



Evraz Group

EVRAZSECURITIES S.A.

U.S.\$ 150,000,000 10.875 PER CENT. GUARANTEED NOTES DUE 2009
UNCONDITIONALLY AND IRREVOCABLY JOINTLY AND SEVERALLY GUARANTEED
WITHOUT LIMITATION FOR AMOUNT BY
MASTERCROFT LIMITED
FERROTRADE LIMITED
and
OJSC NOVOKUZNETSK IRON AND STEEL PLANT
UNCONDITIONALLY AND IRREVOCABLY JOINTLY AND SEVERALLY GUARANTEED
EACH SUBJECT TO A LIMIT EQUAL TO THE SUM OF U.S.\$ 150,000,000
AND THE OUTSTANDING PRINCIPAL AMOUNT OF ANY FURTHER NOTES ISSUED
PURSUANT TO CONDITION 16 AND FORMING A SINGLE SERIES WITH THE NOTES BY
OJSC NIZHNY TAGIL IRON AND STEEL PLANT
and
OJSC WEST SIBERIAN IRON AND STEEL PLANT
ISSUE PRICE: 100 PER CENT.

The U.S.\$ 150,000,000 10.875 per cent. Guaranteed Notes due 2009 (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 3 August 2004 (the “Trust Deed”) among the Issuer, Mastercrocft Limited, incorporated as a company with limited liability in Cyprus (“Mastercrocft”), 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 three deeds of guarantee, each dated 3 August 2004, and executed by Open Joint Stock Company Nizhny Tagil Iron and Steel Plant (*Nizhnetagilskiy Metallurgicheskii Kombinat*) (“NTMK”), Open Joint Stock Company West Siberian Iron and Steel Plant (*Zapadno-Sibirskiy Metallurgicheskii Kombinat*) (“ZapSib”) and Open Joint Stock Company Novokuznetsk Iron and Steel Plant (*Novokuznetskiy Metallurgicheskii Kombinat*) (“NKMK”), respectively (together, the “Deeds of Guarantee”).

Each of Mastercrocft, Ferrotrade Gibraltar, NTMK, ZapSib and NKMK (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 except that the liability of NTMK and ZapSib respectively under the Deeds of Guarantee is each subject to a limit equal to the sum of U.S.\$ 150,000,000 and the outstanding principal amount of any further notes issued pursuant to Condition 16 and forming a single series with 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 3 August 2009. 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*)).

Interest on the Notes is payable semi-annually in arrear on 3 August and 3 February of each year commencing on 3 February 2005 as described under “Conditions of the Notes — Interest”. The Notes will bear interest from, and including, 3 August 2004 at a rate of 10.875 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, Gibraltar or Cyprus.

INVESTING IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE “RISK FACTORS” BEGINNING ON PAGE 25.

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 rated B3 by Moody’s Investors Service 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 3 August 2004 (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 13 September 2004 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.

Joint Lead Managers

Credit Suisse First Boston

ING

Co-Lead Managers

MDM Bank

Renaissance Capital

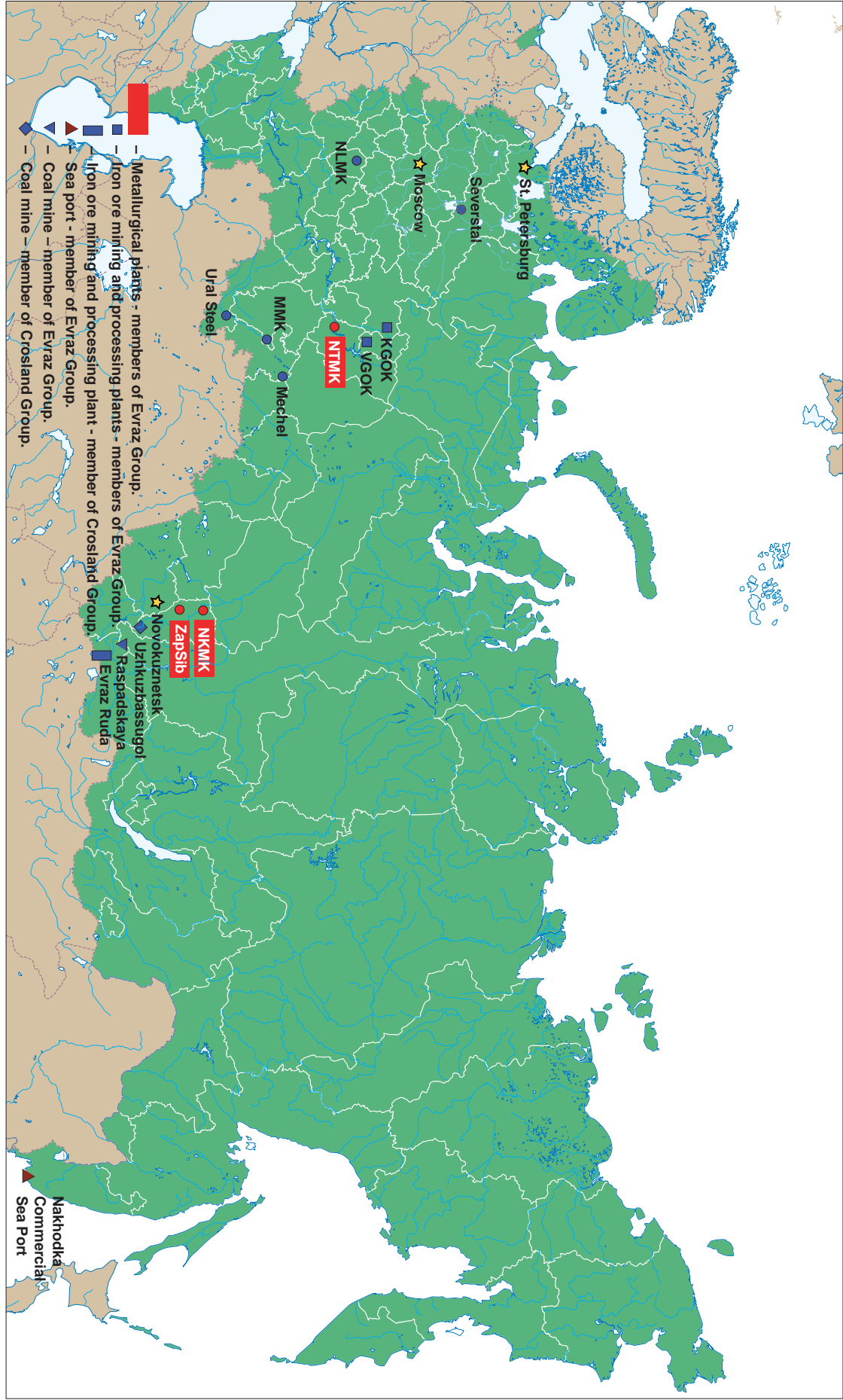
Co-Managers

Commerzbank Securities

Moscow Narodny Bank

The date of this Offering Circular is 30 July 2004.

EVRAZ GROUP AND OTHER MAJOR STEEL PRODUCERS IN RUSSIA



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, NKMK, 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 the Appendix (“Overview of the Global/Russian Steel Industry”) 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. This Offering Circular may only be used for the purpose for which it has been published.

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 and will not be 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 THIS ISSUE, 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.

TABLE OF CONTENTS

	<u>Page</u>
FORWARD LOOKING STATEMENTS	6
ENFORCEABILITY OF JUDGEMENTS	7
PRESENTATION OF FINANCIAL AND OTHER INFORMATION	8
SUMMARY	11
DESCRIPTION OF THE TRANSACTION	23
RISK FACTORS	25
CONDITIONS OF THE NOTES	43
SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE REPRESENTED BY GLOBAL NOTES	68
USE OF PROCEEDS	70
THE ISSUER	71
BUSINESS	75
GUARANTORS	95
NTMK	95
ZAPSIB	111
NKMK	124
FERROTRADE GIBRALTAR	134
MASTERCROFT	140
SUBSCRIPTION AND SALE	146
TAXATION	152
GENERAL INFORMATION	159
GLOSSARY	162
INDEX TO FINANCIAL STATEMENTS	F-1
APPENDIX —OVERVIEW OF THE GLOBAL/RUSSIAN STEEL INDUSTRY	A-1

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 any of the Guarantors’ 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 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 Mastercroft 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, NKMK or such persons. Moreover, substantially all the assets of the Guarantors are located in the Russian Federation. 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. Accordingly, it may not be possible for investors to enforce in the Russian Federation judgements rendered against any of the Guarantors.

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. Each of the Trust Deed and the 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 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 financial statements of the Issuer for the year ended 31 December 2003 prepared in accordance with applicable legal requirements in the Grand Duchy of Luxembourg. Ernst & Young S.A. in their audit report expressed an unqualified opinion on these financial statements.
- Audited parent company financial statements of NTMK for the years ended 31 December 2003 and 31 December 2002 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 the omission of consolidated financial statements.
- Audited parent company financial statements of ZapSib for the years ended 31 December 2003 and 31 December 2002 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 financial statements of NKMK for the period from 5 May 2003 (inception) to 31 December 2003 prepared in accordance with IFRS. Ernst & Young (CIS) Limited in their audit report expressed an unqualified opinion on these financial statements.
- Audited financial statements of Ferrotrade Gibraltar for the period from 2 May 2003 (inception) to 31 December 2003 prepared in accordance with IFRS. Ernst & Young (CIS) Limited in their audit report expressed an unqualified opinion on these financial statements.
- Audited consolidated financial statements of Ferrotrade & Co. (“**Ferrotrade UK**”) for the years ended 31 December 2003 and 31 December 2002 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 2003 and 31 December 2002. Ernst & Young (CIS) Limited issued an examination report on this financial information.
- Audited consolidated financial statements of Mastercrocft for the years ended 31 December 2003 and 31 December 2002 prepared in accordance with IFRS. Ernst & Young (CIS) Limited in their audit report expressed an unqualified opinion on these financial statements.

This Offering Circular contains the pro forma consolidated financial information of Mastercrocft for the years ended 31 December 2003 and 31 December 2002 and the audited consolidated financial statements of Mastercrocft for the same periods. The pro forma consolidated financial information of Mastercrocft for the years ended 31 December 2003 and 31 December 2002 differs significantly from the audited consolidated financial statements of Mastercrocft for the same periods as described under “Risk Factors - Risks Related to the Evraz Group - There are Significant Differences between the Pro Forma and Actual Audited Financial Information for Mastercrocft”.

All financial data for Evraz Group as a whole is extracted or derived from the pro forma consolidated financial information of Mastercrocft for the years ended 31 December 2003, 31 December 2002 and 31 December 2001, unless otherwise stated.

Mastercrocft was incorporated on 31 December 2002. The pro forma consolidated financial information of Mastercrocft for the years ended 31 December 2003 and 31 December 2002 included in this Offering Circular includes periods before the incorporation of Mastercrocft as well as 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

Mastercroat as if those acquisitions had taken place on 31 December 2000, or on 31 December 2003, as described in detail in the notes to the pro forma consolidated financial information of Mastercroat for the years ended 31 December 2003 and 31 December 2002.

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 amortisation; amortisation of negative goodwill; other non-operating income (expense); interest income; interest expense; income tax expense (benefit); tax-related fines and penalties for the year ended 31 December 2001 (as these amounts related to the years prior to 2001); impairment of investments or assets; gain (loss) on net monetary position, gain on sale of investments; gain (loss) from associates; gains (losses) on transactions with related parties reported as non-operating gains (losses); 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. The use of EBITDA helps to evaluate the ability of Evraz Group to meet its debt obligations and is used as a base for computation of certain ratios under the covenants in Evraz Group's debt agreements. The calculation used in this Offering Circular is aimed at evaluating such a measure by making several adjustments to net profit (loss) to give effect to the earnings (losses) which are either non-cash or not related to ordinary operations.

The financial data for NKMK are derived from the financial statements of NKMK prepared in accordance with IFRS for the period of 5 May 2003 (inception) to 31 December 2003. NKMK started its business operations on 1 October 2003 and therefore all financial data for NKMK reflects operational results for the 4th quarter of 2003.

NKMK was created by Evraz Group in 2003 for the purpose of acquiring the production and other assets of KMK. In order to present the operational performance attributable to such assets, all production data for NKMK set out in this document are extracted or derived from the production data for OOO "Steel of KMK" and OOO "Relsy KMK" (each holding the former steel production assets of Kuznetsk Iron and Steel Plant ("KMK")) for the first three quarters of 2003 and the production data of NKMK and OOO "Steel of KMK" for the 4th quarter of 2003. Similarly all physical volume sales data in tonnes for NKMK set out in this document are extracted or derived from sales data to third parties of OOO "Steel of KMK" and OOO "Relsy KMK" for the first three quarters of 2003 and sales to third parties of NKMK and OOO "Steel KMK" for the 4th quarter of 2003. As these steel production assets were not under the control of Evraz Group for such periods, there can be no assurance that such production or sales data would not have been materially different if such assets had been under the control of Evraz Group for the relevant periods.

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 29.4545 to U.S.\$ 1, which was the official exchange rate quoted by the CBR on 31 December 2003. 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, ZapSib and NKMK which reflects the economic substance of the underlying events and circumstances of NTMK, ZapSib, and NKMK is the Rouble. NTMK, ZapSib and NKMK operate in Russia. In the years ended 31 December 2001 and 31 December 2002, the Russian economy experienced relatively high levels of inflation. A hyperinflationary economy is 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 for the years ended 31 December 2002 and 31 December 2001, 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 for the years ended 31 December 2002 and 31 December 2001. For presentation purposes, the financial statements of NTMK and ZapSib for the years ended 31 December 2002 and 31 December 2001 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).

Effective 1 January 2003, Russia is no longer considered a hyperinflationary economy, therefore, the provisions of IAS 29 were no longer used in the preparation of the financial information of NTMK and ZapSib. Amounts of all non-monetary assets and liabilities, as well as equity, expressed in the terms of purchasing power of the measurement currency as of 31 December 2002 were treated as the basis for the carrying amounts in the periods subsequent to 31 December 2002. For presentation purposes, assets, liabilities and equity items of NTMK, ZapSib and NKMK as of 31 December 2003, other than net profit for year ended (period from inception to) 31 December 2003, have been translated into U.S. dollars, the presentation currency, at the exchange rate as of 31 December 2003 (RUR 29.4545/U.S.\$ 1). Income and expense items for 2003 have been translated at the year (period) average exchange rate.

The measurement currency of the Issuer, Mastercroc and Ferrotrade Gibraltar is the U.S. dollar. The measurement currency of NTMK, ZapSib and NKMK 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 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 its 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 Henri, L-1724 Luxembourg.

The Issuer is a special purpose entity of Mastercraft. In 2003, the Issuer issued U.S.\$ 175 million 8.875 per cent. Guaranteed Notes due 2006 (the "**2006 Notes**"). Mastercraft and certain of its subsidiaries guaranteed the Issuer's liabilities under the 2006 Notes. Mastercraft also has an option to buy 100 per cent. of shares of the Issuer, which may be exercised only on or after the maturity date of the 2006 Notes. The Issuer is consolidated by Mastercraft under the provisions of Interpretation SIC-12, Consolidation – Special Purpose Entities of IFRS. In substance, the activities of the Issuer are being conducted on behalf of Mastercraft so that Mastercraft benefits from the Issuer's operations, and Mastercraft may be exposed to risks incident to the activities of the Issuer.

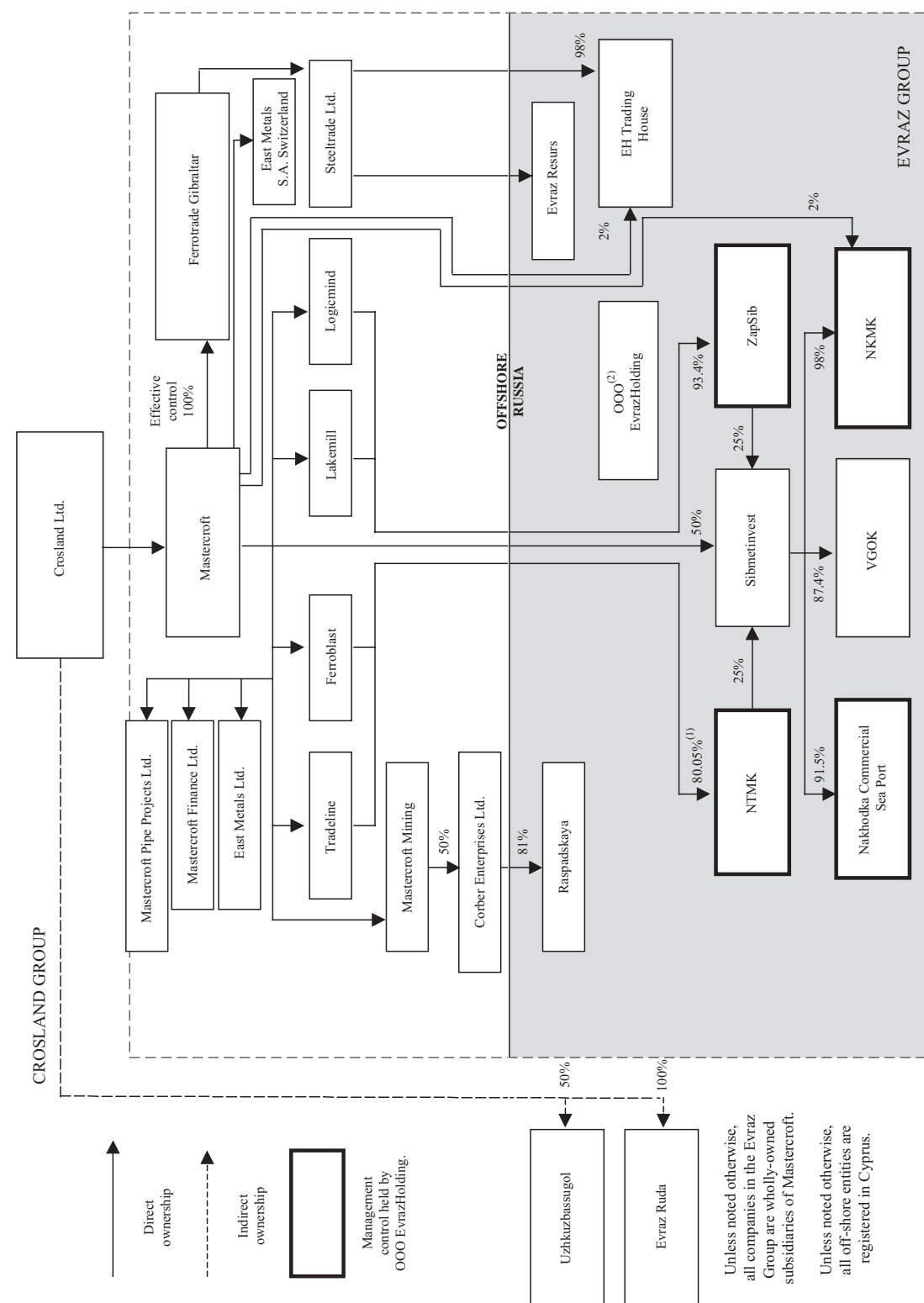
EVRAZ GROUP

Evraz Group is one of the largest steel and mining 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 three integrated steel production companies – NTMK (80.05 per cent. shareholding as of 1 June 2004), ZapSib (93.4 per cent. shareholding as of 1 June 2004) and NKMK (100 per cent. shareholding through Sibmetinvest and Mastercraft as of 1 June 2004). Taking into account the existing minority interests in NTMK and ZapSib, which have shareholding interests in Sibmetinvest, the effective ownership interest of EvrazGroup in NKMK is 93.5 per cent. (see "Business – Overview – Evraz Group" and "– Recent Developments"). The combined production of NTMK, ZapSib and NKMK in 2003 amounted to 13.9 million tonnes of steel (compared to 11.0 million tonnes of steel, produced by NTMK and ZapSib in 2002), ranking Evraz Group in terms of production volume one of the largest producers of steel and steel products in Russia and the 12th largest steel producer in the world. Evraz Group's pro forma revenues and pro forma EBITDA in 2003 amounted to U.S.\$ 2,982 million and U.S.\$ 828 million, respectively (compared to U.S.\$ 2,064 million and U.S.\$ 327 million, respectively, in 2002). Evraz Group's actual revenues and actual EBITDA in 2003 amounted to U.S.\$ 2,121 million and U.S.\$ 494 million, respectively, compared to U.S.\$ 1,537 million and U.S.\$ 177 million, respectively, in 2002.

Evraz Group is part of a wider group of companies 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 June 2004). A more detailed description of Evraz Group can be found in the section headed “Business” below. For recent acquisitions see “Business – Recent Developments” below.

This chart does not include the Issuer, a special purpose entity of Mastercrocft, which is a part of Evraz Group for accounting purposes only. For detailed information see “Description of the Transaction” and “The Issuer”.



STRATEGY

Evraz Group is guided by the following major aims:

- ***Minimise production costs.*** Evraz Group's management believes that producing low-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 adequate to allow Evraz Group to produce competitive products. To achieve this aim, Evraz Group plans to further vertically integrate its operations. In particular, it has recently acquired control of KGOK and it intends to acquire further iron ore and coal mining related assets, to upgrade its steel production plants to 100 per cent. continuous casting technology and to shut down its Siemens-Martin furnaces depending on market conditions.
- ***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.
- ***Maintain a leading position in long products in Russia.*** Evraz Group intends to maintain its leading position in the production of long products including rails, construction steel and pipe blanks.

Evraz Group's management is aware of the impact of rail transportation costs on the prices of its products. Its dominant position in the market of rails and related products gives Evraz Group additional leverage in negotiating its railway tariffs. The acquisition of assets of Kuznetsk Iron and Steel Plant ("KMK") was 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 will 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.

- ***Balance export and domestic sales and increase focus on Russian market.*** Evraz Group's management believes that (i) demand in the domestic market is less volatile than in its export markets, (ii) the domestic market growth is more sustainable and easier to forecast and, (iii) import restrictions make it 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 the 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 network for sales in the domestic market.*** Instead of relying on third-party traders to sell the products produced by NTMK, ZapSib and NKMK, Evraz Group has developed its own domestic distribution network through EH Trading House and regional service centres. Such centres contain stockpiles of Evraz steel products for small volume sales and provide services to customers. 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 reducing receivables risk. In addition to this, the service centres service low volume customers and allow Evraz Group to expand its customer base.
- ***Optimise Evraz Group structure.*** Evraz Group intends to simplify its operations through divesting non-core assets and shutting down inefficient production facilities, while further integrating core production assets into Evraz Group. It is currently intended that Evraz Group

acquires the shares of OJSC Uzhkuzbassugol (“**Uzhkuzbassugol**”), which is a coal mining company, and JSC Evraz Ruda (“**Evraz Ruda**”), which is an iron ore mining company. The timing of such acquisitions will depend on market conditions.

COMPETITIVE STRENGTHS

Evraz Group’s principal competitive advantages include:

Low Production Costs: Evraz Group benefits from being able to produce hot steel at a cost of less than U.S.\$ 130 per tonne on average. This is among the lowest production cost in the steel industry worldwide.

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 procurement prices with its suppliers (thus reducing the cost of produced metal) and sale prices with its principal customers.

Product Mix Composition: Evraz Group focuses on the production of, and enjoys a dominant market position in, long products (including rails, rebars, beams) allowing it to avoid direct competition in domestic and export markets with Severstal, MMK and NLMK, which concentrate on flat steel products. NTMK, ZapSib and NKMK produce mainly complementary products, resulting in the diversification of Evraz Group’s revenue base.

Co-ordinated Sales: Consolidated marketing and distribution, through EH Trading House in the domestic markets and Ferrotrade Gibraltar (including its agent East Metals S.A.) in the export markets, allows Evraz Group to achieve competitive pricing and payment terms, as well as to establish more efficient direct relationships with end customers.

Customer Relationships: Evraz Group has an established relationship with its customer base. Among its long-term customers in Russia are the Russian Ministry of Railway Transportation (including its successors and agents) (“**Russian Railways**”) and the Sinarsky Pipe Plant and Pervouralsky Pipe Plant. Evraz Group has over 250 international customers which include Vanomet AG (Thailand), INI Steel (Korea), VSC Steel (Hong Kong), Tycoons Worldwide (Thailand), Shanghai Alison (China) and Shang Shing (Taiwan).

Resilience of Products to Tariff Barriers: Semi-finished products (billets, slabs, bloom and pig iron) account for approximately 44 per cent. of the combined production of Evraz Group and 85 per cent. of the semi-finished products produced by Evraz Group are exported. Semi-finished products are not commonly subject to import tariffs and quotas and exports of these products are, therefore, more stable in price and volume 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.

Leadership in rails and construction steel: Evraz Group enjoys a strong market share in the sectors of construction steel, pipe blanks, rails and wheels, which are the sectors experiencing high levels of demand in Russia. Upon acquisition of KMK’s assets, Evraz Group became a leading producer in the domestic railway products sector with a near 100 per cent. market share in rails and 42 per cent. market share in wheels. In addition, Evraz Group has a 93 per cent. market share in beams and a 49 per cent. share in channels, which makes Evraz Group a strong player in the domestic construction steel market and allows it to exert a certain degree of control over the market.

CREDIT RATINGS

The outstanding Eurobonds of the Russian Federation are rated “Ba2” (outlook stable) by Moody’s Investors Service Limited, “BB” (outlook stable) by Standard & Poor’s Ratings Services, a division of the McGraw-Hill Companies, Inc. and “BB+” (outlook stable) by Fitch Ratings, 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 Service 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 Service Limited and B by Fitch Ratings Ltd. Any

negative change in the credit rating of either the Russian Federation or Evraz Group could adversely affect the trading price for the Notes. See “Risks Relating to the Russian Federation” below. 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.

THE OFFERING

Issuer	EvrazSecurities S.A.
Guarantors	Mastercroat Limited Ferrotrade Limited OJSC Novokuznetsk Iron and Steel Plant OJSC Nizhny Tagil Iron and Steel Plant* OJSC West Siberian Iron and Steel Plant* *Each subject to a limit equal to the sum of U.S.\$ 150,000,000 and the outstanding principal amount of any further notes issued pursuant to Condition 16 and forming a single series with the Notes.
Issue	10.875 per cent. Guaranteed Notes due 2009
Amount	U.S.\$ 150,000,000
Issue Price	100 per cent. of the principal amount of the Notes
Maturity Date	3 August 2009
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 3 August 2004 at a rate of 10.875 per cent. per annum payable semi-annually in arrear on 3 August and 3 February in each year commencing on 3 February 2005.
Form and Denomination	The Notes will be issued in bearer form, in the denomination of U.S.\$ 100,000 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 on a joint and several basis, guaranteed by Mastercroat, Ferrotrade Gibraltar, NKMK, NTMK and ZapSib, except that the liability of NTMK and ZapSib respectively under their guarantees is each subject to a limit equal to the sum of U.S.\$ 150,000,000 and the outstanding principal amount of any further notes issued pursuant to Condition 16 and forming a single series with the Notes (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 limitations on liens, limitations on indebtedness, limitations on transactions with affiliates, limitations on asset sales and limitations on mergers and similar transactions (see Condition 4 (<i>Covenants</i>)).
Cross Default	The Notes contain a cross default provision in respect of certain indebtedness of the Issuer, any Guarantor or any Material Subsidiary (as defined in Condition 19 (<i>Definitions</i>)) in excess of U.S.\$ 7.5 million (or its equivalent in another currency) in the aggregate.
Ratings	<p>The Notes are 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>
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 the Grand Duchy of Luxembourg, the Russian Federation, 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, the Grand Duchy of Luxembourg, Cyprus, Gibraltar, Austria, Belgium, France, Germany, Hong Kong, Italy, Japan, The Netherlands, Singapore or Spain) 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) are governed by English law and contain provisions for arbitration in London, England.
Use of Proceeds	The net proceeds of the issue of the Notes, expected to amount to approximately U.S.\$ 147,500,000, will be on-lent by the Issuer to Mastercrocft, which may further on-lend the net proceeds to other companies of Evraz Group. Evraz Group companies intend to use the loan to fund acquisitions of iron ore and coal mining related assets (see "Business – Strategy" section for further description of contemplated acquisitions of Evraz Group) and to repay U.S.\$ 125 million of the U.S.\$ 150 million outstanding under the U.S.\$ 150 million loan facility provided by ING Bank N.V., Credit Suisse First Boston International and Commerzbank for the acquisition of such assets (see "Business – Recent Developments") 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	The Common Code reference number for the Notes is 019710904 and the International Security Identification Number is XS0197109043.
Clearing	Euroclear and Clearstream, Luxembourg.

