,020)	(17,404)
General and administrative expenses	4	(59,613)	(70,047)
Tax-related fines and penalties		(7,210)	(104,433)
Social and social infrastructure maintenance expense	4	(2,127)	(11,750)
Foreign exchange losses, net		(7,074)	(13,835)
Gain on net monetary position		34,022	74,467
Other operating income	4	4,723	5,148
Other operating expenses	4	(12,391)	(10,618)
Profit (loss) from operating activities		1,302	(124,014)
Interest expense		(19,630)	(2,303)
Gain on extinguishment of debts	14,16	3,820	94,519
Loss before income tax		(14,508)	(31,798)
Income tax benefit	5	2,293	14,457
Net loss from ordinary activities		\$ (12,215)	\$ (17,341)
Extraordinary item – gain on extinguishment of debts under the Settlement Agreement, net of income tax of \$599 and \$38,568, respectively	13	\$ 1,899	\$ 122,120
Net (loss) profit		\$ (10,316)	\$ 104,779

The accompanying notes form an integral part of the Parent Company Financial Statements.

OAO West-Siberian Iron & Steel Plant

Parent Company Cash Flow Statements

(In thousands of US dollars)

	For the years ended December 31,	
	2002	2001
Cash flows from operating activities		
Net (loss) profit	\$ (10,316)	\$ 104,779
Adjustments to reconcile net (loss) profit to net cash provided by (used in) operating activities:		
Depreciation and amortization	72,766	76,453
Deferred income tax benefit	(9,405)	(14,457)
Loss on disposal of property, plant and equipment	742	264
Gain on extinguishment of debts	(3,820)	(94,519)
Foreign exchange losses	7,074	13,835
Gain on net monetary position	(34,022)	(74,467)
Bad debt expense	7,792	1,176
Impairment of investments	2,773	453
Interest accrued	19,630	2,303
Extraordinary item	(1,899)	(122,120)
Changes in operating assets and liabilities:		
Inventories	5,976	16,076
Trade and other receivables	2,964	25,730
Prepayments	(4,140)	3,106
Receivables from related parties	(4,398)	(7,668)
Taxes receivable	(18,809)	12,293
Trade and other payables	(33,569)	(39,509)
Advances from customers	(141)	(1,441)
Payables to related parties	20,128	(7,415)
Taxes payable	4,424	80,933
Other long term liabilities	1,912	6,239
Net cash flows from (used in) operating activities	25,662	(17,956)
Cash flows from investing activities		
Payments for property, plant and equipment	(17,589)	(23,283)
Payments to acquire equity of other enterprises	(178)	—
Payments for debt instruments of other enterprises	(1,900)	—
Net cash flows used in investing activities	(19,667)	(23,283)
Cash flows from financing activities		
Proceeds from issuance of common shares	—	20,033
Proceeds from interest bearing loans and borrowings	105,570	29,426
Repayment of interest bearing loans and borrowings, including interest	(79,360)	(5,194)
Proceeds from interest-free loans	5,400	—
Repayment of interest-free loans	(7,586)	—
Payments under finance leases, including interest	(1,249)	—
Payments under restructured taxes, including interest	(7,518)	(488)
Payments under the Settlement Agreement, including interest	(24,226)	—
Net cash flows (used in) from financing activities	(8,969)	43,777
Effect of foreign exchange rate changes on cash and cash equivalents	4	8
Effect of hyperinflation on cash and cash equivalents	(268)	(435)
Net (decrease) increase in cash and cash equivalents	(3,238)	2,111
Cash and cash equivalents at beginning of period	3,791	1,680
Cash and cash equivalents at end of period	\$ 553	\$ 3,791
Supplementary cash flow information:		
Cash flows during the period:		
Interest paid	\$ 11,244	\$ 2,303
Income taxes paid	472	—

The accompanying notes form an integral part of the Parent Company Financial Statements.

OAO West-Siberian Iron & Steel Plant

Parent Company Statements of Changes in Equity

For years ended December 31, 2002 and 2001

(In thousands of US dollars)

	Issued capital	Share premium	Accumulated profits	Total
Balance at December 31, 2000	\$ 23,028	\$ —	\$ 40,228	\$ 63,256
Issue of share capital	413	19,620	—	20,033
Net profit	—	—	104,779	104,779
Balance at December 31, 2001	\$ 23,441	\$ 19,620	\$ 145,007	\$ 188,068
Increase in the nominal value of shares	4,000	(4,000)	—	—
Net loss	—	—	(10,316)	(10,316)
Balance at December 31, 2002	\$ 27,441	\$ 15,620	\$ 134,691	\$ 177,752

The accompanying notes form an integral part of the Parent Company Financial Statements.

OAO West-Siberian Iron & Steel Plant
Notes to Parent Company Financial Statements
Years ended December 31, 2002 and 2001

(All amounts are in thousands of US dollars, unless specified otherwise)

1. Corporate Information

The financial statements of OAO West-Siberian Iron & Steel Plant (the “Company”) for the years ended December 31, 2002 and 2001 were authorized for issue in accordance with a resolution of the Managing Director on July 11, 2003.

The Company commenced operations in 1964. It was registered as a Russian open joint stock company following its privatization in 1992. The registered office of the Company is located in Novokuznetsk, the Kemerovo region, the Russian Federation.

The Company is one of the major metallurgical plants in Russia. The Company is a full-cycle steel production plant, comprising coke-chemical production, blast-furnace production, steel making facilities and rolling mills.

The Company derives approximately 90% of its revenues from sales of metal products. Other revenue sources include processing fees, sales of refractory materials and coke, and non-production revenues.

The Company sells metal products both domestically and abroad. For the years ended December 31, 2002 and 2001, domestic sales of metal products were approximately 52% and 80% of total sales of metal products, respectively.

At December 31, 2002, the Company employed 29,749 employees.

On June 17, 2002, the Company’s shareholders appointed OOO Evraz Holding (“Evraz Holding”) as the management executive body of the Company.

2. Significant Accounting Policies

Basis of Preparation

The separate parent company financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (the “IASB”) and interpretations issued by the Standing Interpretations Committee of the IASB.

OA O West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

The Company maintains its records and prepares its financial statements in Russian roubles ("roubles"). The accompanying parent company financial statements differ from the financial statements issued for statutory purposes in Russia in that they reflect certain adjustments, which are appropriate to present the financial position, results of operations and cash flows of the Company in accordance with IFRS issued by the IASB. The principal adjustments relate to (1) expense and revenue recognition, (2) valuation allowances for unrecoverable assets, (3) depreciation and valuation of property and equipment, (4) accounting for income taxes, (5) measurement of financial instruments and (6) restatement of the financial statements to reflect the changes in the general purchasing power of roubles.

According to International Accounting Standard ("IAS") 21, The Effects of Changes in Foreign Exchange Rates, and its interpretations, the Company's measurement currency, which reflects the economic substance of the underlying events and circumstances of the Company, is the rouble as the majority of the Company's revenues, costs, property and equipment purchased, and debt and trade liabilities are either priced, incurred, payable or otherwise measured in roubles. The Company operates in an economy suffering from the effect of hyperinflation, defined, among others, as one in which the cumulative inflation rate over three years is approaching, or exceeds, 100%.

Thus, as required by IAS 29, Financial Reporting in Hyperinflationary Economies, the accompanying financial statements, prepared on a historical cost approach, have been restated so that all reported amounts are expressed in terms of the value of the measuring currency at the most recent balance sheet date. For presentation purposes, the restated financial statements have been translated into US dollars, the presentation currency, at the exchange rate as of December 31, 2002, the date of the most recent balance sheet presented. The Company's presentation currency is different from its measurement currency because the presentation in US dollars is more convenient for the major current and potential users of the financial statements.

The rouble is not a fully convertible currency outside the territory of the Russian Federation. Within the Russian Federation, official exchange rates are determined daily by the Central Bank of the Russian Federation (the "CBR"). Market rates may differ from the official rates but the differences are, generally, within narrow parameters monitored by the CBR. As of December 31, 2002 and 2001, the official rates of exchange were 31.7844 roubles = US\$1 and 30.1400 roubles = US\$1, respectively. Transactions denominated in foreign currencies are recorded at the official exchange rate on the date of the transaction.

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Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Hyperinflationary Accounting

The restatement of the accompanying parent company financial statements expressed in the measurement currency was based on the price indices derived from the Russian Federation Consumer Price Index published by the Russian State Committee on Statistics (the "RCS"). Management believes that these indices provide the most appropriate measure of inflation in the economy. According to the RCS, the price indices for the years ended December 31, 2002 and 2001 were 15.12% and 18.82%, respectively.

Certain amounts presented in the accompanying parent company financial statements, and notes thereto, have been restated. The following methodologies and assumptions were used in the restatement:

- Monetary assets and liabilities, and non-monetary items stated at fair value, as of December 31, 2002 were not restated because they are already expressed in terms of the monetary unit current as of December 31, 2002.
- Monetary assets and liabilities, and non-monetary items stated at fair value, as of December 31, 2001 were restated by applying the price index for the year ended December 31, 2002.
- Non-monetary assets, liabilities and equity, including share capital contributions, were restated by applying the price indices for the period from the date of the transaction to December 31, 2002. Movements in such items and revenue and expense items for the years ended December 31, 2002 and 2001 were restated using the price indices from the date of transaction to December 31, 2002.
- Certain income statement amounts, such as the provision for doubtful accounts, have been assumed to occur at the end of the respective year in which they were determined unless related to a specific point in time, and then the amounts are treated as occurring at that point in time.

Gain or loss on net monetary position is charged to the Company's income.

Investments

All investments, including equity investments in subsidiaries and associates in the separate parent company financial statements, are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, equity investments in subsidiaries and associates in the separate parent company financial statements are measured at cost, net of impairment.

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Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Investments (continued)

Investments which are classified as “held for trading” and “available for sale”, except for equity investments in subsidiaries and associates in the separate parent company financial statements, and except for other investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are subsequently measured at fair value, with unrealised gains or losses on trading securities recognized in income and unrealised gains or losses on available-for-sale securities reported as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in income.

Investments which are classified as “held for trading” and “available for sale”, but do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are subsequently measured at amortized cost using the effective interest rate method. Those that do not have a fixed maturity are measured at cost.

Other long-term investments that are intended to be held to maturity, such as bonds, are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortized cost, any gain or loss is recognized in income when the investment is derecognized or impaired, as well as through the amortization process.

All purchases and sales of financial assets under contracts to purchase or sell financial assets that require delivery of the asset within the time frame generally established by regulation or convention in the market place are recognised on the settlement date i.e. the date the asset is delivered by/to the counterparty.

The Company evaluates credit risk related to its investments by assessing the financial position of investees and considering other factors on an individual basis.

Property, Plant and Equipment

Property, plant and equipment are stated at revalued amounts less accumulated depreciation expressed in terms of the value of the measurement currency at the most recent balance sheet date, and less any accumulated impairment losses. The Company involves independent valuers to determine the fair value of its property, plant and equipment. The most recent valuation was performed at December 31, 2001.

Assets under construction are stated at cost expressed in terms of the value of the measurement currency at the most recent balance sheet date, less any accumulated impairment loss.

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings and constructions	20-60 years
Machinery and equipment	4-40 years
Transport and motor vehicles	7 years

Depreciation is charged in the month following the month in which the asset is put into use and, for disposals, in the month of disposal.

Maintenance costs relating to items of property, plant and equipment are expensed as incurred.

The Company has the title to certain non-production and social assets, primarily buildings and facilities of social infrastructure, which are valued at zero. The costs to maintain such assets are expensed as incurred.

Leases

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the income statement on a straight-line basis over the lease term.

Impairment of Assets

An assessment is made at each balance sheet date to determine whether there is any objective evidence that an asset or a group of assets may be impaired. When indication that an asset may be impaired is evidenced, the asset is measured at its estimated recoverable amount, which is the higher of net selling price and value in use.

Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, after deducting any direct incremental disposal costs. Value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life.

OA0 West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Impairment of Assets (continued)

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.

Impairment loss is recognized for the difference between the estimated recoverable amount and the carrying value as follows:

- For property, plant and equipment at amortized revalued amount or cost, for financial assets at amortized cost, and for equity investments in subsidiaries and associates in the separate parent company financial statements at cost – the carrying amount of the asset is reduced to its estimated recoverable amount either directly or through the use of an allowance account and the amount of the loss is included in the net profit and loss for the period; and
- For financial assets at fair value – where a loss has been recognized directly in equity as a result of the write-down of the asset to recoverable amount, the cumulative net loss recognized in equity is transferred to the net profit and loss for the period.

An impairment loss is reversed if the subsequent increase in the 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, if no impairment loss had been recognized.

Cash and Cash Equivalents

Cash on hand and in banks is carried at cost.

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value, with an original maturity of three months or less.

Accounts Receivable

Accounts receivable are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Doubtful amounts are reserved when identified.

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Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Inventories

Inventories are valued at the lower of cost and net realizable value.

Costs are accounted for on a weighted average basis and include expenditure incurred in acquiring inventories and bringing them to their existing location and condition. The cost of finished goods and work in progress includes an appropriate share of production overheads based on normal operating capacity, but excluding borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and estimated costs necessary to make the sale.

Share Capital

The Company's common shares are recognized at the fair value of the consideration received by the Company.

Accounts Payable

Accounts payable are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pretax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Social and Pension Contributions

The Company contributes to the Russian Federation state pension, social insurance, medical insurance, and unemployment funds on behalf of its employees. These contributions are expensed as incurred. They approximated 35.6 % of the employees' salaries in the years ended December 31, 2002 and 2001.

Income Tax

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

OA West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Income tax (continued)

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences and carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax losses can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Loans and Borrowings

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received, and include acquisition charges associated with the borrowing. After initial recognition, all loans and borrowings, other than liabilities held for trading, are subsequently measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on settlement. Liabilities that are held for trading are subsequently measured at fair value.

For liabilities carried at amortized cost, any gain or loss is recognized in the income statement when the liability is de-recognized, and through the amortization process.

Borrowing costs are expensed as incurred.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, consisting of short-term accounts and promissory notes receivable and short-term loans payable approximate their fair value. Fair value of financial instruments, consisting of long-term obligations under promissory notes, the Settlement Agreement and restructured taxes was not determined because it is impracticable to determine the fair value of these financial liabilities with sufficient reliability.

Concentration of Credit Risk

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of trade accounts receivable. The Company constantly monitors the status of accounts receivable collection and the credit worthiness of the customers. In addition, the Company requires prepayments from certain customers.

OAo West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Sale of Goods

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Title generally passes to the buyer at the Western railway station in the Kemerovo Region.

Rendering of Services

Service revenue is recognized when services are rendered.

When goods are sold or services are rendered in exchange for dissimilar goods or services, the revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

Social and Social Infrastructure Maintenance Expenses

In the period prior to 1992, the Company built social infrastructure property items, such as residential apartments, schools and hospitals for its personnel in Novokuznetsk. In 2001 and 2002 the Company did not have any significant program of construction of new social infrastructure property.

The items of social infrastructure do not meet the definition of an asset in accordance with IFRS. Cost of construction of social infrastructure items and social infrastructure maintenance costs are expensed as incurred.

Use of Estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

OA0 West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Fundamental Errors

The amount of the correction of fundamental errors of prior periods discovered in the current period is included in the determination of net profit or loss for the current period. Comparative information is presented as reported in the financial statements of the prior period. Additional pro forma information is presented by adjusting the opening balance of retained earnings and restating comparative information.

Reclassifications

Payments of interest in the amount of \$2,303 have been reclassified from cash flows used in operating activities to cash flows used in financing activities in the accompanying statement of cash flows for the year ended December 31, 2001, to conform to the presentation of the financial statements as of and for the year ended December 31, 2002.

Certain other reclassifications have been made in 2001 balances to conform to the presentation of the financial statements as of and for the year ended December 31, 2002.

3. Going Concern

The accompanying financial statements have been prepared on a going concern basis that contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. In the year ended December 31, 2002, the Company earned profit from operating activities amounting to \$1,302 (in 2001 the Company incurred a loss from operating activities amounting to \$124,014). As of December 31, 2002 and 2001, the Company's current liabilities were \$267,827 and \$223,116, respectively, and exceeded current assets by \$125,035 and \$73,999, respectively. As of December 31, 2002 and 2001, the current liabilities included payables to related parties in the amount of \$81,481 and \$15,634, respectively.

After the termination of the bankruptcy proceedings against the Company on November 29, 2001 (Note 13), the Company's management developed a financial plan to satisfy its short-term and medium-term cash needs. The plan provided for the financing of the working capital deficit in 2002 by improved operating cash flows and additional short-term borrowings from banks and related parties.

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

4. Revenues and Expenses

For the years ended December 31, 2002 and 2001, revenues and cost of revenues in the accompanying parent company income statement include the amounts of \$140,915 and \$149,261 respectively, representing non-monetary exchange of dissimilar goods and services, including \$121,606 and \$148,439 respectively, in respect of sales of goods and \$19,309 and \$822, respectively, in respect of rendering of services.

The following expenses were included in cost of revenues, selling and distribution costs, general and administrative expenses, and social and social infrastructure maintenance expenses for the years ended December 31:

	2002	2001
Cost of inventories recognized as expense	\$ 402,300	\$ 396,865
Staff cost, including social security taxes	120,938	123,003
Depreciation and amortization	72,766	76,453

5. Income Taxes

Major components of income tax expense for the years ended December 31 were as follows:

	2002	2001
<i>Current income tax expense</i>	\$ (7,112)	\$ —
<i>Deferred income tax benefit</i>		
Relating to origination and reversal of temporary differences	9,405	9,320
Relating to reduction in income tax rates	—	5,137
Income tax benefit reported in the income statement	\$ 2,293	\$ 14,457

The Russian Federation was the only tax jurisdiction in which the Company's income was subject to taxation.

During the year ended December 31, 2001, the statutory income tax rate in Russia was 35%. On August 6, 2001, a law was signed which introduced certain changes in Russian tax legislation reducing the statutory income tax rate from 35% to 24% effective January 1, 2002.

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

5. Income Taxes (continued)

Reconciliation between the income tax expense applicable to profit before income tax at the statutory tax rate to income tax expense at the Company's effective income tax rate for the years ended December 31 is as follows:

	2002	2001
Loss from ordinary activities before income tax	\$ 14,508	\$ 31,798
At Russian statutory income tax rate of 24% and 35%, respectively	3,482	11,129
Effect of non-deductible expenses and other permanent differences	(8,018)	(21,728)
Effect of temporary differences not recognized as measured by the change in valuation allowance	6,829	19,919
Effect of change in tax rate	—	5,137
Income tax benefit reported in the financial statements	<u><u>\$ 2,293</u></u>	<u><u>\$ 14,457</u></u>

Deferred income tax assets and liabilities related to the following as of December 31:

	2002	2001
Deferred income tax liabilities:		
Property, plant and equipment	\$ 42,550	\$ 45,850
Liabilities under the Settlement Agreement and restructured taxes	33,027	40,515
Accounts receivable	—	336
	<u><u>\$ 75,577</u></u>	<u><u>\$ 86,701</u></u>
Deferred income tax assets:		
Unused tax loss carry-forward	6,150	13,090
Investments	3,197	3,815
Accrued liabilities	4,128	4,079
Accounts receivable	26	—
Inventories	533	2,272
Other assets	75	—
	<u><u>\$ 14,109</u></u>	<u><u>\$ 23,256</u></u>
Valuation allowance	(3,197)	(10,026)
Net deferred income tax liability	<u><u>\$ 64,665</u></u>	<u><u>\$ 73,471</u></u>

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

5. Income Taxes (continued)

For Russian income tax purposes, the Company has unused tax losses incurred in 1997 and 1998, which may be carried forward for 10 years for use against future income, although deductibility is restricted to a maximum of 30% of taxable income in any single year. At December 31, 2002 and 2001, the Company's unused tax losses carry forward approximated \$25,623 and \$54,538 respectively, including \$0 and \$9,147, respectively, expiring on December 31, 2007 and \$25,623 and \$45,391, respectively expiring on December 31, 2008.