SUMMARY CONSOLIDATED FINANCIAL AND OPERATING INFORMATION

This Offering Circular contains summary consolidated financial information extracted from the pro forma consolidated financial information of Mastercrocft for the years ended 31 December 2003 and 31 December 2002 and the audited consolidated financial statements of Mastercrocft for the same periods. The financial information presented in the pro forma consolidated financial information of Mastercrocft for the years ended 31 December 2003 and 31 December 2002 differs significantly from the audited consolidated financial statements of Mastercrocft for the same periods as described under “Risk Factors - Risks Related to the Evraz Group - There are Significant Differences between the Pro Forma and Actual Audited Financial Information for Mastercrocft”.

The following table summarises sales by Evraz Group’s steel mills in the export and domestic markets in 2001 and 2002 (NTMK and ZapSib), and 2003 (NTMK, ZapSib and NKMK).

Evraz Group’s Sales

(excluding intra-group sales)

	2001	2002	2003
	<i>(thousand tonnes)</i>		
Domestic Sales	3,970	4,402	6,324
Export Sales	5,394	5,315	6,867
Total	9,364	9,717	13,191

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. 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 increasing and, in 2003, domestic sales to third parties of Evraz Group’s steel mills equalled 48 per cent. (as compared to 42 per cent. in 2001 and 45 per cent. in 2002) of the total production of Evraz Group.

The following tables set out in summary form the pro forma consolidated balance sheet and pro forma consolidated income statement information relating to Mastercrocft.

Pro Forma Summary Consolidated Balance Sheets

	31 December 2003	31 December 2002	31 December 2001
	<i>(U.S.\$ thousands)</i>		
ASSETS			
Non-current assets			
Property, plant and equipment, net	1,151,633	985,148	1,082,485
Negative goodwill	(140,281)	(136,706)	(168,910)
Goodwill	2,529	—	—
Other non-current assets	76,706	71,909	83,080
	1,090,587	920,351	996,655
Current assets			
Inventories	478,763	235,570	211,578
Trade and other receivables, net	148,202	107,438	134,915
Cash and cash equivalents	213,441	15,748	7,660
Other current assets	380,382	166,341	140,944
	1,220,788	525,097	495,097
TOTAL ASSETS	2,311,375	1,445,448	1,491,752
EQUITY AND LIABILITIES			
Total equity	876,287	440,799	324,100
Minority interest	169,206	138,942	137,977
Total non-current liabilities	586,325	326,099	405,399
Total current liabilities	679,557	539,608	624,276
TOTAL EQUITY AND LIABILITIES	2,311,375	1,445,448	1,491,752

Pro Forma Summary Consolidated Income Statements

	31 December 2003	31 December 2002	31 December 2001
	<i>(U.S.\$ thousands)</i>		
Revenues	2,982,091	2,064,150	2,083,398
Cost of revenues	(2,030,994)	(1,604,821)	(1,816,319)
Amortisation of negative goodwill	32,204	32,204	20,044
Gross profit	983,301	491,533	287,123
Selling, general and administrative expenses	(268,061)	(241,658)	(257,158)
Tax related fines and penalties	—	(15,396)	(110,501)
Foreign currency exchange gains (losses), net	7,645	(14,022)	(24,931)
Gain on net monetary position	—	82,990	172,951
Other operating expenses	(53,036)	(46,026)	(30,413)
Other operating income	11,589	—	—
Profit from operating activities	681,438	257,421	37,071
Interest income	1,385	1,026	—
Interest expense	(49,503)	(62,284)	(31,957)
Gain on extinguishment of debts	2,346	46,787	138,190
Other non-operating income	4,792	—	—
Profit before income taxes	640,458	242,950	143,304
Income tax (expense) benefit	(69,035)	(9,161)	41,550
Minority interest	(43,850)	(573)	(11,786)
Net profit (loss) from ordinary activities	527,573	233,216	173,068
Extraordinary item – gain on extinguishment of debts under the Settlement Agreement (net of income tax)	—	1,899	106,709
Minority interest in extraordinary item	—	(392)	(25,181)
NET PROFIT	527,573	234,723	254,596

Such information is derived from the pro forma consolidated financial information of Mastercraft as at and for the years ended 31 December 2003, 31 December 2002 and 31 December 2001. The pro forma consolidated financial information of Mastercraft as at and for the years ended 31 December 2003 and 31 December 2002, 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 above should be read in conjunction with such pro forma consolidated financial information, reports and the notes thereto.

The following tables set out in summary form the consolidated balance sheet and consolidated income statement information relating to Mastercraft:

Summary Consolidated Balance Sheets

	31 December 2003	31 December 2002
	<i>(U.S.\$ thousands)</i>	
ASSETS		
Non-current assets		
Property, plant and equipment, net	1,173,169	1,068,055
Negative goodwill	(290,337)	(284,572)
Other non-current assets	49,862	53,463
	932,694	836,946
Current assets		
Inventories	480,826	119,032
Trade and other receivables, net	68,969	37,623
Cash and cash equivalents	184,397	17,207
Other current assets	356,931	125,810
	1,091,123	299,672
TOTAL ASSETS	2,023,817	1,136,618
EQUITY AND LIABILITIES		
Total equity	407,840	24,825
Minority interest	163,680	203,318
Total non-current liabilities	690,107	384,299
Total current liabilities	762,190	524,176
TOTAL EQUITY AND LIABILITIES	2,023,817	1,136,618

Summary Consolidated Statements of Operations

	31 December 2003	31 December 2002
	<i>(U.S.\$ thousands)</i>	
Revenues	2,121,204	1,536,645
Cost of revenues	(1,598,203)	(1,338,456)
Amortisation of negative goodwill	23,452	14,159
Gross profit	546,453	212,348
Selling, general and administrative expenses	(179,835)	(148,619)
Tax related fines and penalties	—	(15,440)
Foreign currency exchange gains (losses), net	8,312	(14,984)
Gain on net monetary position	—	63,667
Other operating expenses	(46,488)	(45,572)
Other operating income	10,778	842
Profit from operating activities	339,220	52,242
Interest income	7,450	448
Interest expense	(54,235)	(57,304)
Gain on extinguishment of debts	2,346	16,302
Other non-operating expenses	(121)	(663)
Other non-operating income	35,518	—
Profit before income taxes	330,178	11,025
Income tax (expense) benefit	(72,560)	(11,009)
Minority interest	(43,451)	(582)
NET PROFIT (LOSS)	214,167	(566)

Such information is derived from the audited consolidated financial statements of Mastercrocft as at and for the years ended 31 December 2003 and 31 December 2002. Such consolidated financial statements, together with the audit report of Ernst & Young (CIS) Limited and the accompanying notes, appear elsewhere in this Offering Circular. The summary financial information presented above should be read in conjunction with such consolidated financial statements, report and the notes thereto.

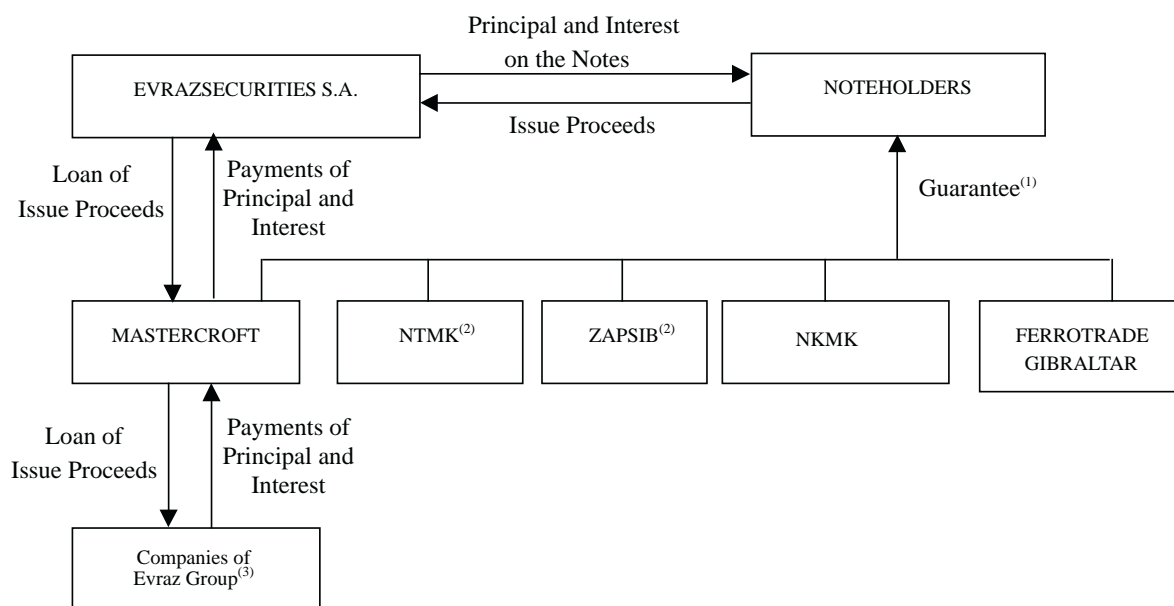
DESCRIPTION OF THE TRANSACTION

The Issuer will issue the Notes and will on-lend the proceeds of the Notes to Mastercroat (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 except that the liability of NTMK and ZapSib respectively under the Deeds of Guarantee is each subject to a limit equal to the sum of U.S.\$ 150,000,000 and the outstanding principal amount of any further notes issued pursuant to Condition 16 and forming a single series with the Notes. 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, 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*)).

The Conditions, among other things, restrict, with certain significant exceptions, the ability of the Issuer, Mastercroat and Material Subsidiaries (as defined in the Conditions) to (i) create or incur liens; (ii) incur indebtedness; (iii) engage in transactions with affiliates; (iv) sell assets; and (v) 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 issue of the Notes:



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- (1) Additional entities may, as provided in Condition 4.12, become guarantors of the amounts payable under the Notes and the Trust Deed.
- (2) NTMK and ZapSib each guarantees up to an amount equal to the sum of U.S.\$ 150,000,000 and the outstanding principal amount of any further notes issued pursuant to Condition 16 and forming a single series with the Notes.
- (3) For more details, please see "Use of Proceeds" below.

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

Rapid Growth

Evraz Group has experienced rapid growth over 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. The management of growth in Evraz Group's business requires significant allocation of management resources away from ongoing daily operations. In addition, the management of such growth (particularly management of operating assets in multiple locations) 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 operations of Evraz Group, could have a material adverse effect on the business, financial condition, results of operations and prospects of Evraz Group.

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 ("MAP") (starting from 9 March 2004, the functions of MAP were divided between several federal services). 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 any such anti-monopoly approval may have a material adverse effect on the business, financial condition or prospects of Evraz Group.

Corporate Governance

The corporate affairs of NTMK, ZapSib and NKMK (together the "**Russian Guarantors**") are governed by laws governing companies incorporated in Russia and by their respective charters and internal regulations adopted pursuant to their respective charters and such laws. The rights of shareholders and the responsibilities of members of each Russian Guarantor's board 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 comparable jurisdictions.

A principal objective of the securities laws of the United States, the United Kingdom and other comparable jurisdictions is to promote full and fair disclosure of all material corporate information to the public. The 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 other comparable jurisdictions.

In addition, Mastercroft's shareholders indirectly control the Russian Guarantors. These shareholders will, for the foreseeable future, be able to elect all or the majority of the members of each Russian Guarantor's 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, NTMK, ZapSib and NKMK rely to a large extent on the supply of raw materials from their related parties (including Uzhkuzbassugol and Evraz Ruda (see “Summary” and the charts on pages 12 and 78)) and sales to Ferrotrade Gibraltar. For further information relating to related party transactions, see the audit report of Ernst & Young (CIS) Limited in respect of the actual audited consolidated financial statements of Mastercroat for the years ended 31 December 2003 and 31 December 2002 and the notes to such financial statements, in particular, notes 14, 15, 22, 27 and 30.

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 or prospects of each of the Guarantors and Evraz Group.

In addition, subject to certain exceptions, according to the Russian Joint Stock Company Law a transaction with an “interested party” requires the approval of such transaction by a majority vote of “disinterested directors” or “disinterested shareholders”. The definition of an “interested party” in relation to a Russian company includes members of its board of directors, members of any of its management bodies, its managing company or sole manager, its chief executive officer, any person that owns, together with that person’s affiliates, at least 20 per cent. of the company’s voting shares, and any person who has the right to give instructions which the company is required to follow if any of the persons listed above, a spouse or a close relative and/or an affiliate of such person, is:

- a party to a transaction with the company, whether directly or as a representative, intermediary or beneficiary;
- the owner (separately or together) of at least 20 per cent. of the shares in a company that is the counterparty to a transaction, whether directly or as a representative, intermediary or beneficiary; or
- a member of the board of directors, any management body or a managing company of a company that is the counterparty to a transaction, whether directly or as a representative, intermediary or beneficiary.

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. Those transactions may be challenged in court by the company, any of its shareholders or, on commencement of insolvency proceedings in relation to the Russian company, by a court-appointed arbitration manager acting on behalf of creditors of the Russian company.

Due to the technical requirements of Russian law, entities within the Evraz Group may be deemed “interested parties” with respect to certain transactions among themselves. In addition, the concept of “interested parties” is defined with reference to the concepts of “affiliated persons” and “group of persons” under Russian law, which are subject to many different interpretations. Moreover, the provisions of Russian law defining which transactions must be approved as “interested party transactions” are also subject to different interpretations. Although Evraz Group has generally taken a reasonably conservative approach in applying these concepts, Evraz Group cannot be certain that its application of these concepts will not be subject to challenge. Any such challenge could result in the invalidation of transactions that are important to the Evraz Group’s business. Failure to obtain the necessary approvals for transactions within the Evraz Group or any such challenge could have a material adverse effect on the business, financial condition, results of operations or prospects of Evraz Group.

Stability of Steel and Steel Products Exports

In 2003, semi-finished products (billets, slabs, blooms and pig iron) accounted for 44 per cent. of the combined production of Evraz Group and constituted approximately 41 per cent. of its revenues (compared

to 2002 year-end numbers of 46 per cent. and 41 per cent., respectively). Evraz Group sells almost all semi-finished products 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.

Land Ownership

Evraz Group has acquired in the course of the assets consolidation large portions of land and other immovable property. According to the Russian legislation in order to make the transaction involving immovable property valid, the parties to such transaction will have to register it with Russian registration bodies. Certain transactions in relation to land entered into by Evraz Group in the end of 2003 and 2004 are in the process of being registered. In addition, Evraz Group is in the process of re-registration of land ownership in connection with the acquisition of certain assets of KMK. Failure to register those transactions properly will result in their invalidation, which could have a material adverse effect on the business, financial condition, results of operations or 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 could have a material adverse effect on the business, financial condition, results of operations or prospects of Evraz Group.

NTMK and ZapSib Insolvency and Settlement Agreements

In the second half of 1990s, insolvency proceedings were initiated with respect to NTMK and ZapSib. These insolvency proceedings with respect to NTMK and ZapSib were terminated following the conclusion of amicable settlement agreements with their creditors. Any non-compliance with the terms (including payment schedules) of those agreements gives rise to the creditor's right to seek redress in Russian courts.

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

NKMK Insolvency Proceedings

The insolvency proceedings initiated in 1998 with respect to KMK resulted in the liquidation of KMK and the auctioning of its assets, a large proportion of which were acquired by NKMK. Russian insolvency proceedings regulations are cumbersome and may not be easily complied with. Notwithstanding that Evraz Group complied with such regulations when acquiring the KMK assets, any challenge of the acquisition

transaction may have an adverse effect on the business, financial condition, results of operations or prospects of NKMK, and, consequently, of Evraz Group.

There are Significant Differences between the Pro Forma and Actual Audited Financial Information for Mastercrocft

This Offering Circular contains the pro forma consolidated financial information of Mastercrocft for the years ended 31 December 2003 and 31 December 2002 and the audited consolidated financial statements of Mastercrocft for the same periods.

The pro forma consolidated financial information of Mastercrocft for the years ended 31 December 2003 and 31 December 2002 differs significantly from the audited consolidated financial statements of Mastercrocft for the same periods. The principal differences between the pro forma consolidated financial information of Mastercrocft for the years ended 31 December 2003 and 31 December 2002 and the audited consolidated financial statements of Mastercrocft for the same periods include:

Timing of Transaction

In the pro forma consolidated financial information of Mastercrocft for the years ended 31 December 2003 and 31 December 2002, certain assumptions are made in respect of the timing of certain transactions, primarily the acquisitions of ownership interests in certain entities by Mastercrocft, its subsidiaries or entities under common control with Mastercrocft. In the audited consolidated financial statements of Mastercrocft for the years ended 31 December 2003 and 31 December 2002 prepared in accordance with IFRS, the acquisitions are accounted for based on the actual dates of transactions. This results in differences in the following financial statement items:

- fair values of assets and liabilities of the acquired entities as of the acquisition dates, and their subsequent depreciation/amortisation;
- goodwill/negative goodwill, and their subsequent amortisation;
- minority interests; and
- the period of time for which revenues and expenses of subsidiaries are included in the consolidated statements of operations, and cash flows of subsidiaries are included in the consolidated cash flow statements.

Consolidation of Ferrotrade UK

The audited consolidated financial statements of Ferrotrade UK are included in the pro forma consolidated financial information of Mastercrocft for the years ended 31 December 2003 and 31 December 2002 based on an assumption that the transfer of Ferrotrade UK's business to Ferrotrade Gibraltar had occurred at the beginning of the periods presented. The financial statements of Ferrotrade UK are not included in the audited consolidated financial statements of Mastercrocft for the years ended 31 December 2003 and 31 December 2002 prepared in accordance with IFRS because Ferrotrade UK is not a subsidiary of Mastercrocft.

Consolidation of the subsidiaries

The pro forma consolidated financial information of Mastercrocft for the years ended 31 December 2003 and 31 December 2002 includes parent company (non-consolidated) financial statements of NTMK and ZapSib. No financial statements of subsidiaries of NTMK and ZapSib have been included in the pro forma consolidated financial information of Mastercrocft for the years ended 31 December 2003 and 31 December 2002. The audited consolidated financial statements of Mastercrocft for the years ended 31 December 2003 and 31 December 2002 include the financial statements of certain subsidiaries of NTMK and ZapSib, as well as other subsidiaries of Mastercrocft which were not

included in the pro forma consolidated financial information of Mastercraft for the years ended 31 December 2003 and 31 December 2002.

Disclosures

The notes to the pro forma consolidated financial information of Mastercraft for the years ended 31 December 2003 and 31 December 2002 have been limited to the description of certain transactions, primarily the acquisitions of ownership interests in certain entities by Mastercraft, its subsidiaries or entities under common control with Mastercraft, and the assumptions in respect of those transactions made in the preparation of the pro forma financial information, as well as corporate information, and basis of preparation, including elimination of intragroup balances and transactions. The notes to the audited consolidated financial statements of Mastercraft for the years ended 31 December 2003 and 31 December 2002 contain the full set of disclosures required by IFRS.

Accordingly, the results of operations and financial condition of Mastercraft as presented in the pro forma consolidated financial information of Mastercraft for the years ended 31 December 2003 and 31 December 2002 are materially different (in particular, the actual revenues and actual EBITDA are significantly higher) than as presented in the audited consolidated financial statements of Mastercraft for the same periods. Prior to making an investment in the Notes, investors should read both the pro forma consolidated financial information and the audited consolidated financial statements of Mastercraft and understand the differences between them.

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 2003, 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. Further, the report of the auditors on the financial statements of NKMK as at 31 December 2003 and for the period from 5 May 2003 to 31 December 2003 was unqualified but contained a reference to the note to the financial statements relating to transactions with related parties.

No financial statements prepared in accordance with IFRS are available to prospective investors for the Guarantors in relation to any period since 31 December 2003. 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 has already acquired and 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 as to whether such assets will be acquired in the future or on what terms. Any discontinuation of iron ore or coal supply to the Russian Guarantors could have

a material adverse effect on the business, financial condition, results of operations or prospects of Evraz Group.

Dependence on Russian Railways for Sales of Railway Products

NTMK and NKMK sell nearly all of their railway products (which accounted for approximately 11 per cent. of Evraz Group's revenues in 2003) to Russian Railways. While demand from Russian Railways for railway products has been consistent over the last few years, any reduction in Russian Railways' investment budget or introduction of requirements to decrease the sale prices of railway products may have a material adverse effect on the business, financial condition, results of operations or prospects of Evraz Group.

Geographical Location and Transportation Costs

NTMK, ZapSib and NKMK'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, NKMK and ZapSib products are shipped via the Far East sea ports (Nakhodka Commercial Sea Port and Vladivostok). 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 Russian Railways 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 could have a material adverse effect on its business, financial condition, results of operations or prospects.

Management of Three Plants

While the production facilities of the majority of Russian steel producers are concentrated within one production site, Evraz Group operates three steel plants. While this allows Evraz Group to offer its customers a wider product range, operating three plants may lead to difficulties with respect to coordination and management of supply, production and distribution and may have a material adverse effect on the business, financial condition, results of operations or prospects of Evraz Group.

Insufficient Insurance Cover for ZapSib and NKMK

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 and NKMK. While ZapSib and NKMK intend to take out within 6 months and 12 months, respectively, of the Issue Date insurance cover in respect of their property and operating assets (similar to that of NTMK), there can be no assurance that ZapSib and NKMK 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 could have a material adverse effect on the business, results of operations and financial condition of ZapSib and NKMK, and, subsequently of Evraz Group.

Restrictions Imposed by Financial and Other Covenants

The Conditions will, among other things, restrict, with certain exceptions, the ability of the Issuer, the Guarantors and their Material Subsidiaries (as defined in the Conditions) to (i) incur liens; (ii) incur

indebtedness; (iii) engage in transactions with affiliates; (iv) sell assets; and (v) undertake certain mergers and similar transactions.

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 could have a material adverse effect on the business, financial condition, results of operations or prospects of Evraz Group.

In addition, the conditions of the 2006 Notes restrict up to their scheduled redemption date on 25 September 2006, with certain exceptions, the ability of the Issuer, Mastercrocft and Restricted Subsidiaries (as defined in such 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 such conditions); (x) engage in activities unrelated to the steel and mining industry; and (xi) undertake certain mergers and consolidations.

Although these restrictions were intended to preserve the creditworthiness of the 2006 Notes, such restrictions may hinder the ability of Evraz Group to implement its business strategy and may have a material adverse effect on the business, financial condition, results of operations or prospects of Evraz Group.

Evraz Group has not been in compliance with certain non-financial covenants in the terms and conditions of the 2006 Notes as referred to in note 31 to the audited consolidated financial statements of Mastercrocft for the year ended 31 December 2003. On 16 July 2004 Evraz Group obtained a waiver from the trustee in respect of the 2006 Notes in respect of such non-compliance.

To the extent that Evraz Group does not comply with the terms and conditions of the 2006 Notes or any other indebtedness and is not able to obtain a waiver, the relevant indebtedness as well as other indebtedness may become immediately repayable. Any such acceleration of Evraz Group's indebtedness would have a material adverse effect on the business, financial condition, results of operations and prospects of Evraz Group.

Ability To Incur Substantial Additional 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. As the Issuer depends upon payments from Evraz Group to make payments on the Notes, such additional secured debt 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 2003, pro forma consolidated liabilities of Mastercrocft were U.S.\$ 1,265.9 million and pro forma consolidated equity of Mastercrocft was U.S.\$ 876.3 million. As of 31 December 2003, actual consolidated liabilities of Mastercrocft were U.S.\$ 1,452.3 million and the actual consolidated equity of Mastercrocft was U.S.\$ 407.8 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 subordinated effectively 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. The production facilities of NKMK age back to 1930s. 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, ZapSib and NKMK) 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 could have a material adverse effect on the business, financial condition, results of operations or prospects of Evraz Group.

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. A change in the key management could have a material adverse effect on the business, financial condition, results of operation or prospects of Evraz Group.

Risks Relating to the Steel Industry

Industry Cyclical

The steel industry is highly cyclical in nature and the financial condition and results of operations of steel producing companies are generally affected by macroeconomic fluctuations in the local and global economies. The current international trading environment is more positive, with markets recovering from 2001 after a prior decline in the intensity of steel use in western industrial countries and increases in steel production capacity in a number of developing countries. This led to an oversupply in world markets resulting 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. However, in 2003 and the first half of 2004 market conditions have improved resulting in an increase in steel prices. 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 (especially in the Western Russian regions), benefit from lower transportation costs, similar cost bases, 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 in light of increasing competition from these producers, which could have a material adverse effect on the business, financial condition, results of operations or prospects of Evraz Group.

In 2002 the 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. Pursuant to an agreement between the Russian Federation and Ukraine these duties were cancelled in 2004. Such cancellation further increases competition and decreases steel prices for the products of Evraz Group.

Any further 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 could have a material adverse effect on the business, financial condition, results of operations or prospects of Evraz Group.

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 three 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 could have a material adverse effect on the business, financial condition, results of operations or prospects of Evraz Group.

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 Russian Railways. 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), acquire further iron ore and coal mining related assets and increase internally generated electricity supplies, 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 their costs could have a material adverse effect on the business, financial condition, results of operations or prospects of Evraz Group.

Environmental Risks

As in many other jurisdictions, 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 compliance with environmental legislation 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 effect compliance with increasingly complex laws and regulations covering the protection of environment and human health and safety. These include costs in reducing 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. Although Evraz Group believes that it is generally in compliance with the existing laws and regulations, 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

could have a material adverse effect on the business, financial condition, results of operations or prospects of Evraz Group.

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

Political conditions in the Russian Federation were highly volatile in the 1990s, as evidenced by the frequent conflicts amongst executive, legislative and judicial authorities which negatively impacted Russia's business and investment climate. While Russia's current President, Vladimir Putin, re-elected for a second presidential term in March 2004, has maintained the stability of the Russian federal government (the "Government") and introduced policies generally oriented towards the continuation of economic reforms, there can be no assurances that there will be no material changes to Government policies or to economic or regulatory reforms. The State Duma (the lower chamber of the Russian parliament) elections in December 2003 resulted in an increase in the percentage of the aggregate vote received by the "United Russia" party and other members of the State Duma allied with President Putin. Evraz Group's business, financial condition, results of operations or prospects could be materially affected if political instability recurs or if reform policies are reversed or become ineffective.

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict. Russian military and paramilitary forces have been engaged in the Chechen Republic in the recent past and continue to maintain a presence there. In addition, groups associated with the Chechen opposition have committed various acts of terrorism in population centres within the Russian Federation, resulting in significant loss of life, injury and damage to property. The spread of violence, or its intensification, could have significant political consequences, including the imposition of a state of emergency in some parts of, or throughout the whole of, the Russian Federation. These events could materially and adversely affect the investment environment and overall consumer confidence in the Russian Federation, which in turn could have a material adverse effect on the business, financial condition, results of operations or prospects of Evraz Group.

The Government's recent investigation into the privatisation of, and the level of taxation paid by, Yukos has caused comments in the international press that the economic reforms of recent years may be overturned and resulted in nervousness among the international investment community about the political risks of investing in Russia. While the Government has indicated that the case against Yukos is in respect of specific incidents of fraud and tax evasion, such actions, particularly in the event that similar cases are brought against other Russian companies, could have a material adverse effect on the investment environment in the Russian Federation.

It has been widely reported in the Russian and foreign media that Russian authorities have been exerting pressure on various prominent business leaders associated with some of the largest Russian companies to cause them to divest their commercial interests in certain economic areas of activity. There have been significant arrests of senior officials in some companies owned or controlled by such business leaders. The media has reported also that the Russian authorities have exerted significant influence on companies owned or controlled by these business leaders through tax inspections, seizing of shares, management changes, threats of and actual prosecution of management and key officials, and other means. Real and perceived pressure on these business leaders and their businesses has seriously affected the economic activities of these enterprises and their management. If the current or future authorities in the Russian Federation were to apply significant pressure on Evraz Group, it could have a material adverse effect on the business, financial condition, results of operations or prospects of Evraz Group.

Expropriation and Nationalisation

The Government has enacted legislation to protect property against expropriation and nationalisation. Furthermore, in the event that Evraz Group's property is expropriated or nationalised, legislation provides

for fair compensation to be paid to Evraz Group. However, there can be no certainty that such protections will be enforced. This uncertainty is due to several factors, including the lack of state budgetary resources, the lack of an independent judicial system and sufficient mechanisms to enforce judgments and prosecute corruption among Russian state officials.

The concept of property rights is not well developed in the Russian Federation and there is not a great deal of experience in enforcing legislation enacted to protect private property against nationalisation and expropriation. As a result, Evraz Group may not be able to obtain proper redress in the courts, and may not receive adequate compensation if, in the future, the Government decides to nationalise or expropriate some or all of Evraz Group's assets. The expropriation or nationalisation of any assets of Evraz Group without fair compensation could have a material adverse effect on the business, financial condition, results of operations or prospects of Evraz Group.

Economic Risks

Since the dissolution of the former Soviet Union in the early 1990s, Russia's society and economy have been undergoing a rapid transformation from a one party state with a centrally planned to a pluralist democracy with a market-oriented economy. This transformation has been marked by periods of significant instability and the Russian economy has experienced at various times:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high levels of state debt relative to gross domestic product;
- high levels of loss-making enterprises that continues to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- growth of a black and grey market economy;
- wide-spread capital flight;
- high levels of corruption and the penetration of organised crime into the economy;
- significant increases in unemployment; and
- the impoverishment of a large portion of the Russian population;

The Russian economy has also been subject to abrupt downturns. In particular, the Government's decision to stop supporting the Rouble temporarily in August 1998 caused the currency to collapse. At the same time, the state defaulted on much of its short-term domestic debt and imposed a 90-day moratorium on foreign debt and other payments by Russian companies. These actions resulted in an immediate and severe devaluation of the Rouble, a near collapse of the Russian banking system, a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and an inability of Russian issuers to raise funds on the international capital markets.

There can be no assurance that recent positive trends in the Russian economy, such as an approximately 20 per cent. increase in the gross domestic product over the last 3 years, a relatively stable Rouble and a reduced rate of inflation, will continue or will not be abruptly reversed. Moreover, the strengthening of the Rouble in real terms relative to the U.S. dollar and the consequences of a relaxation in monetary policy, or other factors, could have a material adverse effect on Russia's economy and/or business, financial condition, results of operations or prospects of Evraz Group in the future.

Although economic conditions in the Russian Federation have been improving since 1999, there is a lack of consensus as to the scope, content and pace of economic and political reform. 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 investment, or that the economy of the Russian Federation will continue to improve. Any failure or reversal of the current policies of economic reform and stabilisation could have a material adverse effect on the business, financial condition, results of operations or prospects of Evraz Group.

Lack of Liquidity

Russian companies face significant problems with liquidity and long-term funding due to a limited supply of domestic savings, scarcity of foreign sources of finance, limited lending by the banking sector to the industrial sector and other factors. Though the measures undertaken by the Government after the economic crisis of 1998 aimed at restructuring and stabilising the Russian banking system were implemented successfully and recently the Russian Federation has experienced economic growth in certain sectors, the Russian banking and other financial systems are still in a state of transition as compared with the banking and other financial systems of some developed countries. A re-emergence of the problems in the Russian banking system may have a material adverse effect on the business, financial condition, results of operations or prospects of Evraz Group.

Impact on the Russian Economy of Fluctuations in the Global Economy

Russia's economy could be adversely affected by market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems outside the Russian Federation or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. Additionally, because the Russian Federation produces and exports large volumes of oil and gas, the Russian economy is particularly sensitive to the price of oil and gas on the world market, and a decline in the price of oil and gas could have a significant negative impact on the Russian economy. These developments could severely limit Evraz Group's access to capital and could adversely affect business, financial condition, results of operations or prospects of Evraz Group.

Recent terrorist activity and the recent armed conflicts in the Middle East have had a significant effect on international and domestic finance and commodity markets. Any future acts of terrorism or armed conflicts in the Russian Federation or internationally could have an adverse effect on the financial and commodities markets and the global economy. As the Russian Federation produces and exports large amounts of crude oil and gas, any acts of terrorism or armed conflicts causing disruptions of Russian oil and gas exports could have a material adverse effect on the Russian economy and, thus, on the business, financial condition, results of operations or prospects of Evraz Group.

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. Each of 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 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.

Legal and Regulatory Risks

The Russian Federation is still developing an adequate legal framework required for the proper functioning of a market economy. Several fundamental Russian laws have only recently become effective. The recent nature of much of Russian legislation and the rapid evolution of the Russian legal system place the enforceability and underlying constitutionality of laws in doubt and result in ambiguities, inconsistencies and anomalies in their application. The following aspects of Russia's legal system create uncertainty with respect to many of the legal and business decisions that Evraz Group's management make. Many of these risks do not exist in countries with more developed legal systems:

- since 1991, Soviet law has been largely, but not entirely, replaced by a new legal regime as established by the 1993 Federal Constitution, the Civil Code of the Russian Federation (“**Civil Code**”) and by other federal laws, and by decrees, orders and regulations issued by the President, the Government and federal ministries which are, in turn, complemented by regional and local rules and regulations. There may be inconsistencies between such laws, presidential decrees, state resolutions and ministerial orders, and between local, regional and federal legislation and regulations;
- decrees, resolutions and regulations may be adopted by state authorities and agencies in the absence of a sufficiently clear constitutional or legislative basis and with a high degree of discretion. There is a risk that the state may arbitrarily nullify or terminate contracts, withdraw licences, conduct sudden and unexpected tax audits, initiate criminal prosecutions and civil actions and use common defects in accounting or share issues and registration as pretexts for court claims and other demands to liquidate companies or invalidate such issues and registrations and/or to void transactions;
- substantial gaps in the regulatory structure may be created by the delay or absence of regulations implementing certain legislation;
- there is a lack of judicial and administrative guidance on interpreting applicable rules and limited precedential value of judicial decisions;
- the Russian Federation has a judiciary with limited experience in interpreting and applying market-oriented legislation and which is vulnerable to economic and political influence; and
- the Russian Federation has weak enforcement procedures for court judgments and there is no guarantee that a foreign investor will obtain effective redress in a Russian court.

The independence of the judicial system and its immunity from economic, political and social influences in the Russian Federation remains largely untested. The court system is understaffed and underfunded. Judges and courts in the Russian Federation are generally inexperienced in the area of business and corporate law. In addition, most court decisions are not readily available to the public. Enforcement of court judgements can in practice be very difficult in the Russian Federation. All of these factors make judicial decisions in the Russian Federation difficult to predict and effective redress uncertain. Additionally, court claims are often used to further political aims. Evraz Group may be subject to these claims and may not be able to receive a fair hearing. Additionally, court judgements are not always enforced or followed by law enforcement agencies.

Compliance with Applicable Laws, Decrees and Regulations

The application of the laws of any particular country is not always clear or consistent. This is particularly true for Russia where the pace of legislative drafting has not always kept pace with the demands of the marketplace. Russian commercial practices and legal and regulatory frameworks differ significantly

from practices in other jurisdictions. As a result, it is often difficult to hire qualified management and accounting staff who can ensure compliance with changing regulatory requirements.

Russian authorities have the right to, and do, conduct periodic inspections of Evraz Group's operations throughout the year. Any such future inspections may conclude that Evraz Group has violated laws, decrees or regulations, and Evraz Group may be unable to address such conclusions. Such findings could result in the imposition of fines or penalties or more severe sanctions including the suspension, amendment or termination of Evraz Group's licences, any of which could increase costs or have a material adverse effect on the business, financial condition, results of operations or prospects of Evraz Group.

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 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 the business, financial condition, results of operations or prospects of Evraz Group.

Exchange Rates and Currency Regulation

The Rouble is not convertible outside of the Russian Federation. A market exists within the Russian Federation for the conversion of the Rouble into other currencies, but it is limited in size and is subject to rules limiting such conversion. There can be no assurance that a relatively stable market will continue indefinitely and a lack of growth of this currency market may hamper the development of Evraz Group's business and the businesses of its clients.

A new Federal Law No. 173-FZ "On Currency Regulation and Currency Control" dated 10 December 2003 (the "**New Currency Law**") introduced a new currency control regime, which came into force on 18 June 2004. Under the New Currency Law, only a limited number of restrictions can be imposed in respect of currency operations (restrictions include reserve requirements or requirements to effect relevant operations through special-purpose accounts). The CBR has enacted a number of regulations in implementation of the New Currency Law mainly concerning technical issues of the new currency control regime. Such regulations do not contain any restrictions in respect of the payment obligations to be performed by the Russian Guarantors. However, further regulations are expected to be enacted by the CBR which may require a Russian legal entity performing obligations in respect of "external" securities (such as making a payment under a guarantee in respect of notes sold in the international capital markets) to deposit in a special non-interest bearing account, prior to the date of such performance, an amount equal to 100 per cent. of the amount of the obligation for a period of up to 60 days (a "**reserve period**"). As a result, the Russian Guarantors may not be able to make any payments under the Guarantees during the reserve period and thus to perform their obligations under their respective Guarantees in a timely manner.

Reserve requirements also apply to any loans from non-Russian lenders to a Russian legal entity. On 29 June 2004 the CBR issued Regulation No.1465-U "On the Establishment of Reserve Requirements with Respect to Debiting and Crediting of Special Bank Accounts" (the "**Regulation No. 1465-U**"), which shall come into force on 1 August 2004. Regulation No. 1465-U establishes the amounts and terms of reserves applicable to certain currency operations. For example, in case of receipt of a foreign-currency denominated loan from a non-Russian lender by a Russian legal entity, Regulation No. 1465-U requires that a reserve be created of 3 per cent. of the loan amount credited to the borrower's special account for 365 calendar days.

Until all of the regulations for the effective implementation of the New Currency Law are published and implemented, it will not be possible fully to assess the effect of the currency control regime introduced by the New Currency Law and there may be uncertainties and disputes in the interpretation of the New Currency Law. Accordingly, there can be no assurance that the New Currency Law and the related regulations will not have a material adverse effect on the business, financial condition, results of operations or prospects of Evraz Group.

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 published by comparable bodies in western countries. Accordingly, Evraz Group may not give any assurance to the prospective investors 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 jurisdictions. Any discussion of matters relating to the Russian Federation herein may, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Taxation System

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 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 and recoverability of VAT. 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 the business, financial condition or results of operations of Evraz Group.

It is likely 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 or results of operations of Evraz Group.

Privatisation

A significant portion of Evraz Group's assets was privatised by the state (see "Business — Guarantors — NTMK — Privatisation"; "ZapSib — Privatisation"; "NKMK — History"). To the extent that privatisation legislation has been vague, inconsistent and conflicting with other applicable legislation, and with inconsistencies even between federal and local privatisation legislation, most, if not all, privatisations were arguably deficient and therefore are vulnerable to challenge at least on formal grounds. No action has been taken towards the invalidation of the privatisation of Evraz Group's assets and, currently, there are no pending challenges. In the event that the privatisation of Evraz Group's assets is successfully challenged, this may have a material adverse effect on the business, financial condition, results of operations or prospects 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".

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 or guaranteed 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 a recurrence of such market volatility will not adversely affect the price of the Notes.

Russian Insolvency Legislation

Unlike insolvency laws of the places of incorporation of the Issuer and non-Russian Guarantors, Russian insolvency legislation is in a state of constant development and is subject to varying, often conflicting, interpretations. Under 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 pledges; and (d) tax and other obligatory payments due to the Government.

In accordance with the Federal Law On Insolvency (Bankruptcy) dated 26 October 2002 (the "Insolvency Law") claims of creditors secured by pledges are satisfied from the proceeds from the sale of the pledged assets in priority to other creditors' claims, except for Priority claims which arose prior to the creation of the pledge. Any obligations of creditors secured by a pledge remaining unsatisfied following the sale of pledged assets would be ranked as claims of unsecured creditors. Generally, under the Insolvency Law, taxes and other payment obligations to the Government are satisfied *pari passu* with the claims of unsecured creditors. These provisions are, however, not consistent with the Civil Code. There is not enough precedent to make it possible 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, which may adversely affect the ability of the Noteholders to recover under the respective Guarantees.

Approval of the Guarantee

The Russian Joint Stock Company Law provides that certain transactions must be approved as an “interested party transaction”. See “Risks relating to the Evraz Group – Related Party Transactions”.

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” with the Issuer. In particular, the Russian courts, upon an application by a minority shareholder, 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 obligations of NTMK and ZapSib under their respective Guarantees. This concern, however, is not applicable to the guarantee provided by NKMK, since it is wholly owned by members of Evraz Group.

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.

Risks Associated with Amount of Guarantee provided by NTMK and ZapSib respectively

The Russian Joint Stock Company Law provides that a “major” transaction involving an acquisition or disposal of assets (directly or indirectly), the value of which ranges from 25 to 50 per cent. of the balance sheet value of a company’s assets as of the last reporting date, requires approval of the company’s board of directors. A major transaction involving assets in excess of 50 per cent. of the balance sheet value of a company’s assets as of the last reporting date requires approval of the company’s general shareholders’ meeting. The Joint Stock Company Law also gives the shareholders who voted against the approval of such transaction or did not participate in the voting a right to require the company to repurchase their shares at market price.

As both NTMK and ZapSib have minority shareholders who might vote against the approval of the Guarantees and require NTMK and/or ZapSib, as applicable, to repurchase their shares, which would in turn adversely affect the liquidity of these companies, the maximum amount of guarantees of each of NTMK and ZapSib is limited to an amount equal to the sum of U.S.\$ 150,000,000 and the outstanding principal amount of any further notes issued pursuant to Condition 16 and forming a single series with the Notes which does not exceed 50 per cent. of the balance sheet value of the assets of NTMK and ZapSib. The Guarantees were approved as major transactions by the boards of directors of NTMK and ZapSib, respectively.

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. However 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 Investors Service, “BB” (outlook stable) by Standard & Poor’s Ratings Services, a division of the McGraw-Hill Companies, Inc. and “BB+” (outlook stable) by Fitch Ratings, Inc. Evraz Group (represented by Mastercraft as the holding company of Evraz Group) has received a senior implied rating of B1 from Moody’s Investors Service Limited and a foreign currency senior unsecured rating of B from Fitch Ratings Ltd. The Notes are rated B3 by Moody’s Investors Service 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 10.875 per cent. Guaranteed Notes due 2009 (the **Notes**, which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 16 and forming a single series with the Notes) of EvrazSecurities S.A. (the **Issuer**) are constituted by a Trust Deed dated 3rd August, 2004 (the **Trust Deed**) made between the Issuer, Mastercrocft Limited (**Mastercrocft**), Ferrotrade Limited (**Ferrotrade Gibraltar** and, together with Mastercrocft, NTMK (as defined below), ZapSib (as defined below) and NKMK (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 will have the benefit of a Deed of Guarantee dated 3rd August, 2004 (the **NTMK Deed of Guarantee**) made between OJSC Nizhny Tagil Iron and Steel Plant (**NTMK**) and the Trustee, a Deed of Guarantee dated 3rd August, 2004 (the **ZapSib Deed of Guarantee**) made between OJSC Siberian Iron and Steel Plant (**ZapSib**) and the Trustee and a Deed of Guarantee dated 3rd August, 2004 (the **NKMK Deed of Guarantee**) made between OJSC Novokuznetsk Steel Plant (**NKMK**) and the Trustee.

Each of the Guarantors unconditionally and irrevocably guarantees, 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 except that the liability of NTMK and ZapSib under the NTMK Deed of Guarantee and the ZapSib Deed of Guarantee respectively is each subject to a limit equal to the sum of U.S.\$ 150,000,000 and the outstanding principal amount of any further notes issued pursuant to Condition 16 and forming a single series with the Notes.

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, the ZapSib Deed of Guarantee and the NKMK Deed of Guarantee. Copies of the Trust Deed, the NTMK Deed of Guarantee, the ZapSib Deed of Guarantee, the NKMK Deed of Guarantee, the Paying Agency Agreement dated 3rd August, 2004 (the **Agency Agreement**) made between the Issuer, Mastercrocft, Ferrotrade Gibraltar, the initial Paying Agents named therein and the Trustee, the NTMK Paying Agency Agreement dated 3rd August, 2004 (the **NTMK Agency Agreement**) made between the Issuer, NTMK, the initial Paying Agents named therein and the Trustee, the ZapSib Paying Agency Agreement dated 3rd August, 2004 (the **ZapSib Agency Agreement**) made between the Issuer, ZapSib, the initial Paying Agents named therein and the Trustee, and the NKMK Paying Agency Agreement dated 3rd August, 2004 (the **NKMK Agency Agreement**) made between the Issuer, NKMK, 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 Issue Date 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 NKMK Deed of Guarantee, the Agency Agreement, the NTMK Agency Agreement, the ZapSib Agency Agreement and the NKMK 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.\$ 100,000 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, 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, the ZapSib Deed of Guarantee and the NKMK Deed of Guarantee except that the liability of NTMK and ZapSib under the NTMK Deed of Guarantee and the ZapSib Deed of Guarantee respectively is each subject to a limit equal to the sum of U.S.\$ 150,000,000 and the outstanding principal amount of any further notes issued pursuant to Condition 16 and forming a single series with the Notes.

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* 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

For so long as any Note remains outstanding (as defined in the Trust Deed) the Issuer and/or each of the Guarantors, as the case may be, undertakes to comply with each of the following covenants.

4.1 Limitation on Liens

None of the Guarantors shall, and none of the Guarantors shall permit any of its Material Subsidiaries to, directly or indirectly, create, incur, assume or suffer to exist any Lien, other than a Permitted Lien, on any of its assets, now owned or hereafter acquired, or any income or profits therefrom, securing any Indebtedness unless, at the same time or prior thereto, the relevant Guarantor's liability under the Notes and the Trust Deed or, as the case may be, under the relevant Deed of Guarantee (a) are secured equally and rateably therewith to the satisfaction of the Trustee or (b) have the benefit of such other security or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed).

4.2 Financial Covenants

- (a) None of the Issuer or the Guarantors shall, and none of the Guarantors shall permit any of their respective Subsidiaries to, incur any Indebtedness, other than Indebtedness in circumstances where, (i) no Potential Event of Default nor Event of Default shall have occurred and be continuing at the time, or would occur as a consequence, of the incurrence of such Indebtedness (provided that for the purposes of Condition 4.2(a) no Potential Event of Default with respect to a potential Event of Default falling within Condition 10.1(c)(i) shall be deemed to have occurred unless and until the expiry of the period of 30 days referred to therein) and (ii) after giving effect on a *pro forma* basis to the incurrence of such Indebtedness, the incurrence or repayment of any other Indebtedness since the date of the then most recently published consolidated financial statements of the Group prepared in accordance with IFRS and the receipt and application of the proceeds therefrom, the ratio of Consolidated Indebtedness to 12-month Consolidated EBITDA is 3:1 or lower.
- (b) Mastercrocft shall, and each of the Guarantors shall cause Mastercrocft to maintain:
 - (i) the ratio of 12-month Consolidated EBITDA to 12-month Consolidated Interest Expense at 3.5:1 or higher;
 - (ii) the ratio of Consolidated Indebtedness to 12-month Consolidated EBITDA at 3:1 or lower; and
 - (iii) Net Worth of at least U.S.\$ 875,000,000 provided that the provisions of this paragraph (iii) will not apply unless and until the Trustee receives Mastercrocft's audited annual consolidated financial statements for the year ending 31 December 2004 pursuant to Condition 4.10(a)(i).
- (c) Each of NTMK and ZapSib shall maintain, and each of the Guarantors shall cause each of NTMK and ZapSib to maintain Net Worth of at least U.S.\$ 497,167,000 and U.S.\$ 309,618,000 respectively.

4.3 Transactions with Affiliates

None of the Issuer or the Guarantors will, and none of the Issuer or the Guarantors will cause or permit any of their respective Material Subsidiaries to, directly or indirectly, enter into or make or amend 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 or of any Guarantor 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, the relevant Guarantor or the relevant Material 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 an aggregate value in excess of U.S.\$ 10 million or its U.S. Dollar Equivalent either (i) such transaction or series of related transactions has been approved by a majority of the Disinterested Directors, 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 Independent Appraiser 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 such transaction or series of related transactions is on terms that are no less favourable to the Issuer, the relevant Guarantor or the relevant Material 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; and
- (c) with respect to any transaction or series of related transactions involving an aggregate value in excess of U.S.\$ 20 million or its U.S. Dollar Equivalent (i) such transaction or series of related

transactions has been approved by a majority of the Disinterested Directors, or in the event there is only one Disinterested Director, by such Disinterested Director and (ii) Mastercroft delivers to the Trustee a written opinion of an Independent Appraiser 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 such transaction or series of related transactions is on terms that are no less favourable to the Issuer, the relevant Guarantor or the relevant Material 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,

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

- (i) any employment agreement, collective bargaining agreement or employee benefit arrangements with any officer or director of the Issuer, any Guarantor or any Material Subsidiary, 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 Issuer, the Guarantors and/or the Material Subsidiaries;
- (iv) 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);
- (v) 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 the relevant Guarantor or Material Subsidiary as might reasonably be obtained at such time from an unrelated third party;
- (vi) sales of Capital Stock (other than Redeemable Capital Stock) of Mastercroft; or
- (vii) sales or other transfers or dispositions of accounts receivables and other related assets customarily transferred in a Qualified Securitisation Transaction, and acquisitions of Investments in connection with a Qualified Securitisation Transaction.

4.4 Asset Sales

None of the Guarantors will, and none of the Guarantors will permit any of its Material Subsidiaries to, consummate any Asset Sale, unless the proceeds received by the relevant Guarantor or such Material Subsidiary, as the case may be, are at least equal to the Fair Market Value of the assets sold or disposed of and an amount equal to such proceeds (less any costs incurred in relation to such Asset Sale) (the **Disposal Proceeds**) is:

- (a) applied to repay permanently any Consolidated Indebtedness (other than Indebtedness subordinated to the Notes and/or any of the Guarantees);
- (b) invested in assets of a nature or type that is used or usable in the ordinary course of business of any of the Guarantors or any of their respective Subsidiaries, being the Core or Related Business;
- (c) retained as cash deposited with a bank or invested in Cash Equivalents; and/or
- (d) applied to finance the acquisition, merger, reorganisation or other combination of a business of the Group with the business of a Person whose business is similar to the Core or Related Business,

in each case within 360 days of the date when such proceeds are received; provided that if the Disposal Proceeds are applied pursuant to paragraph (c), the relevant Guarantor or such Material Subsidiary, as the case may be, shall apply or invest the Disposal Proceeds on or prior to the date falling 540 days after the date when such proceeds are received either to (i) repay permanently any Consolidated Indebtedness (other than Indebtedness subordinated to the Notes and/or any of the Guarantees), (ii) invest in assets of a nature or type that is used or usable in the ordinary course of business of the Issuer, the relevant Guarantor or any of its Subsidiaries, being the Core or Related Business or (iii) applied to finance the acquisition, merger, reorganisation or other combination of a business of the Group with the business of a Person whose business is similar to the Core or Related Business.

4.5 Mergers and Similar Transactions

- (a) Subject to Condition 4.5(b), none of the Issuer or the Guarantors shall, and none of the Guarantors shall permit any of its Material Subsidiaries to, in each case without the prior written consent of the Trustee (which consent may only be given by the Trustee if it is of the opinion that to do so will not be materially prejudicial to the interests of the Noteholders):
 - (i) in the case of any of the Guarantors (A) enter into any reorganisation (by way of a merger, accession, division, separation, transformation or other basis or procedure for reorganisation contemplated or as may be contemplated from time to time by, as applicable, Cypriot, Russian or Gibraltar legislation), (B) sell, convey, transfer, lease or otherwise dispose of all or substantially all of its property and assets (for the avoidance of doubt, not including Capital Stock of any of the Guarantors) to any Person or (C) permit any Person to merge with or into the Issuer;
 - (ii) in the case of the Issuer (A) merge with or into or enter into a transaction whose effect would be similar to that of a merger, (B) sell, convey, transfer, lease or otherwise dispose of all or substantially all of its property and assets to any Person or (C) permit any Person to merge with or into the Issuer; and
 - (iii) in the case of any of the Material Subsidiaries (A) enter into any reorganisation (by way of a merger, accession, division, separation, transformation or other basis or procedure for reorganisation contemplated or as may be contemplated from time to time by the relevant applicable legislation), (B) sell, convey, transfer, lease or otherwise dispose of all or substantially all of its property and assets (for the avoidance of doubt, not including Capital Stock of any of the Guarantors) to any Person or (C) permit any Person to merge with or into the Issuer, except that this Condition 4.5(a)(iii) will not apply in relation to a Material Subsidiary unless and until the consolidated total fixed assets or the consolidated revenues, respectively, determined by reference to the most recent period for which financial statements are available, of the relevant Material Subsidiary equal or exceed 10 per cent. of Mastercraft's consolidated fixed assets or 10 per cent. of Mastercraft's consolidated revenues, respectively.
- (b) Condition 4.5(a) shall not apply to any transactions between any of the Guarantors and any of their respective Subsidiaries or Affiliates provided that:
 - (i) the relevant Guarantor shall be the continuing Person, or the Person (if other than the relevant Guarantor) into which the relevant Guarantor is merged or that acquired or leased such property and assets of the relevant Guarantor (the **Surviving Entity**) shall (1) be a company organised and validly existing under the laws of, as applicable, Cyprus, Russia, Gibraltar or a member of the European Union (as the European Union is constituted on the Issue Date), (2) expressly assume, by amendment to these Conditions, executed and delivered by such continuing Person to the Trustee, in form and substance satisfactory to the Trustee, the due and punctual payment of the principal of and interest under the Notes and Coupons, as the case may be, and the due and punctual performance and observance of all the covenants, conditions and other obligations of the relevant Guarantor in respect of the Trust Deed and the Notes and (3)

deliver to the Trustee an opinion of counsel with respect to such amendment to these Conditions in a form and substance reasonably acceptable to the Trustee;

- (ii) immediately before and after giving effect to such transaction or series of transactions on a *pro forma* basis (and treating any Indebtedness which becomes, or is anticipated to become, an obligation of the relevant Guarantor or the Surviving Entity or any Subsidiary thereof as a result of such transaction or series of transactions as having been incurred by the relevant Guarantor or the Surviving Entity or such Subsidiary at the time of such transaction or series of transactions), no Potential Event of Default or Event of Default shall have occurred and be continuing;
- (iii) the Issuer delivers to the Trustee an opinion of counsel or tax adviser in form and substance reasonably acceptable to the Trustee, to the effect that the Noteholders in each of the Relevant Jurisdictions will not recognise income, gain or loss for tax purposes as a result of the merger or sale of assets and such Noteholders would, after the merger or sale of assets, be subject to taxes on the same amount and in the same manner and at the same times as would have been the case if such merger or sale of assets had not occurred; and
- (iv) the Person (if other than the relevant Guarantor) into which the relevant Guarantor is merged or that acquired or leased such property and assets of the relevant Guarantor principally undertakes, in its ordinary course of business prior to the merger, acquisition or lease, as the case may be, a Core or Related Business.