6. Property, Plant and Equipment

Property, plant and equipment consisted of the following as of December 31:

	<u>2002</u>	<u>2001</u>
Valuation:		
Land	\$ 9,674	—
Buildings and constructions	248,125	\$ 247,265
Machinery and equipment	951,979	933,729
Transport and motor vehicles	3,594	3,257
Other assets	8,933	8,788
Assets under construction	24,360	27,598
	<u>1,246,665</u>	<u>1,220,637</u>
Accumulated depreciation:		
Buildings and constructions	147,601	137,603
Machinery and equipment	695,960	636,520
Transport and motor vehicles	1,464	807
Other assets	3,114	1,318
	<u>848,139</u>	<u>776,248</u>
	<u>\$ 398,526</u>	<u>\$ 444,389</u>

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of \$653 and \$0 as of December 31, 2002 and 2001, respectively.

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

6. Property, Plant and Equipment (continued)

An analysis of activity in property, plant and equipment for the year ended December 31, 2002 was as follows:

	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Other assets	Assets under construction	Total
At December 31, 2001, valuation, net of accumulated depreciation	\$ –	\$ 109,662	\$ 297,209	\$ 2,450	\$ 7,470	\$ 27,598	\$ 444,389
Additions	9,674	–	2,205	–	–	17,823	29,702
Assets put into operations	–	865	16,590	337	637	(18,429)	–
Disposals	–	(1)	(129)	–	(37)	(2,632)	(2,799)
Depreciation charge	–	(10,002)	(59,856)	(657)	(2,251)	–	(72,766)
At December 31, 2002, valuation, net of accumulated depreciation	\$ 9,674	\$ 100,524	\$ 256,019	\$ 2,130	\$ 5,819	\$ 24,360	\$ 398,526

An analysis of activity in property, plant and equipment for the year ended December 31, 2001 was as follows:

	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Other assets	Assets under construction	Total
At December 31, 2000, valuation, net of accumulated depreciation	\$ –	\$ 120,688	\$ 341,452	\$ 2,614	\$ 4,696	\$ 27,657	\$ 497,107
Additions	–	–	–	–	–	33,833	33,833
Assets put into operations	–	7,158	18,127	620	6,741	(32,646)	–
Disposals	–	(7,577)	(1,247)	(27)	–	(1,246)	(10,097)
Depreciation charge	–	(10,607)	(61,123)	(757)	(3,967)	–	(76,454)
At December 31, 2001, valuation, net of accumulated depreciation	\$ –	\$ 109,662	\$ 297,209	\$ 2,450	\$ 7,470	\$ 27,598	\$ 444,389

As of December 31, 2002 and 2001, certain items of property, plant and equipment with an approximate carrying amount of \$241,561 and \$38,485, respectively, were pledged to banks as collateral against the loans to the Company (Note 18).

During the year ended December 31, 2002, additions to property, plant and equipment included the amount of \$7,883 representing non-monetary exchange for the finished goods of the Company.

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

7. Investments

Investments, stated at cost net of impairment loss, were as follows as of December 31:

	2002	2001
Investments in subsidiaries		
OOO Abakan Mining Company	\$ 10,216	\$ 11,455
OOO Mundybash Processing Plant	2,049	—
OAO Zapsibpolymer	—	586
OAO Novokuznetskzhilstroy	—	782
Other subsidiaries	4	119
Investments in associates	167	93
Other investments	302	441
	\$ 12,738	\$ 13,476

Impairment loss in the amount of \$2,773 was included in other expenses in the accompanying statement of income for the year ended December 31, 2002.

In 2001, the Company made a contribution, primarily property, plant and equipment, to OOO Abakan Mining Company (“Abakan”). Abakan is a newly established entity, which produces iron ore. The Company owns 100% of shares in the investee. The Company assessed the recoverability of its investment in Abakan and determined its investment in Abakan was impaired. Impairment loss of \$1,280 was included in the accompanying statement of income for the year ended December 31, 2002.

In 2002, the Company made a contribution, primarily property, plant and equipment, to OOO Mundybash Processing Plant (“Mundybash”). Mundybash is a newly established entity, which processes and enriches iron ore. The Company owns 100% of shares in the investee.

OAO Novokuznetskzhilstroy is a real estate company. The Company owns 67% of its share capital. The Company assessed the recoverability of its investment in OAO Novokuznetskzhilstroy and determined that its investment in OAO Novokuznetskzhilstroy was impaired. Impairment loss of \$718 was included in the accompanying statement of income for the year ended December 31, 2002.

In 2001, the Company made a contribution, primarily property, plant and equipment, to OAO Zapsibpolymer (“Zapsibpolymer”). Zapsibpolymer is a newly established entity, which produces plastic consumer goods. The Company owns 100% of shares in the investee. The Company assessed the recoverability of its investment in Zapsibpolymer and determined that its investment in Zapsibpolymer was impaired. Impairment loss of \$546 was included in the accompanying statement of income for the year ended December 31, 2002.

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

7. Investments (continued)

In 2002, the Company assessed the recoverability of investments in other subsidiaries and investments in associates and determined that some investments were impaired. Impairment loss of \$229 was included in the accompanying statement of income for the year ended December 31, 2002.

8. Inventories

Inventories, at cost, consisted of the following as of December 31:

	<u>2002</u>	<u>2001</u>
Raw materials and spare parts	\$ 59,005	\$ 74,658
Work-in-progress	10,111	9,525
Finished goods	2,508	1,108
	<u>71,624</u>	<u>85,291</u>
Allowance for obsolete and slow-moving items	(3,202)	(3,010)
	<u>\$ 68,422</u>	<u>\$ 82,281</u>

As of December 31, 2002 and 2001, certain items of inventory with an approximate carrying amount of \$30,218 and \$26,577, respectively, were pledged to banks as collateral against the loans to the Company (Note 18).

9. Trade and Other Receivables

Trade and other receivables consisted of the following as of December 31:

	<u>2002</u>	<u>2001</u>
Trade accounts receivable	\$ 17,097	\$ 24,324
Other receivables	2,742	3,157
	<u>19,839</u>	<u>27,481</u>
Allowance for doubtful accounts	(7,904)	(7,317)
	<u>\$ 11,935</u>	<u>\$ 20,164</u>

Amounts owed by/to related parties were as follows at December 31:

	Amounts owed by related parties		Amounts owed to related parties, except for amounts owed under the Settlement Agreement		Amounts owed to related parties under the Settlement Agreement (Note 13)	
	2002	2001	2002	2001	2002	2001
Novosibirsk Metallurgical Plant	\$ 7,908	\$ –	\$ 190	\$ 232	\$ –	\$ –
OOO Trade House EvrazHolding	6,211	–	9,287	–	–	–
Sovkhoz Antonovsky	1,804	–	11	–	–	–
Zapsibmetal-Novosibirsk	1,786	4, 877	–	–	–	–
OOO Mundybash Processing Plant	1,799	–	4	–	–	–
OOO Steel of KMK	1,012	–	36	–	–	–
OOO Upravlenie socialnymi objektami	717	35	4	253	87	196
Metallurgremstroy	643	–	206	–	–	–
Kuznetskugol	1	–	–	–	152	–
Sibirskaya Gorno-Metallurgicheskaya Company	283	433	–	323	–	–
ZAO Kuznetskuglesbyt	155	15,720	–	12,184	1	16
OOO SMU 1 Zapsiba	281	–	3	–	–	–
OOO Zapsibspetstroy	69	55	24	29	–	–
OAo Zapsibpolymer	153	43	–	–	–	–
OOO Betonno-rastvorny zavod ZSMK	125	–	109	–	–	–
Upravliayuschaya Company ZapsibSroyHolding	108	–	196	–	–	–
Blagoustroystvo Zapsiba	88	–	94	–	–	–
OAo Nizhny Tagil Iron & Steel Plant	55	–	–	–	–	–
OOO Food and Trade Company	46	198	1	99	–	–
ZAO Zapsibtorg Ltd.	47	–	–	–	–	1
Sibirskaya Gornaya Company (SGK)	6	588	5,530	2,237	–	–
OAo Evraz-Ruda	33	–	192	–	–	–
OOO Zapsibzhilstoy	31	–	149	–	–	–
OOO Abakan Mining Company	4	–	7	–	–	–
Sanatory Slavino	–	5	17	21	–	–
Lakemill Trading & Investments Limited	–	–	9,372	–	29,365	1,809
OAo Nedra Sibiri	–	–	–	2	–	–
DP Zapsib-Asia	–	297	50	–	–	–
OAo Novokuznetskzhilstroy	–	–	1	–	1	2
OOO Primavera	–	–	16	–	–	–
OAo Sibkir	–	–	3	–	–	–
OOO Zapsibspetsremstroy	8	–	1	–	–	–
Ferrotrade & Co.	–	–	55,978	254	–	20,059
ZAO SEAR MF	–	–	–	–	3,681	–
	23,373	22,251	81,481	15,634	33,287	22,083
Allowance for doubtful debts	(3,288)	–	–	–	–	–
	\$ 20,085	\$ 22,251	\$ 81,481	\$15,634	\$ 33,287	\$22,083

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

10. Related Party Disclosures (continued)

In the years ended December 31, 2002 and 2001 the Company's transactions with related parties were as follows:

	Sales to related parties		Purchases from related parties	
	2002	2001	2002	2001
ZAO Kuznetskuglesbyt	\$ 150,878	\$ 222,513	\$ 18,251	\$ 55,643
Ferrotrade & Co.	155,649	1,144	—	—
Novosibirsk Metallurgical Plant	27,656	—	2,055	—
OOO Steel of KMK	25,880	—	17,485	—
Zapsibmetal-Novosibirsk	11,593	39,412	—	—
Kuznetskugol	5,450	—	—	—
OOO Mundybash Processing Plant	2,900	—	709	—
OOO Upravlenie socialnymi objektami	2,181	1,567	1,447	1,209
Sovkhoz Antonovskiy	1,833	—	23	—
OOO Metallurgremstroy	1,036	—	413	—
Sibirskaya Gornaya Company ("SGK")	472	106,788	40,274	52,505
OAO Nizhny Tagil Iron & Steel Plant	911	—	—	—
OOO Zapsibspetstroy	89	422	45	377
OAO Zapsibpolymer	239	43	7	—
Sanatory Slavino	55	8	214	—
OOO Abakan Mining Company	29	—	8,340	—
OOO Primavera	121	146	—	5
OOO Betonno-rastvorny zavod ZSMK	443	—	563	—
OOO SMU 1 Zapsiba	354	—	13	—
Upravliayuschaya Company				
ZapsibStroyHolding	342	—	10,292	—
OAO Nedra Sibiri	—	—	26	29
OOO Trade House EvrazHolding	—	—	575	—
Sibirskaya Gorno-Metallurgicheskaya Company	3	219	471	1,856
Blagoustroystvo Zapsiba	343	—	704	—
Food and Trade Company	—	1,817	—	753
OOO Krom	—	—	—	11
DP Zapsib-Asia	205	—	—	—
OAO Evraz-Ruda	35	—	11,094	—
ZAO Zapsibtorg LTD	6	9	—	—

It is the nature of transactions with related parties that they cannot be presumed to be carried out on an arm's-length basis.

Kuznetskuglesbyt is an entity under common control with the Company. Kuznetskuglesbyt sells raw materials to the Company and purchases metal products from the Company. In addition, Kuznetskuglesbyt acts as a sales agent for the Company, under an agency agreement. Kuznetskuglesbyt directly concludes contracts with customers, and does not have any contractual obligation to inform the Company about the identity of customers.

OA0 West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

10. Related Party Disclosures (continued)

Ferrotrade & Co. is an entity under common control with the Company. The Company sells finished goods to Ferrotrade & Co. As of December 31, 2002, the Company had advances received from Ferrotrade & Co. for \$8,961. On August 7, 2002, the Company entered into an agreement for an interest-free loan of \$5,000 with Ferrotrade & Co. The loan matured on October 1, 2002 and was fully repaid in October 2002. Ferrotrade & Co. was included in the listing of creditors under the Settlement Agreement dated November 14, 2001 following reassignment of debts from other entities. These debts were reassigned by Ferrotrade to other entities in the year ended December 31, 2002. In addition, as of December 31, 2001, the Company had a long-term liability to Ferrotrade & Co. not included in the listing of creditors under the Settlement Agreement (Note 16).

Novosibirsk Metallurgical Plant is an entity under common control with the Company. In the year ended December 31, 2002, the Company sold metal products to Novosibirsk Metallurgical Plant and purchased services from Novosibirsk Metallurgical Plant.

OOO Steel of Kuznetsk Steel Plant ("Steel of KMK"), an entity under common control with the Company, sells rolled metal and materials to the Company and purchases rolled metal and materials from the Company.

Zapsibmetal-Novosibirsk, an entity under common control with the Company, purchases metal products from the Company.

Kuznetskugol, an entity under common control with the Company, became the Company's related party in the year ended December 31, 2002. During the year ended December 31, 2002 the Company rendered services to Kuznetskugol and purchased raw materials from Kuznetskugol. As of December 31, 2001, the Company had a balance receivable from Kuznetskugol in the amount of \$1,016, included in trade account receivable, and a balance payable to Kuznetskugol in the amount of \$1,746, included in trade accounts payable in the accompanying parent company balance sheet.

OOO Mundybash Processing Plant is a wholly owned subsidiary of the Company that sells iron ore to the Company. It purchases materials and services from the Company.

OOO Upravlenie Socialnymi Objektami, a wholly owned subsidiary of the Company, renders services to the Company relating to the maintenance of social infrastructure, and purchases services and metal products from the Company.

Sovkhoz Antonovsky, a wholly owned subsidiary of the Company, sells agricultural and dairy products to the Company. In 2002, Sovkhoz Antonovsky purchased fixed assets from the Company.

Metallurgremstroy, a wholly owned subsidiary of the Company, provides services and sells materials to the Company and purchases metal products from the Company.

OAo West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

10. Related Party Disclosures (continued)

Sibirskaya Gornaya Company ("SGK") and Sibirskaya Gorno-Metallurgicheskaya Company are entities under common control with the Company. They sell raw materials to the Company and purchase metal products from the Company.

OAo Nizhny Tagil Iron & Steel Plant, an entity under common control with the Company, purchased metal products from the Company during the year ended December 31, 2002.

OOO Zapsibspetstroy, a wholly owned subsidiary of the Company, provides construction services to the Company and purchases construction materials from the Company.

OAo Zapsibpolymer is a wholly owned subsidiary of the Company (Note 7). The Company sells utility services to OAo Zapsibpolymer.

Sanatory Slavino is a subsidiary of the Company. It provides health related services to the Company's employees and purchases services from the Company.

OOO Abakan Mining Company, a wholly owned subsidiary of the Company, sells iron ore to the Company and purchases materials and services from the Company.

OOO Primavera is a subsidiary of the Company. It sold fixed assets to the Company in 2001 and purchases services from the Company.

OOO Betonno-rastvorny zavod ZSMK, a wholly owned subsidiary of the Company, sells materials to the Company and purchases services and materials from the Company.

OOO SMU-1 Zapsiba, a wholly owned subsidiary of the Company, provides construction services to the Company and purchases metal products from the Company.

Upravliayuschaya Company ZapsibStroiHolding, a wholly owned subsidiary of the Company, provides construction services to the Company and purchases metal products from the Company.

OAo Nedra Sibiri, a subsidiary of the Company, provides services to the Company.

OOO Trade House EvrazHolding, the Company's associate, operates as the Company's purchases and sales agent.

OOO Blagoustroistvo Zapsiba, a wholly owned subsidiary of the Company, provides services on improvements to the Company's territories and purchases materials and services from the Company.

OOO Food and Trade Company is a wholly owned subsidiary of the Company (Note 7). It sells consumer goods to the Company and purchases agricultural products from the Company.

OOO Krom, the Company’s associate, sold fixed assets to the Company in 2001.

DP Zapsib-Asia, a wholly owned subsidiary of the Company, settled a portion of its liability to the Company in 2001. The subsidiary purchases metal products from the Company.

OAO Evraz-Ruda, an entity under common control with the Company, sells iron ore to the Company and purchases metal products and materials from the Company

ZAO Zapsibtorg Ltd, an associate of the Company, purchases services from the Company.

Lakemill Trading & Investments Limited is a shareholder of the Company. It was included in the listing of creditors under the Settlement Agreement dated November 14, 2001 following reassignment of debts from other entities.

ZAO SEAR MF (“SEAR MF”) is an entity under common control with the Company. In May 2002, SEAR MF acquired debts of the Company under the Settlement agreement.

OAO Novokuznetskzhilstroy, a subsidiary of the Company (Note 7), was included in the listing of creditors under the Settlement Agreement dated November 14, 2001.

OOO Zapsibzhilstroy, a wholly owned subsidiary of the Company, is engaged in construction of social assets.

OOO Zapsibspetsremstroy, a wholly owned subsidiary of the Company, is engaged in construction and maintenance of social assets. The Company sells materials to the subsidiary.

OAO Sibkir, an associate of the Company, is in the liquidation process.

Taxes receivable consisted of the following as of December 31:

	2002	2001
Input VAT	\$ 23,534	\$ 16,181
Other taxes	10,497	—
	<u>\$ 34,031</u>	<u>\$16,181</u>

As of December 31, 2002 and 2001, input VAT included the current portion of input VAT related to the restructured liabilities under the Settlement Agreement dated November 14, 2001 of \$988 and \$1,274, respectively (Note 13).

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

12. Share Capital

The Company was reorganized to an open joint stock company following its privatization in 1992. At that time, the Company issued 2,385,000 shares with a nominal value of one rouble each, representing identifiable net assets reported in the statutory financial statements.

Authorized Shares

At December 31, 2002 and 2001, the Company's authorized shares comprised of 111,000,000 shares.

Shares Issued and Fully Paid

At December 31, 2002 and December 2001, the Company's issued and paid share capital comprised of 13,387,549 shares.

On June 17, 2002, the general shareholders' meeting of the Company decided to increase the nominal value of each share from one rouble to 10 roubles, without additional capital contributions by the shareholders.

	Shares				Amount (in thousands of US dollars)
	Common	Preferred Class A	Preferred Class B	Total	
At December 31, 2000	1,663,764	604,826	238,554	2,507,144	\$ 23,028
Issued on June 9, 2001	10,880,405	—	—	10,880,405	413
At December 31, 2001	12,544,169	604,826	238,554	13,387,549	\$ 23,441
Conversion into common shares	238,554	—	(238,554)	—	—
Increase in the nominal value of shares	—	—	—	—	4,000
At December 31, 2002	12,782,723	604,826	—	13,387,549	\$ 27,441

OAQ West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

12. Share Capital (continued)

Class A preferred shares entitle their holder to:

- (i) receive fixed dividends, totaling 10% of the Company's annual net profits per the Russian statutory accounts;
- (ii) receive liquidation assets on a priority basis as compared to holders of other groups and types of shares; and
- (iii) vote to liquidate or reorganize the Company or reintroduce amendments restricting the rights of the shareholders in the charter documents.

If the Company does not pay dividends when net profits are available, the holders of Class A preferred shares obtain the same voting rights as the holders of common shares.

The annual meeting of shareholders of the Company held June 5, 2003 decided that the Company will not pay dividends on Class A preferred shares from net profits of 2002 per the Russian statutory accounts. 10% of the Company's net profit per its Russian statutory accounts for 2002 was 75,286,100 roubles (\$2,369 at the exchange rate as of December 31, 2002).

In 2002, 238,554 Class B preferred shares were converted into common shares.

13. Liabilities Under the Settlement Agreement

In 1997, under the decision of the Arbitration Court of the Kemerovo Region, the Company was placed under external management in connection with the bankruptcy proceedings against the Company. On November 14, 2001, the Company entered into a restructuring agreement with its creditors (the "Settlement Agreement"). On November 29, 2001, the court approved the Settlement Agreement and ceased the bankruptcy proceedings against the Company.

The nominal amount of the liabilities under the Settlement Agreement as of December 31, 2002 and 2001 was \$197,759 and \$250,347 respectively, including the amount of \$131,917 and \$157,341, respectively, denominated in US dollars and \$65,842 and \$93,006, respectively, denominated in roubles. Under the Settlement Agreement, the Company's liabilities to the creditors were rescheduled for repayment as follows:

2002-2003	12.5% each year
2004-2021	1.0% each year
2022-2026	11.4% each year

The restructuring of the liabilities under the Settlement Agreement was accounted for as extinguishments of the old financial liabilities and recognition of the new financial liabilities with substantially different terms.

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

13. Liabilities Under the Settlement Agreement (continued)

The new financial liabilities were measured at amortized cost in the accompanying parent company balance sheets. The cost of the liabilities as of the date of restructuring was determined based on the future cash payments discounted at the annual rates of 20% and 12% for the liabilities denominated in roubles and US dollars, respectively.

The gain on restructuring of the liabilities of \$122,120, net of income tax of \$38,568 was classified as an extraordinary item in the accompanying parent company statement of income for the year ended December 31, 2001.

Liabilities under the Settlement Agreement, at carrying amounts, consisted of the following as of December 31:

	<u>2002</u>	<u>2001</u>
Related parties (Note 10)	\$ 33,287	\$ 22,083
Others	<u>18,542</u>	<u>56,700</u>
	51,829	78,783
Less current portion		
Related parties (Note 10)	<u>(17,887)</u>	(8,196)
Others	<u>(12,000)</u>	<u>(22,202)</u>
	(29,887)	(30,398)
	<u>\$ 21,942</u>	<u>\$ 48,385</u>

Extraordinary gain on extinguishments of debts of \$1,899, net of income tax of \$599, included in the parent company statement of income for the year ended December 31, 2002, relates to the restructuring of certain rouble-denominated liabilities with the nominal value of 92,713 thousand roubles (\$2,917 at the exchange rate as of December 31, 2002).

These liabilities were restructured under the terms of the Settlement Agreement in 2001. They were incorrectly accounted for as current liabilities as of December 31, 2001. Their restructuring was recorded in 2002 in the accompanying parent company financial statements.

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

13. Liabilities Under the Settlement Agreement (continued)

Restated pro forma information for the years ended December 31, 2002 and 2001 is presented below as if the error had been corrected in 2001.

	As reported		Pro forma (restated)	
	December 31, 2002	2001	December 31, 2002	2001
Accumulated profits	\$ 134,691	\$ 145,007	\$ 134,691	\$ 147,074
Total equity	177,752	188,068	177,752	190,135
Liabilities under the Settlement Agreement, net of current portion	21,942	48,385	21,942	48,610
Total non-current liabilities	108,920	197,378	108,920	197,603
Trade and other payables	43,462	91,187	43,462	87,822
Current portion of liabilities under the Settlement Agreement	29,887	30,398	29,887	30,819
Total current liabilities	267,827	223,116	267,827	220,171

	As reported		Pro forma (restated)	
	2002	2001	2002	2001
Gain on net monetary position	\$ 34,022	74,467	33,800	74,406
Loss from operating activities	1,302	(124,014)	1,080	(124,075)
Income tax benefit	2,293	14,457	2,347	14,472
Net loss from ordinary activities	(12,215)	(17,341)	(12,383)	(17,387)
Extraordinary item – gain on extinguishment of debts under the Settlement Agreement, net of income tax	1,899	122,120	–	124,233
Net (loss) profit	(10,316)	104,779	(12,383)	106,846

As of December 31, 2002 and 2001, input VAT relating to the liabilities under the Settlement Agreement with the nominal value of \$6,445 and \$10,370, respectively, can be recovered from the tax authorities only after the repayment of respective liabilities. Input VAT relating to the Settlement Agreement was measured at the fair value in the accompanying parent company balance sheets. The fair value was determined based on the future cash receipts discounted at the annual rate of 20% and amounted to \$1,431 and \$2,854 at December 31, 2002 and 2001, respectively, including the current portion of \$988 and \$1,274, respectively, and non-current portion of \$443 and \$1,580, respectively.

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

14. Restructured Taxes Payable

Restructured taxes consisted of the following as of December 31:

	<u>2002</u>	<u>2001</u>
Restructured taxes:		
Social insurance taxes	\$ 22,393	\$ 26,494
Tax-related fines and penalties	1,611	2,400
	<u>24,004</u>	<u>28,894</u>
Less current portion:		
Social insurance taxes	10,594	7,506
Tax-related fines and penalties	687	536
	<u>11,281</u>	<u>8,042</u>
	<u><u>\$ 12,723</u></u>	<u><u>\$ 20,852</u></u>

Social Insurance Taxes

On December 11, 2001, in accordance with the Government Decree on the Restructuring of Liabilities under Social Insurance Taxes, the Company agreed with the tax authorities to restructure its liabilities under social insurance taxes and related fines and penalties. Under the terms of the agreement, social insurance taxes and related fines and penalties with the nominal value of \$77,254 were rescheduled for payment as follows. The amount of \$34,901 should be paid in equal quarterly installments through December 31, 2006. The amount of \$42,353 will be forgiven if all the other payments under the restructuring agreement and current social insurance taxes obligations are made on a timely basis.

On August 19, 2002, the amount of \$4,809 representing penalties for August – December 2001 was excluded from the restructuring agreement. The amount was rescheduled for payment as follows: \$201 should be paid in April 2003 and \$4,608 should be paid in equal quarterly installments through June 30, 2004.

The restructuring of the liability under social insurance taxes was accounted for as an extinguishment of the old financial liability and recognition of the new financial liability with substantially different terms. The new financial liability was measured at amortized cost in the accompanying parent company balance sheets at December 31, 2002 and 2001. The cost of the liability as of the date of restructuring was determined based on the future cash payments discounted at the annual rate of 20%. The amounts of \$37,544 and \$42,353 to be forgiven if all the other payments are made on a timely basis were not included in the liabilities as of December 31, 2002 and 2001, respectively, based on the management's estimate that it is probable that the Company will comply with the payment terms of the restructuring agreement and will make timely payments under the current social insurance taxes obligations.

OA West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

14. Restructured Taxes Payable (continued)

The gain on the restructuring of the liabilities of \$50,830 was included in gain on extinguishment of debts in the accompanying parent company statement of income for the year ended December 31, 2001.

Tax-Related Fines and Penalties

On December 11, 2001, under the Government Decree on the Restructuring of Liabilities under Tax-Related Fines and Penalties, the Company agreed with the tax authorities to restructure its liabilities under tax-related fines and penalties. Under the terms of the agreement, certain tax-related fines and penalties with the nominal value of \$36,848 were rescheduled for payment as follows. The amount of \$3,174 should be paid in equal quarterly installments through December 31, 2007. The amount of \$33,674 will be 50% forgiven in two years of the date of the agreement and fully forgiven in four years of the date of the agreement if the Company makes timely payments under the current tax obligations and repays the restructured amount of \$3,174 as follows: 50% within two years of the date of the agreement and the remaining 50% within four years of the date of the agreement.

The restructuring of the liability under tax-related fines and penalties was accounted for as an extinguishment of the old financial liability and recognition of the new financial liability with substantially different terms. The new financial liability was measured at amortized cost in the accompanying parent company balance sheet at December 31, 2002 and 2001. The cost of the liability as of the date of restructuring was determined based on the future cash payments discounted at the annual rate of 20%. The amount of \$33,674 to be forgiven if all the other payments are made on a timely basis was not included in the liabilities as of December 31, 2002 and 2001 based on management's assessment that it is probable that the Company will make the necessary timely payments under the restructuring agreement and tax obligations.

The gain on the restructuring of the liabilities of \$34,447 was included in gain on extinguishment of debts in the accompanying parent company statement of income for the year ended December 31, 2001.

15. Finance Lease Obligations

In 2001, the Company entered into lease agreements with OOO Deltorg and RMB Leasing for the lease of production assets. Under the lease agreements, the Company has an option to acquire the leased assets at the end of lease term ranging from 2 to 5 years. The estimated average remaining useful life of leased assets is 10 years.

In 2001, the Company entered into lease agreements with RMB Leasing for the lease of computer equipment and software. Under the lease agreements, the Company has an option to acquire the leased assets at the end of the lease term of 5 years. The estimated average remaining useful life of leased assets is 5 years.

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

15. Finance Lease Obligations (continued)

The leases were accounted for as finance leases in the accompanying parent company financial statements. At December 31, 2002 and 2001, the aggregate carrying value of the leased assets amounted to \$8,068 and \$7,630, respectively, net of accumulated depreciation of \$2,194 and \$427, respectively. The leased assets are included in other assets in property, plant and equipment in the accompanying parent company balance sheets (Note 6).

Future minimum lease payments were as follows at December 31, 2002:

	Principal	Interest	Total
January 1, 2003 – December 31, 2003	\$ 1,652	\$ 522	\$ 2,174
January 1, 2004 – December 31, 2007	7,518	2,013	9,531
	9,170	2,535	11,705
Less current portion	(1,652)	(522)	(2,174)
	\$ 7,518	\$ 2,013	\$ 9,531

Future minimum lease payments were as follows at December 31, 2001:

	Principal	Interest	Total
January 1, 2002 – December 31, 2002	\$ 1,027	\$ 480	\$ 1,507
January 1, 2003 – December 31, 2006	7,030	2,872	9,902
	8,057	3,352	11,409
Less current portion	(1,027)	(480)	(1,507)
	\$ 7,030	\$ 2,872	\$ 9,902

16. Payables to Ferrotrade & Co.

On February 23, 2001, the Company entered into an agreement with Ferrotrade & Co., a related party (Note 10). Under the agreement, the repayment of the Company's liabilities to Ferrotrade & Co. of 1,494,407 thousand roubles (\$47,017 at the exchange rate as of December 31, 2002), was rescheduled to December 31, 2003.

The restructuring of the liability was accounted for as an extinguishment of the old financial liability and recognition of the new financial liability with substantially different terms. The new financial liability was measured at amortized cost in the accompanying parent company balance sheets at December 31, 2002 and 2001. The cost of the liabilities as of the date of restructuring was determined based on the future cash payments discounted at the annual rate of 20%.

The gain on the restructuring of the liabilities of \$8,537 was included in gain on extinguishment of debts in the accompanying parent company statement of income for the year ended December 31, 2001.

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

16. Payables to Ferrotrade & Co. (continued)

The liability to Ferrotrade & Co. amounting to \$47,017 is included into accounts payable to related parties in the accompanying parent company balance sheet at December 31, 2002 (Note 10).

17. Trade and Other Payables

Trade and other payables consisted of the following as of December 31:

	2002	2001
Trade accounts payable	\$ 23,259	\$ 49,575
Promissory notes with current maturities or payable on demand	4,118	15,606
Accrued payroll	6,124	6,320
Other payables	9,961	19,686
	<u>\$ 43,462</u>	<u>\$ 91,187</u>

18. Interest Bearing Loans and Borrowings

Short-term loans and borrowings were as follows as of December 31:

	Collateral	2002	2001
US dollar-denominated loans:			
Alfa Bank	Equipment	\$ 20,000	\$ —
Transcreditbank	Inventory	12,000	8,733
The Savings Bank of the Russian Federation	Equipment and inventory	17,000	—
MDM-Bank	Inventory and equipment not installed	—	10,917
RMB Bank	Inventory	—	2,674
Bank overdrafts		—	710
Rouble-denominated loans:			
Gazprombank	Equipment	1,468	—
		<u>\$ 50,468</u>	<u>\$ 23,034</u>

Alfa Bank

On November 29, 2002, the Company entered into an agreement with Alfa Bank for a credit line of \$20,000. The liability under this credit line bears interest of 12% per annum and matures on November 28, 2003. At December 31, 2002, the Company had equipment with an approximate carrying value of \$148,960 pledged as collateral under the agreement with Alfa Bank (Note 6).

OA West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

18. Interest Bearing Loans and Borrowings (continued)

Transcreditbank ("TCB")

On October 22, 2002, the Company entered into an agreement with TCB for a credit line of \$12,000. The liability under this credit line bears interest of 12% per annum and matures on May 15, 2003. At December 31, 2002, the Company had inventory valued at \$19,425 pledged as collateral under the agreement with TCB (Note 6).

On June 30, 2001, the Company entered into a loan agreement with Transcreditbank for \$5,458. The loan bore 15% interest and matured on January 1, 2002. On October 31, 2001, the Company entered into an additional loan agreement for \$3,275 maturing on January 27, 2002 and bearing interest of 15% per annum. At December 31, 2001, the Company had equipment with a carrying value of \$34,867 pledged as collateral under the loan agreements with Transcreditbank. The loan was repaid in 2002 and refinanced with a new loan from Transcreditbank (Note 6).

The Savings Bank of the Russian Federation ("Sberbank")

On May 31, 2002, the Company entered into a loan agreement with Sberbank for \$10,000. Under the agreement, the interest was linked to the amount of export sales and varied between 10.0% and 11.5% per annum. The loan matures on May 26, 2003. At December 31, 2002, the Company had inventory with a carrying value of \$6,219 and equipment with a carrying value of \$57,857 pledged as collateral under the loan agreement with Sberbank (Note 6).

On December 17, 2002, the Company entered into an additional loan agreement with Sberbank for \$7,000 maturing on December 17, 2003 and bearing interest of 10% per annum. At December 31, 2002, the Company had inventory with a carrying value of \$4,575 and equipment with a carrying value of \$31,638 pledged as collateral under the loan agreement with Sberbank (Note 6).

Gazprombank

On October 10, 2002, the Company entered into a loan agreement with Gazprombank for 46,658,000 roubles (\$1,468 at the exchange rate as of December 31, 2002). The loan bears interest of 17% per annum and matures on January 6, 2003. At December 31, 2002, the Company had equipment with an approximate carrying value of \$3,106 pledged as collateral under the agreement with Gazprombank (Note 6).

OA0 West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

18. Interest Bearing Loans and Borrowings (continued)

MDM-Bank

On December 6, 2000, the Company entered into an agreement with MDM-Bank for a credit line of \$5,458 maturing on November 10, 2003. On December 26, 2001, the amount of the credit line was reduced to \$4,366. The liability under the agreement bears interest of 15% per annum. Under the agreement, monthly cash receipts in the Company's accounts with MDM-Bank during the period of use of the credit line should be not lower than \$5,200. As of December 31, 2001, the balance under the credit line consisted of two loans of \$2,183 each maturing on January 16, 2002 and February 13, 2002, respectively. The loans were repaid in 2002.

On December 20, 2001, the Company entered into a loan agreement with MDM-Bank for \$5,459. The loan bore interest of 16% per annum and matured on February 22, 2002. The loan was repaid in 2002.

On December 26, 2001, the Company entered into a loan agreement with MDM-Bank for \$1,092. The loan bore interest of 16% per annum and matured on February 22, 2002. The loan was repaid in 2002.

At December 31, 2001, the Company had inventory and equipment not installed with carrying value of \$25,287 pledged as collateral under these loan agreements with MDM-Bank.

RMB Bank

On December 21, 2001, the Company entered into a loan agreement with RMB Bank for \$2,674. The loan bore interest of 15% per annum and matured on March 21, 2002. The loan was repaid in 2002. At December 31, 2001, the Company had inventory with carrying value of \$4,908 pledged as collateral under the loan agreement with RMB Bank .

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

19. Taxes Payable

Taxes payable consisted of the following as of December 31:

	2002	2001
Road users tax	\$ 27,948	\$ 30,476
Current portion of restructured social insurance taxes (Note 14)	10,594	7,506
Profit tax	6,042	—
Social insurance taxes	1,792	11,947
VAT payable	1,706	2,177
Personal income taxes	1,073	1,160
Environmental tax	944	3,163
Current portion of restructured tax-related fines and penalties (Note 14)	687	535
Property tax	685	1,076
Other taxes, fines and penalties	3,354	—
	\$ 54,825	\$ 58,040

20. Commitments and Contingencies

Economic Environment

The Russian economy, while deemed to be of market status beginning in 2002, continues to display certain traits consistent with that of a market in transition. These characteristics have in the past included higher than normal historic inflation, lack of liquidity in the capital markets, and the existence of currency controls which cause the national currency to be illiquid outside of Russia. The continued success and stability of the Russian economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

The taxation system in Russia is evolving as the central government transforms itself from a command to a market oriented economy. There were many Russian Federation tax laws and related regulations introduced in 2002 and previous years which were not always clearly written and their interpretation is subject to the opinions of the local tax inspectors, Central Bank officials and the Ministry of Finance. Instances of inconsistent opinions between local, regional and federal tax authorities and between the Central Bank and the Ministry of Finance are not unusual. Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Company has accrued tax liabilities based on management's best estimate. Management's estimate of the amount of potential liabilities that can be subject to different interpretations of the tax laws and regulations and are not accrued in the accompanying financial statements could be up to approximately \$6,500. Management believes that it is not probable that the ultimate outcome of such matters would result in a liability.

OA West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

20. Commitments and Contingencies (continued)

Economic Environment (continued)

As of December 31, 2002, the Company does not believe that any material matters exist relating to the developing markets and evolving fiscal and regulatory environment in Russia, including current pending or future governmental claims and demands, which would require adjustment to the accompanying financial statements in order for those statements not to be misleading.

In the ordinary course of business, the Company may be party to various legal and tax proceedings, and subject to claims, certain of which relate to the developing markets and evolving fiscal and regulatory environments in which the Company operates. In the opinion of management, the Company's liability, if any, in all pending litigation, other legal proceeding or other matters other than what is discussed above, will not have a material effect upon the financial condition, results of operations or liquidity of the Company.

The Company's operations and financial position will continue to be affected by Russian political developments including the application of existing and future legislation and tax regulations. The likelihood of such occurrences and their effect on the Company could have a significant impact on the Company's ability to continue operations. The Company does not believe that these contingencies, as related to its operations, are any more significant than those of similar enterprises in Russia.

Litigation, Claims and Assessments

On December 24, 2001, Golden Lion, Inc., an enterprise incorporated in the United States of America, filed a writ of appeal against a ruling of the Arbitration Court of the Kemerovo Region dated November 29, 2001 (Note 13) approving the Settlement Agreement between the Company and its creditors dated November 14, 2001, and asked to exclude from the Settlement Agreement the liability of the Company to Golden Lion, Inc. in the amount of \$2,411 (the amount of \$715, in respect of the liability to Golden Lion, Inc. was included in liabilities under the Settlement Agreement, stated at amortized cost, in the accompanying parent company balance sheet as of December 31, 2002 - Note 13). On November 26, 2002, the Arbitration Court of the Kemerovo Region ruled in favor of Golden Lion, Inc. The Company contested that decision. The decision was cancelled on June 26, 2003.

In 2002 Golden Lion Inc. initiated an arbitration proceeding against the Company in the Moscow Chamber of Trade and Commerce. In its claim the plaintiff required to receive from the Company metal products instead of restructured cash payments.

In management's opinion, the ultimate resolution of this matter will not have a material adverse effect on the Company's results of operations and financial position.

OA West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

20. Commitments and Contingencies (continued)

Litigation, Claims and Assessments (continued)

In 2001, the tax authorities notified the Company that as a result of their audit they have assessed additional taxes, fines and penalties in the total amount of 875,632 thousand roubles (\$27,549 at the exchange rate as of December 31, 2002). Management does not agree with the position of the tax authorities and believes that the Company has properly calculated taxes in accordance with the legislation of the Russian Federation. Management contested the decision of the tax authorities and won the jurisdiction of the first level. Management currently estimates that the ultimate resolution of these matters will result in an additional liability of approximately \$2,114. This amount was recorded in taxes payable and provisions in the accompanying parent company balance sheets as of December 31, 2002 and 2001, respectively.