4.6 Maintenance of Authorisations

- (a) The Issuer and each of the Guarantors shall, and each of the Guarantors shall procure that each of their respective Material Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things necessary, in the opinion of the Issuer, the relevant Guarantor or the relevant Material Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business; and
- (b) the Issuer and each of the Guarantors shall obtain or make, and procure the continuance or maintenance of, all registrations, recordings, filings, consents, licences, approvals and authorisations, which may at any time be required to be obtained or made in Cyprus, Russia, Gibraltar, the Grand Duchy of Luxembourg or any other relevant jurisdiction for the purposes of the execution, delivery or performance of the Notes and the Trust Deed and for the validity and enforceability thereof,

provided that, in any case if the Issuer, the relevant Guarantor or as the case may be, the relevant Subsidiary remedies any failure to comply with (a) and (b) above within 90 days of such failure or of the occurrence of such event, then this covenant shall be deemed not to have been breached.

4.7 Maintenance of Property

The Issuer and each of the Guarantors shall, and each of the Guarantors shall cause each of their respective Material Subsidiaries to, cause all property used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements and improvements thereof, all as, in the judgment of the Issuer, the relevant Guarantor or the relevant Material Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times; provided that if the Issuer, the relevant Guarantor or the relevant Material Subsidiary remedies any failure to comply with the above within 90 days or any failure relates to property with a value not exceeding U.S.\$ 10,000,000 (or its U.S. Dollar Equivalent), this covenant shall be deemed not to have been breached.

4.8 Payment of Taxes and Other Claims

The Issuer and each of the Guarantors shall, and each of the Guarantors shall cause each of their respective Material Subsidiaries to, pay or discharge, or cause to be paid and discharged, before the

same shall become overdue and without incurring penalties, (a) all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of any of the Guarantors or their respective Material Subsidiaries and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become a Lien (other than a Permitted Lien) upon the property of any of the Guarantors or their respective Material Subsidiaries; provided that none of the Issuer, the Guarantors or the Material Subsidiaries shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (i) whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with IFRS as consistently applied or other appropriate provision has been made or (ii) whose amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims, does not in the aggregate exceed U.S.\$ 10,000,000 (or its U.S. Dollar Equivalent).

4.9 Insurance

Each of the Guarantors shall (other than ZapSib and NKMK which shall do so within 6 months and 12 months, respectively, of the Issue Date) obtain and maintain insurance with an insurer or insurers of sufficient standing (in the reasonable judgment of the relevant Guarantor) against such losses and risks and in such amounts as are prudent and customary in the businesses in which it is engaged in the jurisdiction(s) where it operates; provided that if the relevant Guarantor remedies any failure to comply with the above within 90 days or if such potential losses or risks (which may be assessed by reference to the actual risks and losses borne by the relevant Guarantor over the preceding 3 years) do not exceed U.S.\$ 10,000,000 (or its U.S. Dollar Equivalent), this covenant shall be deemed not to have been breached.

4.10 Financial Information

(a) Mastercrocft undertakes that it shall deliver to the Trustee:

- (i) its audited annual consolidated financial statements, prepared in accordance with IFRS consistently applied with the corresponding financial statements for the preceding period, within 180 days of the end of the financial year to which such statements relate;
- (ii) its reviewed semi-annual consolidated financial statements, prepared in accordance with IFRS consistently applied with the corresponding financial statements for the preceding period, within 150 days of the end of the period to which such statements relate; and
- (iii) its other interim consolidated financial statements (if Mastercrocft elects in its sole discretion to prepare any such other interim consolidated financial statements), prepared in accordance with IFRS consistently applied with the corresponding financial statements for the preceding period, within 150 days of the end of the period to which such statements relate,

in each case together with a certificate signed by the individual then responsible for the financial matters of the Group (being, as at the Issue Date, A.V. Frolov) stating that since the date of the last certificate or, if none, the Issue Date each of the Guarantors and the Issuer, to the best of the signing individual's knowledge, has kept, observed, performed and fulfilled its obligations under, and complied with, these Conditions and the Trust Deed and is not in default in the performance or observance of any of these Conditions or the Trust Deed (or, if an Event of Default or Potential Event of Default shall have occurred, describing all such Events of Default or Potential Events of Default of which he may have knowledge);

(b) So long as the Notes are listed on the Luxembourg Stock Exchange and/or any other stock exchange, each of the Guarantors undertakes that it shall deliver to the Trustee any financial statements that it is required to produce under the applicable rules of the Luxembourg Stock Exchange and/or such other exchange including:

- (i) its audited annual financial statements, prepared in accordance with IFRS consistently applied with the corresponding financial statements for the preceding period, within 180 days of the end of the financial year to which such statements relate;

- (ii) its reviewed semi-annual financial statements, prepared in accordance with IFRS consistently applied with the corresponding financial statements for the preceding period, within 150 days of the end of the period to which such statements relate; and
- (iii) its other interim financial statements (if it otherwise prepares any such other interim financial statements), prepared in accordance with IFRS consistently applied with the corresponding financial statements for the preceding period, within 150 days of the end of the period to which such statements relate.

4.11 Change of Business

None of the Guarantors shall, and none of the Guarantors shall permit any of their respective Material Subsidiaries to make any material change to the Core or Related Business of the Group.

4.12 Guarantees

Mastercrocft will cause each Material Subsidiary to execute and deliver to the Trustee a Guarantee in the form set out in the Trust Deed pursuant to which such Material Subsidiary will unconditionally and irrevocably guarantee on a joint and several basis with the Guarantors, 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 and will become vested with all the duties and obligations of a Guarantor as if originally named as a Guarantor, as soon as practicable (but in any event no later than 45 days) after the consolidated total fixed assets or the consolidated revenues of such Material Subsidiary, respectively, determined by reference to the most recent period for which financial statements are available, of such Material Subsidiary equals or exceeds 10 per cent. of Mastercrocft's consolidated fixed assets or 10 per cent. of Mastercrocft's consolidated revenues, respectively, provided that (a) the liability under such a Guarantee of any such Material Subsidiary (other than NTMK, ZapSib or NKMK) registered as an open joint stock company under Russian law which is not directly or indirectly wholly owned by Mastercrocft shall be subject to a limit of an amount equal to 49 per cent. of the total assets of such Material Subsidiary as determined by reference to the most recent period for which financial statements prepared in accordance with IFRS are available or, if the relevant Material Subsidiary does not prepare financial statements in accordance with IFRS, the most recent period for which audited or reviewed financial statements are available and (b) the provisions of this paragraph will not apply to Ferrotrade & Co. unless and until the Trustee receives Mastercrocft's reviewed semi-annual consolidated financial statements for the six months ended 30th June, 2004 pursuant to Condition 4.10(a)(ii).

A Guarantor (other than Ferrotrade Gibraltar, NTMK or ZapSib) will be automatically and unconditionally released and discharged from its Guarantee upon any sale, exchange or transfer to any Person which is not an Affiliate of Mastercrocft of all of the Capital Stock of the Guarantor held by Mastercrocft and other Subsidiaries of Mastercrocft (which sale, exchange or transfer is not prohibited by these Conditions).

The Issuer will give notice to the Noteholders in accordance with Condition 13 of any Guarantor becoming or ceasing to be a Guarantor and, so long as the Notes are listed on the Luxembourg Stock Exchange and/or any other stock exchange on which the Notes may be listed or quoted from time to time, shall comply with applicable rules of the Luxembourg Stock Exchange and/or such other exchange (including preparation of a supplemental offering circular) in relation to any Guarantor becoming or ceasing to be a Guarantor.

5. INTEREST

5.1 Interest Rate and Interest Payment Dates

The Notes bear interest from and including 3rd August, 2004 at the rate of 10.875 per cent. per annum, payable semi-annually in arrear in equal instalments on 3rd August and 3rd February (each an **Interest Payment Date**). The first payment shall be made on 3rd February, 2005.

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 U.S. Dollars maintained by the payee with or, at the option of the payee, by a cheque in U.S. 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 9), 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 U.S. 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:

- (a) there will at all times be a Principal Paying Agent;
- (b) there will at all times be at least one Paying Agent (which may be the Principal Paying Agent) having its specified office in a European city which so long as the Notes are listed on the Luxembourg Stock Exchange shall be Luxembourg; and
- (c) the Issuer undertakes that it will ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive 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.

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 3rd August, 2009.

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 30th July, 2004, 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 of the 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 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 7.5.

7.3 Purchases

The Issuer, each Guarantor or any of the Guarantors' Subsidiaries 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. If purchases are made by tender, tenders must be available to all Noteholders alike.

7.4 Cancellations

All Notes which are (a) redeemed or (b) purchased by or on behalf of the Issuer, any of the Guarantors 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.

7.5 Notices Final

Upon the expiry of any notice as is referred to in paragraph 7.2 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 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 European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November, 2000 on the taxation of savings income 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 have been 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 (as defined in Condition 6).

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 Russia or Luxembourg or any political subdivision or any authority thereof or therein having power to tax (in the case of payments by NTMK, ZapSib or NKMK) or Gibraltar or Luxembourg or any political subdivision or any authority thereof or therein having power to tax (in the case of payments by 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 and 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 NKMK 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 NKMK 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

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 they 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, the ZapSib Deed of Guarantee or the NKMK Deed of Guarantee, in any of the following events (**Events of Default**):

- (a) if default is made in the payment of any interest due in respect of the Notes or any of them and the default shall continue for a period of 5 Business Days;
- (b) if default is made in the payment of any principal due in respect of the Notes or any of them;
- (c)
 - (i) if default is made in the performance, or if there is a breach, of any covenant or agreement of the Issuer or any Guarantor under the Trust Deed, the NTMK Deed of Guarantee, the ZapSib Deed of Guarantee, the NKMK 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 paragraphs (a), (b) or (c)(ii)) and such default or breach shall continue for a period of 30 days after written notice has been given, by certified mail, (A) to Mastercroc by the Trustee or (B) to Mastercroc and the Trustee by holders of at least one-fifth in aggregate principal amount of the outstanding Notes; or
 - (ii) if default is made in the performance or breach of the provisions described in Condition 4.5;
- (d) if any default in the payment of the principal, premium, if any, or interest on any Indebtedness (as extended by any applicable grace period) shall have occurred under any of the agreements, deeds, indentures or instruments under which the Issuer, any Guarantor or any Material Subsidiary then has outstanding Indebtedness in excess of U.S.\$ 7.5 million (or its U.S. Dollar Equivalent) in the aggregate;
- (e) if 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, the NKMK Deed of Guarantee and any such Guarantee;
- (f) if 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 U.S. Dollar Equivalent), either individually or in aggregate, shall be rendered against the Issuer, any Guarantor or any Material Subsidiary or any of their respective properties and shall not be discharged and (if applicable) 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) if any holder or holders of at least U.S.\$ 7.5 million (or its U.S. Dollar Equivalent) in aggregate principal amount of Indebtedness of the Issuer, any Guarantor or any Material Subsidiary after a default under such Indebtedness notifies the Trustee of the intended sale or disposition of any

assets of the Issuer, any Guarantor or any Material Subsidiary 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 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 Material Subsidiary (including funds on deposit or held pursuant to lock-box or other similar arrangements);

- (h) if any failure to obtain a preliminary consent from or provide notification to the Russian Antimonopoly Agency where so required;
- (i) if (i) proceedings are initiated against the Issuer, any Guarantor or any Material Subsidiary 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 Material Subsidiary 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; or
- (j) if any event occurs which, under the laws of any Relevant Jurisdiction, has or may have in the Trustee's opinion, an analogous effect to any of the events referred to in paragraphs (e) to (i) above,

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

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 NKMK Deed of Guarantee, the Notes and the Coupons, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed, the NTMK Deed of Guarantee, the ZapSib Deed of Guarantee, the NKMK 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

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 or the NKMK Deed of Guarantee. 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 Conditions and certain of the provisions of the Trust Deed, the NTMK Deed of Guarantee, the ZapSib Deed of Guarantee or the NKMK Deed of Guarantee, 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 or the NKMK Deed of Guarantee 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, it 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 (to the satisfaction of the Trustee) 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, the ZapSib Deed of Guarantee or the NKMK 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.

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

15.1 Indemnification of the Trustee

The Trust Deed, the NTMK Deed of Guarantee, the ZapSib Deed of Guarantee and the NKMK 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 and/or secured to its satisfaction.

15.2 Trustee Contracting with the Issuer and any Guarantor

The Trust Deed, the NTMK Deed of Guarantee, the ZapSib Deed of Guarantee and the NKMK 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. 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) 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, the ZapSib Deed of Guarantee and the NKMK Deed of Guarantee.

17. GOVERNING LAW AND SUBMISSION TO JURISDICTION

17.1 Governing Law

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

17.2 Jurisdiction of English Courts

Each of the Issuer and the Guarantors has irrevocably agreed in the Trust Deed, the NTMK Deed of Guarantee, the ZapSib Deed of Guarantee and/or the NKMK 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 NKMK 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, the ZapSib Deed of Guarantee and/or the NKMK 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, the ZapSib Deed of Guarantee, the NKMK 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.

17.3 Appointment of Process Agent

Each of the Issuer and the Guarantors has, in the Trust Deed, the NTMK Deed of Guarantee, the ZapSib Deed of Guarantee and/or the NKMK 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.

17.4 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 NKMK 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 UNCITRAL Arbitration Rules (the **Rules**) as at present in force by a panel of three arbitrators (or 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.

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.

19. DEFINITIONS

In these Conditions the following terms have the meaning given to them in this Condition 19.

12-Month Consolidated EBITDA means the aggregate Consolidated EBITDA for the two latest Measurement Periods preceding any date of determination for which consolidated financial statements of the Group are available.

12-Month Consolidated Interest Expense means the aggregate Consolidated Interest Expense for the two latest Measurement Periods preceding any date of determination for which consolidated financial statements of the Group are available.

2006 Notes means the 8.875 per cent. Guaranteed Notes due 2006 of the Issuer.

Affiliate of any specified Person means any other Person, directly or indirectly controlling, controlled by, or under direct or indirect common control with, such specified Person. For purposes of this definition, “control” (including, with correlative meanings, the terms “controlling”, “controlled by” and “under common control with”), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise; provided that beneficial ownership of 20 per cent. or more of the Capital Stock with voting power of a Person shall be deemed to be control.

Agency means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not).

Approved Jurisdiction means the United States of America, Russia and any member nation of the European Union as constituted on the Issue Date.

Asset Sale means any lease, sale, sale and lease-back, transfer or other disposition either in one transaction or in a series of related transactions, by the Issuer, any of the Guarantors or any of their respective Subsidiaries to a Person that is not part of the Group, of any Production Assets the value of which exceeds 10 per cent. of the total Production Assets of the Group in any 12-month period (determined in each case by reference to the most recent publicly available audited annual financial statements or reviewed interim financial statements of Mastercrocft prepared in accordance with IFRS; provided that “Asset Sale” shall not include sales or other dispositions of inventory or stock in trade in the ordinary course of business or assignments of or other arrangements over the rights or revenues arising from contracts for the sale of steel products at Fair Market Value.

Board of Directors means, as to any Person, the board of directors of such Person or any duly authorised committee thereof.

Business Day means a day which is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in both London and New York City.

Capital Stock means, with respect to any Person, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents (however designated, whether voting or non-voting) of such Person's equity, including any preferred stock of such Person, whether now outstanding or issued after the Issue Date, including without limitation, all series and classes of such Capital Stock but excluding any debt securities convertible into such Capital Stock.

Cash Equivalents means:

- (a) any evidence of Indebtedness with a maturity of one year or less issued or directly and fully guaranteed or insured by an Approved Jurisdiction or any Agency or instrumentality thereof; provided that the full faith and credit of an Approved Jurisdiction (or similar concept under the laws of the relevant Approved Jurisdiction) is pledged in support thereof;
- (b) commercial paper with a maturity of one year or less issued by a corporation organised under the laws of an Approved Jurisdiction and rated at all times at least the same rating as that of the unsecured, unsubordinated debt obligations of Mastercrocft by Standard & Poor's Ratings Services, a division of McGraw-Hill Companies, Inc., Moody's Investors Service Limited or Fitch Ratings Ltd. to the extent that the aggregate amount of Cash Equivalents (as defined in this paragraph (b)) invested by application of Disposal Proceeds do not exceed at any time U.S.\$ 10,000,000 or its U.S. Dollar Equivalent; and/or

- (c) commercial paper with a maturity of one year or less, issued by a corporation organised under the laws of an Approved Jurisdiction, and at all times listed or traded on the Moscow Inter-Currency Exchange to the extent that the aggregate amount of Cash Equivalents (as defined in this paragraph (c)) invested by application of Disposal Proceeds does not exceed at any time U.S.\$ 10,000,000 or its U.S. Dollar Equivalent.

Consolidated Depreciation and Amortisation means the consolidated depreciation and amortisation of fixed assets and intangibles of the Group as shown in the latest available consolidated profit and loss account of the Group prepared in accordance with IFRS.

Consolidated EBITDA means the Consolidated Net Income (Loss) for any period, as adjusted by adding back, to the extent deducted in calculating Consolidated Net Income (Loss), without duplication, for such period:

- (a) Consolidated Interest Expense;
- (b) Consolidated Income Tax Expense; and
- (c) Consolidated Depreciation and Amortisation,

less any non-cash items increasing (decreasing) Consolidated Net Income (Loss) for that period.

Consolidated Income Tax Expense means in respect of any period the expenses of the Group in respect of income taxes as shown in the consolidated profit and loss account of the Group for such period prepared in accordance with IFRS.

Consolidated Indebtedness means at any date of determination (and without duplication) all Indebtedness of the Group as calculated in accordance with the then most recently published consolidated financial statements of the Group prepared in accordance with IFRS.

Consolidated Interest Expense means, in relation to any period, the total of the following as calculated in accordance with the consolidated financial statements of the Group for such period prepared in accordance with IFRS:

- (a) cash and non-cash interest expense (net of interest income) for the relevant period (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 hedging agreements (including amortisation of fees and discounts);
 - (iii) the interest portion of any deferred payment obligations;
 - (iv) all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing;
 - (v) accrued interest; and
 - (vi) interest due and payable under any guarantee, indemnity or equivalent arrangement; and
- (b) the interest component of any capital lease obligation accrued during the relevant period; and
- (c) all capitalised interest of each of the Guarantors and their respective Subsidiaries in each case determined on a consolidated basis in accordance with IFRS,

provided that, in connection with any prepayments of principal amounts of Indebtedness under the NTMK Settlement Agreement or the ZapSib Settlement Agreement, the difference between the principal amount so prepaid and the book value of such Indebtedness as shown in the then most recently published consolidated financial statements of the Group prepared in accordance with IFRS

(including any scheduled interest payable thereon within twelve months of such prepayment) shall be excluded from the calculation of Consolidated Interest Expense.

Consolidated Net Income (Loss) means in respect of any period the consolidated net income (loss) of the Group for such period as shown in the then most recent consolidated profit and loss account of the Group prepared in accordance with IFRS adjusted, to the extent included in calculating such net income (loss), by excluding, without duplication:

- (a) 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;
- (b) any net foreign exchange gain or loss;
- (c) any gain or loss on net monetary position;
- (d) any share of the profit or loss of any associated company, associated undertaking or unconsolidated joint venture;
- (e) the cumulative effect of changes in accounting principles; and
- (f) any extraordinary items (net of taxes) including, without limitation, any loss or gain on impairment of fixed assets charged to the profit and loss account.

Core or Related Business means the business of (a) producing steel and ferrous metal products, (b) investing in property, plant or equipment for the production of steel and ferrous metal products, (c) mining and processing of raw materials and manufacturing equipment for the production of steel and ferrous metal products, (d) conducting business connected with the consumption of steel and ferrous metal products, (e) industrial construction for the production of steel and ferrous metal products, (f) automobile, railway and ship transportation of steel and ferrous metal products in connection with the Group's production of steel and ferrous metal products, including, without limitation, transportation via the Nakhodka Commercial Sea Port or (g) evaluating, participating in or pursuing any other activity or opportunity that is related to those identified in paragraphs (a) to (f) above.

Disinterested Director means, with respect to any transaction or series of related transactions, a member of the Board of Directors of Mastercroc who does not have any material direct or indirect financial interest in or with respect to such transaction or series of related transactions. A Person shall not be ineligible to constitute a Disinterested Director solely as a result of such Person owning any equity interests of Mastercroc or any of its Subsidiaries or acting as an officer, director or employee of Mastercroc or any of its Subsidiaries.

Fair Market Value means the price that would be paid in an arm's-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the competent management body of the relevant Guarantor or the relevant competent management body of the Material Subsidiary (including a majority of the Disinterested Directors, if applicable) whose determination shall be conclusive if evidenced by a resolution of such relevant competent management body, or, with respect to any transaction or series of related transactions involving an aggregate value in excess of U.S.\$ 10,000,000 (or its U.S. Dollar Equivalent), the price as determined by an Independent Appraiser.

Group means the Issuer, each of the Guarantors and their respective Subsidiaries.

Indebtedness means, with respect to any Person at any date of determination (without duplication):

- (a) all indebtedness of such Person for borrowed money;
- (b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

- (c) all obligations of such Person in respect of letters of credit or other similar instruments (including reimbursement obligations with respect thereto);
- (d) all obligations of such Person to pay the deferred and unpaid purchase price of property, assets or services, which purchase price is due more than 90 days after the earlier of the date of placing such property in service or taking delivery and title thereof or the completion of such services;
- (e) all capitalised lease obligations of such Person;
- (f) all Indebtedness of other Persons secured by a Lien granted by such Person on any asset (the value of which, for these purposes, shall be determined by reference to the balance sheet value of such asset in respect of the latest half year period of the Person providing the Lien) of such Person, whether or not such Indebtedness is assumed by such Person;
- (g) all Indebtedness of other Persons guaranteed or indemnified by such Person to the extent such Indebtedness is guaranteed or indemnified by such Person;
- (h) to the extent not otherwise included in this definition, net obligations under any currency or interest rate hedging agreements; and
- (i) any amount raised under any other transaction (including, but without limitation to, any forward sale or purchase agreement) having the economic or commercial effect of a borrowing.

For the avoidance of doubt Indebtedness of any Person does not include (i) trade account payables arising solely in the ordinary course of business of such Person and maturing in less than 120 days (other than promissory notes and similar obligations incurred for the purpose of a borrowing) and (ii) for the purposes of Condition 4.2 only, restructured tax payable reported in the most recent balance sheet prepared in accordance with IFRS of such Person.

For the purpose of determining compliance with any U.S. Dollar-denominated restriction on Indebtedness, the U.S. Dollar Equivalent of Indebtedness denominated in another currency shall be calculated.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations as described above, the maximum liability upon the occurrence of the contingency giving rise to the obligation except that for the purposes of determining the Indebtedness of NTMK and ZapSib in relation to their respective liabilities under the NTMK Settlement Agreement and the ZapSib Settlement Agreement the amounts for such liabilities reported in the most recent balance sheet prepared in accordance with IFRS of NTMK or ZapSib (as applicable) shall be used.

Independent Appraiser means any of PricewaterhouseCoopers LLC, KPMG LLC, Deloitte & Touche LLP or such investment banking, accountancy or appraisal firm of international standing selected by the relevant Guarantor or the relevant competent management body of the relevant Material Subsidiary (with the prior written consent of the Trustee, which consent shall not be unreasonably withheld), *provided* it is not an Affiliate of the Issuer, any Guarantor or any Material Subsidiary.

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 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, the ZapSib Deed of Guarantee and the NKMK Deed of Guarantee; and
- (b) endorsements of negotiable instruments in the ordinary course of business,

shall in each case be deemed not to be an Investment.

Issue Date means 3rd August, 2004.

IFRS means the International Financial Reporting Standards.

Lien means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof, any sale with recourse against the seller or any Affiliate of the seller, or any agreement to give any security interest) securing any obligation of any Person.

Material Subsidiary means at any relevant time a Subsidiary of any of the Guarantors:

- (a) whose total consolidated assets represent not less than 5 per cent. of the total consolidated assets of the relevant Guarantor or whose gross consolidated revenues represent not less than 5 per cent. of the gross consolidated revenues of the relevant Guarantor (determined by reference to the most recent publicly available annual or interim financial statements of the relevant Guarantor prepared in accordance with IFRS and the latest financial statements of the Subsidiary); or
- (b) to which is transferred all or substantially all the assets and undertakings of a Subsidiary which immediately prior to such transfer is a Material Subsidiary,

save that the Issuer shall at all times be deemed to be a Material Subsidiary.

Measurement Period means each financial half-year ending on 30th June or 31st December. For the avoidance of doubt, any non-balance sheet financial information for a Measurement Period ending on 31st December of any year shall be calculated by subtracting (a) the relevant information for the Measurement Period ending on 30th June of that year from (b) the equivalent information for that year.

Net Worth means at any date of determination (a) with respect to Mastercraft, its shareholders' equity as calculated in accordance with its then most recent consolidated financial statements prepared in accordance with IFRS and (b) with respect to each of NTMK or ZapSib, its shareholders' equity as calculated in accordance with its then most recent non-consolidated financial statements or, if prepared, consolidated financial statements each prepared in accordance with IFRS.

NTMK Settlement Agreement means the agreement between NTMK and certain creditors dated 26th November, 1999 approved by the Russian arbitrazh court on 9th December, 1999.

Permitted Liens means:

- (a) Liens granted by a Subsidiary in favour of the Issuer or any of the Guarantors or a Subsidiary of any of the Guarantors or by any of the Guarantors in favour of a Subsidiary of any of the Guarantors or the Issuer with respect to the property or assets, or any income or profits therefrom, of the Issuer or any of the Guarantors or such Subsidiary, as the case may be;
- (b) any Lien existing on the Issue Date;
- (c) Liens imposed by law, including but without limitation, Liens of landlords and carriers, warehousemen, mechanics, suppliers, material men, repairmen or other similar Liens arising in the ordinary course of business;
- (d) any Lien on any property, income or assets of any Person existing at the time such Person is acquired, merged or consolidated with or into the Issuer, any of the Guarantors or any of their

respective Subsidiaries and not created in contemplation of such event; provided that no such Lien shall extend to any other property, income or assets of such Person or to any other property or assets of the Subsidiaries of such Person or the Issuer, any of the Guarantors or any of their respective Subsidiaries;

- (e) any Lien existing on any property, income or assets prior to the acquisition thereof by the Issuer, any of the Guarantors or any of their respective Subsidiaries and not created in contemplation of such acquisition; provided that no such Lien shall extend to any other property, income or assets of the Issuer, any of the Guarantors or any of their respective Subsidiaries;
- (f) any extension, renewal or replacement of any Lien described in paragraphs (a) to (e) above, provided that (i) such extension, renewal or replacement shall be no more restrictive to the relevant Person in any material respect than the original Lien, (ii) the amount of Indebtedness secured by such Lien is not increased and (iii) if the property or assets securing the Indebtedness subject to such Lien are changed in connection with such refinancing, extension or replacement, the Fair Market Value of such property, income or assets is not increased;
- (g) any Lien on the property, income or assets of any of the Guarantors or any of their respective Subsidiaries securing Indebtedness of any of the Guarantors or any of their respective Subsidiaries incurred in an aggregate principal amount outstanding at any one time not to exceed 20 per cent. of the total assets of the Group (determined by reference to the then most recent publicly available annual or interim financial statements of the relevant Guarantor prepared in accordance with IFRS). For the avoidance of doubt this paragraph (g) does not include any Lien created in accordance with paragraphs (a) to (f) or (h) to (n) hereof;
- (h) any Lien on the property, income or assets of any of the Guarantors or any of their respective Subsidiaries securing working capital facilities which make advances of a tenor of 180 days or less with an aggregate principal amount outstanding at any time not to exceed U.S.\$ 200 million;
- (i) any Lien on any property or assets of any of the Guarantors or any Subsidiary of any of the Guarantors securing Indebtedness incurred for the purpose of financing all or part of the acquisition, maintenance, repair or construction of such property or assets provided that (i) such Lien is created solely for the purpose of securing Indebtedness incurred by the relevant Guarantor or a Subsidiary of the relevant Guarantor in compliance with Condition 4.2, (ii) no such Lien shall extend to any other property or assets of the relevant Guarantor or any of its Subsidiaries, (iii) the aggregate principal amount of all Indebtedness secured by Liens under this paragraph (i) on such property or assets does not exceed the purchase price of such property or assets (including customs duties, transport, insurance, construction and installation costs and other incidental costs and expenses of purchase and any VAT or similar taxes thereon) and (iv) such Lien attaches to such property or assets concurrently with the maintenance or repair thereof or within 90 days after the acquisition or commencement of construction thereof, as the case may be;
- (j) any Lien granted in favour of a Person providing Project Financing if the Lien is solely on the property, income, assets or revenues of the project for which the financing was incurred provided that (i) the person or persons providing such financing limits its recourse solely to the property, income, assets or revenues subject to such Lien, (ii) such Lien is created solely for the purpose of securing Indebtedness incurred by any of the Guarantors or a Subsidiary of any of the Guarantors in compliance with Condition 4.2, and (iii) no such Lien shall extend to any other property, income, assets or revenues of any of the Guarantors or any of their respective Subsidiaries;
- (k) any Lien upon any steel, ferrous metal, iron ore or coal export contract with or through Ferrotrade Gibraltar or any other Guarantor (including contract for sale, transportation or exchange, utilisation and pooling declaration and agreements), and any related inventory and

products, and proceeds thereof, which contract is entered into from time to time between any of the Guarantors or any of their respective Subsidiaries and a purchaser in the ordinary course of the relevant Guarantor's or such Subsidiary's business and in a form that is customary in the steel, iron ore mining or coal mining industry, as applicable;

- (l) any Lien in respect of obligations arising under hedging agreements so long as the related indebtedness is permitted to be incurred under these Conditions and any such hedging agreement is not speculative;
- (m) a right of set-off, right to combine accounts or any analogous right which any bank or other financial institution may have relating to any credit balance of any member of the Group; and
- (n) any Lien for ad valorem, income or property taxes or assessments, customs charges and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which the relevant Guarantor or Subsidiary of a Guarantor has set aside in its accounts reserves to the extent required by IFRS.