Restructured Taxes Payable

If the Company does not comply with the terms of the restructuring of its taxes payable, all the restructured liabilities (Note 14) will become payable immediately. Management intends to comply with the terms of the restructuring.

Guarantees of the Debts of Others

On June 10, 2002, the Company issued a guarantee to MDM-Bank of all obligations of OOO Metallenergofinance under the loan agreement between OOO Metallenergofinance and MDM-bank, amounting to \$16,000 bearing interest of 16% per annum and maturing on May 27, 2003. The loan was fully repaid in 2003.

21. Subsequent Events

On January 23, 2003, Noble Resources Ltd., served a request for arbitration against the Company at the International Court of Arbitration in London. Noble Resources' total claim for damage is in the approximate amount of \$48,000. A provision of \$5,000 was recorded in the accompanying parent company financial statements as at December 31, 2002. In management's opinion, the ultimate resolution of this matter will not have a material adverse effect on the Company's results of operations and financial position in excess of the amount accrued.

On June 6, 2003, the Company made a contribution of 250,000 roubles (\$8 at the exchange rate as of June 6, 2003) to the charter capital of a new entity OOO Sibmetinvest. The Company will own 25% of the new entity's capital.

On May 27, 2003, the Company issued a guarantee to MDM-Bank of obligations of OOO EvrazInvest, a related party, under the loan agreement between OOO EvrazInvest and MDM-bank for \$11,080 bearing interest of 9% per annum and maturing on November 27, 2003.

OA0 West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

21. Subsequent events (continued)

On May 30, 2003, the Company issued a guarantee to Alfa-Bank of liabilities of Yuzhkuzbassugol under the loan agreement between Yuzhkuzbassugol and Alfa-Bank. The loan amounts to \$15,000 and bears interest of 11.25% per annum and matures on May 27, 2005.

On July 4, 2003, the Company signed a contract with Seding-M d.o.o for the purchase of production equipment for the revamping of coke oven No.1, amounting to \$8,991.

Ferrotrade & Co.

Consolidated Financial Statements

*Years ended December 31, 2002 and 2001
with Report of Independent Auditors*

Ferrotrade & Co.
Consolidated Financial Statements
Years ended December 31, 2002 and 2001

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Report of Independent Auditors

The Partners
Ferrotrade & Co.

We have audited the accompanying consolidated balance sheets of Ferrotrade & Co. (the "Partnership") as of December 31, 2002 and 2001 and the related consolidated statements of income, changes in partnership funds and cash flows for the years then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with International Standards on Auditing 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Partnership as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards issued by the International Accounting Standards Committee.

Without qualifying our opinion, we draw attention to Note 2 to the financial statements. Marteck International Ltd., the general partner, plans to transfer the business and operations of the Partnership to another entity. Management has analyzed the consequences of transferring the business and believes the Partnership will be able to repay all its liabilities as and when they become due and payable. The accompanying consolidated financial statements have been prepared assuming the Partnership will continue as a going concern.

Ernst & Young (CIS) Limited
Moscow, Russia
April 30, 2003
except for Note 13 as to which the date is
September 24, 2003

Ferrotrade & Co.
Consolidated Balance Sheets

(In thousands of US dollars)

		December 31,	
	Notes	2002	2001
Assets			
Current assets:			
Cash		\$ 298	\$ 8
Restricted deposits at banks	4	13,500	8,200
Trade accounts receivable, net	5	76,700	98,775
Amounts and loans due from related parties	6	99,748	11,838
Advances to suppliers		12,610	13,180
Goods in transit		124,220	76,594
Investments and notes receivable	7	9,309	13,559
Interest receivable		254	–
Total current assets		336,639	222,154
Amounts and loans due from related parties	6	9,447	27,236
Investments and notes receivable	7	9,875	17,895
Total assets		\$ 355,961	\$ 267,285
Liabilities and partnership funds			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 19,415	\$ 18,982
Amounts due to related parties	6	12,993	5,890
Advances from customers		6,820	1,088
Advance for sale of securities	7	10,000	–
Loans	8	146,526	98,610
Dividends payable to partners		7,885	29,412
Total current liabilities		203,639	153,982
Partnership funds:			
Partnership capital	9	3,000	3,000
Unrealised gain on debts of West Siberian Iron & Steel Plant	6	34,049	–
Accumulated profits		115,273	110,303
Total partnership funds		152,322	113,303
Total liabilities and partnership funds		\$ 355,961	\$ 267,285

The accompanying notes form an integral part of these Consolidated Financial Statements.

Ferrotrade & Co.
Consolidated Statements of Income

(In thousands of US dollars)

	<u>Notes</u>	<u>Years ended December 31,</u> 2002	<u>2001</u>
Sales		\$ 1,024,630	\$ 982,662
Cost of sales	10	740,752	767,133
Gross profit		283,878	215,529
Selling, general and administrative expenses	11	(98,272)	(102,276)
Impairment of investments	7	–	(5,647)
Foreign exchange gain		571	336
Other operating (expense) income, net		(148)	856
Profit from operations		186,029	108,798
Interest income		1,026	–
Interest expense		(7,085)	(6,796)
Transfer of assets to the government of Russia at no charge	6	–	(4,328)
Net profit		\$ 179,970	\$ 97,674

The accompanying notes form an integral part of these Consolidated Financial Statements.

Ferrotrade & Co.

Consolidated Statements of Changes in Partnership Funds

(In thousands of US dollars)

	Notes	Years ended December 31, 2002	2001
Partnership capital:			
Balance at January 1 and December 31		\$ 3,000	\$ 3,000
Unrealised gains not recognised in the statement of income:			
Balance at January 1		—	—
Unrealised gain on debts of West Siberian Iron & Steel Plant	6	34,049	—
Balance at December 31		34,049	—
Accumulated profits:			
Balance at January 1		110,303	87,041
Net profit		179,970	97,674
Dividends declared	9	(175,000)	(74,412)
Balance at December 31		115,273	110,303
Total partnership funds		\$ 152,322	\$ 113,303

The accompanying notes form an integral part of these Consolidated Financial Statements.

Ferrotrade & Co.
Consolidated Statements of Cash Flows
(In thousands of US dollars)

	Notes	Years ended December 31, 2002	2001
Cash flows from operating activities			
Net profit		\$ 179,970	\$ 97,674
Adjustment for:			
Transfer of assets to the government of Russia at no charge	6	–	4,328
Impairment of investments		–	5,647
Net gains on sale of investments		–	(487)
Bad debt expense		574	718
Foreign exchange gain		(571)	(336)
Changes in working capital:			
Trade accounts receivable		21,501	(26,661)
Amounts due from related parties		(25,876)	(1,522)
Advances to suppliers		570	(10,390)
Goods in transit		(47,626)	(16,732)
Accounts payable and accrued liabilities		(276)	5,984
Amounts due to related parties		5,311	(6,359)
Advances from customers		5,732	191
Other current assets		(254)	133
Net cash flows from operating activities		139,055	52,188
Cash flows from investing activities			
Purchases of debts of West Siberian Iron and Steel Plant		–	(16,088)
Purchases of shares in West Siberian Iron and Steel Plant	7	–	(4,328)
Purchases of shares in Nakhodka Trade Seaport	7	(1,246)	
Long-term loans receivable issued to related parties		(2,000)	(10,390)
Prepayment for sales of securities	7	10,000	–
Payment to Credit Suisse First Boston (Cyprus) Limited within the participation in long-term financing		–	(3,250)
Issuance of short-term loans receivable		(2,622)	(22,022)
Issuance of short-term loans receivable to related parties		(19,100)	(653)
Restricted deposits at banks		(5,300)	(3,000)
Proceeds from repayment of short-term loans receivable		10,822	2,600
Proceeds from Bucovina	7	3,493	–
Proceeds from Tenniel	6,7	7,849	–
Proceeds from repayment of short-term loans receivable issued to related parties		7,379	1,231
Proceeds from sale of other investments		–	265
Net cash flows from (used in) investing activities		9,275	(55,635)
Cash flows from financing activities			
Net proceeds from lines of credit from UBS AG, Donau-Bank AG, BNP Paribas, Credit Suisse First Boston, BBL, CL, net		34,577	34,199
Proceeds from other loans		27,910	26,390
Repayments of other loans		(14,000)	(8,000)
Proceeds from short-term loans to related parties		–	412
Repayments of short-term loans to related parties		–	(4,626)
Dividends paid to partners		(196,527)	(45,000)
Net cash flows (used in) from financing activities		(148,040)	3,375
Net increase (decrease) in cash and cash equivalents		290	(72)
Cash and cash equivalents at beginning of period		8	80
Cash and cash equivalents at end of period		\$ 298	\$ 8
Supplementary cash flow information:			
Cash flows during the period:			
Interest paid		\$ (7,085)	\$ (6,796)
Interest received		388	131
Non-cash activities:			
Purchase of shares from VIGO and MFC	7	8,600	–
Sales and Amendment to sales of debts of West Siberian Iron and Steel Plant	6	(12,968)	25,000
Dividends payable		(7,885)	(29,412)

The accompanying notes form an integral part of these Consolidated Financial Statements.

Ferrotrade & Co.

Notes to Consolidated Financial Statements

Years ended December 31, 2002 and 2001

(All amounts in thousands of US dollars unless otherwise indicated)

1. Description of Business

Consolidated financial statements of Ferrotrade & Co. for the years ended December 31, 2002 and 2001 were authorized for issue in accordance with a resolution of the Partners on April 30, 2003.

Ferrotrade & Co. (the “Partnership”) is a limited partnership under the laws of the United Kingdom. The Partnership was registered on August 23, 1999. The partners are Marteck International Ltd. (“Marteck”), the general partner, and Ferrotrade Services Limited, the limited partner. The registered address of the Partnership is S.401, 302 Regent Street, W1R 6HH, London, United Kingdom. In accordance with the Partnership Agreement, the partners shall carry on the business of general traders; all business activity and management and control shall be situated overseas.

The Partnership is engaged in the export of steel products and coal from Russia. The major customers of the Partnership are located in the Far East (China, Taiwan, Vietnam, South Korea, Philippines) and Middle East (Iran) regions. The Partnership buys steel products from a limited number of suppliers. Termination of business relationship with one of those suppliers could adversely affect the Partnership’s business. Two of the major suppliers, providing approximately 75% of purchases, are the Company’s related parties.

The Partnership uses working capital lines of credit from a number of financial institutions. While the liabilities to those financial institutions are short-term liabilities, the Partnership is significantly dependent on the availability of those lines of credit in order to continue its trading activities.

2. Planned Transfer of the Partnership’s Operations to Another Entity

Currently, Marteck, its subsidiaries and associates are going through a group restructuring. As a part of that restructuring, Marteck plans to transfer the business and operations of the Partnership to a new entity being incorporated under the laws of Gibraltar. The transfer is expected to be completed by December 2003. Under the plan, the Partnership will issue invoices and receive cash payments in respect of the shipments to be made up to December 2003. The Partnership does not plan to enter into trading transactions after December 2003.

Management has analyzed the consequences of transferring the business and believes the Partnership will be able to repay all its liabilities as and when they become due and payable.

Notes to Consolidated Financial Statements (continued)

3. Summary of Significant Accounting Policies

Basis of Preparation

Consolidated financial statements of the Partnership have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (the “IASB”) and interpretations issued by the Standing Interpretations Committee of the IASB.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Partnership and East Metals S.A. (“East Metals”), a wholly owned subsidiary of the Partnership. East Metals was registered in Switzerland on July 4, 2002. The consolidated financial statements include the results of operations and cash flows of East Metals for the period from July 4, 2002 (inception) through December 31, 2002.

Foreign Currency Translation

The Partnership’s measurement currency is the US dollar as all of its revenue, inventory purchases and the majority of debt are either priced, incurred, payable or otherwise measured in US dollars. Monetary assets and liabilities denominated in other currencies are translated into US dollar equivalents using year-end spot foreign exchange rates that existed when the values were determined. Non-monetary assets and liabilities are translated using exchange rates that existed when the values were determined. Exchange differences on foreign currency transactions are included in the statement of income.

Investments

All investments are initially recognized at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments which are classified as “held for trading” and “available for sale”, except for other investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at fair value, with unrealised gains or losses on trading securities recognized in income and unrealised gains and losses on available-for-sale securities reported as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in income.

Investments which are classified as “held for trading” and “available for sale”, but do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are subsequently measured at amortized cost using the effective interest rate method. Those that do not have a fixed maturity are measured at cost.

Ferrotrade & Co.

Notes to Consolidated Financial Statements (continued)

Investments (continued)

Other long-term investments which are intended to be held to maturity, such as bonds, are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortized cost, any gain or loss is recognized in income when the investment is derecognised or impaired, as well as through the amortization process.

The Partnership evaluates credit risk related to its investments by assessing the financial position of investees and considering other factors on an individual basis.

Cash and Cash Equivalents

Cash and deposits at banks are carried at cost.

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

Deposits at banks are held by the banks as a pledge for the overdrafts provided to the Partnership.

Trade and Other Receivables

Trade receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

The credit risk associated with trade accounts receivable is managed by letter of credit arrangements with the major customers.

Receivables from related parties are recognized and carried at cost.

Goods in Transit

Goods in transit are valued at the lower of cost and net realizable value.

The Partnership typically takes title to goods purchased at the manufacturers' plant. Costs incurred in bringing each product to its present location and condition are accounted for as a purchase and transportation cost on a specific identification basis.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Notes to Consolidated Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

Impairment of Assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset, group of financial assets or equity investments may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss recognized for the difference between the recoverable amount and the carrying value as follows:

- For financial assets at amortized cost and equity investments at cost – the carrying amount of the asset is reduced to its estimated recoverable amount either directly or through the use of an allowance account and the amount of the loss is included in the net profit and loss for the period; and
- For financial assets at fair value – where a loss has been recognized directly in equity as a result of the write-down of the asset to recoverable amount, the cumulative net loss recognized in equity is transferred to the net profit and loss for the period.

Trade and Other Payables

Liabilities for trade accounts payable and accrued liabilities are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Partnership.

Payables to related parties are carried at cost.

Loans and Borrowings

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received and including acquisition charges associated with the borrowing/loan.

After initial recognition, all interest-bearing loans and borrowings, other than liabilities held for trading, are subsequently measured at amortized cost. Amortized cost is calculated by taking into account any discount or premium on settlement.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, consisting of cash and cash equivalents, deposits at banks, trade accounts receivable, short-term loans receivable, short-term receivables from related parties, short-term obligations under accounts payable and loans approximate their fair value.

The Partnership Capital

The Partnership capital is recognized at the fair value of the consideration received by the Partnership.

Ferrotrade & Co.

Notes to Consolidated Financial Statements (continued)

3. Summary of Significant Accounting Policies (continued)

Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Partnership and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized:

Sale of Goods

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Title generally passes to the buyer at the port of exit out of Russia.

Interest

Revenue is recognized as the interest accrues (taking into account the effective yield on the asset) unless collectibility is in doubt.

Borrowing Costs

Borrowing costs are recognized as expenses in the period in which they are incurred.

Income Taxes

The Partnership is not subject to income tax under the UK legislation.

Reclassifications

Certain reclassifications have been made in 2001 balances to conform the presentation of the financial statements as of and for the year ended December 31, 2002.

4. Restricted Deposits at Banks

Deposits were held at the following banks as of December 31:

	2002	2001
UBS AG	\$ 4,500	\$ 4,200
Donau-Bank AG	1,000	1,000
Credit Suisse	3,000	2,250
BNP Paribas	5,000	750
	<u>\$ 13,500</u>	<u>\$ 8,200</u>

Short-term deposits are pledged for the bank loans (Note 8).

Ferrotrade & Co.

Notes to Consolidated Financial Statements (continued)

5. Trade Accounts Receivable

Trade accounts receivable consisted of the following as of December 31:

	2002	2001
Trade accounts receivable	\$ 77,720	\$ 99,657
Allowance for uncollectible accounts	(1,020)	(882)
	\$ 76,700	\$ 98,775

6. Related Party Disclosures

Amounts and loans due from related parties comprised the following as of December 31:

	2002	2001
Marteck [a]	\$ 4,857	\$ 25,000
Nizhny Tagil Iron & Steel Plant – prepayments [b]	14,822	1,483
West Siberian Iron & Steel Plant – prepayments [c]	8,961	279
West Siberian Iron & Steel Plant – long-term debts [c]	47,017	–
Ferrotrade Ltd. – accounts receivable [d]	3,767	1,885
Ferrotrade Ltd. – loan [d]	12,390	10,390
Steel of Kuznetsk Steel Plant [e]	11,781	–
Lakemill Trading & Investments Limited [f]	3,680	37
Fletcher Holdings International Corp. [g]	1,920	–
	109,195	39,074
Less current portion	(99,748)	(11,838)
Total long-term amounts and loans due from related parties	\$ 9,447	\$ 27,236

Amounts due to related parties comprised the following as of December 31:

	2002	2001
Marteck Shipping Ltd. [h]	\$ 3,214	\$ 2,423
Marteck [a]	–	306
Nizhny Tagil Iron & Steel Plant [b]	8,881	3,161
Nakhodka Port [i]	898	–
	\$ 12,993	\$ 5,890

Ferrotrade & Co.

Notes to Consolidated Financial Statements (continued)

6. Related Party Disclosures (continued)

- [a] In accordance with the Assignment agreement (the “Assignment Agreement”) dated April 16, 2001, Marteck purchased from the Partnership debts of West Siberian Iron & Steel Plant (“ZapSib”) earlier acquired by the Partnership. The cost of the investment for the Partnership was \$24,513. The purchase price per the agreement with Marteck was \$25,000. Gain from the transaction in the amount of \$487 was included in other operating income in the accompanying consolidated statement of income for the year ended December 31, 2001.

On January 15, 2002, in accordance with the agency agreement dated December 27, 2001 between the Partnership and Marteck, the Partnership, acting as an agent of Marteck, sold the above-mentioned debts of ZapSib to Tenniel Systems Ltd. (“Tenniel”) for \$25,015. In 2002, Ferrotrade received payments from Tenniel in accordance with the above-mentioned agreement. Those payments in the total amount of \$7,849 were offset against receivables from Marteck.

On May 14, 2002, in accordance with Addendum to the Assignment Agreement (Note 6 [c]), assignment of part of ZapSib debts from the Partnership to Marteck was terminated and the purchase price of the debts per the Assignment Agreement was decreased from \$25,000 to \$12,032.

In 2001, Marteck supplied goods to the Partnership. Total purchases of goods from Marteck for the years ended December 31, 2002 and 2001 were \$0 and \$72,140, respectively.

In 2002, Ferrotrade made certain payments on behalf of Marteck in the amount of \$674, which increased accounts receivable from Marteck as of December 31, 2002.

In 2001, Marteck made certain payments on behalf of the Partnership. The total amount of such payments of \$3,468 was repaid by the Partnership before December 31, 2001.

- [b] The amounts due from and to Nizhny Tagil Iron & Steel Plant (“NTMK”), a subsidiary of Marteck, represent prepayments and accounts payable under different contracts for the purchase of goods from NTMK. For the year ended December 31, 2002 and 2001, purchases of goods from NTMK were \$223,171 and \$182,639, respectively, including purchases under contracts with agents of NTMK of \$73,730 and \$64,695, respectively.

Ferrotrade & Co.

Notes to Consolidated Financial Statements (continued)

6. Related Party Disclosures (continued)

- [c] The amounts due from ZapSib, a subsidiary of Marteck, represent prepayments under different contracts for the purchase of goods from ZapSib. For the year ended December 31, 2002 and 2001, purchases of goods from ZapSib were \$239,882 and \$193,275, respectively, including purchases under contracts with agents of ZapSib of \$91,442 and \$72,544, respectively.

In accordance with the loan agreement dated August 7, 2002, the Partnership granted an interest-free loan of \$5,000 to ZapSib. The loan matured on October 1, 2002. ZapSib repaid the loan in October 2002.

On May 14, 2002, The Partnership acquired rouble-denominated long-term debts due from ZapSib in accordance with Addendum to the Assignment Agreement (Note 6 [a]). Long-term debts due from ZapSib are measured at fair value in the accompanying consolidated balance sheet as of December 31, 2002. The Partnership estimated the fair value of the long-term debts receivable from ZapSib based on the expected timing of cash receipts and a discount rate of 20% per annum. The difference between the cost of long-term debts due from ZapSib and their fair value as of December 31, 2002 of \$34,049 was included in unrealised gains not recognised in the statement of income in the accompanying consolidated financial statements.

- [d] As of December 31, 2002 and December 31, 2001, the amounts due from Ferrotrade Ltd., a subsidiary of Marteck, were in respect of payments made by the Partnership on behalf of Ferrotrade Ltd.

On January 28, 2002, the Partnership acquired shares of ZAO Nakhodka Trade Seaport ("Nakhodka Port") from Ferrotrade Ltd. for \$1,792 (Note 7). This amount was offset against the amounts receivable from Ferrotrade Ltd.

In accordance with the loan agreement dated May 15, 2002, the Partnership granted a non-interest bearing US dollar denominated loan of \$2,000 to Ferrotrade Ltd. The loan matures on May 15, 2004.

In accordance with the loan agreement dated May 3, 2001, the Partnership granted a non-interest bearing US dollar denominated loan of \$10,390 to Ferrotrade Ltd. The loan matures on May 31, 2003.

- [e] An interest-free loan denominated in US dollars in the amount of \$15,000 was granted to OOO Steel of Kuznetsk Steel Plant ("Steel of KMK"), an entity under common control with the Company, under the agreement dated February 1, 2002 as amended on April 4, 2002. The loan matures in one year from the date of the respective borrowings. As of December 31, 2002, outstanding amount under this loan was \$11,781. As of April 30, 2003, Steel of KMK repaid \$1,800. Remaining amount of the loan is expected to be recovered prior to December 31, 2003.

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Notes to Consolidated Financial Statements (continued)

6. Related Party Disclosures (continued)

- [f] The amounts due from Lakemill Trading and Investments Ltd. ("Lakemill") consisted of \$4,213 in respect of the sale of 2,508,000 shares of common stock of ZapSib by the Partnership to Lakemill under the agreement dated September 30, 2002 (Note 7) and \$3,803 in respect of payments made by the Partnership on behalf of Lakemill.

On November 11, 2002, the Partnership acquired 2,677,399 shares of common stock of ZapSib from Lakemill Trading and Investments Ltd. for \$4,336 (Note 7). This amount was offset against the amounts receivable from Lakemill.

- [g] The amounts due from Fletcher Holdings International Corporation ("Fletcher") were in respect of payments made by the Partnership on behalf of Fletcher.
- [h] Marteck Shipping Ltd., a subsidiary of Marteck, provided freight services to the Partnership. The cost of these services for the years ended December 31, 2002 and 2001 was \$45,253 and \$39,040, respectively.
- [i] The amounts due to Nakhodka Port represent amounts due for services rendered to the Partnership at the port. Total purchases of services in the year ended December 31, 2002 and 2001 were \$5,889 and \$3,990, respectively.

On August 21, 2001, the Partnership purchased from ZapSib 2,582,306 newly issued shares of voting common stock of ZapSib for \$4,328. On December 20, 2001, the Partnership signed a contract with the Russian Fund of Federal Property (the "Fund") for a transfer of these shares of ZapSib, at no charge, to the Fund.

7. Investments and Notes Receivable

The carrying amounts of investments and notes receivable were as follows as of December 31:

	2002	2001
Credit Suisse First Boston (Cyprus) Limited [a]	\$ 6,650	\$ 6,650
Tenniel Systems Ltd. / Bucovina Trading Limited [b]	2,538	5,322
Duferco Participations Holding Limited [c]	2,622	—
Nakhodka Port [d]	3,038	—
West Siberian Iron & Steel Plant [e]	4,336	—
Kuznetsk Steel Plant [f]	—	10,822
VIGO Trading Limited [g]	—	4,300
MFC Union Bank (AD) [h]	—	4,300
Group EAM S.A. [i]	—	60
GSX.com, Inc. [j]	—	—
	19,184	31,454
Less current portion	(9,309)	(13,559)
Total long-term investments and notes receivable	\$ 9,875	\$ 17,895

Ferrotrade & Co.

Notes to Consolidated Financial Statements (continued)

7. Investments and Notes Receivable (continued)

- [a] In accordance with the Agreement on the participation in financing between the Partnership and Credit Suisse First Boston (Cyprus) Limited ("CSFB"), the Partnership transferred \$6,650 to CSFB to participate in financing of OOO Deltorg ("Deltorg") under a \$100,000 credit line granted by CSFB to Deltorg. The amounts under the credit line bear interest at a rate of 8% per annum and mature in July 2004 to the extent CSFB recovers the funds from Deltorg. In the year ended December 31, 2002, the Partnership accrued interest income of \$518.
- [b] Prepayments to Bucovina Trading Limited ("Bucovina") were made under the agency agreement dated August 1, 2000. Under the agency agreement, Bucovina acquired debts of ZapSib for the account and on behalf of the Partnership for \$10,169. The Partnership and Bucovina agreed that Bucovina should sell the debts of ZapSib and transfer the proceeds from sale to the Partnership. On January 15, 2002, Bucovina signed an agreement with Tenniel Systems Limited ("Tenniel"). Under this agreement, Bucovina sold the above-mentioned debts of ZapSib to Tenniel for \$10,738 and instructed Tenniel to remit the funds directly to the Partnership.

The amount receivable from Bucovina is not secured by any assets of Bucovina or other parties. Management expects to receive cash proceeds by December 31, 2003. In 2001, the Partnership determined that its receivable from Bucovina was impaired. The estimated recoverable amount of the asset of \$5,322 was determined based on the expected amount to be received from Bucovina, the expected timing of cash receipts and a discount rate of 5.89% per annum. Impairment loss of \$4,647 determined as a difference between the carrying amount and the estimated recoverable amount of the asset was included in the accompanying consolidated statement of income for the year ended December 31, 2001.

In the year ended December 31, 2002, the Partnership received payments of \$3,493 in respect of the amount receivable from Bucovina.

- [c] On June 20, 2002, under the loan agreement, the Partnership granted an interest-free loan of \$3,537 to Duferco Participations Holding Limited ("Duferco"). The loan matures on January 2, 2004 and should be repaid as follows: \$350 – on October 5, 2002; \$525 – by equal monthly instalments from October 2002 through December 2003; \$187 – on January 2, 2004; \$2,475 – by offset against sales commission due to Duferco, acting as the Partnership's sales agent. Under the agreement, the minimal monthly sales commission due to Duferco is \$138.

As of December 31, 2002, no payments in respect of the amounts due under the loan agreement were received from Duferco. The Partnership and Duferco agreed to reschedule the payments. Management expects to recover the loan by December 31, 2003, except for the amount of \$187 due on January 2, 2004.

Notes to Consolidated Financial Statements (continued)

7. Investments and Notes Receivable (continued)

[d] On January 28, 2002, the Partnership acquired 4,265,665 shares of voting common stock of Nakhodka Port from Ferrotrade Ltd. for \$1,792. On December 3, 2002 the Partnership acquired 3,137,695 shares of voting common stock of Nakhodka Port from Pennygold Trading Supplies for \$1,246. These investments represent 17% of voting common stock in the investee. Nakhodka Port is a trading seaport in the Far East of Russia.

[e] On November 21, 2002, the Partnership acquired 2,677,399 shares of common stock of ZapSib from Lakemill Trading and Investments Ltd. for \$4,336 (Note 6). This investment represents 20% of voting common stock in the investee.

These shares were acquired with a view of their subsequent sale. On November 27, 2002, the Partnership entered into a Share Sale and Purchase Agreement with R.R.&A. Rapport Research and Analysis Company Ltd. Under the agreement, the Partnership agreed to sell 1,819,940 common and 51,480 preferred shares of ZapSib for \$18,246, of which \$10,000 was received by the Partnership in December 2002 as an advance payment.

[f] An interest-free loan denominated in US dollars in the amount of \$10,000 was granted to Kuznetsk Steel Plant ("KMK") under the agreement dated December 14, 2001. The loan matured on December 9, 2002. In addition, as of December 31, 2001, KMK owed \$822 to the Partnership under the loan agreement dated March 16, 2001 for an interest-free loan denominated in US dollars which was due in August 2001. During the year ended December 31, 2002, KMK repaid these loans.

[g] An interest-free loan denominated in Russian roubles in the amount of 127,181 thousand roubles was granted to VIGO Trading Limited ("VIGO") under the loan agreement dated November 1, 2001. The loan was repayable by December 31, 2001. On January 28, 2002, the Partnership entered into an agreement with VIGO ("Securities Purchase Agreement"). Under the Securities Purchase Agreement, the Partnership purchased 2,507,999 shares of common stock of ZapSib for \$4,213. The Partnership and VIGO agreed to offset this against the loan receivable from VIGO.

On January 28, 2002 the Partnership, VIGO and Fletcher agreed that VIGO's liability to the Partnership of \$60 would be repaid by Fletcher (Note 6).

On September 30, 2002 the Partnership sold 2,508,000 shares of common stock of ZapSib to Lakemill for \$4,213 (Note 6).

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Notes to Consolidated Financial Statements (continued)

7. Investments and Notes Receivable (continued)

- [h] An interest-free loan denominated in Russian roubles in the amount of 127,181 thousand roubles was granted to MFC under the loan agreement dated November 1, 2001. The loan was repayable by December 31, 2001. On January 28, 2002 the Partnership, MFC, Lakemill and Fletcher agreed that MFC's liability to the Partnership of \$3,713 and \$560 would be repaid by Lakemill and Fletcher, respectively.
- [i] Loan receivable from Group EAM S.A. was repaid in 2002.
- [j] The Partnership determined that its equity investment in GSX.com, Inc. with the cost of \$1,000 was impaired due to the planned liquidation of GSX.com. Impairment loss of \$1,000 was included in the accompanying consolidated statement of income for the year ended December 31, 2001.

8. Loans

Short-term interest-bearing loans and borrowings were as follows as of December 31:

	2002	2001
Lines of credit:		
UBS AG [a]	\$ 45,362	\$ 37,147
BNP Paribas [b]	36,009	17,068
Credit Suisse [c]	16,420	15,044
Bank Brussels Lambert [d]	12,740	—
Credit Lyonnais (Suisse) S.A. [e]	2,977	—
Donau-Bank AG [f]	1,625	11,297
	115,133	80,556
Other loans:		
Brindil International Ltd. [g]	20,000	—
Moscow Business World Bank [h]	11,393	10,054
Olympiysky Bank [i]	—	8,000
	31,393	18,054
	\$ 146,526	\$ 98,610

The Partnership uses working capital lines of credit from a number of financial institutions. While the liabilities to those financial institutions are short-term liabilities, the Partnership is significantly dependent on the availability of those lines of credit in order to continue its trading activities.

Except for the line of credit from Donau-Bank AG, which bore interest at fixed rates, lines of credit bore interest on outstanding balances at variable bank interest rates (London Interbank Offered Rate ("LIBOR") plus 1.00%–2.50% and 1.50%–2.25% as of December 31, 2002 and 2001, respectively.

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Notes to Consolidated Financial Statements (continued)

8. Loans (continued)

Liabilities under certain lines of credit were secured by restricted cash deposits (Note 4).

- [a] In accordance with the agreement dated December 22, 1999, as amended on May 10, 2000, UBS AG ("UBS") placed at the disposal of the Partnership, and/or Ferrotrade Ltd. (Ireland) and/or Marteck a trade finance facility in the amount of \$42,000. On March 25, 2002, the Partnership, Marteck and UBS executed a new agreement. Under the agreement, the trade finance facility at the disposal of the Partnership and/or Marteck was extended to \$45,000. The Partnership and Marteck signed certificates of guarantee for all claims that UBS may have against each of them. The finance facility may be withdrawn at any time by UBS.

As of December 31, 2002, the liability under the trade finance facility was secured by goods of the Partnership with carrying value of \$41,765. As of December 31, 2002, the Partnership issued guarantees of the debts of others to UBS in the total amount of \$303.

- [b] BNP Paribas' ("BNP") credit facility available to the Partnership was up to \$50,000 as of December 31, 2002 (\$20,000 as of December 31, 2001). This facility may be withdrawn at any time by BNP. As of December 31, 2002, the loan was secured by goods of the Partnership with carrying value of \$42,856.
- [c] In accordance with the credit facility agreement dated October 17, 2001, Credit Suisse provided the Partnership with the credit facility of \$15,000 to finance, on a short-term basis, trade-related commercial transactions. On September 2, 2002, the credit facility was extended to \$20,000. Credit Suisse is entitled to withdraw the credit facility at any time. As of December 31, 2002, liability under the credit facility was secured by goods of the Partnership with carrying value of \$19,104.
- [d] Bank Brussels Lambert ("BBL") granted a loan facility to the Partnership up to \$20,000, subject to certain limitations. As of December 31, 2002, the loan was secured by goods of the Partnership with the carrying value of \$12,734 kept at the irrevocable disposal of BBL at Vladivostok and Nakhodka Trade Seaports.
- [e] Credit Lyonnais' general uncommitted credit facility available to the Partnership was \$15,000 as of December 31, 2002. This credit facility is used to finance steel products trading on a fully secured basis. As of December 31, 2002, liability under the credit facility was secured by goods of the Partnership with carrying value of \$4,240.

Notes to Consolidated Financial Statements (continued)

8. Loans (continued)

- [f] In accordance with the agreement dated July 11, 2001, Donau-Bank AG made available to the Partnership a revolving loan facility in the amount of \$11,000 for pre-financing the purchase of steel products. The loan facility bore interest of 10.5% per annum and matured on September 30, 2002. On August 30, 2002, the revolving loan facility was extended to \$12,000 effective September 30, 2002. The loan facility bears interest of 9.0% per annum and matures on November 30, 2003. The agreement provided for a commitment fee of 1% calculated on the amount of unutilised loan facility. As of December 31, 2002 and 2001, outstanding amounts due under these loan agreements were \$1,625 and \$7,797, respectively.

In accordance with the loan agreement dated October 10, 2001, Donau-Bank AG made available to the Partnership a loan facility in the amount of \$3,500 for financing working capital for exports. The loan bore interest of 6.0% per annum and matured on October 30, 2002. The Partnership repaid this loan in 2002.

As of December 31, 2002, the liability under the revolving loan facility provided by Donau-Bank AG was secured by goods of the Partnership with carrying value of \$5,291.

- [g] In accordance with the loan agreement dated August 1, 2002, Brindil International Ltd. provided the Partnership with an unsecured loan facility of \$20,000. The loan facility bore interest of 12.75% per annum. Loans drawn down under this facility matured in six months from the date of the respective borrowings. The loan was fully repaid in February 2003.

- [h] In accordance with the loan agreement dated May 17, 2001, Moscow Business World Bank ("MDM Bank") provided the Partnership with a rouble denominated loan of 303,000 thousand roubles (\$10,054 at exchange rate as of December 31, 2001). The loan bore interest of 25% per annum.

On September 2, 2002, the Partnership and MDM Bank terminated the agreement dated May 17, 2001 and entered into a new rouble-denominated loan agreement for 302,118 thousand roubles (\$9,505 at exchange rate as of December 31, 2002). The loan bears interest of 21% per annum and is due within 10 days upon a request of MDM Bank but no later than December 19, 2003.

In accordance with the loan agreement dated May 16, 2002 MDM Bank provided the Partnership with a rouble denominated loan facility of 60,000 thousand roubles (\$1,888 at exchange rate as of December 31, 2002). The loan bears interest of 23% per annum and was due within 10 days upon a request of MDM Bank, but not later than December 31, 2003.

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Notes to Consolidated Financial Statements (continued)

8. Loans (continued)

- [i] In accordance with the loan agreement dated September 17, 2001, the loan due to Olympiysky Bank denominated in US dollars accrued interest at a rate of 16% per annum. The loan was repaid in April 2002. A new loan in the amount of \$6,000 and at the same interest rate was granted to the Partnership by Olympiysky Bank in accordance with the loan agreement dated April 10, 2002. The loan was repaid in June 2002.

9. Partnership Capital

In accordance with the Limited Partnership Agreement dated August 23, 1999, the declared Partnership Capital was set as 2 UK pounds (\$0.003). On November 9, 2000, the general partner made a decision to increase the partnership capital by \$3,000 effective June 30, 2000 by way of a profit distribution.

In March, July, September, October and December 2002 the general partner made decisions to declare dividends for the year ended December 31, 2002 in the amount of \$35,000, \$30,000, \$40,000, \$30,000 and \$40,000, respectively. Dividend payments in the year ended December 31, 2002 were \$196,527. As of December 31, 2002, dividends payable amounted to \$7,885.

In May 2001, the general partner made a decision to declare dividends for the year ended December 31, 2000 in the amount of \$45,000. In October 2001, the general partner made a decision to declare dividends for the year ended December 31, 2001 in the amount of \$29,412. Dividend payments in the year ended December 31, 2001 were \$45,000. As of December 31, 2001, dividends payable amounted to \$29,412.

10. Cost of Sales

Cost of sales consisted of the following for the year ended December 31:

	2002	2001
Cost of goods sold	\$ 569,873	\$576,663
Cost of railway transportation	170,879	190,470
	<u>\$ 740,752</u>	<u>\$767,133</u>

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Notes to Consolidated Financial Statements (continued)

11. Selling, General and Administrative Expenses

Selling, general and administrative expenses consisted of the following for the year ended December 31:

	2002	2001
Freight	\$ 46,044	\$ 53,301
Port services	26,125	25,667
Sales commissions	13,405	13,623
Bank charges	5,232	3,795
Marketing expenses	4,027	3,144
Other	3,439	2,746
	<u>\$ 98,272</u>	<u>\$ 102,276</u>

12. Contingent Liabilities

The major suppliers of the Partnership are located in Russia. The Russian economy, while deemed to be of market status beginning in 2002, continues to display certain traits consistent with that of a market in transition. These characteristics have in the past included higher than normal historic inflation, lack of liquidity in the capital markets, and the existence of currency controls which cause the national currency to be illiquid outside of Russia. The continued success and stability of the Russian economy will be significantly impacted by the government's continued actions with regard to supervisory, legal, and economic reforms.

As of December 31, 2002, the Partnership does not believe that any material matters exist relating to the markets and evolving fiscal and regulatory environment in Russia, including current pending or future governmental claims and demands, which would require adjustment to the accompanying consolidated financial statements in order for those statements not to be misleading.

13. Subsequent Events

In the period from April to June 2003, the Partnership granted to Marteck interest free loans totalling to \$64,900. The liabilities under the loan agreements bear no interest and mature in November-December 2003.

APPENDIX A

OVERVIEW OF THE RUSSIAN FEDERATION

The following information includes extracts from information and data publicly released by officials and has been extracted from public and other sources (such as information contained on official websites and in publications of governmental agencies of the Russian Federation, including the Central Bank of the Russian Federation, and from other government and mass media sources). The Issuer and each of the Guarantors accept responsibility for extracting and reproducing accurately such information but accept no further responsibility in respect of such information and data.

General

The Russian Federation, or Russia, is a sovereign and democratic federal republic, consisting of 89 sub-federal political units (the “**Federation Subjects**”), and is constituted as a federation of republics, territories, regions, cities of federal importance and autonomous regions. It is the largest state to emerge from the former Soviet Union, covering an area of approximately 17.1 million square kilometers. Russia covers one-tenth of the world’s land surface, making it the largest country in the world, almost twice the size of the United States of America.

Of the population of approximately 145 million, approximately 82 per cent. is ethnic Russian and a high percentage (approximately 73 per cent.) live in cities and towns. The two largest cities are Moscow, with approximately 10.4 million inhabitants, and St. Petersburg, with approximately 4.7 million inhabitants.