Person means any individual, corporation, partnership, joint venture, trust, unincorporated organisation or government or any Agency or political subdivision thereof.

Potential Event of Default means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, would constitute an Event of Default.

Production Assets means property, plant and equipment of the Group determined in accordance with IFRS.

Project Financing means any financing of all or part of the costs of the acquisition, construction, development or operation of any asset or project if the person or persons providing such financing limits its recourse solely to the asset or project financed and the revenues derived from such asset or project.

Qualified Securitisation Transaction means any asset securitisation transaction or series of asset securitisation transactions that may be entered into by any Guarantor or any Material Subsidiary pursuant to which such person may sell or otherwise transfer or dispose its accounts receivables and other related assets to (a) a Securitisation Entity (in the case of a transfer by any Guarantor or any Material Subsidiary) or (b) any other Person (in the case of a transfer by a Securitisation Entity).

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 3rd August, 2009 or is redeemable at the option of the holder thereof at any time prior to 3rd August, 2009, or is convertible into or exchangeable for debt securities at any time prior to 3rd August, 2009 at the option of the holder thereof.

Russia shall mean the Russian Federation and any province or political subdivision or Agency thereof or therein, and "Russian" shall be construed accordingly.

Securitisation Entity means a wholly owned Material Subsidiary, or a wholly owned Subsidiary of another Person in which any Guarantor or any Affiliate of any Guarantor makes an Investment, and in each case to which any Guarantor or any Affiliate of any Guarantor transfers accounts receivables and related assets, that engages in no activities other than in connection with the financing of accounts receivables which is designated by the Board of Directors of the relevant 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 any Guarantor or any Material Subsidiary;

- (ii) gives recourse to or obliges any Guarantor or any Material Subsidiary (other than such Securitisation Entity) in any way; or
- (iii) subjects any property or asset of any Guarantor or any Material Subsidiary (other than such Securitisation Entity), directly or indirectly, contingently or otherwise, to the satisfaction thereof;

in each case other than pursuant to representations, warranties, covenants and indemnities by any Guarantor or any Material Subsidiary that are reasonably customary in an accounts receivables securitisation transaction;

- (b) with which none of the Guarantors or any Material Subsidiary (other than such Securitisation Entity) has any material contract, agreement, arrangement or understanding other than on terms no less favourable to the relevant Guarantor or the relevant Material Subsidiary than those that might be obtained at the time from Persons that are not Affiliates of Mastercroft, 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 the Guarantors or the Material Subsidiaries (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 Material Subsidiary or an Affiliate as a Securitisation Entity shall be evidenced to the Trustee by filing with the Trustee a certified copy of the resolution of the relevant 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.

Subsidiary of any Person means (a) any corporation more than 50 per cent. of the outstanding voting power of the Capital 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 Affiliate 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. For the avoidance of doubt, any reference in these Conditions to a Subsidiary of any of the Guarantors shall include, without limitation, the Issuer.

U.S. Dollar Equivalent means with respect to any amount denominated in a currency other than U.S. Dollars, at any time for the determination thereof, the amount of U.S. Dollars obtained by converting such other currency involved into U.S. Dollars at the spot rate for the purchase of U.S. Dollars with such other currency as most recently published under "Currency Rates" in the section of the *Financial Times* entitled "Currencies, Bonds & Interest Rates".

ZapSib Settlement Agreement means the agreement between ZapSib and certain creditors dated 14th November, 2001 approved by the Russian arbitrazh court on 29th November, 2001.

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 13 September 2004, 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.\$ 147,500,000, will be on-lent by the Issuer to Mastercraft, which may further on-lend the net proceeds to other companies of Evraz Group. Evraz Group companies intend to use the loan to fund acquisitions of iron ore and coal mining related assets (see “Business-Strategy” section for further description of contemplated acquisitions of Evraz Group) and to repay U.S.\$ 125 million of the U.S.\$ 150 million outstanding under the U.S.\$ 150 million loan facility provided by ING Bank N.V., Credit Suisse First Boston International and Commerzbank for the acquisition of such assets (see “Business-Recent Developments”) 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* was made on 29 September 2003. The Issuer has no subsidiaries.

The Issuer is a special purpose entity of Mastercraft. In 2003, the Issuer issued the 2006 Notes. Mastercraft and certain of its subsidiaries guaranteed the Issuer’s liabilities under the 2006 Notes. Mastercraft also has an option to buy 100 per cent. of shares of the Issuer, which may be exercised only on or after the maturity date of the 2006 Notes. The Issuer is consolidated by Mastercraft under the provisions of Interpretation SIC-12, Consolidation – Special Purpose Entities of IFRS. In substance, the activities of the Issuer are being conducted on behalf of Mastercraft so that Mastercraft benefits from the Issuer’s operations, and Mastercraft may be exposed to risks incident to the activities of the Issuer.

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 Mastercraft 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 a general assembly of shareholders. 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 Prince Henri, L-1724 Luxembourg, holding one (1) share.

According to a call option agreement dated 25 September 2003 between Financial Trustees Limited and Corporate Services S.A and Mastercroft, an option to purchase shares of the Issuer has been granted by Financial Trustees Limited and TMF Corporate Services S.A as shareholders to Mastercroft. Such call option may only be exercised on or after the maturity date of the 2006 Notes.

Debt Obligations and Other Commitments

As of the date of this Offering Circular, the Issuer has not issued convertible debt securities, exchangeable debt securities nor debt securities with warrants attached.

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 Prince 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 Prince 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 audited annual 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 were 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 31 March 2004 and is derived from the management estimate of the interim balance sheet of the Issuer prepared in accordance with IFRS, adjusted to give effect to the issue of the Notes. Actual capitalisation and indebtedness of the Issuer as at 31 March 2004 may be materially different from the estimate:

	As at 31 March 2004
	<i>(in U.S.\$)⁽¹⁾</i>
Shareholders' equity	
Issued and paid-up share capital	37,950
Accumulated profit (loss)	(904,063)
Total equity	(866,113)
Non-current liabilities	
Notes payable ²	175,000,000
Other creditors	301,528
Notes ³	150,000,000
Total liabilities	325,301,528
TOTAL CAPITALISATION	324,435,415

(1) The Issuer's issued share capital of EUR 31,000 has been translated into U.S. Dollars at a rate of EUR 1 = U.S.\$ 1.2242, which approximates the rate prevailing on 31 March 2004.

(2) Refers to the 2006 Notes.

(3) Refers to the Notes.

The interim financial information of the Issuer as at 31 March 2004 was not audited or reviewed by Ernst & Young S.A. There has been no material change in the capitalisation or indebtedness of the Issuer since 31 March 2004.

Summary Financial Information

The following tables set out in summary form balance sheet and income statement information relating to the Issuer.

Summary balance sheet

	31 December 2003
	<i>(U.S.\$ thousands)</i>
ASSETS	
Non-current assets	—
Receivables from related parties	170,000
Other assets	2,778
	<u>172,778</u>
Current assets	
Trade and other receivables, net	1,707
Receivables from related parties	3,549
Cash and cash equivalents	533
	<u>5,789</u>
TOTAL ASSETS	<u>178,567</u>
EQUITY AND LIABILITIES	
Total equity	(359)
Total non-current liabilities	175,000
Total current liabilities	3,926
TOTAL LIABILITIES AND EQUITY	<u>178,567</u>

Summary income statement

	Year ended 31 December 2003
	<i>(U.S.\$ thousands)</i>
ASSETS	
Gross profit	—
Selling, general and administrative expenses	(490)
Other operating income (expense), net	3,556
Profit from operating activities	3,066
Interest expense	(3,464)
Profit before income taxes	(398)
Income tax (expense) benefit	—
NET PROFIT	<u>(398)</u>

This information is derived from the translation, prepared by management, into U.S. Dollars of the audited financial statements of the Issuer as at and for the year ended 31 December 2003. This information was used in the preparation of the audited consolidated financial statements of Mastercraft for the year ended 31 December 2003 prepared in accordance with IFRS. The audited financial statements of the Issuer are prepared in accordance with applicable legal requirements in the Grand Duchy of Luxembourg. Such financial statements for the year ended 31 December 2003, together with the report of Ernst & Young S.A. and the accompanying notes, appear elsewhere in this Offering Circular. The financial information presented above should be read in conjunction with such financial statements, reports and the notes thereto.

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 pages 12 and 78.

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 a small number of individuals who do not disclose the details of their beneficial ownership of such shares.

As shown in “Summary” above, Crosland Limited controls Evraz Group (as described below) through its shareholding in Mastercraft. In addition to this, the assets of the Crosland Group include a 50 per cent. interest in Uzhkuzbassugol (which supplies coal to ZapSib and NKMK), a 100 per cent. interest in Evraz Ruda (which supplies iron ore to ZapSib and NKMK) and other non-core assets.

Evraz Group

Evraz Group is one of the largest steel and mining 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 three integrated steel production companies – NTMK (80.1 per cent. shareholding as of 1 June 2004), ZapSib (93.4 per cent. shareholding as of 1 June 2004) and NKMK (100 per cent. shareholding through Sibmetinvest and Mastercraft as of 1 June 2004). Taking into account the existing minority interests in NTMK and ZapSib, which have shareholding interests in Sibmetinvest, the effective ownership interest of Evraz Group in NKMK is 93.5 per cent.

The combined production of NTMK, ZapSib and NKMK in 2003 amounted to 13.9 million tonnes of steel (compared to 11.0 million tonnes of steel produced by NTMK and ZapSib in 2002), ranking Evraz Group as the largest producer of steel and steel products in Russia and the 12th largest steel producer in the world. Evraz Group’s pro forma revenues and pro forma EBITDA in 2003 amounted to U.S.\$ 2,982 million and U.S.\$ 828 million, respectively (compared to U.S.\$ 2,064 million and U.S.\$ 327 million, respectively, in 2002). Evraz Group’s actual revenues and actual EBITDA in 2003 amounted to U.S.\$ 2,121 million and U.S.\$ 494 million, respectively, (compared to U.S.\$ 1,537 million and U.S.\$ 177 million respectively, in 2002).

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 and 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 the 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 acquired 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 a 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 Government (tax arrears and social contribution payments). Following this share issuance, the Original Group held 35 per cent. of ZapSib shares and the 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 international trade operations.

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

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

Crosland Limited became the sole shareholder of Mastercrocft, which, in turn, acquired 100 per cent. of the shares in each of Ferroblast, Tradeline, Logicmind and Lakemill Trading and Investments Limited ("**Lakemill**"). Lakemill is a Cypriot company which was then already in existence indirectly wholly held by Crosland Limited and held 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, Mastercrocft became the controlling shareholder of NTMK through Tradeline and Ferroblast and ZapSib through Lakemill and Logicmind.

In late 2003, Evraz Group's management commenced the transfer of the export trading function of Ferrotrade UK to Ferrotrade Gibraltar, a limited company incorporated and registered in Gibraltar.

Ferrotrade UK is a limited partnership located in England indirectly wholly held by Crosland Limited. The transfer of the business, operations and assets of Ferrotrade UK to Ferrotrade Gibraltar was substantially completed in the first half of 2004. The transfer of such export trading function is intended to optimise the taxation of Evraz Group's export sale proceeds and to allow for greater operational efficiency in running Ferrotrade Gibraltar's business. At the end of 2003, Ferrotrade Gibraltar established Steeltrade Limited, a Cyprus private company limited by shares, to act as a holding company for the purchases of interests in EH Trading House from NTMK and ZapSib and to consolidate all international and domestic trading activities under Ferrotrade Gibraltar.

In the end of 2003, Mastercrocft acquired East Metals S.A., which is a company incorporated in Switzerland, as part of the migration of Evraz Group's export trading function from Ferrotrade UK to Ferrotrade Gibraltar. East Metals S.A. operates as a trading agent for Ferrotrade Gibraltar.

The third steel company controlled by Evraz Group, NKMK, was created by Evraz Group in 2003 for the purpose of acquiring the production and other assets of the former KMK. Upon the initiation of its bankruptcy in 2001, KMK was restructured and several separate companies – OOO Kuznetskiy GOK, OOO Stal' KMK, OOO Relsy KMK, Promyshlennoye Proizvodstvo and others – were incorporated using KMK's assets. Assets and shares in certain of these companies were put to sale during the KMK bankruptcy proceedings and were acquired at auction on behalf of Crosland Group. A significant portion of the assets of former KMK were later in 2003 and 2004 consolidated by NKMK. Approximately U.S.\$ 50 million of the net proceeds of the 2006 Notes have been used to fund such acquisition.

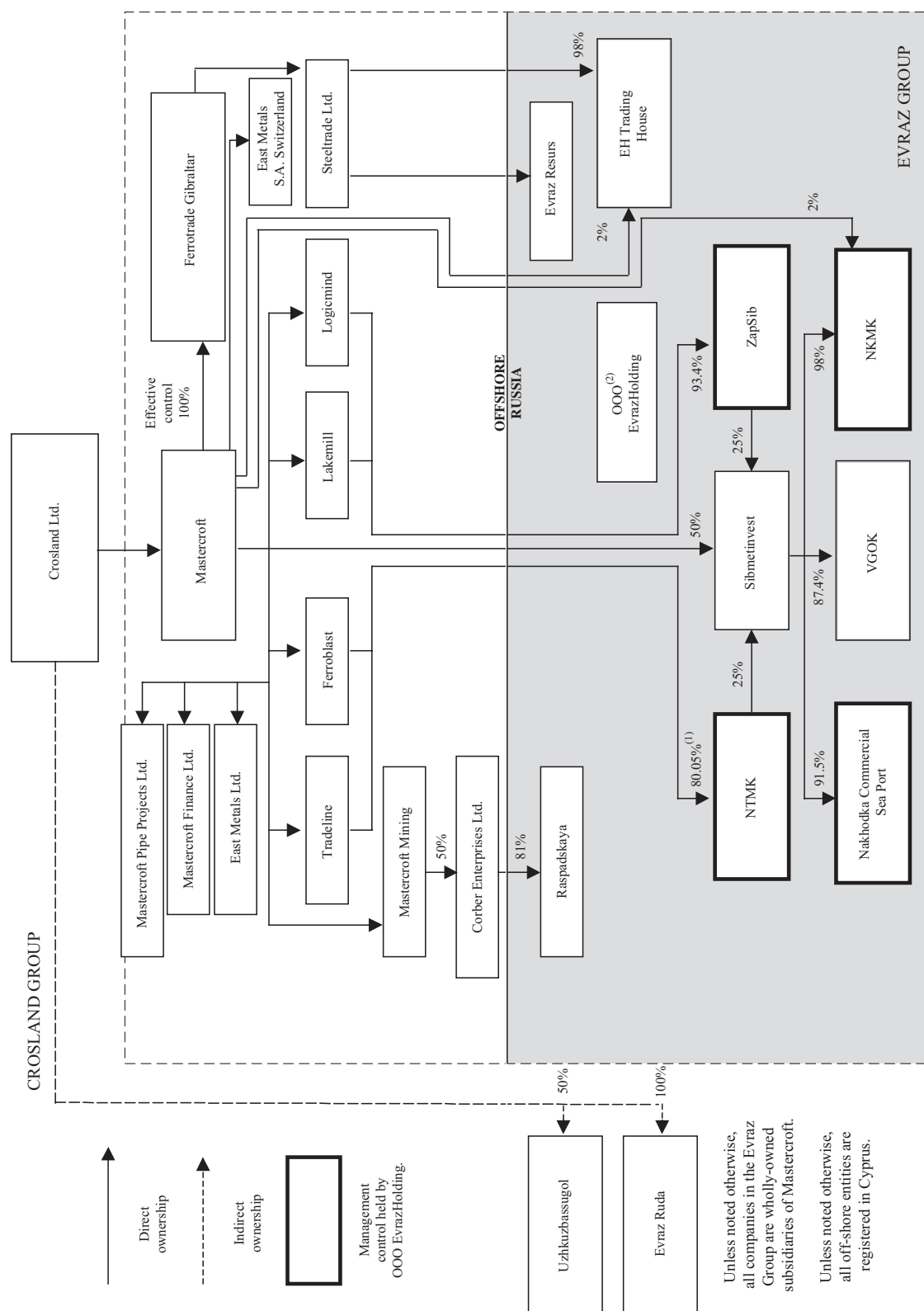
As part of the ongoing re-organisation of the Evraz Group, Mastercrocft established four Cypriot subsidiaries in the end of 2003 to handle certain operations within the Evraz Group:

- Mastercrocft Finance Limited, established to arrange financings and treasury operations;
- East Metals Limited, established to provide logistical support;
- Mastercrocft Mining Limited, established for the purposes of consolidating mining resources of Evraz Group (including the purchase of Raspadskaya); and
- Mastercrocft Pipe Projects Limited, established for the purposes of the joint venture with Severstal mentioned below.

The above subsidiaries are included in the audited consolidated financial statements of Mastercrocft for the year ended 31 December 2003.

The corporate structure of Evraz Group as at 1 June 2004 is outlined in the following chart.

This chart does not include the Issuer, a special purpose entity of Mastercrocft, which is a part of Evraz Group for accounting purposes only. For detailed information see “Description of the Transaction” and “The Issuer”.



(1) See “Business – Recent Developments”.

(2) Mastercrocft controls OOO EvrazHolding through an option.

OOO EuroasiaHolding (trading under the name EvrazHolding) (“**OOO EvrazHolding**”) has been appointed by the shareholders of NTMK, ZapSib and NKMK as their management company. OOO EvrazHolding functions as the sole executive body of NTMK, ZapSib and NKMK (thus replacing the position of a general director with respect to these companies) although the boards of directors of the 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 in relation to NTMK and ZapSib and in November 2003 in relation to NKMK. OOO EvrazHolding is owned by a group of individuals and has no direct ownership link to Mastercroat. Mastercroat, however, holds an option to acquire all of the interests in OOO EvrazHolding at par (thus enabling Mastercroat to have ultimate management control over NTMK, ZapSib and NKMK). OOO EvrazHolding does not carry on any other commercial activity apart from managing NTMK, ZapSib, NKMK, as well as other companies of Evraz Group (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 98 per cent. owned by Steeltrade Limited and 2 per cent. owned by Mastercroat. 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) for NTMK, ZapSib and NKMK. From 2004, the procurement of raw materials is gradually being transferred from EH Trading House to Evraz Resurs. This will result in the separation of procurement and sale functions.

From 1 January 2004 EH Trading House has been acting with respect to most types of products on the basis of sale and purchase, rather than agency agreements, i.e. it acquires the products from the plants for its own account and then transfers them to end customers. This transfers marketing, pricing and contracting risks from the producing entities to EH Trading House and increases overall operational efficiency. EH Trading House sells solely the production of Evraz Group.

At the end of 2003, Sibmetinvest acquired 87.4 per cent. of Vysokogorsky GOK (“**VGOK**”) from Crosland Limited’s subsidiaries. Approximately U.S.\$ 10 million of the net proceeds of the 2006 Notes has been used to fund such acquisition. VGOK is located near the City of Nizhny Tagil (10 km from NTMK) and is one of the major iron ore suppliers for NTMK. In 2003 it produced 3 million tonnes of iron ore, 1.1 million tonnes of iron ore concentrate and 2.4 million tonnes of sinter. 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 175 million tonnes. In 2003, VGOK supplied 30 per cent. of the total sinter and pellets used in NTMK’s blast furnaces.

OJSC Nakhodka Commercial Sea Port (“**Nakhodka Commercial Sea Port**”) became a member of the Evraz Group following Sibmetinvest’s acquisition of approximately 92 per cent. of the shares in Nakhodka Commercial Sea Port from Crosland Limited and other owners in late 2003. Approximately U.S.\$ 35 million of the net proceeds of the 2006 Notes have been used to fund such acquisition. In March 2004 the shareholders of Nakhodka Commercial Sea Port approved the transfer of the functions of its sole managing body to OOO EvrazHolding. Nakhodka Commercial Sea Port is located in the south-east of Russia and is one of the largest ports in the Far East of the Russian Federation and is one of several ports located in Nakhodka. It has an annual capacity of about 9.5 million tonnes of cargo. In 2003, 3.0 million tonnes of Evraz Group’s shipments went through Nakhodka Commercial Sea Port. 57 per cent. of turnover of Nakhodka Commercial Sea Port accounted for 51 per cent. of Evraz Group’s total exports. Nakhodka Commercial Sea Port’s revenues for 2003 totaled U.S.\$ 29.9 million.

Evraz Group also intends to acquire certain mining assets. As noted above (see “Use of Proceeds”), the net proceeds from the issue of the Notes will be used to fund such acquisitions. For recent acquisitions, see “Business-Recent Developments” below.

Strategy

Evraz Group is guided by the following major aims:

- ***Minimise production costs.*** Evraz Group's management believes that producing low-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 adequate to allow Evraz Group to produce competitive products. To achieve this aim, Evraz Group plans to further vertically integrate its operations. In particular, has recently acquired control of KGOK and it intends to acquire further iron ore and coal mining related assets, to upgrade its steel production plants to 100 per cent. continuous casting technology and to shut down Siemens-Martin furnaces depending on market conditions.
- ***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.
- ***Maintain a leading position in long products in Russia.*** Evraz Group intends to maintain its leading position in the production of long products including rails, construction steel and pipe blanks.

Evraz Group's management is aware of the impact of rail transportation costs on the prices of its products. Its dominant position in the market of rails and related products gives Evraz Group additional leverage in negotiating its railway tariffs. The acquisition of KMK's assets was 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 will 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.

- ***Balance export and domestic sales and increase focus on Russian market.*** Evraz Group's management believes that (i) demand in the domestic market is less volatile than in its export markets, (ii) the domestic market growth is more sustainable and easier to forecast and, (iii) import restrictions make it easier to sell higher value-added products in the Russian domestic markets. Accordingly, Evraz Group intends to increase its presence in 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 the 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 network for sales in the domestic market.*** Instead of relying on third-party traders to sell the products produced by NTMK, ZapSib and NKMK, Evraz Group has developed its own domestic distribution network through EH Trading House and regional service centres. Such centres contain stockpiles of Evraz steel products for small volume sales and provide services to customers. 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 reducing receivables risk. In addition to this, the service centres service low volume customers and allow Evraz Group to expand its customer base.
- ***Optimise Evraz Group structure.*** Evraz Group intends to simplify its operations through divesting non-core assets and shutting down inefficient production facilities, while further

integrating core production assets into Evraz Group. It is currently intended that Evraz Group acquires the shares of Uzhkuzbassugol and Evraz Ruda. The timing of such acquisitions will depend on market conditions.

Management

Decisions related to Mastercraft are made by two directors appointed and reporting to Crosland Limited. Decisions relating to transactions exceeding certain thresholds are made by Crosland Limited.

In order to take more integrated control over the activities of NTMK and ZapSib, in October 2002, OOO EvrazHolding was appointed according to the respective resolutions of the shareholders of NTMK and ZapSib (made in July and June 2002, respectively) as the management company for NTMK and ZapSib for the period of one and five years, respectively. In 2003 OOO EvrazHolding was re-appointed pursuant to a resolution of the shareholders of NTMK in June 2003 as the management company for NTMK for the next five years. In November 2003, OOO EvrazHolding was also appointed pursuant to a resolution of the shareholders of NKMK as NKMK's management company for a period of five years. The management contracts were approved by a resolution of the shareholders' meetings of each of NTMK, ZapSib and NKMK. 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 the managing powers of a sole executive body of the companies, including entering into transactions on behalf of NTMK, ZapSib and NKMK (within the limits provided for in the legislation), operating their bank accounts, and representing them in various state and judicial agencies. Management of NTMK, ZapSib and NKMK is exercised by an officer of OOO EvrazHolding acting under a power of attorney. Upon conclusion of supplemental agreements in December 2003, from 1 January 2004 the fixed management fee payable to OOO EvrazHolding by each of NTMK and ZapSib is RUB 20,000,000 (approx. U.S.\$ 679,117 using the exchange rate of U.S.\$ 1=RUR 29.45 as of 31 December 2003) per month. The fixed management fee payable by NKMK is RUB 15,000,000 (approx. U.S.\$ 509,340 using the exchange rate of U.S.\$ 1=RUR 29.45 as of 31 December 2003) per month.

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. Upon signing of the management agreement between OOO EvrazHolding and NKMK, part of the top management of NKMK was also transferred to OOO EvrazHolding, which effectively implemented at NKMK a similar reporting system.

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

Financing arrangements have been streamlined by reducing the number of active credit lines to 5-7 per plant and establishing longer-term relationships 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, ZapSib and NKMK. OOO EvrazHolding is also currently establishing standard procedures for NTMK, ZapSib and NKMK, including procedures related to budgeting, the approval of investments and capital expenditures and management information systems.

Upon acquiring management control of NTMK, ZapSib and NKMK, OOO EvrazHolding implemented a budgeting process. There are annual 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:

Alexander Y. Tobak is a Board member of OOO EvrazHolding. Mr. Tobak joined Evraz Group in 1999. At present he holds the position of 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 the Original 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.

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

Organisational Structure

The chart on page 83 shows the organisational structure and key personnel of OOO EvrazHolding.

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 HR Development Department is responsible for determining the HR policy of the company, developing corporate culture and a system of the social benefits for the employees.

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, NKMK and EH Trading House.

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

The Transportation and Logistics Department is responsible for logistic support of the trading activity of NTMK, ZapSib, NKMK and EH Trading House and automobile, railway, and ship transportation of steel and ferrous metal products, produced by the Evraz Group.

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

The Economy and Operations Department is responsible for the financial management of NTMK, ZapSib, NKMK 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 Accounting Department is responsible for the accounting matters relating to OOO EvrazHolding and the consolidation of Evraz Group’s financial accounting.

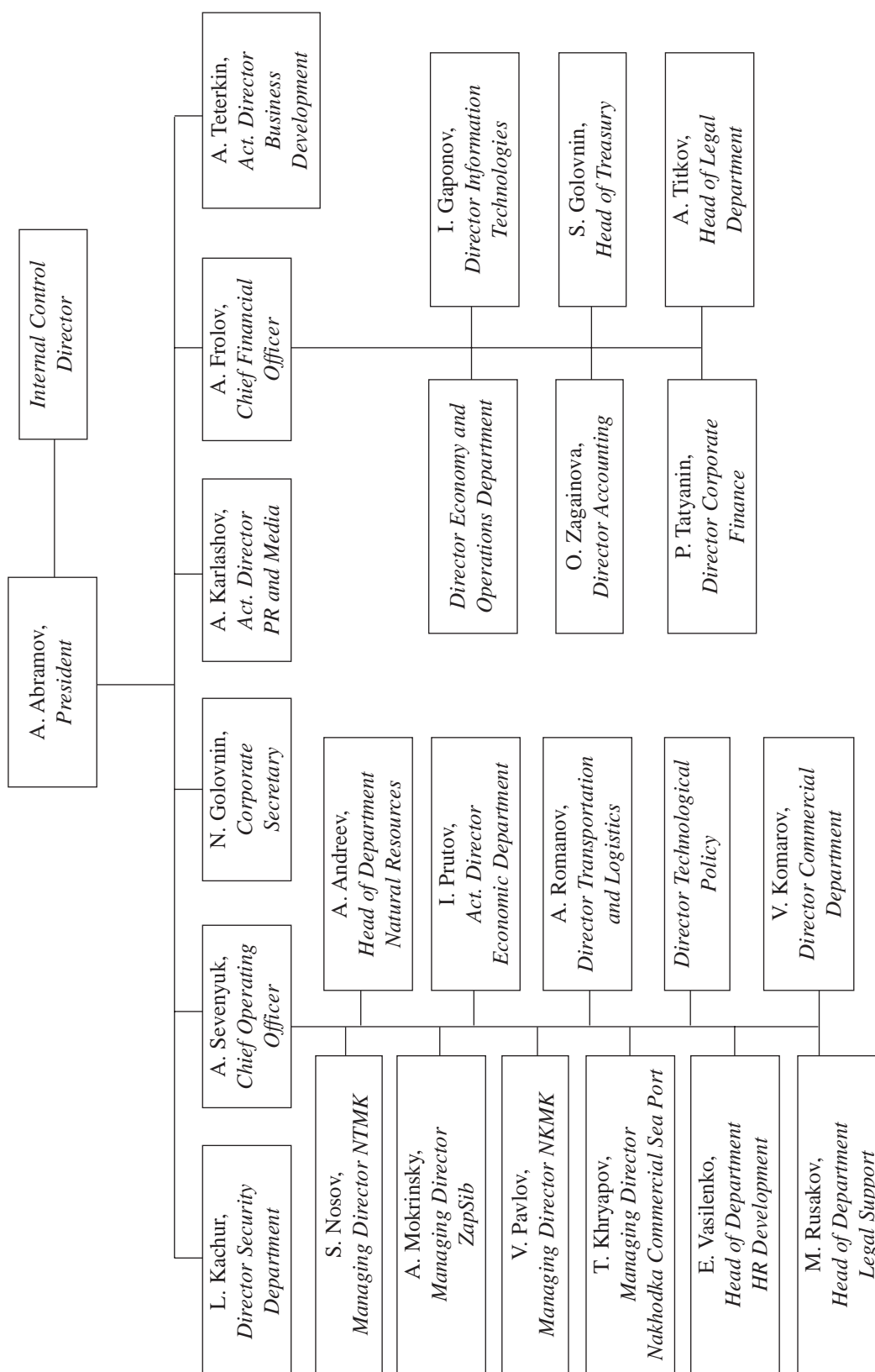
The Corporate Finance Department oversees trade financing and bank relationships, project finance and capital markets activities, mergers and acquisitions, debt consolidation and corporate structuring.

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

The Board of Directors of OOO EvrazHolding is responsible for determining production and sales strategy of NTMK, ZapSib and NKMK 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:



Alexander G. Abramov founded OOO EvrazHolding in 1999 and has been the President of the company since its foundation. Mr. Abramov is also a 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 of Evraz Group's strategy. Mr. Sevenyuk is also a member of the Board of Directors of NTMK, ZapSib and NKMK. Mr. Sevenyuk has worked for the Original Group since 1999. Prior to joining the Original Group, Mr. Sevenyuk operated private companies in the 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 of Evraz Group. Mr. Frolov is also a member of the Board of Directors of NTMK, ZapSib and NKMK. 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 is a Vice President and the Managing Director of NTMK. Mr. Nosov is also a member of the Board of Directors of NKMK. Mr. Nosov joined the Original Group in 1998 as a First Deputy General Director of NTMK and has been a General Director of NTMK since 1999. Prior to that Mr. Nosov held various positions at MMK, including the position of First Deputy General Director between 1997 and 1998. Mr. Nosov graduated from Magnitogorsk Metals and Mining institute in 1983. He holds a Ph.D. degree in engineering. Mr. Nosov received the Russian Federation State Prize in science and engineering in 1996.

Andrey V. Mokrinsky is a Vice President and the Managing Director of ZapSib. He is also a member of the Board of Directors of ZapSib. Mr. Mokrinsky joined the Evraz Group in 2003 as the Head of Production and Technological Policy Department. Prior to that Mr. Mokrinsky held various positions at Chelyabinsk Integrated Iron and Steel Plant (Mechel). He graduated from Moscow Institute of Steel and Alloys in 1982.

Leonid M. Kachur is a Senior Vice President and Director of the Security Department 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 a Ph.D in economics.

Pavel S. Tatyatin is a Vice President and Head of the Corporate Finance Department of OOO EvrazHolding. Mr. Tatyatin is also a member of the Board of Directors of NTMK and ZapSib. He oversees trade financing, project finance and capital markets activities, mergers and acquisitions and corporate structuring of Evraz Group. Mr. Tatyatin 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.

Alexei V. Romanov is a Vice President and Director of the Transportation and Logistics Department of OOO EvrazHolding. He is responsible for logistics for sales and supplies of Evraz Group. 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.

Olga V. Zagainova is the Head of the 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 the Moscow Institute of Public Economy in 1986.

Alexander V. Titkov is the Head of the 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.

Nikolai D. Golovnin is a Board member of OOO EvrazHolding, a Vice President for the Administration Department and the Head of Secretariat of OOO EvrazHolding. In 2002 he was also appointed a Board member at OJSC UK KuznetskUgol. Mr Golovnin joined the Original 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.

Alexander V. Karlashov is a Vice President and Acting Director of PR and Media of OOO EvrazHolding. He joined the Original Group in 2000. Prior to that, Mr. Karlashov worked as an Adviser to the General Director of CJSC Aksept (TV Channel REN TV). He graduated from the Moscow Energy Institute in 1977 and holds a Ph.D in Physics and Mathematics.

Vyacheslav V. Pavlov is a Vice President and the Managing Director of NKMK. Mr. Pavlov joined the Evraz Group in 2003. Prior to that he worked as a Deputy General Director of KMK. Following the bankruptcy procedures and restructuring of KMK, Mr. Pavlov hold several management positions in the restructured subsidiaries of the former KMK, including OOO Stal' KMK and OOO Relsy KMK. In 2003 he was appointed the General Director of NKMK, which consolidated a significant part of the former KMK's assets. For over 13 years Mr. Pavlov held various management positions at the Ural Steel (the former Orsk-Khalilovsky Integrated Iron and Steel Plant). He graduated from the Urals Technical Institute in 1972.

Timofey V. Khryapov is a Vice President and the Managing Director of OJSC Nakhodka Commercial Sea Port. He joined the Original Group in 2001 as a Vice President for the Investment and Insurance Activity. Prior to that, he worked as an Adviser to the General Director of the Government Owned Corporation Promexport – Defensive Technologies. In 1993 Mr. Khryapov graduated from the Faculty of Journalism of Moscow State University and from the School of Management of Moscow State Institute of International Relations.

Evgeniy L. Vasilenko is the Head of the Department of HR Development. He joined OOO EvrazHolding in 2003. Prior to joining Evraz Group, Mr. Vasilenko worked as the Head of Department of Corporate Culture in OOO RUSAL – Management Company. He graduated from Kurgan High Military and Political School of Aviation in 1991.

Maksim V. Rusakov is a Vice President and the Head of the Department of Legal Support. He joined the Original Group in 2000 as a lawyer in the Legal Department. Prior to that Mr. Rusakov worked as a lawyer at North-Eastern Investment Bank. He graduated from the Law School of the Moscow State University in 1999.

Valeriy V. Komarov is a Vice President and Director of the Commercial Department. He is responsible for determining Evraz Group's commercial policy and strategic marketing and analysis. Mr. Komarov joined the Original Group in 1996. Prior to this, he worked as a Chief Accountant at CJSC JV InterTechnology. Mr. Komarov graduated from the Moscow Technical University n.a. Bauman in 1988.

Alexander Y. Andreev is a Vice President and the Head of the Department of Natural Resources. He joined the Original Group in 1999. Prior to joining the Original Group, Mr. Andreev worked in OJSC First Mutual Credit Society Bank. He graduated from the Moscow Institute of Management in 1986 and from the Diplomatic Academy of the Ministry of International Affairs of the Russian Federation in 1997.

Igor V. Prutov is the Head of Investment Department of OOO EvrazHolding and acting Director of Economics of the company. Prior to joining the Evraz Group Mr. Prutov held management positions at Orsk-Khalilovsky Integrated Iron and Steel Plant and Metalloinvest. Mr. Prutov graduated from the Moscow Physics and Technical Institute in 1998.

Igor V. Gaponov is the Head of the IT Department. He joined the Original Group in 2002. He is responsible for the IT function of Evraz Group. Prior to that, Mr. Gaponov worked as a senior consultant in CJSC Unicon/MS Consulting Group. He graduated from the State Academy of Management in 1977.

Andrey A. Teterkin is an Acting Director of Business Development. He joined the Original Group in 2002. Prior to that he worked as a General Director of CJSC Unikem 2000. He graduated from the Academy of Finance in 1998. He also received an MBA Degree in General Management from the Rotterdam School of Management in 2002.

Employees

The table below sets out the number of employees of certain members of Evraz Group as of 31 December 2003.

Company	Number of Employees (as at 31 December 2003)
NTMK	31,000
ZapSib	29,182
NKMK	12,750
VGOK	5,570
Nakhodka Commercial Sea Port	3,010
OOO EvrazHolding	593
Total¹	82,105

(1) As at 31 December 2003, Mastercraft and Ferrotrade Gibraltar did not have any employees.

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

The initial key objective of the human resources policy of OOO EvrazHolding, which was related to it assuming the management of NTMK, ZapSib and NKMK, was to attract senior management. With 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, ZapSib and NKMK 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 the employees of NTMK, over 45 per cent. of the employees of ZapSib and 80 per cent. of employees of NKMK are members of trade unions. Each plant enters into collective bargaining arrangements with trade unions bi-annually. The current agreements provide for an 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. Upon consolidation of KMK's assets by NKMK in 2003 and 2004, a substantial part of the former KMK employees remained employed by NKMK. NKMK employees enjoy the same social benefits as those of ZapSib. NKMK has also paid the unpaid wages accrued during the years of the KMK bankruptcy proceedings. While historically there have been substantial social unrest at KMK, since the consolidation of KMK assets by NKMK, there have been no significant conflicts with the employees or trade unions. Average monthly salaries in 2003 were

approximately U.S.\$ 260 for NTMK, U.S.\$ 290 for ZapSib and U.S.\$ 240 for NKMK and were above average in the 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 Mechel and OOO Ural Steel (“**Ural Steel**”) (see “Market Participants” in the Appendix 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 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:

Low Production Costs: Evraz Group benefits from being able to produce hot steel at a cost of less than U.S.\$ 130 per tonne on average. This is among the lowest production cost in the steel industry worldwide.

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 procurement prices with its suppliers (thus reducing the cost of produced metal) and sale prices with its principal customers.

Product Mix Composition: Evraz Group focuses on the production of, and enjoys a dominant market position in, long products (including rails, rebars and beams) allowing it to avoid direct competition in domestic and export markets with Severstal, MMK and NLMK, which concentrate on flat steel products. NTMK, ZapSib and NKMK produce mainly complementary products, resulting in the diversification of Evraz Group’s revenue base.

Co-ordinated Sales: Consolidated marketing and distribution, through EH Trading House in the domestic markets and Ferrotrade Gibraltar (including its agent East Metals S.A.) 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 Relationships: Evraz Group has an established relationship with its customer base. Among its long-term customers in Russia are Russian Railways and the Sinarsky Pipe Plant and Pervouralsky Pipe Plant. Evraz Group has over 250 international customers which include Vanomet AG (Thailand), INI Steel (Korea), Golik Steel (Hong Kong), VSC Steel (Hong Kong), Tycoons Worldwide (Thailand), Shanghai Alison (China) and Shang Shing (Taiwan).

Resilience of Products to Tariff Barriers: Semi-finished products (billets, slabs, bloom and pig iron) account for approximately 44 per cent. of the combined sales of Evraz Group and 85 per cent. of the semi-

finished products produced by Evraz Group are exported. Semi-finished products are not commonly subject to import tariffs and quotas and exports of these products are, therefore, more stable in price and volume 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.

Leadership in rails and construction steel: Evraz Group enjoys a strong market share in the sectors of construction steel, pipe blanks, rails and wheels, which are the sectors experiencing high levels of demand in Russia. Upon acquisition of KMK's assets, Evraz Group became a leading producer in the domestic railway products sector with a near 100 per cent. market share in rails and 42 per cent. market share in wheels. In addition, Evraz Group has a 93 per cent. market share in beams and a 49 per cent. share in channels, which makes Evraz Group a strong player in the domestic construction steel market and allows it to exert a certain degree of control over the market.

Products and Sales

Product Range

In 2003, semi-finished products accounted for 43 per cent., 38 per cent. and 54 per cent. of NTMK's, ZapSib's and NKMK's production volume, respectively. For a 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, ZapSib and NKMK.

The table below shows the principal products and the sales of NTMK, ZapSib and NKMK in 2003:

Product	Year ended 31 December 2003		
	NTMK	ZapSib	NKMK
	(in thousand tonnes)		
<i>Semi-finished</i>			
Pig iron	—	—	999
Billets	1,094	1,518	691
Slabs	886	474	38
Blooms	56	—	—
<i>Railway Transport</i>			
Rails	351	—	659
Wheels for rolling stock	191	—	—
Tyres for rolling stock	48	—	—
Railcar uprights	13	—	—
Axle blanks for railcars	57	—	—
Rails fasteners	—	—	78
<i>Construction</i>			
H-Beams	710	163	—
Angles	40	258	23
U-Channels	241	277	47
Rebars	—	1,474	—
<i>Mining</i>			
Grinding balls	162	—	88
Mine uprights	9	58	9
<i>Pipes</i>			
Pipe blanks	805	—	—
<i>Other</i>			
Rounds	79	184	83
Wire	—	213	—
Wire rod	—	570	—
Plates	—	—	454
Other	27	39	24

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. 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 increasing and, in 2003, domestic sales to third parties of Evraz Group's steel mills equalled 48 per cent. (as compared to 42 per cent. in 2001 and 45 per cent. in 2002) of the total production of Evraz Group.

The following table summarises sales by Evraz Group's steel mills in the export and domestic markets in 2001 and 2002 (NTMK and ZapSib), and 2003 (NTMK, ZapSib and NKMK).

Evraz Group's Sales

(excluding intra-group sales)

	2001	2002	2003
	<i>(thousand tonnes)</i>		
Domestic Sales	3,970	4,402	6,324
Export Sales	5,394	5,315	6,867
Total	9,364	9,717	13,191

The most profitable products in Evraz Group's product range are wheels, rebars, steel for the construction industry 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. The majority of off-take agreements require advance payments. In 2003, EH Trading House increased the share of direct sales to end customers and has also begun to establish its own network of regional service centres, which are aimed at meeting the demand of smaller business customers. It is intended that such service centres will sell about 20 per cent. of Evraz Group products. Having direct relationships with end customers allows 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 (Russian Railways) 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 payment on delivery.

(a) NTMK

NTMK's domestic customers are based all around Russia, with major economic centres being the most important markets. NTMK's products are sold on a price basis that adjusts for the geographical location of its customers. The regions with the largest sales of NTMK's products are located in the Urals (59 per cent. of the customer base volume), Central Region (18 per cent.), Western Siberia (7 per cent.) and Northwest Region (6 per cent.). Among NTMK's major customers are Russian Railways 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).

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.

(b) ZapSib

ZapSib sells major rolled steel products for construction purposes, including rebars and common quality wire (accounting for 52 per cent. and 45 per cent. of total production in Russia, respectively). The regions with the largest sales of ZapSib's products are located in Western Siberia (53 per cent. of the customer base volume), Central Region (27 per cent.), Volga Region (9 per cent.) and the Urals (5 per cent.). The highest demand is for rebars, round rolls and steel angles. Delivery terms are FCA (Free Carrier) to the railway station Novokuznetsk Severniy (located within 1 kilometre of ZapSib's location).

(c) NKMK

NKMK's major products are rails (69 per cent. of total production in Russia). NKMK also produces rail fasteners for railway industry. The other major products sold in the domestic markets are balls (31 per cent. market share), plates (4 per cent. market share), channels and angles with 2 per cent. market share each. The regions with the largest sales of NKMK's products are located in Western Siberia (55 per cent. of the customer base volume), the Urals (15 per cent.) Central Region (9 per cent.) and Volga Region (9 per cent.).

Export Sales

In 2003, NTMK, ZapSib and NKMK exported 50 per cent., 52 per cent. and 55 per cent. of their production in terms of volume, respectively. In 2003, billets comprised 47 per cent. of Evraz Group's export sales and slabs, pig iron, rebars and wire rods amounted to 12 per cent., 12 per cent., 10 per cent. and 5 per cent., respectively, each in terms of volume. While NTMK's exports are primarily comprised of semi-finished products (including slabs and square billets), it also exports finished products (mainly H-beams). ZapSib exports principally semi-finished products, mainly billets. NKMK also exports mainly semi-finished products, divided equally between pig iron and billets.

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

Evraz Group exports its products through Ferrotrade Gibraltar and East Metals S.A. (save for exports to other CIS countries which are made through EH Trading House). In each case Ferrotrade Gibraltar, East Metals S.A. and EH Trading House buy products from the relevant Evraz Group company as principal on an ex-works basis.¹ Off-take contracts require Ferrotrade Gibraltar 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 and at KMK budgeting and cost allocations at these plants were conducted on a daily rather than an annual and/or monthly basis. Following the acquisition of NTMK and ZapSib, and at NKMK, Evraz Group's management have implemented new standardised budgeting and cost allocation procedures.

These budgeting and cost allocation procedures were first introduced at NTMK in 1999 and were also implemented at ZapSib when it came under Evraz Group's control in mid-2002. In 2003 the same budgeting procedures were introduced at NKMK and other Evraz Group entities. The principal aim of these budgeting and cost allocation procedures 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 the plants are approved by their respective boards of directors. NTMK's, ZapSib's and NKMK'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 ERP system. This system is also in the process of being installed at ZapSib (replacing the originally installed Oracle ERP system), NKMK 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;
- 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 ERP system will also provide OOO EvrazHolding with on-line access to the consolidated operational information base. It is expected that the SAP R3 system will become fully operational at ZapSib (and certain other companies within Evraz Group) by the end of 2004 and at NKMK 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 investment programmes for NTMK, ZapSib and NKMK differ from each other.

Funds allocated to NTMK's investment programme will be concentrated on the reconstruction and modernisation of various parts of the production process.

ZapSib's relatively modern technology requires limited investments to upgrade and maintain the plant and, therefore, investment is concentrated on maintaining equipment. The capital investment programme of ZapSib is primarily aimed at cost reduction and improvement in the quality of finished products and the widening of the product mix.

The capital investment programme of NKMK is aimed primarily at cost cutting and investments are concentrated on reorganisation of the plant and replacement of old steel production facilities with a modern one. The reorganisation includes the upgrade of the electric arc furnace, shut-down of an out of date Siemens-Martin plant, the modernisation of rolling mills and the optimisation of the production process by constructing a walking-beam furnace.

For a more detailed description of the plants' capital investment programmes, please see the relevant sections in the description of NTMK, ZapSib and NKMK 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 and 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 (the Grand Duchy of Luxembourg), EGAP (Czech Republic), EximBanka SR (Slovakia) and Finnvera (Finland).

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.

Recent Developments

On 18 December 2003, NTMK and ZapSib each received U.S.\$ 50,000,000 under loan agreements with Société Générale, Commerzbank (Eurasia), Moscow Narodny Bank, BNP Paribas, Ost-West Handelsbank AG, GarantiBank International N.V. and Natexis Banques Populaires. On 1 April 2004, ZapSib increased its borrowings by U.S.\$ 30,000,000 under this agreement. Both loans are to be repaid in twenty-five equal monthly installments beginning on 18 December 2004 and ending on 18 December 2006. The loans are to be used to finance working capital needs and investments in connection with the production and export of steel. The liabilities bear interest at an annual rate of LIBOR plus a margin of 3.7 per cent. per annum which may be increased by a maximum of 0.8 per cent. per annum in the event of the deterioration of the credit rating of Mastercrocft published by Moody's Investors Service. In December 2003, the interest rate was equal to 4.86 per cent. per annum.

On 20 January 2004 Mastercrocft Mining Limited, a subsidiary of Mastercrocft, acquired 50 per cent. ownership interest in Corber Enterprises Limited from a number of third parties for a total consideration of 88,016 shares of Raspadskaya (or 19.145 per cent. of total number of shares), U.S.\$ 61.8 million in cash and promissory notes issued by Mastercrocft with the principal amount of U.S.\$ 19.2 million. Corber Enterprises Limited is a limited liability company registered in Cyprus in 2003. Currently it owns 81.16 per cent. of the issued share capital of Raspadskaya.

On 2 February 2004, Mastercrocft guaranteed the promissory notes of Mastercrocft Mining Limited in the amount of U.S.\$ 19,200,000. The promissory notes are payable on demand, but not earlier than two years from the issue date of 10 March 2004. Promissory notes bear interest from the date of their issue at the rate of 6 per cent. per annum.

On 4 February 2004, Mastercrocft guaranteed all liabilities of Ferrotrade Gibraltar under the agreement concluded with Banca Commerciale Lugano in 2003 for a revolving uncommitted credit facility in the amount of up to U.S.\$ 18,000,000.

On 10 February 2004 Ferrotrade Gibraltar, East Metals S.A. and Ferrotrade UK entered into an agreement with Natexis Banques Populaires under which the bank provided a revolving uncommitted credit facility in the total amount of up to U.S.\$ 17,000,000. Mastercrocft guaranteed the repayment of all liabilities under the agreement with Natexis Banques Populaires.

On 25 February 2004 Ferrotrade Gibraltar as a borrower and East Metals S.A. as an agent entered into an agreement with Donau-Bank Aktiengesellschaft for a loan in the amount of up to U.S.\$ 16,500,000. Mastercrocft guaranteed all liabilities under the loan agreement.

In February 2004, Ferrotrade Gibraltar entered into a loan agreement with Ferrotrade UK under which a loan facility of U.S.\$ 36,000,000 was provided to Ferrotrade Gibraltar. The loan is interest-free and repayable by 31 December 2004.

On 31 March 2004 Ferrotrade Gibraltar entered into an agreement with Fortis Bank S.A., Geneva ("**Fortis Bank**") for a credit line in the amount of U.S.\$ 25,000,000. Mastercrocft guaranteed all liabilities of Ferrotrade Gibraltar under the agreement with Fortis Bank. East Metals S.A. assigned all rights and interest in receivables from sales financed by Fortis Bank as security for the repayment of liabilities of Ferrotrade Gibraltar.

On 19 March 2004 OOO EvrazHolding guaranteed all the liabilities of ZAO EvrazTrans, an entity under common control with Mastercrocft, in favour of OAO Transcreditbank under an overdraft facility with a maximum borrowing limit of approximately U.S.\$ 15,300,000. Borrowings under the facility bear interest at 8 per cent. per annum. The facility expires on 6 September 2004.

In March 2004, ZapSib received U.S.\$ 30,000,000 under credit facility agreement jointly arranged by JSC "Kazkommertsbank" and Commercial Bank "Moskommertsbank". The loan is repayable in 17 quarterly instalments during the period beginning in March 2006 and ending in March 2010. The loan is to be used for financing the production and installation of steel casting equipment. The interest rate on the loan is 8 per cent. per annum.

On 6 April 2004, Mastercrot Finance Limited pledged a promissory note of Commerzbank (Eurasia) with a face value of U.S.\$ 10,000,000 maturing on 6 April 2007 and bearing interest at 4 per cent. per annum as collateral under a loan facility of U.S.\$ 10,000,000 granted by Commerzbank (Eurasia) to OAO UK Neryungiugol, a wholly owned subsidiary of Mastercrot. The facility bears interest at 5 per cent. per annum and matures 6 April 2007.

On 20 April 2004 EH Trading House entered into an overdraft facility agreement with Transcreditbank with a total borrowing limit of approximately U.S.\$ 13,600,000. The facility expires on 20 January 2005. Borrowings under the facility bear interest at 10 per cent. per annum.

On 21 April 2004, NTMK signed an agreement with Alfa-Bank under which it guaranteed the repayment of all liabilities under a loan agreement between Evraz Resurs, an entity under common control, and Alfa-Bank. The loan, in the amount of approximately RUR 300,000,000, bears interest of 12.5 per cent. per annum and matures on 2 October 2004. Certain items of NTMK's production equipment with a value of approximately U.S.\$ 7,400,000 as of 31 December 2003 were pledged as collateral under the loan agreement.

On 27 April 2004 NKMK entered into an agreement with Transcreditbank for a credit line of approximately U.S.\$ 13,600,000. The liability under the credit line bears interest at 9 per cent. per annum and matures on 27 April 2005.

In April 2004, Lakemill, as a borrower, entered into a loan agreement with Ferrotrade UK for an interest-free borrowing facility in the amount of U.S.\$ 200,000,000 repayable on 31 December 2008.

In May 2004, Tradeline acquired 5.7 per cent. of the shares in NTMK from a third party, which brought the total percentage of NTMK shares owned by the Evraz Group to 80.05 per cent.

In May 2004 Mastercrot Pipe Projects Limited entered into a 50:50 joint venture with Severstal Group for the construction of a large diameter pipe production plant on a project finance basis at Izhora, Kolpino, Leningrad oblast. The parties expect to finance the project in equal amounts. The plant will produce electric-welded pipes 18 metres in length and 1,020-1,420 millimetres in diameter which is anticipated to be sold to Gazprom.

In order to stabilise and ensure the supply of iron ore to NTMK and ZapSib, in June 2004 Evraz Group completed the acquisition of a 83.59 per cent interest in Kachkanarsky GOK ("KGOK") in the market from a number of investors through Renaissance Broker for an aggregate purchase price of approximately U.S.\$ 200 million. The shares in KGOK are held by NTMK (50.58 per cent.) and ZapSib (33.01 per cent). KGOK supplies 60 per cent. of the iron ore consumed by NTMK and up to 10 per cent. of the iron ore consumed by each of ZapSib and NKMK. Following this acquisition, 75 per cent. of Evraz Group's iron ore requirements are supplied from within the Evraz Group. In addition to the acquisition of interests in KGOK, NTMK is contemplating the purchase of KGOK's debts with a face value of U.S.\$ 44 million. The acquisition was financed by a U.S.\$ 150 million loan facility agreement entered into between Ferrotrade Gibraltar as borrower, Mastercrot and ZapSib as guarantors and ING Bank N.V., Credit Suisse First Boston International and Commerzbank to be used for the acquisition of mining and/or steel assets. The loan is repayable in full on the earliest of (1) the date falling six months after execution of the agreement, (2) 45 days after the date on which Evraz Group informs the lenders that it does not wish to proceed with the Notes and (3) the drawdown date under a pre export finance facility which may be arranged by the lenders. Part of the proceeds from the issue of the Notes are expected to be used to repay U.S.\$ 125 million of U.S.\$ 150 million outstanding under this agreement as described in "Use of Proceeds" below. The interest rate on the loan is LIBOR plus a margin of 1.9 per cent. per annum during the first three months and 2.0 per cent. per annum thereafter.

Members of Evraz Group have signed contracts for the purchase of production equipment and construction works as described in the "Investment Programme" sections in the respective descriptions of NTMK, ZapSib and NKMK below for an approximate aggregate amount of U.S.\$ 92,000,000.