Russia is a leading world producer of natural resources. The oil and gas industry plays an important role in the domestic economy. There are also substantial mineral deposits including iron, nickel, copper, diamonds and gold, as well as timber.

International Relations

Russia is a member of the United Nations (and a permanent member of the U.N. Security Council), the IMF, the World Bank, the International Finance Corporation and the European Bank for Reconstruction and Development. Russia succeeded to the former Soviet Union’s “observer status” to the General Agreement on Tariffs and Trade (currently, the World Trade Organisation) which was granted in May 1990 and, in June 1993, made an official announcement of its intention to join the General Agreement on Tariffs and Trade. Negotiations regarding Russia’s admission to the World Trade Organisation were held between 1995 and 1998; on the 16th round of negotiations held on 16-18 December 2002, it was decided to intensify the negotiations’ schedule in 2003. Russia has also been awarded Most Favoured Nation status by several members of the Organisation for Economic Co-operation and Development (“**OECD**”). Russia has been granted “observer status” in a number of OECD committees and formally applied for membership in May 1996.

Political Structure and Recent Political Developments

Federal Structure

In 1990, Russia declared its sovereignty (though not its independence from the Soviet Union). In December 1991 Russia, Belarus and Ukraine joined together to dissolve the Soviet Union and form the Commonwealth of Independent States (the “**CIS**”). Another nine former Soviet republics subsequently joined the CIS. Members of the CIS have entered into a series of political and economic agreements among themselves.

The Federation Treaty of 31 March 1992, signed by the majority of the Federation Subjects, initially gave to each a measure of control over budgetary and external policy as well as over the natural resources of their respective territories, and the Constitution of the Russian Federation (the “**Constitution**”) and individual treaties between the Federation and some of the Federation Subjects subsequently confirmed and refined the terms of the division of authority between the Federation and its subjects. The Constitution states

that all issues beyond exclusive Federation competence or joint competence of the Federation and Federation Subjects fall within the jurisdiction of each Federation Subject. External policy is within the jurisdiction of the Federation. The general principles of the Russian budget system are established by federal laws. The Federation Subjects have the authority to adopt their own budgets in accordance with such principles and restrictions established by federal laws (e.g., limitations on foreign borrowings by the Federation Subjects).

In general, disputes between the Federal authorities and Federation Subjects have been resolved peacefully through a political process. The dispute in the Chechen Republic has been the exception. There has been military confrontation in the Chechen Republic between December 1994 and August 1996 (followed by a peace treaty in May 1997) and then again from August 1999 to date, with the fighting now reduced to sporadic outbreaks. Although direct confrontations with federal troops are similar rare, terrorist attacks against civilians continue. In October 2002 rebels seized control of a Moscow theatre taking over 700 hostages. Also there was an explosion during the ceremonial parade in commemoration of the Victory Day in Kaspysk, Dagestan on 9 May 2002 and explosions in the centre of Moscow and during a rock festival in Moscow in 2003.

In January 2001, President Putin announced plans for a significant reduction in troop numbers and an eventual end to anti-terrorist operations. A local police force is being formed to gradually take over the maintenance of order from the Russian military, and almost 15 billion Roubles (over U.S.\$ 500 million) has been committed in aid for reconstruction of Chechnya. However, the situation is not stable and there have been no official talks between the federal authorities and rebel leaders. It is expected that the future of the Chechen Republic will only be decided after the completion of operations by the Russian interior and military troops.

Constitution

The Constitution provides for a tripartite governmental structure in which the power of the State is divided between the executive, legislative and judicial branches, each independent of the others. The Constitution also establishes a federal system, allocating responsibilities between federal and sub-federal authorities and setting out the principles of local government.

Executive, Legislative and Judicial Branches

The Executive branch consists of the President and the Government of the Russian Federation.

The President of the Russian Federation has broad powers. The President is Head of State and Supreme Commander of the Armed Forces, with authority to declare states of military emergency and other states of emergency, subject to approval by the Federation Council and has responsibility for foreign policy and national defence. The President has the power to issue decrees and orders having the force of law (although these may not contradict the Constitution or federal legislation), to suspend acts of sub-federal executive authorities and to call a national referendum on matters of special importance. The President also has the power to veto bills passed by the Federal Assembly and, under certain circumstances, to dissolve the State Duma. The President also enjoys significant powers of appointment, including the power to appoint the Prime Minister (with the consent of the State Duma) and other members of the Government (who are nominated by the Prime Minister). The President may also dismiss deputy prime ministers and federal ministers at any time. In addition, the President nominates candidates for Governor of the CBR (for appointment by the State Duma) and the Prosecutor General (for appointment by the Federation Council) and also nominates judges for the Constitutional Court, the Supreme Court and the Supreme Arbitration Court (for appointment by the Federation Council).

The President is elected in a national election for a term of four years. The Constitution provides for the early termination of the President's term of office in the event of his death, resignation or impeachment, or if he is persistently unable to exercise his powers for reasons of health, in which case the Prime Minister fulfils the responsibilities of the President until a new President is elected. New presidential elections must be held within three months of any such early termination.

The Government of the Russian Federation comprises the Prime Minister, deputy prime ministers and federal ministers, all of whom are appointed by the President as described above. The Government is automatically dissolved after each presidential election, in order to permit the President to form a new Government. The Government is responsible for implementing federal laws, presidential decrees and international agreements. In particular, the Government is responsible for preparing and implementing the federal budget, establishing a unified financial, credit and monetary policy, carrying out social policy, preserving public order and defending the rights and freedoms of citizens.

The Legislative branch is the Federal Assembly, which comprises a lower chamber, the State Duma, and an upper chamber, the Federation Council.

The State Duma consists of 450 deputies, elected by a mixed system of majority vote and proportional representation. Half of the deputies are elected by majority vote in individual electoral districts. The other half are chosen from “party lists” on the basis of a nationwide election, with seats being allocated in proportion to the number of votes received by the party. Generally, only parties receiving more than five per cent. of the votes qualify for these “party list” seats. “Party list” deputies are free to change their party affiliations during their terms in office without the need for a new election. The State Duma sits for four years and no person may simultaneously serve as a State Duma deputy and hold a position in the Government.

The Federation Council represents Russia’s 89 Federation Subjects. Each Federation Subject has two representatives on the Federation Council, one representing its legislative body and the other representing its executive branch.

The Judicial branch is represented by the Constitutional Court, the Supreme Court and the Supreme Arbitration Court as well as lower courts of general jurisdiction and arbitration courts.

Political Parties and Elections

Presidential elections were most recently held on 26 March 2000. The elections were scheduled to take place in the summer of 2000 but the premature resignation of President Yeltsin on 31 December 1999 brought these elections forward to March. At the time of Yeltsin’s resignation, Vladimir Putin was the Prime Minister and, therefore, was elevated to the post of acting President.

Putin was successful in the first round of voting for the Presidential elections and secured over 52 per cent. of the votes cast with a turnout of 68.74 per cent. (more than 50 per cent. of the votes cast is required in order to be elected). His nearest challenger was the Communist candidate Gennady Zyuganov, who received almost 30 per cent. of the votes.

The Government was appointed between May and July 2000. It has embarked on a course of significant reforms comparable to those in early 1992 aimed at strengthening the unity of the State and tightening federal control over the Federation Subjects.

In May 2000, President Putin reformed the structure of Presidential representatives in the regions. The Federation Subjects were divided into seven “federal areas” and authorised representatives of the President with broad powers were appointed by the President to each federal area. The rights of the authorised representatives of the President include the right to participate in all activities of representative bodies of the Federation Subjects, to control the implementation of Presidential decrees and orders and federal economic programmes, and to control the use of federal property and federal funds by the Federation Subjects. The authorised representatives of the President in the Federation Subjects are financed by the Administration of the President.

The most recent State Duma elections were held on 19 December 1999 with the following results: — the Communist party led by Gennady Zyuganov won 24.3 per cent. of the votes cast; the Unity party led by Sergei Shoigou, the Minister of Emergency Situations 23.2 per cent.; the Fatherland-All Russia party led by former prime minister Yevgeny Primakov, Moscow Mayor Yuri Luzhkov and St. Petersburg Mayor Vladimir Yakovlev 13.1 per cent.; the Union of Right Forces led by former prime minister Sergei Kiriyenko 8.6 per

cent.; the Yabloko party led by Grigory Yavlinsky 5.9 per cent. and the “Zhirinovsky bloc” led by Vladimir Zhirinovsky 6.4 per cent. Other parties received the remaining 18.5 per cent.

As a result of the distribution of seats among political parties and winners in majority vote constituencies, the communists and their allies lost control over the State Duma, which now has a broadly pro-Presidential majority.

In 2001, President Putin further consolidated his position and increased his popular support. The government led by Prime Minister Kasyanov remained in office and there were few changes in key cabinet positions. The pro-Presidential, pro-government majority in the State Duma, the lower house of parliament, was strengthened by the merger of the Unity and Fatherland-All Russia parties, and the alliance formed between them and the People’s Deputy and Russia’s Regions groups. A government-friendly majority was also secured in the upper house of the Federal Assembly, the Federation Council, following the reform of the chamber and the appointment of senators by regional executives and legislatures. Relations between the State federal government and the regions continued to improve with an increasing number of key local Governors loyal to President Putin. Consolidation of political power helped to create the stability required for economic growth and the consensus needed for the implementation of economic reform.

Economic Conditions and Recent Economic Developments

Following the dissolution of the Soviet Union, particularly during 1991 and 1992, Russia experienced an economic crisis, evidenced by a decline in industrial production and GDP, significant price increases, a decline in the average standard of living and an increase in foreign debt. In response, the Government instituted a series of measures designed to achieve financial stabilisation and price liberalisation and to create an impetus for a transition to a market economy. The Government has freed most wholesale and retail prices, reduced defence allocations, cut state subsidies, introduced a substantial value-added tax, removed most non-tariff restrictions on foreign trade and launched a broad privatisation effort.

Russia’s financial stabilisation programme came under severe pressure in the second half of 1997 and the first half of 1998, when the repercussions of the Asian currency and financial crises and sharp falls in world prices for oil and other commodities adversely affected the Government’s ability to continue to finance its budget deficits and to maintain the value of the Rouble against the U.S. dollar. On 17 August 1998, the Government and the CBR announced a three-part programme intended to address these pressures. First, the Rouble trading corridor was revised from 5.25-7.15 Roubles for one U.S. dollar to 6.00-9.5 Roubles for one U.S. dollar. This corridor was subsequently abandoned. Second, domestic GKO/OFZ bonds issued prior to 17 August 1998 and maturing before 31 December 1999 were to be restructured into new longer-term instruments and trading of these instruments was suspended pending the restructuring. Finally, for a period of 90 days Russian private sector residents were restricted from conducting certain foreign exchange operations of a capital nature, including payments of foreign currency under forward contracts and repurchase agreements and principal payments on long-term credits.

The events of 17 August led to a severe devaluation of the Rouble, a sharp increase in the rate of inflation, the near collapse of the country’s banking system, significant defaults by Russian public and private borrowers on their foreign currency obligations, dramatic declines in the prices of Russian debt and equity securities (including Russian Federation eurobonds) and an inability of Russian borrowers to raise funds internationally.

The situation stabilised rapidly, however, and 1999 and 2000 witnessed several positive developments. These included: a slow-down in the decline, and then a stabilisation, in the value of the Rouble against the U.S. dollar (and appreciation of the value of the Rouble against the U.S. dollar in real terms), a decline in consumer price inflation, an increase in real industrial output, resulting in part from the devaluation of the Rouble, an improved balance of trade, resulting in part from the devaluation of the Rouble and a significant increase in oil prices, improved tax collection, resulting in a significant primary fiscal surplus, increasing prices for Russian debt and equity securities, a decrease in the share of barter transactions, both in inter-enterprise transactions and in the execution of regional budgets and the restructuring of a significant portion of Russia’s Rouble-denominated domestic indebtedness and the reduction and restructuring of its London Club indebtedness.

President Putin's Government has announced plans for substantial economic reforms and has begun the process of implementing some of those reforms. During 2001, several important parts of the government's economic reform programme were implemented, as the corporate tax rate was reduced from 35 per cent. to 24 per cent., laws on company registration, inspections and licensing procedures were passed to reduce bureaucratic bottlenecks in the Russian economy and landmark legislation was adopted providing for the purchase and sale of non-agricultural land. The first serious steps were also taken towards reforming the triumvirate of natural monopolies: Gazprom, electricity generator Unified Energy Systems and the Railways Ministry.

During 2003 and 2004 the Government plans to push ahead with the reform of the public utility and urban sector, proceed with the reform of the electricity sector (in particular, the spin-off from the Russian natural monopoly in the electricity sector RAO UES of electricity generating and sales companies and their subsequent privatisation), further liberalise the taxation system, continue with the reform of natural monopolies, in particular in the railway sector. Its agenda also includes important legislative initiatives in such areas as pensions (finalising the process of admission of private management companies to state pension savings), labour market regulation, the judicial system, customs, foreign exchange controls, standards and certification procedures and foreign trade.

Privatisation

Russia commenced its privatisation programme in early 1992. About 15,000 medium- and large-scale enterprises employing more than 70 per cent. of the industrial workforce had been privatised through the mass voucher privatisation programme by mid-1994. In a relatively short period of time, the companies in which the Government had had less than a majority equity interest came to represent over 50 per cent. of both GDP and employment.

The first stage of the Russian privatisation process, the so-called voucher privatisation, was completed in the summer of 1994. The second (post-voucher) phase of the privatisation process started in late July 1994, consisting of cash sales to domestic and foreign strategic investors with the primary objective of transferring control over the privatised companies to private management and ownership. The transfer of assets from state to private control continued in 1995 through a loans for shares programme, cash auctions and investment tenders. The August 1998 financial crisis resulted in the suspension of several planned privatisation tenders. The Government has announced its intent to return to some of its privatisation plans. As at 31 December 2000, there were more than 900 joint stock companies which were 25 to 50 per cent. state owned and 371 joint stock companies which were more than 50 per cent. state owned.

In late 2000, the State Duma halted privatisation of the largest Russian companies until a new privatisation law was passed. In December 2001, the new Federal Law "On Privatisation of State and Municipal Property" was passed and entered into force on 26 March 2002. This law introduces, inter alia, methods of state property privatisation.

Gross Domestic Product

The following table sets forth certain information regarding Russia's nominal GDP for the years 1998 to 2002:

	1998	1999	2000	2001	2002	1Q2003
Nominal GDP (RUR billions)	2,696.4	4,545.5	7,063.4	9,040.8	7,909.6	2,900.4
Nominal GDP per capita (RUR)	18,355.0	31,068.0	48,780.4	62,783.3	55,196.1	20,055.1
Consumer Price Index(1) (%)	127.8	185.7	120.8	121.5	115.9	114.4
Total population, millions (end of period)	146.3	145.6	144.8	144.0	143.2	144.6

Note:

(i) Average on an annual basis (Source: CBR website, 8 August 2003).

Source: Goskomstat's website, 8 August 2003

Employment

Employment has declined in Russia since reforms were initiated. The level of unemployment increased in 1998 due to the Russian financial crisis, and the labour market still remains relatively depressed. According to the CBR figures (based on the methodology of the International Labour Organisation), the total number of unemployed in May 2003 was 6.1 million (8.6 per cent. of the labour force), as compared to 6.3 million (8.8 per cent. of the labour force) at the end of 2002, 6.2 million (8.1 per cent. of the labour force) at the end of 2001 and 7 million (9.8 per cent of the labour force) at the end of 2000.

Source: CBR website, 23 June 2003.

Balance of Payments

The following table sets forth Russia's consolidated balance of payments for the years 1998 to 2002:

	1999	2000	2001	2002	1Q2003
	(US\$ millions)				
Current account	24,616	46,839	34,959	32,807	11,481
Goods and services	31,730	53,506	39,677	37,212	13,422
Export*	84,618	114,598	112,669	120,289	33,512
Import	(52,887)	(61,091)	(72,993)	(83,077)	(20,090)
Goods	36,014	60,172	48,121	46,281	15,342
Export	75,551	105,033	101,884	107,247	30,618
Import	(39,537)	(44,862)	(53,764)	(60,966)	(15,276)
Services	(4,284)	(6,665)	(8,444)	(9,070)	(1,920)
Export	9,067	9,565	10,785	13,042	2,894
Import	(13,351)	(16,230)	(19,229)	(22,111)	(4,814)
Investment income and compensation of employees	(7,716)	(6,736)	(3,959)	(4,071)	(2,071)
Receivable	3,881	4,753	6,800	5,653	2,228
Payable	(11,597)	(11,489)	(10,759)	(9,725)	(4,300)
Compensation of employees	221	268	130	197	28
Received	425	500	624	704	193
Paid	(204)	(232)	(493)	(507)	(165)
Investment income	(7,937)	(7,004)	(4,089)	(4,269)	(2,099)
Receivable	3,456	4,253	6,176	4,949	2,035
Payable	(11,393)	(11,257)	(10,265)	(9,217)	(4,134)
Current transfers	601	69	(759)	(333)	130
Received	1,183	807	381	1,272	627
Paid	(582)	(738)	(1,140)	(1,605)	(497)
Capital and financial account	(16,058)	(37,683)	(24,733)	(25,286)	(8,324)
Capital account	(328)	10,955	(9,356)	(12,388)	40
Capital transfers	(328)	10,955	(9,356)	(12,388)	40
Received	885	11,822	2,147	7,536	247
Paid	(1,213)	(867)	(11,503)	(19,924)	(207)
Financial account	(15,730)	(48,638)	(15,378)	(12,898)	(8,274)
Direct investment	1,102	(463)	(64)	(862)	1,019
Abroad	(2,208)	(3,177)	(2,533)	(3,284)	(532)
In Russia	3,309	2,714	2,469	2,421	1,551
Portfolio investment	(946)	(10,334)	(653)	1,098	(2,627)
Assets	254	(411)	77	(796)	(1,427)
Liabilities	(1,199)	(9,923)	(730)	1,893	(1,200)
Other investments	(14,108)	(21,831)	(6,449)	(1,758)	923
Assets	(13,219)	(17,659)	80	2,115	(1,917)
Cash foreign currency	921	(888)	(1,123)	(1,080)	445
Current accounts and deposits extended(ii)	(4,084)	(3,649)	293	2,267	1,249
Trade credits and advances extended(iii)	(3,276)	(4,245)	827	248	244
Loans extended (excluding arrears)	4,855	5,365	(739)	(2,793)	1,075
Arrears	(5,759)	(7,350)	9,120	15,969	(1,813)
Indebtedness on supplies according to intergovernmental arrangements	(355)	(650)	(365)	(197)	89
Non-repatriation of export proceeds and non-supply of goods and services against import contracts	(5,051)	(5,293)	(6,388)	(11,168)	(2,412)
Other assets	(471)	(950)	(1,544)	(1,131)	(795)
Liabilities	(889)	(4,172)	(6,528)	(3,874)	2,840
Cash domestic currency	3	155	49	11	18
Current accounts and deposits received	162	725	1,480	489	233
Loans received (excluding arrears)	(2,880)	(3,603)	(6,339)	(1,747)	2,630
Arrears	2,027	(1,637)	(1,036)	(2,790)	(242)
Other liabilities	(201)	187	(682)	163	201
Reserve assets	(1,778)	16,010	(8,212)	(11,375)	(7,589)
Net errors and omissions	(8,558)	(9,156)	(10,226)	(7,522)	(3,246)
Overall balance	0	0	0	0	0

Note:

- (i) Includes adjustments that comply with the balance of payments methodology:
- estimate of natural gas value is given in DAF¹ delivery terms (Russian border);
 - estimate based on partner-country information comprises exports of fish and marine products caught in open sea and sold outside the customs border of the Russian Federation;
 - estimate of precious metal exports not recorded by the State Customs Committee of Russia is also added.

- (ii) Including item "Adjustment to reserve assets", which was previously shown separately. This adjustment was introduced for the purpose of reconciliation of balance of payments and international investment position data that are prepared in accordance with the 5th Edition of IMS's Balance of Payments Manual, on the one hand, and international reserves data, which have national peculiarities, on the other. The methodology of preparation of official reserves has the following differences from the one contained in the Manual:
- up to the 3rd quarter, 1999 short-term foreign currency deposits in resident banks were included in the international reserves;
 - started from the 3rd quarter, 1999 reserve assets are determined net of counterpart of foreign exchange funds placed on the resident banks' accounts with the Bank of Russia (excluding funds extended by the Bank of Russia for the servicing of the official foreign debt).
- (iii) Including changes subject to adjustments to the trade balance.

Certain data presented in this table differs from the previously published data due to revisions made by the CBR.

1. DAF ("Delivered at Frontier") is a delivery term whereby the seller delivers when the goods are placed at the disposal of the buyer on the arriving means of transport not unloaded, cleared for export, but not cleared for import at the specified point and place at the frontier, but before the customs border of the adjoining country.

Source: CBR website 30 June 2003.

Official International Reserves

The following table sets forth information with respect to official international reserves as at 1 January for the years 1998 to 2002:

	Official international reserves				
	1 January 1999 ⁽¹⁾	1 January 2000	1 January 2001	1 January 2002	1 January 2003
	(U.S.\$ millions)				
Gold and currency reserves	12,223	12,456	27,972	36,622	47,793
Currency reserves	7,801	8,457	24,264	35,542	44,054
Foreign currency	7,800	8,455	24,263	32,538	44,051
SDRs	0	1	1	3	1
Reserve position on IMF	1	1	1	1	2
Gold ⁽²⁾	4,422	3,998	3,708	4,080	3,739

Notes:

- (1) From 1 September 1999, the amount of reserves excludes foreign currency balances in correspondent accounts of resident banks with the CBR, except for the funds transferred to Vnesheconombank for the purposes of servicing state external debt.
- (2) Valuing gold at U.S.\$ 300 per fine troy ounce.

Source: CBR website dated 7 August 2003.

Monetary policy

The decrease of the budget deficit between 1992 and 1997 with its elimination in 2000, and the increased access of the Government to financing from sources other than the CBR, have reduced the pace of monetary expansion. Prior to the 1998 financial crisis, slower monetary growth and increased exchange rate stability have helped the CBR to reduce inflation from over 2000 per cent. in 1992 to 11 per cent. in December 1997. In 1998, however, inflation rose sharply again. After the crisis, the Government changed its policy towards the Rouble and proclaimed a debt moratorium and a mandatory restructuring of a significant share of domestic Rouble debt. Consumer price inflation was reduced to 15.1 per cent. as at the end of 2002, from a level of 18.6 per cent. as at the end of 2001 and 20.2 per cent. for the year 2000.

The CBR introduced a currency intervention band in July 1995. Another two "half-year" currency bands followed at the end of 1995 and in mid-1996. As confidence in the continuity of the exchange rate policy grew, the CBR introduced a full-year band for 1997. In November 1997, exchange rate policy was adjusted further, to allow the authorities more flexibility in accommodating shifts in short-term capital flows. The new (flat) trading band was announced for the three years from 1998 to 2000. This was supposed to help sustain the decline in inflation and domestic interest rates. However, in 1998 the Government dropped the currency trading band and allowed the Rouble to float freely. By the end of 1999, the Rouble had stabilised at around 25 Roubles to the U.S. dollar. Since then, the CBR has conducted a tight monetary policy through a system of barriers to limit the flow of currency out of Russia and direct currency interventions helping to reduce inflation and keep the Rouble under control.

The Rouble was redenominated, 1,000-fold, effective as of 1 January 1998. The old bills were in circulation until 1999 and continued to be accepted by the CBR until 1 January 2003.

The Rouble is fully convertible for current account transactions. In June 1996, the Russian Government committed itself to compliance with the obligations of Article VIII of the IMF Charter.

External Debt

As at 31 March 2003, the state external debt of Russia amounted to U.S.\$ 147.7 billion, as compared to U.S.\$ 150.8 billion as at 1 January 2002. These figures include indebtedness of the former USSR accepted by Russia. The Government's monetary debt amounted to U.S.\$ 101.4 billion as at 31 March 2003. Approximately one third of the external debt constitutes obligations of Russian private companies that have shown an increasing interest in foreign financial markets in the past years. As at 1 April 2002, a significant proportion of that debt (U.S.\$ 35.4 billion, as compared to U.S.\$ 36.3 billion in 2001 and U.S.\$ 48.6 billion in 2000) is owed to the Paris Club of sovereign creditors. Russia paid U.S.\$ 1.65 billion to the Paris Club during the first quarter of 2002. Having rescheduled approximately one-fifth of the Russian debt following the 1998 financial crisis, the Paris Club has refused to make further adjustments and Russia will face substantial foreign debt payments in 2003.

For 2003 the Ministry of Finance allocated U.S.\$ 17 billion for redemption of the sovereign external debt, including U.S.\$ 10.8 billion for re-payment of principal amounts and U.S.\$ 6.5 billion for payment of interest. In June 2003, the Ministry of Finance has paid U.S.\$ 53.55 million and EUR 639.4 thousand to IMF. Due to the strengthening of the Euro against the US Dollar the costs of servicing the external debt may increase.

In June 2002, Russia added one more year to its short record of honouring its debt obligations, with timely payments made to all creditors under the 1998 Eurobond. Russia's sovereign external debt amounted to 40 per cent. of Russia's GDP at year-end 2002.

Source: CBR website, 30 June 2003.

Social Conditions

The Russian standard of living declined with the beginning of economic reforms amid the country's severe economic problems. This decline has primarily affected the elderly and other segments of the population that are dependent on Government benefits. While reported real wages dropped sharply as a result of price liberalisation, Russian consumers have benefited from the wider range and improved quality of products available to them. Today imported and domestic consumer products are available, although many goods are often beyond the means of most Russians and the market share of imported goods has been decreasing.

Legal Environment

Russian law has undergone radical changes in recent years. Whole bodies of law unknown in the Soviet era have been adopted, covering a wide range of areas including corporate, securities, anti-trust, privatisation, property, banking and bankruptcy law. The adoption of the first, second and third parts of the new Civil Code, the Securities Market Law and the Joint Stock Companies Law are further important steps in establishing a comprehensive legal framework. At the same time, confusion and uncertainty continue to exist with respect to the state of law in Russia, not least because the pace of its development often results in ambiguities and inconsistencies.

Although business regulation was strengthened in 2001 and 2002 as part of the Government's economic reform programme (See "Economic Conditions and Recent Economic Developments"), much business-related legislation remains to be put in place. The absence of comprehensive business laws and regulations presents particularly difficult problems for businesses operating in Russia. Business-related legislation is also susceptible to revision in reaction to political influences and pressure on the Government to generate revenue or to conserve foreign currency. In addition, a significant amount of Russian legislation has been adopted based on a more or less explicit understanding that it would serve as a general framework,

with more detailed issues to be subsequently clarified by amendment or administrative regulation. In many cases, this clarification is yet to occur.

Regulations are interpreted and applied with little consistency and the decisions of one Government official may be overruled or contested by another. Moreover, many of the new Russian laws have never been interpreted by courts or administrative bodies. Both the Soviet experience and recent Russian practice suggest that the enforcement of legal rights in Russia will continue to be subject to greater discretion and political influence than is usual for most Western jurisdictions.

Exchange Controls and Repatriation

Russian currency exchange legislation limits the exchangeability of Roubles for foreign currency and the use of foreign currency in Russia. Russian currency legislation currently permits, and Russian foreign investment legislation currently guarantees, the right of foreign investors to convert Rouble income received on investments in Russia (including dividends, profits and interest) and to transfer it abroad. However, the actual repatriation of proceeds from the sale of certain investments may be postponed for as long as 365 days.

Foreign currency may be freely exchanged for Roubles in Russia, but the exchange of Roubles for foreign currency in Russia is restricted and Roubles may not be exported or exchanged outside Russia. Non-residents may freely convert foreign currency into Roubles, but may only do so through Rouble accounts which are subject to strict regulations.

The currency exchange rules govern transactions in foreign currencies and currency valuables (including foreign currency-denominated securities) between Russian residents (including citizens, permanent residents and legal entities established under Russian law) and foreign currency and Rouble transactions between residents and non-residents. Russian currency legislation distinguishes between “current” foreign currency transactions and foreign currency transactions involving a “movement of capital”.

“Current” foreign currency transactions generally may be freely carried out between residents and between residents and non-residents. “Movement of capital” transactions in foreign currency, including the purchase and sale of securities and real estate transactions, generally require a licence from the CBR subject to exemptions enacted by the CBR. The prevailing view is that the licence is only required for Russian residents involved in such “movement of capital” transactions. Cash transactions in foreign currency are generally prohibited within Russia.

Following the financial crisis of 1998, additional regulations on foreign currency exchange were enacted. For example, the mandatory exchange of 75 per cent. of export revenues of Russian companies was required to be effected through the domestic foreign currency market. This requirement has been assisting the CBR in increasing its foreign currency reserves. In 2001, the mandatory exchange requirement has been reduced to 50 per cent. of export revenues and further to 25 per cent. in 2003. In 2001, certain steps were taken to remove some of the more onerous currency control requirements. In particular, Russian companies can now receive long-term loans from foreign lenders without a CBR licence provided that certain conditions are met. Currently, the Duma is considering a new law on currency control. The draft new law is aimed to further liberalise the currency control regime in Russia.

Taxation and Duties

The current Russian system of taxation has been characterised by rapid and unpredictable changes. The Government has an acute need for revenues because of the deficit in public finance at all levels. Thus, the nature and amount of taxes applicable to a business’ activities could ultimately turn out to be different from what is expected. Widespread non-compliance with tax laws and inconsistent enforcement by tax inspectorates contribute to the system’s shortcomings. While taxation of non-income operations has been significantly reduced, businesses are still required to pay significant taxes even if they realise no profits.

The first part and certain chapters of the second part of the new Tax Code became effective in 1999, 2001, 2002 and 2003. The main objectives of the Tax Code are to reduce the total number of taxes (from

about 200 existing in 1999), improve the stability, transparency and fairness of the system by eliminating many tax exemptions, and to reduce the overall tax burden on the Russian economy. The Ministry of Finance and the Ministry of Taxes and Levies continue to work on the tax system by radically reducing the number of laws and harmonising Russian legislation with that of developed countries.

Entities carrying on commercial activity in Russia must be registered with the tax inspectorate in each location in which they operate, and must submit an annual tax declaration in addition to certain quarterly and monthly reporting requirements. The new profit tax chapter of the Tax Code, which came into force on 1 January 2002, introduced substantial changes in the profit tax regime, including the reduction of the maximum rate of profits tax and abolition of “most tax exemptions”. There is a single profits tax system, but the rates are split between payments to the federal and local governments. At the present time, the profits tax is imposed at a federal rate of 6 per cent., a regional rate which may be set according to regional legislation at a rate between 12 per cent. and 16 per cent., and a local rate of 2 per cent. This results in an overall rate ranging from 20 per cent. to 24 per cent.

Social tax is payable by employers and is imposed on the employee’s wage cost at a maximum rate of 36.5 per cent. A regressive rate is applied to higher wage costs, with the minimum rate as low as 2 per cent.

Value added tax, at the rate of 20 per cent. (“VAT”), is imposed on the customs value of imports of goods, and on supplies or deemed supplies of goods, works and services in the Russian territory. Certain goods and services are subject to VAT at a lower 10 per cent. rate or 0 per cent. rate (e.g. exported goods). As of 01 January 2004 the basic VAT rate will be reduced to 18 per cent.

In addition to the foregoing taxes and duties, each subject of the Russian Federation and each local authority may impose certain regional and local taxes within the limits established by Federal legislation. The taxes include retail sales tax (up to 5 per cent. of retail revenues) and corporate property tax (up to 2 per cent. of the property’s value annually).

Foreign entities are subject to a withholding tax at source on Russian source income that is not attributable to a permanent establishment. The withholding tax is imposed on the whole amount of payment at the following rates: 15 per cent. for dividends, and 20 per cent. for interest, royalties, rent, management fees and most other income. With respect to income from the sale of immovable property or shares in Russian companies, more than 50 per cent. of the assets of which consist of immovable property a 24 per cent. rate can apply with the possibility to deduct costs related to the acquisition of such assets. This withholding tax may be reduced or eliminated pursuant to a double taxation treaty in effect between Russia and other countries for foreign legal entities and individuals who are resident in such countries. This reduction or elimination of withholding tax pursuant to such treaties may be obtained either by advanced treaty relief or via a refund (as long as such refund claim is made within three years of the payment). In either case, the foreign legal entity or individual would be required to obtain official certification from its home jurisdiction confirming its residence (for the purposes of the treaty in the country which is a party to a double taxation treaty with Russia) and its rights to derived income.

Personal income tax is levied at a single flat rate of 13 per cent. which is applicable to most types of income of Russian tax residents. Dividends received by Russian tax resident individuals are taxed at 6 per cent. Income of non-resident individuals is taxed at a rate of 30 per cent.

Sovereign Credit Ratings

In the fourth quarter of 2001, each of the three major international agencies upgraded Russia’s sovereign ratings. Fitch, Inc. and Standard & Poor’s (S&P) both raised their long-term ratings for Russia from B to B+. Moody’s raised its long-term rating for Russia to Ba2. In the second quarter of 2002, Moody’s upgraded its outlook for Russia’s sovereign ratings from stable to positive, in December 2002 S&P raised its Russian sovereign rating to BB and in May 2003 Fitch raised its Russian sovereign rating to BB+ with a stable outlook. The Russian RTS equity index rose by approximately 98 per cent. during 2001 and approximately a further 34 per cent. in 2002, to 359.07. In the first half of 2003 the RTS equity index continued to grow steadily. In August 2003 it established a new post-crisis record rising up to 523 points.

APPENDIX B

OVERVIEW OF THE GLOBAL/RUSSIAN STEEL INDUSTRY

The following information includes extracts from information and data publicly released by officials and has been extracted from public and other sources (including The International Iron & Steel Institute). The Issuer and each of the Guarantors accept responsibility for extracting and reproducing accurately such information but accept no further responsibility in respect of such information and data.

Overview of Global Steel Industry

General

The worldwide steel industry is comprised of hundreds of steelmaking facilities divided into two major categories, integrated steelworks (including NTMK and ZapSib) and non-integrated steelworks (sometimes called “mini-mills”), characterised by the method used for producing molten steel.

In integrated steel production, coal is converted to coke in a coke oven, then combined in a blast furnace with iron ore and limestone to produce pig iron, which is subsequently combined with scrap in a oxygen converter or Siemens-Martin furnace to produce raw or liquid steel. The Siemens-Martin technology is outdated and less efficient, and has been replaced by oxygen converter furnaces in most of the world. Once produced, liquid steel is metallurgically refined and then either poured as ingots for later re-heating and processing or transported to a continuous caster for casting into a billet, bloom or slab, which is then further shaped or rolled into its final form. These processes may, in turn, be followed by various finishing processes or various coating processes.

In recent years, integrated steel production has declined as a proportion of total steel production (with a corresponding increase in mini-mill steel production) due to high costs of building, operating and maintaining integrated steel operations, including environmental compliance and remediation costs related to coke production and the costs and lost production time associated with periodic blast furnace relinings.

NTMK and ZapSib Production

The main production areas of both NTMK and ZapSib are coke production, iron making, steelmaking and steel rolling. ZapSib also produces sinter. A brief technological overview of these main activities is provided below:

Coke Production

Coke is a solid product of coal coking, which contains 86-90 per cent. carbon and is used as the main fuel in the blast furnaces. Coke is produced by heating grinded coking coals without excess air, at temperatures of 1100°-1200°C (pyrolysis) for 16-18 hours in coke ovens. Before coking, coal is grinded and dressed in order to decrease the ash content. After discharge from the ovens, coke is delivered to the blast furnaces.

Other products of the coking process include coke-oven gas and various by-products made from the coke-oven gas. Coke-oven gas is used as gaseous fuel in other shops of the plant, and by-products are supplied to the chemical department for further processing.

Sinter Production

The raw materials used for sinter production include iron ore for sintering, iron ore concentrates and iron-bearing materials (blast furnace dust, screenings of sinter and pellets, scale, waste and slime), flux (limestone) and coke breeze.

Iron ores and concentrates, flux (limestone) and coke breeze are delivered by railway, unloaded by car dumpers and then transported by conveyors to a storage facility. Iron-bearing materials are also transported

to the same storage facility. From the storage facility all components of the sinter burden are fed into bins, weighed and mixed.

The sinter burden is then granulated and laid in two layers in the sinter machines. The sinter burden becomes sinter at temperatures of 1070°-1200°C, through the combustion of carbon from the coke breeze, while air is simultaneously drawn through the sinter burden by means of exhausters. After crushing, screening and cooling the sinter is delivered to the blast furnaces by conveyors.

Iron Making

Prepared iron ore raw materials (sinter and pellets) and coke are used for hot metal production. Coke and natural gas serve as fuel for the blast furnaces. Coke-oven gas, together with top gas from the blast furnaces, is used as fuel for the heating of stoves. Sinter, pellets and coke are mixed and added into a blast furnace from the top using skips. Fuel combustion, reduction of iron from oxides, carbonisation of iron with partial reduction of silicon and manganese, melting of all components of burden and slag-making all occur inside a blast furnace.

NTMK uses Siemens-Martin furnaces and oxygen converter furnaces (see below). Hot metal is tapped into hot metal transfer ladles and delivered to the furnaces to be converted into steel. Hot metal is also delivered to the pig iron casting machine and pig iron is produced and sold as a finished product. Slag from blast furnaces is fed to the slag processing units, where part of the slag is granulated in granulating units and the rest is processed into crushed rock and slag sand.

ZapSib uses oxygen converter furnaces only (see below) to produce steel. Slag from the blast furnaces is tapped into slag ladles and delivered to the slag processing shop where it is processed into granules and crushed rock.

At both NTMK and ZapSib, top gas produced in the blast furnaces during the iron making process is used as a fuel for stoves, coke ovens, boilers, the rolling mills and other purposes.

Steel Making

NTMK uses two steel making technologies – the oxygen converter furnaces process and the Siemens-Martin furnaces process. ZapSib uses the oxygen converter process only.

Steel Making using the Oxygen Converter Process

This process is based on the interaction of process oxygen (practically pure oxygen) with impurities in liquid hot metal. Scrap and hot metal are charged into the vessel and oxygen is then blown via a lance into the vessel, oxidising carbon and other impurities (silicon, manganese, etc.). Metallurgical lime and fluor-spar are fed into the vessel to form slag, which absorbs impurities during the steel making process. Steel produced from the oxygen converter process is fed to the continuous casting machines.

Steel Making using the Siemens-Martin Process

This process is used to produce steel by melting scrap and hot metal on the hearth of a combustion reverberating furnace bath. Scrap, flux and ore are charged into the furnace prior to heating. Fuel is burned in the furnace and the heat necessary to melt the raw materials is provided by radiation from the burning fuel. Hot metal is charged and slag is formed and flushed. During melting, the oxidation of carbon and other impurities (silicon, manganese, etc.) takes place. Metallurgical lime, fluor-spar and brickbats are used to form slag, which absorbs impurities during the steel making process. Steel produced from the Siemens-Martin process is cast into ingots.

Steel Rolling

Cast steel is a relatively weak mass of coarse uneven metal crystals or “grains”. Rolling the steel makes this coarse grain structure re-crystallise into a much finer grain structure, giving greater toughness,

shock resistance and tensile (stress) strength. Rolling is also the main method used to shape steel into different products. The rolling process consists of passing the steel between two rolls revolving at the same speed but in opposite directions. The gap between the rolls is less than the thickness of the steel being rolled, resulting in the steel being reduced in thickness and, at the same time, lengthened. There are two types of rolling – hot and cold. Both NTMK and ZapSib use only hot rolling in their operations.