For more information with respect to recent transactions of the members of Evraz Group please see "Note 30. Subsequent Events" of the audited consolidated financial statements of Mastercrot for the years ended 31 December 2003 and 31 December 2002 contained in this Offering Circular.

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 their respective 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 claimed damages for failure to deliver goods, damages for loss of profit and other relief, including the cost of arbitration and interest. On 16 December 2003, ZapSib concluded an out-of-court settlement agreement with Noble Resources Limited, according to which ZapSib's shareholders have paid U.S.\$ 4.3 million as a full and complete settlement of the case representing a significant decrease from the U.S.\$ 47.3 million original claim.

NKMK

NKMK 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 NKMK's management is aware, no such litigation or arbitration proceedings are pending or threatened.

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.

Mastercroft

Mastercroft 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 Mastercroft'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 the 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	
	2003	2002
	<i>U.S.\$ million</i>	
Net sales	1,040	810.4
Operating profit	118.5	38.5
Total assets	889.7	727.6
Interest bearing debt ⁽¹⁾	107.5	40.3

(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 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, the unique rail body quenching technology, the continuous casting process and has 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) establishes a multitude of aims for 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 arbitrazh 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.\$ 203.7 million at the exchange rate as of 31 December 2003) 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 contained in this Offering Circular has been 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 Government (tax arrears and social contribution payments) in the amount of RUR 1.8 billion (approximately U.S.\$ 61.1 million at the exchange rate as of 31 December 2003) 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 2003 (compared to U.S.\$17.7 million as of 31 December 2002).

To date, NTMK has been in full compliance with the terms of the settlement agreement. As of 31 December 2003, the nominal outstanding amount under the settlement agreement amounted to U.S.\$ 110.2 million (compared to U.S.\$ 123.8 million as at 31 December 2002). The amortised cost of the outstanding amount under the settlement agreement equalled U.S.\$ 77.6 million as of 31 December 2003 (compared to U.S.\$ 83.6 million as of 31 December 2002).

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 June 2004)

Shareholders	Number of Ordinary Shares	Percentage
Ferroblast Overseas Investments Limited	392,318,491	29.95
Tradeline Enterprises Limited	656,724,924	50.1
General Refractories Limited	140,370,872	10.7
CJSC "Depositarno-Kliringovaya Kompaniya" (nominee account)	31,469,721	2.4
Others (including employees)	89,118,958	6.85
Total	1,310,002,966	100

Ferroblast and Tradeline are members of Evraz Group. As of 1 June 2004, Evraz Group held approximately 80.05 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 1 June 2004, the bid price of NTMK shares on the RTS was U.S.\$ 0.626 and the offer price was U.S.\$ 0.64.

Debt Obligations and Other Commitments

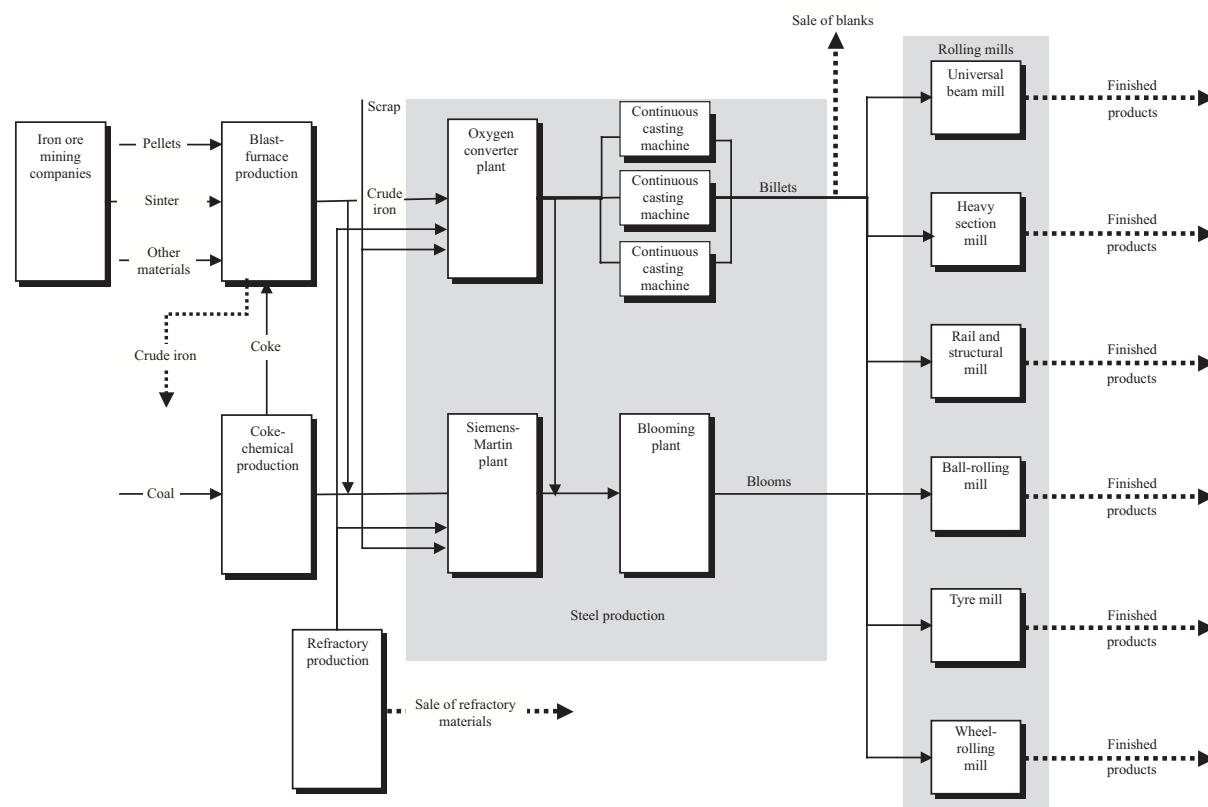
As of 31 March 2004, the aggregate debt obligations of NTMK (including short- and long-term borrowings and the indebtedness under the settlement agreement) equalled U.S.\$ 203.4 million (including U.S.\$ 80.0 million of secured debt). Short-term indebtedness represents approximately 13 per cent. of the

aggregate amount of NTMK's indebtedness. As of the date of this Offering Circular, NTMK has not issued convertible debt securities, exchangeable debt securities nor debt securities with warrants attached.

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 furnaces), 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 the Appendix ("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, respectively) and produces dry quenched coke.

In 2003 2,920 thousand tonnes of coke were produced, which was a 1.7 per cent. increase compared to 2002.

There are also by-products production facilities (e.g. chemical plant, coke pitch plant and 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. One of the blast furnaces is currently under reconstruction and plans are underway to re-commission it in August 2004. 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 five currently operating blast furnaces increased from 4,266.4 thousand tonnes in 2000 to 4,804 thousand tonnes in 2003 and the utilisation levels rose from 86.6 per cent. in 2000 to 97 per cent. in 2003.

NTMK produces two types of crude iron: (i) steel making iron and (ii) natural alloy vanadic crude iron. The unique vanadium ferrous ore from KGOK 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 OJSC Tulachernet, 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 3.6 and 2.0 million tonnes of high quality steel in each plant, respectively. The oxygen converter plant annual capacity potentially can be increased to 5.2 million tonnes.

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

	Annual design capacity (thousand tonnes)	1998	1999	2000	2001	2002	2003
Total – oxygen converter	3,200	1,528	2,129	2,833	3,153	3,304	3,450
Total – Siemens-Martin	2,000	1,113	1,952	2,038	2,064	1,987	2,018
Grand total	5,200	2,641	4,081	4,871	5,217	5,291	5,467
Growth (decline) rate (%)		(34.8%)	54.5%	19.4%	7.1%	1.4%	3.3%

Oxygen converter facilities

The design of the oxygen converter facilities is outdated and it is intended to upgrade these facilities during 2005-2007. The proposed upgrade would allow NTMK to increase its steel-making capacity by approximately 44 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. 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 2003, 2,027 thousand tonnes of billets were produced in the blooming plant (99.9 per cent. of NTMK's production of billets in 2002). The blooming plant will be closed if the Siemens-Martin plant is closed down.

Rolling mills

NTMK has 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 2003, NTMK produced 4,804 thousand tonnes of pig iron (compared to 4,701 thousand tonnes in 2002), 5,467 thousand tonnes of steel (compared to 5,291 thousand tonnes in 2002) and 4,782 thousand tonnes of rolled products (compared to 4,663 thousand tonnes in 2002).

Between 1998 and 2003, steel sales at NTMK grew by approximately 16.2 per cent. compound annual growth rate ("CAGR"), reaching 4,769 thousand tonnes in 2003.

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. If the Siemens-Martin furnaces are not phased out, when the fourth continuous casting machine is commissioned and improvements to the oxygen converter plant now in progress are completed, the overall steel production capacity will be substantially increased.

NTMK – Capacity utilisation	1999	2000	2001	2002	2003
			(per cent.)		
Iron, total	73.7	86.6	93.5	94.9	97.0
Steel, total	78.1	93.6	100.3	101.7	105.1
– Oxygen converter plant	69.6	88.6	98.5	103.2	107.8
– Siemens-Martin plant	92.7	101.8	103.2	99.4	100.9
Blooming plant	68.3	73.5	67.3	55.6	47.1
Universal beam mill	84.6	82.1	89.7	95.9	102.0
Heavy section mill	86.3	82.1	89.7	83.1	91.5
Rail and structural mill	55.2	63.2	69.8	70.3	71.3
Ball-rolling mill	47.6	54.2	76.6	76.0	90.4
Tyre mill	23.9	31.2	35.6	34.3	36.5
Wheel-rolling mill	36.6	64.6	81.1	90.3	93.7

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's products are sold to railway, construction, mining and pipe manufacturing industries.

Production Output by Sectors

	1999	2000	2001	2002	2003	CAGR ⁽¹⁾ (99-03)	Growth (03/02)
	Thousand tonnes						
Railway	388	501	573	695	660	14.2%	-5.0%
Construction	244	737	670	727	991	42.0%	36.4%
Mining	95	103	148	147	171	15.9%	16.5%
Pipe blanks	241	273	496	628	805	35.1%	28.2%
Semi-finished products	2,387	2,434	2,540	2,402	2,036	-3.9%	—
Other	63	84	93	92	106	13.7%	14.6%
Total	3,419	4,131	4,484	4,691	4,769	8.7%	—

(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 Russian Railways. 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 Russian Railways.

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 supplied the Urals region, and KMK supplied 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. Upon acquisition and consolidation of KMK's rail production assets, NKMK currently accounts for approximately 69 per cent. of the market and NTMK the remainder.

Russian Railways under-invested in railway infrastructure in the 1990s and there is a backlog in replacement of rails.

In 2003, NTMK sold 351 thousand tonnes of rails including 96 thousand tonnes for export (compared with 2002 sales of 416 thousand tonnes and 55 thousand tonnes, respectively). In terms of tonnage, NTMK's sales of rails grew at 11 per cent. CAGR during 1998-2003. NTMK sells rails primarily via Ferrotranstrade,

a representative appointed by Russian Railways, which then on-sells to end customers. Contract terms require advance payment for each shipment.

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 20 per cent.

In 2003, NTMK sold 191 thousand tonnes of wheels including 5 thousand tonnes for export (compared with 2002 sales of 190 thousand tonnes and 8 thousand tonnes, respectively). In terms of tonnage, NTMK's sales of wheels grew at 31 per cent. CAGR during 1998-2003.

49.1 per cent. of NTMK's domestic wheel shipments are made through Ferrotranstrade, a related party of Evraz Group, acting as a sales agent on a commission basis. The other major customers are Federal State Unitary Enterprise Uralvagonzavod and OOO Altayvagonsnab.

Rough tyres

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

In 2003, NTMK sold 48 thousand tonnes of rough tyres including 5 thousand tonnes for export (compared with 2002 sales of 45 thousand tonnes and 3 thousand tonnes, respectively). In terms of tonnage NTMK's sales of rough tyres grew by 10 per cent. CAGR during 1998-2003. Further growth is expected to come only from a higher use of railway services in Russia.

Construction sector

NTMK's principal products 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 343 thousand tonnes sold domestically in 2003, NTMK has an 88 per cent. market share in Russia (with ZapSib having another 5 per cent. of the market).

In 2003, NTMK sold 710 thousand tonnes of H-beams including 367 thousand tonnes for export (compared with 2002 sales of 497 thousand tonnes and 175 thousand tonnes, respectively). Overall sales grew at 27 per cent. CAGR during 1998-2003. NTMK's main domestic competitors are Azovstal (Ukraine) and MMK. Azovstal has a certain geographical advantage in the southern regions, where NTMK's market share is only 59 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 China, Vietnam and the Philippines.

Channels

The largest players in the channels market are ZapSib (with a 25 per cent. market share), NTMK (20 per cent.) and NKMK (5 per cent.), while the remaining 50 per cent. is controlled mainly by Ukrainian producers, MMK and Severstal. 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 52 per cent. market share, while ZapSib, NTMK and NKMK have a combined market share of 17 per cent.

In 2003, NTMK sold 241 thousand tonnes of channels including 37 thousand tonnes for export (compared with 2002 sales of 176 thousand tonnes and 31 thousand tonnes, respectively). Driven by the competitive environment described above, sales of channels grew at 18 per cent. CAGR between 1998-2003.

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 Mikhailovsky GOK ("MGOK"), which is located in the Kursk region, Central Russia. Smaller shipments are made to KGOK and Norilsk Mining Company.

In 2003, NTMK sold 162 thousand tonnes of grinding balls, including 25 thousand tonnes for export (compared with 2002 sales of 137 thousand tonnes and 11 thousand tonnes, respectively). NTMK's sales of grinding balls in terms of tonnage grew at 8 per cent. CAGR during 1998-2003.

Semi-finished products

Pipe blanks

Pipe blanks have been NTMK's most successful product on the domestic market. In 2003, NTMK sold 805 thousand tonnes of pipe blanks, including 11 thousand tonnes for export (compared with 2002 sales of 628 thousand tonnes sold domestically). Sales grew at 72 per cent. CAGR between 1998 and 2003. This increase was due to (1) increased demand from 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 Urals Steel. These competitors which are located further from the major pipe plants became less competitive, 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. See "Business – Recent Development" for the discussion of the construction of a large diameter pipe production plant.

Other semi-finished products

NTMK mainly sells semi-finished products (pig iron, billets, slabs and blooms) to export markets. Billets are sold to Taiwan, Thailand, the Middle East and South Korea. Slabs are sold to China and Thailand. NTMK also ships small amounts of blooms and billets to the Russian market (99 thousand tonnes).

In 2003, NTMK sold 2,036 thousand tonnes of semi-finished products including 1,937 thousand tonnes for export (compared with 2002 sales of 2,402 thousand tonnes and 2,305 thousand tonnes, respectively). NTMK's sales of semi-finished products in terms of tonnage grew at 9 per cent. CAGR during 1998-2003.

Procurement and Transportation

Raw materials

The principal materials which are used by NTMK in the process of steel production include sinter, pellets, coking coal, scrap, ferroalloys and refractory products.

Sinter and pellets

NTMK's principal suppliers of sinter and pellets are KGOK and VGOK. The total supplies of sinter and pellets to NTMK during 2003 amounted to 8,123 thousand tonnes, of which approximately 88 per cent. came from such principal suppliers. MGOK currently supplies the remaining requirements of NTMK.

(a) Kachkanarsky GOK

KGOK is 83.59 per cent. owned by Evraz Group and 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 2003, it supplied NTMK with 5,050 thousand tonnes of sinter and

pellets, or approximately 62 per cent. of the sinter and pellets required for the blast furnaces at NTMK, KGOK supplies NTMK with Vanadium oxide rich sinter. Sinter supplied by KGOK has a higher cost of processing as the iron content of KGOK sinter is very low and the ore has to undergo enrichment and concentration, though the relative proximity of the mine offsets this additional cost.

(b) Vysokogorsky GOK

VGOK is located near the city of Nizhny Tagil (10 km from NTMK) and is 87.4 per cent. owned by Evraz Group through Sibmetinvest. In 2003, it supplied 26 per cent. of the total sinter and pellets for NTMK's blast furnaces. VGOK can produce approximately 2.4 million tonnes of sinter per annum. VGOK produces sinter from its own ore (up to 70 per cent.) and from concentrate of other producers, mainly Bogoslovskoye RU which is an iron ore mine located nearby. VGOK's iron ore reserves are over 300 million tonnes and its annual production capacity is planned to be increased to 3.0 million tonnes of sinter by 2005 (85 per cent. to be produced from its own iron ore).

Coking coal

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 coking coal extracted from Uzhkuzbassugol and Raspadskaya mines located both approximately 1,700 km from NTMK. All delivery for NTMK is made by TD Evraz Resurs.

Scrap

Scrap is both purchased from third parties and derived internally mainly from the blooming plant and the rolling mills. There are more than 40 external suppliers of scrap, the most important are Stalinvest and Vellaton. All procurements from the suppliers and deliveries to NTMK are fulfilled by EH Trading House.

Ferroalloys

All procurements of ferroalloys are fulfilled through EH Trading House. The main suppliers for NTMK are Ferroalloys Alliance (Ukraine), Chelyabinsk Electrometallurgical Plant and Ural-Siberian GMK.

Refractory materials

All procurements of refractory materials are fulfilled through EH Trading House. About 35 per cent. of materials are imported, mainly by Spetsoborudovaniye i Materialy (Germany). In the domestic market the main suppliers are Magnesit, Pervouralsky Dinasovy Zavod and OAO Ogneupory. NTMK also purchases raw materials for its own refractory production which covers more than 30 per cent. of the needs of NTMK.

Energy and Transportation

More than 90 per cent. of NTMK's energy related costs is comprised, in approximately equal measures, of electricity and natural gas costs. The remaining energy related costs included cost of coke and natural gas. Energy related costs for NTMK comprised 9.3 per cent. of the total costs in 2003 and 9.6 per cent. of the total costs in 2002.

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. In 2003, the electricity tariff on average was RUR 640 per 1,000 kWh, a 22 per cent. increase as compared to the electricity tariff in 2002.

NTMK estimates that the cost of internally generated electricity is currently about half of the cost of electricity from Sverdlovskenergo. NTMK has an investment project to increase its own generation capacity from 10 per cent. of total electricity needs in 2001 to 67 per cent. by 2007 to mitigate the risks associated with increasing costs of energy resources (see "Investment Programme" below). For example, as a result of the programme, the average increase of total energy costs adjusted for production volume in 2003 was 17 per cent., which is below the increases in prices for electricity and natural gas in 2003.

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. In 2003, the natural gas tariff was RUR 757 per th.cubic metre, a 26 per cent. increase as compared to the tariff in 2002.

Transportation

NTMK's main provider of rail transportation services for factory-bound shipments is Russian Railways, 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 Russian Railways and are regulated by Russian Railways and MAP. A discounted price applies where NTMK's own railcars are used to transport materials on Russian Railways' infrastructure.

Investment Programme

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

Overall, investments from 2004 to 2008 are estimated to be U.S.\$ 400 million. Evraz Group has already entered into a 7 year EUR 65 million credit facility with Bayerische Landesbank, insured by OeKB and KUKA for the purpose of financing the building and commissioning by Voest-Alpine Industrianlagenbau GmbH (Austria) of a fourth continuous casting machine at NTMK, which is expected to become operational this year. In addition, NTMK entered into three project finance arrangements with Hüller Hille GmbH, SMS Eumuco GmbH and Voest-Alpine Industrianlagenbau GmbH, for approximately EUR 10, EUR 20 and EUR 9 million, respectively, with Bayerische Hypo- und Vereins Bank AG, Commerzbank AG, Bank Austria and Gazprombank being the financing banks.

Within the period from 2004 to 2008, NTMK intends to reconstruct two more out of its six existing blast furnaces with the aim of increasing their useful lives and production efficiency. The estimated costs of this project amount to U.S.\$ 140 million. In August 2004, NTMK will commission the sixth blast furnace which will have an annual production capacity of 1.7 million tonnes of iron. The cost of the project is approximately U.S.\$ 71 million.

Coking batteries

The refurbishment of four coke oven batteries is included in the long-term capital repair programmes. The estimated cost of this investment is U.S.\$ 77.5 million. The aim of the refurbishment is to increase the useful life of coke oven batteries, their production efficiency and the output of coke. If necessary, NTMK could delay this project by a year or two and/or spread it out over a longer period as this would not affect NTMK's technological process or competitive position.

Blast furnaces

The reconstruction of the blast furnaces will reduce their coke consumption by 35 kilograms per tonne and adapt their operation in a manner that allows the high Vanadium ore to be processed more efficiently. After completion of the project, NTMK will operate three blast furnaces. The remaining blast furnaces will be shut down though the total pig iron output will be increased by 400 thousand tonnes per year.

Enhancement of oxygen furnace capacity

The objective is to increase the oxygen converter facilities' output of steel from 3.45 million tonnes per annum to 5.2 million tonnes per annum. In the future depending on market conditions the Siemens-Martin facilities may be shut down. The oxygen converter vessel shells are close to the end of their working lives and will be replaced in sequence with modern shells of a larger size. The project is intended to be implemented in 2005-2007, and the approximate costs of the upgrade are in the region of U.S.\$ 131 million. The majority of work will involve the replacement of the converter hoods and fume scrubbing system, which currently restricts the output. The works to be carried out also include the reconstruction of two continuous casting machines.

Following the increase of its oxygen furnace capacity, NTMK plans to increase its output of continuously casted steel, which will allow the Siemens-Martin plant to be shut down and improve the ecological situation at the site and decrease the cost of crude steel production.

Oxygen production facilities

In order to ensure the continuity of supply of oxygen for iron and steel production, NTMK is considering reconstruction of two oxygen plants during 2005-2007. The total investments are estimated at U.S.\$ 24.5 million.

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 wheel output by 40 per cent. to 630,000 items. The investment will total U.S.\$ 58.7 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 Russian Railways at a price higher than that it currently charges.

Construction of a new continuous casting machine

The construction of a fourth continuous casting machine is intended to be the first element of the future technological process of large diameter tube production. The continuous casting machine will produce wide slabs of high quality which can be used to produce wide plates. The construction of the continuous casting machine will cost approximately U.S.\$ 30 million.

Electricity generation

NTMK currently meets approximately 35 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 by way of commissioning two new turbo-

generators to cover more than 50 per cent. of its electricity requirements by early 2005 and up to 67 per cent. by 2005. The cost of this project will be approximately U.S.\$ 22 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.

Apart from the above investment projects, NTMK incurs annual maintenance expenditures in the range of U.S.\$ 30 million.

Insurance

In addition to maintaining obligatory insurance policies required by Russian law and employees' insurance policies required by the terms of 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 holds all the necessary environmental licences, including licences for use of water resources, water discharges, air emissions, waste disposal and waste management. Pollution up to certain levels is permitted by law. NTMK's costs of environmental compliance include (i) payments for air and water discharges as well as waste which are within the limits set out in its licences and (ii) payments for discharge and waste in excess of these limits. Annual costs of environmental compliance is about U.S.\$ 1 million.

In the beginning of 2004 NTMK underwent an overall review of its business activities, including environmental issues. This review was performed by an independent technological consultant Atkins and concluded that the current performance of works in terms of control of emissions to the atmosphere, discharges to rivers and the handling of solid waste is generally good having regard to the age of the plant and installed pollution control equipment.

As a result of a number of technological innovations, between 1998 and 2003, NTMK reduced the volume of air discharges by approximately 62 per cent., from 288 thousand tonnes to 110 thousand tonnes. No environmental penalties were levied or paid in 2003.

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 ovens in the rail and structural steel mill; and
- commissioning of a 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:

- reconstruction of the largest blast furnaces in order to shut down two older blast furnaces; and
- refurbishment of four coke oven batteries.

NTMK plans to obtain an ISO 14001 certification by 2010. Achievement of ISO 14001 certification will ensure that the necessary management systems are in place and working to sustain the environmental improvements.

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 G. Abramov is a member of the Board of Directors of NTMK. He founded OOO EvrazHolding in 1999 and has been the President of the company since its foundation. Mr. Abramov is also a member of the Board of Directors of 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.

Alexander V. Katunin has been a member of the Board of Directors of NTMK since 1998 and is 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 has been 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.

Sergei K. Nosov is a Vice President and the Managing Director for NTMK. Mr. Nosov is also a member of the Board of Directors of NKMK. Mr. Nosov joined the Original Group in 1998 as a First Deputy General Director of NTMK and has been 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 A. Sevenyuk has been a member of the Board of Directors since 2004. He is a Senior Vice President and the Chief Operating Officer of OOO EvrazHolding and is responsible for industrial policy of the group and management of the Evraz Group strategy. Mr. Sevenyuk is also a member of the Board of Directors of ZapSib and NKMK. Mr. Sevenyuk has worked for the Original Group since 1999. Prior to joining Evraz Group, Mr. Sevenyuk operated private companies in the 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 member of the Board of Directors of NTMK. Mr. Frolov is a Senior Vice President and the Chief Financial Officer of OOO EvrazHolding. He is in charge of financial and international activities of Evraz Group. Mr. Frolov is also a member of the Board of Directors of ZapSib and NKMK. 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.

Pavel S. Tatyatin has been a member of the Board of Directors since 2004. Mr. Tatyatin is also a member of the Board of Directors of ZapSib. Mr. Tatyatin is a Vice President and Head of the Corporate Finance Department of OOO Evraz Holding. He oversees trade financing, project finance and capital market activities, mergers and acquisitions and corporate structuring of Evraz Group. Mr. Tatyatin 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 master degree in economics.

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

Viktor A. Akimov has been a member of the Board of Directors since 2003. Mr. Akimov is also a member of the Board of Directors of ZapSib and NKMK. Mr. Akimov works for law firm “A.Makarov and A.Tobak” and was a vice-chairman of the Bashkortostan Republic Supreme Court. He graduated from Bashkir State University in 1977.

Irina V. Kiseleva has been a member of the Board of Directors of NTMK since 2004. Ms. Kiseleva is also a member of the Board of Directors of ZapSib and NKMK. Ms. Kiseleva works for law firm “A. Makarov and A. Tobak”. She graduated from Moscow Law Academy in 1997.

Tatyana N. Alova has been a member of the Board of Directors of NTMK since 2004. Ms. Alova is also a member of the Board of Directors of ZapSib. Ms. Alova works for law firm “A. Makarov and A. Tobak”. She graduated from the Moscow State Institute of International Relations in 2003.

Auditors

OOO “Financial and Audit Consultants” 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 and indebtedness

The following table sets out the capitalisation and indebtedness of NTMK as at 31 March 2004 and is derived from the management estimate of the balance sheet of NTMK as at 31 March 2004 prepared in accordance with IFRS. The estimate was made on the basis of the unaudited statutory financial statements of NTMK. The actual capitalisation and indebtedness of NTMK as at 31 March 2004 may be materially different from the estimate.

	As at 31 March 2004 (U.S.\$ thousands)
Issued capital	61,444
Share premium	6,451
Reserve capital	2,400
Translation difference	3,621
Accumulated profits	497,514
Total equity	571,630
Long-term loans	103,772
Liabilities under the Settlement Agreement	58,280
Promissory notes payable	1,664
Restructured taxes payable	13,227
Finance lease obligations	4,351
Deferred income tax liabilities	69,307
Other long-term liabilities/Provisions	352
Total non-current liabilities	250,953
Total current liabilities	168,927
TOTAL CAPITALISATION	991,510

This interim financial information of NTMK as at 31 March 2004 was not audited or reviewed by Ernst & Young (CIS) Limited. There has been no material change in the capitalisation or indebtedness of NTMK since 31 March 2004.