Crude steel production by process (2002)

Country	Integrated process		Mini-mill	Other	Total
	Oxygen	Siemens-Martin			
European Union (15)	58.9%	–	41.1%	–	100.0%
Other Europe	57.0%	–	43.0%	–	100.0%
Former USSR	57.6%	30.3%	12.1%	–	100.0%
NAFTA	48.3%	–	51.7%	–	100.0%
Central and South America	64.5%	–	35.5%	–	100.0%
Africa	43.5%	–	56.5%	–	100.0%
Middle East	17.9%	–	82.1%	–	100.0%
Asia	66.0%	1.0%	27.8%	5.1%	100.0%
World	60.0%	3.8%	33.9%	2.2%	100.0%

Source: International Iron & Steel Institute

Global Market for Steel

During the first half of the twentieth century, the worldwide steel industry was dominated by the integrated steelworks in the United States. During the second half of the century, however, steelworks in Europe and Japan were completely rebuilt with modern technology, and modern steelmaking plants were also constructed in countries with emerging industrial economies such as Brazil, China and South Korea. By the early 1970s the growth of global steelmaking capacity began to exceed the growth of global demand for steel products. This imbalance worsened during the 1970s and 1980s, as a result of a global recession and the rapid growth of small non-integrated plants. Consequently, during the 1980s, many integrated steel companies were unable to compete effectively and experienced a sustained period of unprofitability. Several of the largest integrated steel companies in the United States were forced to restructure. During the 1990s the global steel production has annually been exceeding consumption by approximately 50-100 million tonnes. According to the International Iron and Steel Institute, the global steel production capacity in 2001 amounted to approximately 1,068 million tonnes with actual production of approximately 847 million tonnes and demand for only approximately 721 million tonnes. In 2002 steel production rose by 6.4 per cent. amounting to 887 million tonnes. The overproduction gap in 2002 amounted to 20 per cent. of the steel market (approximately 220 million tonnes). As a result, steel prices are near their lowest levels for the past 20 years. By the end of 1990s, significant growth in the degree of competition within the worldwide steel industry has prompted several nations to protect more rigorously their respective steel industries from imports. The most significant trend in 2002 became the closure of the biggest national markets – consumers of steel. The process was initiated by the US by establishing quotas and significant steel import custom fees. Shortly thereafter the European Union, China and other countries, including Russia announced the closure of their markets for imported steel products. In order to narrow the overproduction gap, the OECD has proposed measures aiming at reduction of production capacity. In December 2001, most of the world's steel makers agreed to cut as much as 97.5 million tonnes of steel capacity by 2010. According to the agreement, cumulative steel capacities should be reduced by 70.5-74.5 million tonnes by 2005.

Overcapacity in the sector and the decline in world steel prices have created significant pressures on producers to maximise their efficiency. As a result, the sector has seen a series of mergers or strategic alliances among the major producers, the most significant of which are shown below.

Consolidation in the steel industry

Companies involved	Transaction/arrangement	New entity
Usinor, Arbed and Aceralia	Merger	ARCELOR
NKK, KSC	Merger	JFE
NSC, POSCO, Shanghai Baosteel	Alliance	n/a
NKK, KSC, TKS	Alliance	n/a

Source: Company reports

Recent developments and outlook

The current situation on the world steel market does not enable experts to make any positive forecasts. Notwithstanding high prices for almost all steel products in 2002 and the their continuing growth in the first quarter of 2003, experts are divided in their forecasts of the steel market trends. Frequent dramatic price fluctuations, overproduction, sharp competition with imposition of trade and import restrictions may adversely affect the stability of the world steel market.

The main trend in the world steel industry in 2002 remained the increase of production. Negotiations between major steel producers, focused on eliminating inefficient excess capacity, continue and have not shown any results yet. Imposition of tariffs and import restrictions worldwide may lead to a “domino effect”, whereby one by one all domestic markets will be closed for imports leading to an overstocking of such markets and a subsequent fall of steel prices.

Overview of Russian Steel Industry

The Soviet Union was producing approximately 160 million tonnes of crude steel a year at the end of the 1980s. Following the collapse of the Soviet Union, the steel industry suffered a substantial decline in production, to about 75 million tonnes of crude steel for all the newly independent states combined in 1997. At that point, Russia was producing approximately 38 million tonnes of rolled products annually.

However, steel production started to recover following the devaluation of Rouble of 1998 and the significant cost benefits that steel exporters faced in 1999 and 2000. While the major mills were export-oriented and their sales receipts were mostly dollar-based, their operating costs fell substantially in dollar terms following the devaluation. In addition, the strength in steel prices in 2000 led to increased capacity utilisation rates even at technologically inferior mills. In the second half of 2001 and beginning of 2002, steel prices have decreased but starting from the second half of 2002 steel market demonstrates robust recovery in terms of both prices and volumes. In the first half of 2003, the production of steel grew by approximately 6 per cent. as compared to the first half of 2002.

Privatisation of the Russian Steel Industry

Privatisation of the Russian steel industry began in 1993 and was primarily “insider” focused. Factories were sold to their employees with subsequent re-sale to the management. The privatisation programme provided for the supervision of Roskommetallurgiya (successor to the USSR Ministry of Metals) over the privatisation process. As the privatisation programme envisaged no special regime for privatisation of the steel sector, the number of state owned companies started rapidly to decline. By mid-1994 the share of the state in the total iron and steel production amounted only to 15 to 25 per cent. By the end of 1995 control over most of the largest Russian steel producers such as Severstal, MMK, Mechel, NLMK was transferred to private management and ownership. Without having enacted a serious privatisation programme for the steel industry, the state failed to attract required investments, technology and know-how into the sector. Therefore, in 1995 the Government decided to change the method of privatisation and thereby attract strategic investors into the sector. Pursuant to an Edict of President Yeltsin a holding company OJSC Rossiyskaya Metallurgiya was established. 10 per cent. stakes in steel producing companies remaining in the state ownership and 100 per cent. stakes in five leading scientific-research institutes in steel production were transferred into the holding’s ownership. The Government intended to sell 49 per cent. of shares in OJSC Rossiyskaya Metallurgiya thus retaining control over the companies and attracting investments at the same

time. Unfortunately investors did not show any interest in the project and OJSC Rossiskaya Metallurgiya was liquidated in 1997. Stakes in several companies were sold in cash auctions primarily to “insiders”. Stakes in the remaining companies were re-transferred into the ownership of the Ministry of Property Relations.

In 2003 the Government plans to finish privatisation of the steel industry. The 17.8 per cent. stake in MMK, 20 per cent. stake in Metallurg, 25.5 per cent. stake in Permmetall and 5 per cent. stake in Lipetskstalprojekt are included in the 2003 privatisation plan. After completion of the 2003 privatisation round Russia’s steel industry will be completely transferred into private ownership and management.

Steel Production

In 2002, Russia ranked as the world’s fourth largest producer of steel, producing 59.8 million tonnes of steel, or approximately 7 per cent. of global production. The metals and mining sector is one of the most important sectors of the Russian economy. In 2001, it accounted for 17 per cent. of the country’s industrial output and was the third largest taxpayer (behind the oil and gas sectors). Russian enterprises produce a wide range of metal products for the domestic economy, in particular for the oil and gas, defence and construction industries. The sector has developed considerably since 1991 and is over 90 per cent. privatised, although foreign investment in the sector has been limited and virtually all of the main steel producers are private companies controlled by Russian entrepreneurs.

Market Participants

The Russian steel industry comprises approximately 900 enterprises and organisations, including 200 producers of ferrous metals and 145 producers of non-ferrous metals. Despite the large number of companies in the sector, the six largest steel groups accounted for approximately 75 per cent. of the country’s total steel production in 2001.

These six largest Russian steel producers are Evraz Group, which combines the NTMK and ZapSib plants, with approximately 18 per cent. of total market, followed by MMK, which controls the largest single-site capacity mill in the country, Severstal, NLMK, Chelyabinsk Metallurgical Combine (“Mechel”) and KMK.

Steel Producers in Russia (2002)

	million tonnes	per cent.
Russia, total	59.8	100.0%
Evraz (Zapsib, NTMK)	11.0	18.4%
MMK	11.0	18.4%
Severstal	9.6	16.1%
Novolipetsk	8.6	14.4%
Mechel	3.9	6.5%
KMK	2.4	4.0%
Other	13.3	22.2%

Source: International Iron & Steel Institute

MMK

MMK produces commodity products such as long products (billets, bars, wire rod, strips, and beams) and flat products (slabs, hot- and cold-rolled coils, hot-rolled sheets and plates etc.) and value-added products including galvanised steel sheets and tin plate. MMK signed a long-term agreement with Gazprom to supply special large-diameter pipes usable in a low-temperature environment. MMK is the sole supplier of high quality cold-rolled band and tin plate in Russia. MMK’s production plant, which is the largest single-site integrated steel making facility in Russia, is located in Magnitogorsk, at the edge of the southern Urals in the Chelyabinsk Region of Russia.

In 2001, MMK exported 53.4 per cent. of its production. Its main export markets are South-East Asia and the Far East, the Middle East, and Western Europe. In Russia, MMK sells its products to the Urals, Central Russia, and the Volga region.

MMK invested between U.S.\$ 120-260 million annually during 1990-2000 in modernising its production facilities. The company replaced 30 out of its 35 open-hearth furnaces by three oxygen converters.

Severstal

Severstal is the leading steel producer in Russia in terms of sales with approximately 16.1 per cent. market share. Until 2001, Severstal had been selling more of its output abroad than domestically.

Severstal's major product lines are cold and hot rolled steel. Severstal focuses on supplies to the automotive, metal processing and oil & gas industries (accounting for approximately 60 per cent. of total production and the share is planned to increase further). Severstal is currently finalising works on SeverGal, a joint-venture with Arcelor to produce hot dip galvanised sheets for the automotive industry.

During 2001, Severstal launched a restructuring program aimed at increasing the efficiency of its core operations: production of crude steel and rolled steel products.

NLMK

NLMK produces primarily hot-rolled and cold-rolled flat steel, galvanised steel and colour coated-steel, coke, pipes and other products. During 2001, NLMK controlled 24 per cent. of the flats market in Russia. The company's production facilities are located in Lipetsk in the European part of Russia, south-east of Moscow.

In 2001, NLMK exported 71 per cent. of its production (56 per cent. in the first quarter of 2002). Its main export markets are South-East Asia, the EU, North America and other European countries (incl. Turkey).

Mechel

Mechel was established in 1943 and reorganised into a joint-stock company in 1992. Its production facilities are located in Chelyabinsk, southern Urals. During the last several years Mechel generated annual revenues of approximately U.S.\$ 540–550 million. At the beginning of 1990s, Mechel fully replaced its Siemens-Martin furnaces by blast oxygen furnace technology. In 2001, Mechel exported 46 per cent. of its production.

KMK

KMK is the smallest of the "large" integrated steel producers in Russia, now producing about 2.3 million tonnes a year. KMK mainly produces long products and is the largest producer of rails in Russia (60 per cent. of domestic consumption).

In 1998, KMK was declared bankrupt and external management was brought in. In November 2001, KMK's creditors decided to split the company into separate assets and sell them in auctions. Companies affiliated with Evraz Group participated in these auctions and purchased those assets.

Capacity Utilisation

In 2002 the steel industry became Russia's economy leader in the industrial growth rate. The increase in production constituted 13 per cent. in comparison to 2001 results. The growth of internal demand for steel products and export/import arrangements with the European Union enabled to increase the capacity utilisation rate by 2 per cent. (from 69 per cent. in 2001 to 71 per cent. in 2002).

Exports/Imports

Russia's steel industry is export biased and exports represents more than 60 per cent. of the industry's total output. Crude steel and steel semi-finished products continue to constitute a significant part of the industry's exports. The total monetary value of export of steel products (crude steel, pig-iron, milling, pipes, etc.) increased against 2001 figures by 13.5 per cent. and amounted to U.S.\$ 8,1 billion. Export of steel was supported by the Government through abolishment of steel export duties in 2002.

The main importers of Russian steel products are the Central European countries countries of the Asia-Pacific region and the United States. Consumption of Russian steel by US companies declined by 2.1 per cent. reducing the US share to 9 per cent of Russia's total steel export. The share of Central European countries also declined in 2002 from 35 per cent. to 28 per cent. This reduction of Russian steel imports by the US and EU was compensated by exports into the Asian-Pacific region. The region's export share rose significantly from 25 per cent. in 2001 to 35 per cent. in 2002, with China as major consumer.

A significant share of the Russian internal steel market consists of steel imports from Ukraine and Kazakhstan. In mid-2002 Russia introduced antidumping duties on import of zinc-coated rolled metals from both republics. The import duties totaled to 31.8 per cent. for Ukraine and 36.9 per cent. for Kazakhstan products. Antidumping duties of 24.3 per cent. against rolled steel and 21 per cent. against armored bars from Ukraine have been additionally imposed in the second quarter of 2003.

Raw Materials

Of all former Soviet republics Russia has the largest iron ore supplies. The reserves of 173 explored ore fields are estimated at the level of 98 billion tonnes, including approximately 56 billion tonnes of supplies of industrial category. A significant part of Russian iron ore reserves are represented by ferrous quartzite and rich iron ore in equal amounts (approximately 37 per cent.) and other ore of industrial type (approximately 26 per cent.). The essential part of iron ore reserves (approximately 63 per cent.) are located in the European part of Russia.

In the iron ore supply structure the leading place is allocated to concentrate -72 per cent., followed by pellet (24 per cent.) and sinter, (4 per cent). Pricing of iron ore in Russia is guided by the world pricing tendencies. Iron ore prices have risen dramatically in the recent years.

The table below shows the average prices for iron ore in the Russian market as calculated by Evraz Group.

Prices for Russian iron ore	1999	2000	2001	2002
	U.S.\$/tonne			
Concentrate	12-13	19-20	21-22	23-25
Pellet	24-25	26-27	27-29	30-32
Sintering ore	16-17	16-17	16-17	18-19

Electricity

The Russian electricity sector is the largest in the world and is currently managed by the 52 per cent. state-owned power monopoly RAO Unified Energy Systems of Russia (RAO UES of Russia). The monopoly carries out its activities through its controlling holdings in the Russia's 72 regional electricity companies. Although non-controlling stakes in most of the power generation and sale utilities have been privatised, the Government retains complete control over power transmission and distribution. The sector is characterised by lack of competition and regulated prices. The electricity sector operates in a low tariffs regime imposed by the Government of Russia. The pricing policy is determined by the Federal Energy Commission, a governmental agency authorised to regulate prices for the power generated by regional electricity companies, power transmission and interregional trade. In general, sellers of power on the domestic market are regional generation companies. Power may also be purchased from the Federal Wholesale Electricity Market ("FWEM"). Participants of the FWEM are regional generating companies

selling their power surplus to regional generating companies with supply deficits and industrial companies granted special access to the FWEM. Pricing policy is also influenced by regional energy commissions authorised to regulate prices within a specific region. Power prices for end consumers, both households and industries, however, may not exceed the limits fixed by the Federal Energy Commission. In 2002 the Federal Energy Commission managed to obtain approval for a 38 per cent. increase for internal power prices.

In 2003 the Government of Russia plans to proceed with the reform of the electricity sector. It is contemplated that the existing power monopoly RAO UES of Russia will be split into competing power generation and power trading companies and a single state controlled power transmission company. By 1 January 2005 transmission of electricity will be unbundled from generation and sales activities and a free wholesale power market (“WPM”) should be formed. The WPM is designed to guarantee open access to power by private producers and buyers and ensure deregulated market pricing.

Regulation of Russian Steel Industry

General

Russia has not enacted any specific legislation governing operation of the steel industry and activities of steel manufacturing companies.

At the federal level, the Ministry of Industry, Science and Technology is the principal agency supervising the operation of the steel sector. The Ministry is responsible for the development of the governmental policy in the industry (attraction of investments, foreign trade, taxation, support of scientific research, employment), however, it lacks direct regulatory authority. In October 2002 the Ministry has published the Program for Development of the Russian Steel Industry until 2010. The Program proposes measures supporting voluntarily certifications of steel products and promotion of innovations in the industry, reduction of import duties for high-tech machinery and funding of scientific researches and process design.

The State Mining and Technical Supervision Agency (Gosgortekhnadzor) elaborates mandatory safety rules for the steel industry and oversees compliance therewith. Safety procedures at installation, deployment and operation of technical devices and machinery used in the steel industry and the procedure for maintaining technological processes are covered by such rules.

Licensing

The Federal Law “On Licensing of Certain Types of Activities” dated 8 August 2001, which came into force in January 2002 (the “**Licensing Law**”) established a list of activities which can only be performed on the basis of licences issued by the relevant Russian authorities. The Licensing Law removed certain licensing requirements which existed earlier and amended the previous list of licensing activities. The list of activities relating to the steel industry now includes, among other things, collection, the processing and sale of scrap iron and base metals, activities connected with hazardous waste, the operation of explosive and chemically hazardous production facilities, the construction of building and other structures connected with steel production.

Under the Licensing Law, the minimum period for which a licence is issued is five years. A licence can be suspended if the licensee repeatedly conducts material breaches of the terms and conditions of such licence. If a licensee does not mitigate any breach of the licence granted to it within the period established by the licensing authority, that authority may apply to court for the cancellation of that licence. The court may also cancel the licence in certain other cases (for example, if the breach of the terms and conditions of a licence by the licensee damaged the rights, legal interests or health of individuals, etc.). However, the licensing authority may cancel a licence without a court order if the licensee does not pay a licensing commission within three months of the granting of the licence.

In addition, the Federal Law “On Subsoil” of 21 February 2001 establishes certain licensing requirements connected with the usage of subsoil.

Exports/Imports

Exports of steel products from the Russian Federation are primarily regulated by the Law on Foreign Trade Activity and international treaties of the Russian Federation. There are several treaties with the US, which establish minimum prices and/or quotas for certain types of steel products which are exported from the Russian Federation to the US. These treaties also provide that the export of steel products by Russian exporters into the US is conducted on the basis of licences issued by Russian authorities.

There are also several treaties between the Russian Federation and the European Community, which regulate exports of certain steel products from the Russian Federation to the European Union. Under these treaties, exports to the European Union are conducted on the basis of licences issued by the Russian authorities and quotas established in accordance with the treaties. On 9 July 2002 the Ministry of Economic Development and Trade of the Russian Federation and the European Commission entered into a new treaty on the exports of Russian steel to the European Union. Pursuant to this treaty the 2002 Russian steel exports quota was increased by 28 per cent. and amounted to 1.205 million tonnes. In 2003 and 2004 the quotas will be increased by 2.5 per cent. as compared to each preceding year. Additionally, the treaty envisages the possibility of increasing Russia's steel export quota to the European Union by further 12 per cent. in the event that Russia abolishes its 15 per cent. export duties on scrap metals.

Environmental

Environmental rules and standards are regulated by a number of Russian federal laws and regulations. One of the principal laws regulating this area is the Federal Law "On Environmental Protection" (the "**Environmental Law**"). The Environmental Law establishes fees for the usage of natural resources. Two separate types of fees are applied for the consumption of natural resources in the Russian Federation. Companies are required to pay a fee for the use of each respective natural resource and a fee for the discharge of pollutants ("pay-to-pollute" regime). Both fees incorporate an economic incentive and a punitive element. Fees are based on the amount of resource consumed (or discharged), thus encouraging efficient use (or emission) of the resource. If the amount is exceeded, a punitive fine is added.

A new law "On Payments for Negative Ecological Effect" is being reviewed at the State Duma. The law requires an increase in the amount of payments and suggests that most pollution excess payments could be made by way of enterprises implementing environment improvement programmes. Currently the decision as to whether to keep pollution penalties for investment programmes can be made by local authorities.

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