Summary Financial Information

The following tables set out in summary form balance sheet and income statement information relating to NTMK:

Summary balance sheet

	31 December 2003	31 December 2002	31 December 2001
	(U.S.\$ thousands)		
ASSETS			
Non-current assets			
Property, plant and equipment, net	623,165	586,622	638,096
Other non-current assets	21,193	16,810	18,309
	644,358	603,432	656,405
Current assets			
Inventories	74,203	45,471	55,266
Trade and other receivables, net	8,861	18,519	15,976
Cash and cash equivalents	73,466	13,892	3,851
Other current assets	88,832	46,320	56,407
	245,362	124,202	131,500
TOTAL ASSETS	889,720	727,634	787,905
EQUITY AND LIABILITIES			
Total equity	497,167	397,088	385,084
Total non-current liabilities	254,599	207,085	205,599
Total current liabilities	137,954	123,461	197,222
TOTAL EQUITY AND LIABILITIES	889,720	727,634	787,905

Summary income statement

	Year ended 31 December 2003	Year ended 31 December 2002	Year ended 31 December 2001
	(U.S.\$ thousands)		
Revenues	1,039,794	810,406	838,090
Cost of revenues	(811,314)	(687,123)	(763,733)
Gross profit	228,480	123,283	74,357
Selling, general and administrative expenses	(72,405)	(70,755)	(73,467)
Foreign currency exchange gains (losses), net	1,798	(7,407)	(11,499)
Gain on net monetary position	—	28,996	47,949
Other operating expenses	(43,688)	(40,086)	(16,455)
Other operating income	4,282	4,429	3,406
Profit from operating activities	118,467	38,460	24,291
Interest expense	(23,459)	(27,503)	(22,858)
Gain on extinguishments of debts	587	12,482	26,240
Profit before income taxes	95,595	23,439	27,673
Income tax (expense) benefit	(30,205)	(11,435)	31,962
NET PROFIT	65,390	12,004	59,635

This information is derived from the audited parent company financial statements of NTMK as at and for the years ended 31 December 2003, 31 December 2002 and 31 December 2001. The financial statements of NTMK are prepared in accordance with IFRS. Such financial statements for the years ended 31 December 2003 and 31 December 2002, 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 above should be read in conjunction with such financial statements, reports and the notes thereto.

ZAPSIB

Overview

ZapSib is the largest steel mill in the Siberian region and the eastern-most 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	
	2003	2002
	U.S.\$ million	
Net sales	1,026	712.0
Operating profit (loss)	147	1.3
Total assets	620.3	554.5
Interest bearing debt ⁽¹⁾	130.4	50.5

(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 the 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. 235r/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) includes production of 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 arbitrazh court declared ZapSib insolvent, initiated bankruptcy proceedings and installed external management at ZapSib for 18 months. In 1999, the arbitrazh 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 arbitrazh 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 has been accounted for in the IFRS parent company financial statements of ZapSib contained in this Offering Circular 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 the 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.\$ 122.2 million at the exchange rate as of 31 December 2003) 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.\$ 18.3 million as of 31 December 2003.

To date, ZapSib has been in full compliance with the terms of the settlement agreement, as well as the tax, pension and social fund restructuring. As of 31 December 2003, the nominal outstanding amount under the settlement agreement amounted to U.S.\$ 179.6 million (compared with U.S.\$ 197.8 million as of 31 December 2002). The amortised cost of the outstanding amount under the settlement agreement as of 31 December 2003 was U.S.\$ 33.1 million (compared to U.S.\$ 51.8 million as of 31 December 2002).

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 June 2004)

Shareholders	Number of Ordinary Shares	Number of Preferred Shares	Percentage
Lakemill	6,625,080	260,064	51.4
Logicmind	5,524,617	37,307	42.0
Others (including employees)	633,026	255,975	6.6
Total	12,782,723	604,826	100

Lakemill and Logicmind are members of Evraz Group. As of 1 June 2004, Evraz Group held approximately 93.4 per cent. of ZapSib's share capital.

ZapSib's shares are currently traded on RTS. As of 1 June 2004, the bid price of ZapSib shares on the RTS was U.S.\$ 60 and the offer price was U.S.\$ 69.0.

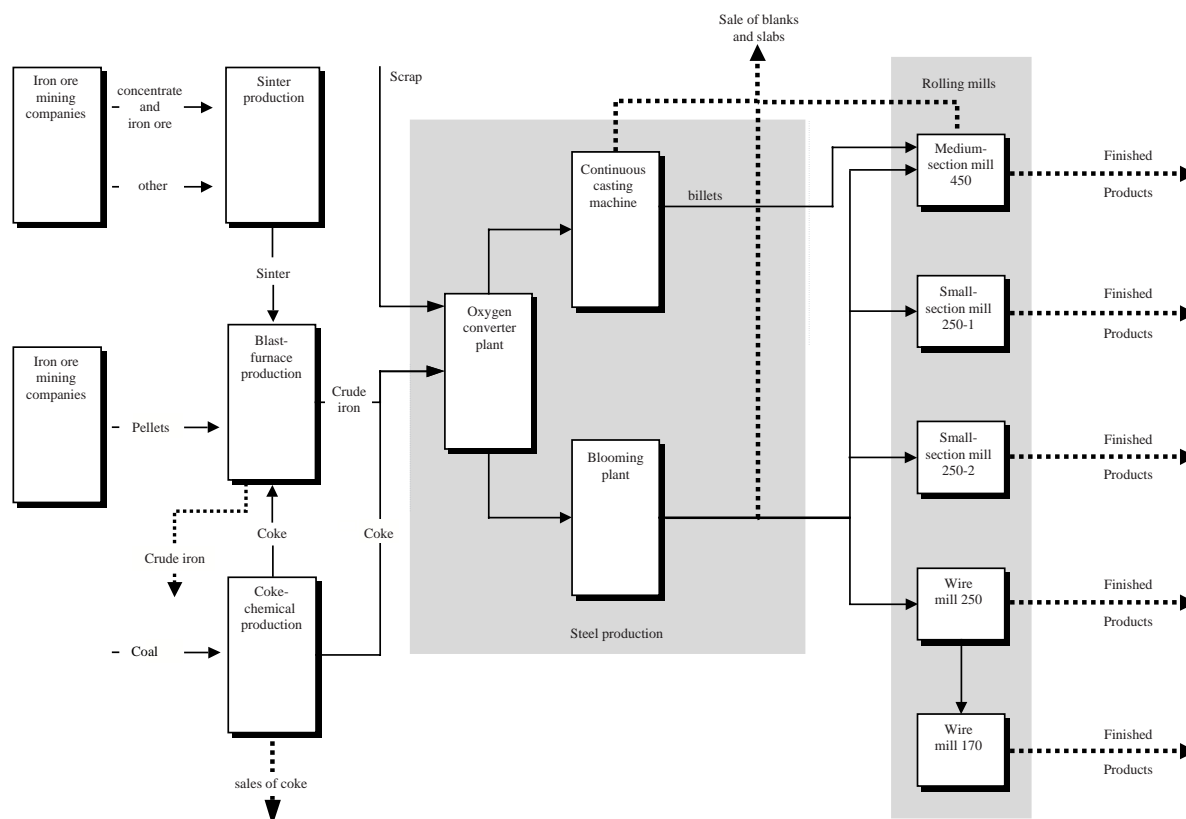
Debt Obligations and Other Commitments

As of 31 March 2004, the aggregate debt obligations of ZapSib (including short- and long-term borrowings and the indebtedness under the settlement agreement) equalled U.S.\$ 121.6 million (including U.S.\$ 90 million of secured debt). Short-term indebtedness represents approximately 23 per cent. of the aggregate amount of ZapSib's indebtedness. As of the date of this Offering Circular, ZapSib has not issued convertible debt securities, exchangeable debt securities nor debt securities with warrants attached.

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 the Appendix (“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 2003, ZapSib produced 3,410 thousand tonnes of coke, which represents a 2.6 per cent. increase in comparison to 2002.

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 2.8 per cent. in 2003 to 7.3 million tonnes.

Blast furnaces

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

In 2003, ZapSib produced 4,897 thousand tonnes of iron which was a 5.7 per cent. increase in comparison to 2002.

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.

	Annual design capacity (th. tonnes)	1998	1999	2000	2001	2002	2003
Total - oxygen converter .	3,257	3,435	4,747	5,434	5,578	5,716	5,931
Growth (decline) rate (%)	8,000	5.5%	38.2%	14.5%	2.6%	2.5%	3.8%

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 1,300 thousand tonnes per year. In 2003, 1,023 thousand tonnes of billets were cast.

Blooming plant

ZapSib has a blooming plant with a capacity of 6,480 thousand tonnes per annum. In 2003 it produced 4,390 thousand tonnes of slabs and square billets (86.2 per cent. of the production in 2002, a decrease which was offset by increased continuously cast billets).

Rolling mills

ZapSib has 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 5,318 thousand tonnes in 2003. Production of wire has increased from 165 thousand tonnes in 1997 to 209 thousand tonnes in 2003.

Production Output

In 2003, ZapSib produced 4,897 thousand tonnes of pig iron (compared to 4,632 thousand tonnes in 2002), 5,931 thousand tonnes of steel (compared to 5,716 thousand tonnes in 2002) and 5,318 thousand tonnes of rolled products (compared to 5,006 thousand tonnes in 2002).

Between 2000 and 2003, steel production at ZapSib grew by 3.0 per cent. CAGR, reaching 5,931 thousand tonnes in 2003. At this production level, the iron production plant ran at 103 per cent. of its capacity, the small section mills were running at around 64 per cent. of their capacity and the medium-section mill and the wire mill at approximately 75 per cent. and 90 per cent. of their capacity, respectively.

ZapSib – Capacity utilisation

	1999	2000	2001	2002	2003
	(per cent.)				
Iron, total	87.8	95.8	96.3	97.6	103.1
Steel, total	58.8	67.3	69.1	71.3	74.0
Blooming plant	72.8	83.4	85.7	92.0	67.7
Medium-section mill	81.9	82.3	81.7	77.5	75.1
Small-section mills 250-1	58.0	62.0	63.8	60.9	63.5
Small-section mills 250-2	41.6	49.8	59.8	62.3	65.0
Wire mill 250	78.9	88.4	86.6	89.5	89.4
Wire mill 170	82.5	90.3	90.6	86.8	90.1

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.

Production Output by Sectors

	2000	2001	2002	2003
	(thousand tonnes)			
Construction	1,683	1,896	1,954	2,172
<i>sections</i>	689	688	623	698
<i>rebars</i>	994	1,207	1,331	1,474
Semi-finished products	2,105	1,999	2,049	1,992
Mining	50	54	58	58
Other	934	932	950	1,006
<i>wire rod and rounds</i>	724	718	729	754
<i>wire</i>	208	211	202	213
<i>other</i>	2	3	19	39
Total	4,772	4,880	5,011	5,228

Semi-finished products

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

In 2003, ZapSib sold 1,992 thousand tonnes of semi-finished products including 1,516 thousand tonnes for export (compared with 2002 sales of 2,049 thousand tonnes and 1,699 thousand tonnes, respectively). Semi-finished products are sold to NKMK as an input for plate rolling mill and to strategic customers such as Novosibirsk Metallurgical Plant.

Construction Sector – Rebars

Rebars are one of ZapSib's fastest growing products. In 2003, ZapSib sales of rebars rose to 1,474 thousand tonnes including 664 thousand tonnes for export (compared with 2002 sales of 1,331 thousand tonnes and 479 thousand tonnes, respectively). Sales volumes of rebars have increased on average by 14 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 lead to a strong growth in both domestic and export prices.

ZapSib produces about 45 per cent. of rebars in Russia and has a 29 per cent. share of the domestic market for rebars. Mechel is the second largest producer with about 30 per cent. and Severstal and MMK control about 16 per cent. and 4 per cent. respectively. Because the market is efficient and the quality is standard, market share depends mainly on price. Currently the market is balanced.

Round rolls

Round rolls include wire rod and other round rolls.

In 2003, ZapSib sold 754 thousand tonnes of round rolls including 367 thousand tonnes for export (compared with 2002 sales of 729 thousand tonnes and 372 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.).

Other rolled steel

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

In 2003, ZapSib's sales of other rolled steel increased by 14 per cent. 2003 sales amounted to 795 thousand tonnes including 170 thousand tonnes for export (compared with 2002 sales of 700 thousand tonnes and 175 thousand tonnes, respectively).

Wire

Wire is sold almost exclusively to the Russian market. Sales volumes of wire have been stable and accompanied by a steady growth in prices over the last three years. In 2003, ZapSib sold 213 thousand tonnes of wire (compared with 2002 sales of 202 thousand tonnes).

Procurement and Supply

Raw materials

The principal materials which are used by ZapSib to produce steel include iron ore, coking coal, scrap, ferroalloys and refractory products.

Iron ore

ZapSib's largest suppliers of iron ore are Evraz Ruda, Mikhailovsky GOK, Kachkanarsky GOK and Kovdorsky GOK.

The table below sets out the main suppliers of iron ore in 2001, 2002 and 2003.

	2001	2002	2003	% of total (2003)
	(thousand tonnes)			
Evraz Ruda	1,820	1,857	1,898	24.3%
Mikhailovsky GOK	1,770	2,798	3,461	44.2%
Kovdorsky GOK	9	773	1,184	15.1%
Kachkanarsky GOK	345	508	638	8.1%
Korshunovsky GOK	3,112	731	126	1.6%
Others	525	917	520	6.7%
Total	7,581	7,584	7,827	100%

Coking coal

ZapSib purchases approximately 370 thousand tonnes of coking coal per month. Coking coal is mainly supplied from Uzhkuzbassugol by Evraz Resurs. ZapSib processes all coking coal in its own enrichment facilities.

ZapSib operates its coke batteries at full capacity which allows ZapSib to sell surplus amounts of coke. ZapSib also processes coke by-products to produce chemicals, which generates additional income.

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

Scrap

Scrap is partially purchased from third parties and partially derived internally from the ZapSib's, blooming plant and the rolling mills. There are more than 30 external suppliers of scrap, the most important are Troyka-Met, Metallimpex, Altayvtormet and Sibvtormet. All procurements from the suppliers and deliveries to ZapSib are fulfilled by EH Trading House.

Ferroalloys

All procurements of ferroalloys are fulfilled through EH Trading House. The main suppliers for ZapSib are Promspetskomplekt (Ukraine, Kazakhstan), Kosogorsky Metallurgical Plant, Chelyabinsk Electrometallurgical Plant and Ural-Siberian GMK.

Refractory materials

All procurements of refractory materials are fulfilled through EH Trading House. About 23 per cent. of the materials are imported mainly by Spetsoborudovaniye i Materially (Germany). In the domestic market ZapSib purchases refractory materials from more than 20 suppliers, the main suppliers being Pervouralsky Dinasovy Zavod, Magnesit and OAO Ogneupory.

Energy and Transportation

Energy related expenses amounted to 8.9 per cent. of ZapSib's overall costs both in 2002 and 2003. Of its total energy expenses 61 per cent. relates to electricity, 22 per cent. to natural gas and the rest to heat and steam power produced by an electricity trader Metalloenergofinance ("MEF").

Transportation costs influence ZapSib's operations indirectly – as part of ZapSib's raw material costs as well as by impacting the prices ZapSib can charge customers for its products (as customers pay the cost of transportation from Norokuznetsk Severniy).

Electricity

Historically, electricity was supplied to ZapSib by Kuzbussenergo, a subsidiary of RAO UES. In November 2002, ZapSib signed a contract with 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 the FOREM (Federal Wholesale Electricity Power Market) in the future. In 2003, the average electricity price for ZapSib was RUR 487 per 1,000 kWh, a 7 per cent. increase as compared to 2002.

Natural gas

The main supplier of natural gas consumed by the blast furnaces and heating power plants is AK Sibur, a subsidiary of Gazprom. In 2003, the average price was RUR 843 per 1,000 cubic metre, a 34 per cent. increase as compared to 2002.

Transportation

ZapSib's main provider of rail transportation services for factory-bound shipments is Russian Railways, the tariffs for which are linked to the changes in the prices for railway products supplied by Evraz Group to Russian Railways. ZapSib also has limited transportation facilities around the plant.

Investment Programme

Since taking management control, Evraz Group has been reviewing ZapSib's investment programme in light of standardised budgeting procedures imposed by the management company. The relatively modern technology of the plant requires limited investments into upgrades or maintenance of the plant, although a decision has been made to switch all ingot casting to continuous casting technology. The capital expenditure programme for 2004 was budgeted at about U.S.\$ 120 million, including U.S.\$ 63 million for the replacement of ingot casting, U.S.\$ 10 million for the reconstruction of the coke plant and U.S.\$ 39 million for the commissioning of the new blast furnace.

Replacement of ingot casting by continuous casting

Capital investment programme of ZapSib focuses on the gradual replacement of ingot casting by continuous casting, which will allow increased production of technologically more sophisticated steel grades and products, having a greater export potential.

The project which is to be completed in 2006 is intended to decrease steel production costs by decreasing wastage. The project budget now provides for aggregate investments in the amount of U.S.\$ 192 million.

Blast finance

In the first quarter of 2005 ZapSib plans to commission a new blast furnace which would result in an increase of iron output by 1.2 million tonnes annually. The investments necessary to implement the project amount to U.S.\$ 39 million.

Coking batteries

Additional investments, in the amount of U.S.\$ 116 million, are contemplated for the reconstruction of the coking batteries at ZapSib, which is intended to be completed by 2010. This investment will comprise the reconstruction of coking batteries number 1 and 2, and the refurbishment of two other coking batteries. The aim of this investment programme is to maintain the current level of production at ZapSib, to increase production efficiency and to meet environmental requirements.

Apart from the above investment projects, ZapSib incurs annual maintenance expenditures in the range of U.S.\$ 15-17 million.

Insurance

ZapSib maintains obligatory insurance policies required by Russian law and employees' insurance policies (required by the terms of the collective bargaining agreements to which it is a party) 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 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 holds all necessary environmental licences, including licences for use of water resources, water discharges, air emissions and waste disposal.

ZapSib's costs of environmental compliance include (i) payments for atmospheric and water discharges as well as waste which are within the limits set out in its licences and (ii) payments for discharge and wastes in excess of these limits.

Annual costs of environmental compliance are about U.S.\$ 1.6 million. Approximately 78 per cent. of the payments relate to air emissions, 21 per cent. to water discharges and 1 per cent. to other types of pollution.

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

ZapSib has recently undergone an environmental review by the independent technological consultant McLellan and Partners Ltd. which concluded that the current performance of the works in terms of control of emissions to the atmosphere, discharges to rivers and the handling of solid waste is generally good having regard to the age of the plant and the installed pollution control equipment, most of which was installed in the 1970s. The report concluded that all areas of the works appeared to be well maintained with the emission control plant operating effectively. Emissions to the atmosphere were generally within or close to the maximum permissible concentrations and emission limits. Emissions of smoke and fumes from the coke batteries appeared to be remarkably low, mainly due to the use of dry coke quenching. The major sources of emissions to the atmosphere are sintering shops.

The suggested environmental improvements at ZapSib included:

- modernisation or replacement of sinter machines, to reduce energy consumption and emissions to atmosphere;
- modernisation of coke oven batteries including the provision of fabric filter systems to reduce dust and fume emissions;
- improved emission control systems for the coke chemical by-product plant;
- provision of cast house dust capture equipment for Blast Furnace No 2;
- improvements to reduce fume emission in the steelmaking plants; and
- construction of a treatment plant and pumping station to recover water at present discharged to a river.

In the longer term it is necessary to replace the remaining wet dust collection systems and introduce secondary fume capture equipment.

The above improvements will enable ZapSib to substantially reduce the air emissions and discharges to river of pollutant substances and will enable ZapSib to satisfy the requirements of the regulatory authorities in the medium term.

ZapSib has a quality assurance system in accordance with ISO 9001:2000, which was audited and confirmed by Lloyds Register in March 2004. The company is also in the process of developing an Environmental Management System (EMS) to ISO 14001. The intention is to apply for accreditation before the end of 2004. ZapSib has a laboratory for environmental protection and for monitoring of emissions and discharges. The laboratory is licensed by the Kemerovsky Regional Administration and is accredited by the Russian State Standard Committee.

Management

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

Alexander G. Abramov is a member of the Board of Directors of ZapSib. He founded OOO EvrazHolding in 1999 and has been the President of the company since its foundation. Mr. Abramov is also a member of the Board of Directors of NTMK. 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.

Alexander I. Kopytov has been a member of the Board of Directors of ZapSib since 1992. Mr. Kopytov is also a member of the Board of Directors of NKMK. 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 member of the Board of Directors of ZapSib. He is a Senior Vice President and the Chief Operating Officer of OOO EvrazHolding and is responsible for industrial policy of the group and management of Evraz Group's strategy. Mr. Sevenyuk is also a member of the Board of Directors of NTMK and NKMK. Mr. Sevenyuk has worked for the Original Group since 1999. Prior to joining Evraz Group, Mr. Sevenyuk operated private companies in the metals and mining sector. Mr. Sevenyuk graduated from the Moscow Institute of Physics and Technology (a first-class honours degree) in 1993.

Pavel S. Tatyatin is a member of the Board of Directors of ZapSib. He is a Vice President and Head of the Corporate Finance Department of OOO EvrazHolding. Mr. Tatyatin is also a member of the Board of Directors of NTMK. He oversees trade financing, project finance and capital markets activities, mergers and acquisitions and corporate structuring of Evraz Group. Mr. Tatyatin 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 member of the Board of Directors of ZapSib. Mr. Frolov is a Senior Vice President and the Chief Financial Officer of OOO EvrazHolding. He is in charge of financial and international activities of Evraz Group. Mr. Frolov is also a member of the Board of Directors of NTMK and NKMK. 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.

Andrey V. Mokrinsky has been a member of the Board of Directors of ZapSib since 2004. Mr. Mokrinsky is a Vice President and the Managing Director of ZapSib. Mr. Mokrinsky joined the Evraz Group in 2003 as the Head of Production and Technological Policy Department. Prior to that Mr. Mokrinsky held various positions at Chelyabinsk Integrated Iron and Steel Plant (Mechel). He graduated from Moscow Institute of Steel and Alloys in 1982.

Viktor A. Akimov has been a member of the Board of Directors of ZapSib since 2004. Mr. Akimov is also a member of the Board of Directors of NTMK and NKMK. Mr. Akimov works for law firm "A. Makarov and A. Tobak" and was a vice-chairman of the Bashkortostan Republic Supreme Court. He graduated from Bashkir State University in 1977.

Irina V. Kiseleva has been a member of the Board of Directors of ZapSib since 2004. Ms. Kiseleva is also a member of the Board of Directors of NTMK and NKMK. Ms. Kiseleva works for law firm "A. Makarov and A. Tobak". She graduated from Moscow Law Academy in 1997.

Tatyana N. Alova has been a member of the Board of Directors of ZapSib since 2004. Ms. Alova is also a member of the Board of Directors of NTMK. Ms. Alova works for law firm "A. Makarov and A. Tobak". She graduated from the Moscow State Institute of International Relations in 2003.

Auditors

OOO "Financial and Audit Consultants" are auditors of ZapSib's 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 and indebtedness

The following table sets out the capitalisation and indebtedness of ZapSib as at 31 March 2004 and is derived from the management estimate of the balance sheet of ZapSib as at 31 March 2004 prepared in accordance with IFRS. The estimate was made based on the unaudited statutory financial statements of ZapSib. The actual capitalisation and indebtedness of ZapSib as at 31 March 2004 may be materially different from the estimate.

	As at 31 March 2004
	<i>(U.S.\$ thousands)</i>
Issued capital	30,620
Share premium and additional paid-in capital	17,429
Reserve capital	235
Additional paid-in capital	4,446
Translation difference	388
Accumulated profits	330,808
Subtotal equity	383,926
Long-term loans	72,000
Liabilities under the Settlement Agreement	21,464
Promissory notes payable	693
Restructured taxes payable	10,299
Finance lease obligations	5,829
Deferred income tax liabilities	50,812
Other long-term liabilities/Provisions	3,017
Total non-current liabilities	164,114
Total current liabilities	113,682
TOTAL CAPITALISATION	661,722

This interim financial information of ZapSib as at 31 March 2004 was not audited or reviewed by Ernst & Young (CIS) Limited. There has been no material changes in the capitalisation or indebtedness of ZapSib since 31 March 2004.

Summary Financial Information

The following tables set out in summary form balance sheet and income statement information relating to ZapSib:

Summary balance sheet

	31 December 2003	31 December 2002	31 December 2001
	<i>(U.S.\$ thousands)</i>		
ASSETS			
Non-current assets			
Property, plant and equipment, net	366,026	398,526	444,389
Other non-current assets	23,488	13,181	15,056
	389,514	411,707	459,445
Current assets			
Inventories	93,246	68,422	82,281
Trade and other receivables, net	7,908	11,935	20,164
Cash and cash equivalents	49,582	553	3,791
Other current assets	80,078	61,882	42,881
	230,814	142,792	149,117
TOTAL ASSETS	620,328	554,499	608,562
EQUITY AND LIABILITIES			
Total equity	309,618	177,752	188,068
Total non-current liabilities	148,990	109,875	197,378
Total current liabilities	161,720	266,872	223,116
TOTAL EQUITY AND LIABILITIES	620,328	554,499	608,562

Summary income statement

	Year ended 31 December 2003	Year ended 31 December 2002	Year ended 31 December 2001
	<i>(U.S.\$ thousands)</i>		
Revenues	1,025,851	711,995	685,935
Cost of revenues	(802,078)	(640,003)	(661,477)
Gross profit	223,773	71,992	24,458
Selling, general and administrative expenses	(81,862)	(80,633)	(87,451)
Tax-related fines and penalties	(111)	(7,210)	(104,433)
Foreign currency exchange gains (losses), net	5,706	(7,074)	(13,835)
Gain on net monetary position	–	34,022	74,467
Other operating expenses	(11,613)	(14,518)	(22,368)
Other operating income	11,039	4,723	5,148
Profit from operating activities	146,932	1,302	(124,014)
Interest expense	(10,090)	(19,630)	(2,303)
Gain on extinguishments of debts	1,744	3,820	94,519
Other non-operating income	4,792	–	–
Profit before income taxes	143,378	(14,508)	(31,798)
Income tax (expense) benefit	(34,629)	2,293	14,457
Net profit (loss) from ordinary activities	108,749	(12,215)	(17,341)
Extraordinary item – gain on extinguishment of debts under the Settlement Agreement (net of income tax)	–	1,899	122,120
NET PROFIT	108,749	(10,316)	104,779

This information is derived from the audited parent company financial statements of ZapSib as at and for the years ended 31 December 2003, 31 December 2002 and 31 December 2001. The financial statements of ZapSib are prepared in accordance with IFRS. Such financial statements for the years ended 31 December 2003 and 31 December 2002, 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 above should be read in conjunction with such financial statements, reports and the notes thereto.

NKMK

Overview

NKMK is an integrated iron and steel plant located in the city of Novokuznetsk, Kemerovo region. It is the leading rail producer in the Russian Federation, producing a full range of rails, and, together with NTMK, the exclusive rail supplier to Russian Railways. NKMK's output of rails accounts for approximately two thirds of the Russian and 8 per cent. of the total rail production worldwide.

NKMK Performance

	As at 31 December 2003 and for the period from 5 May 2003 to 31 December 2003
	U.S.\$ million
Net sales	154.9
Operating profit (loss)	13.4
Total assets	148.5
Interest bearing debt	37.5

History

NKMK was established by Evraz Group in 2003 for the purpose of acquiring production and other assets of KMK. NKMK was registered by the Inspection of the Ministry of the Russian Federation for Taxes and Levies for the Central District of Novokuznetsk of the Kemerovo region (state registration number – 1034217017086) on 5 May 2003.

Construction of KMK began in the early 1920s and in 1932 pig iron and rail production commenced at KMK. During World War II, KMK was used to produce military equipment. In the beginning of the 1990s, KMK was privatised and transformed into a joint stock company under Russian law. KMK was registered as an open joint stock company on 24 December 1992 with a registration No. 263/92-2447.

On 30 May 2002 prior to involvement of Evraz Group, KMK was declared bankrupt by a decision of the arbitrazh court of the Kemerovo region. In 2001, as part of the bankruptcy proceedings which had begun in 1998, several new entities had been created to hold the assets of KMK. Some of the assets of KMK were acquired on behalf of the Crosland Group at auction and later partially consolidated within NKMK by Evraz Group. See “Business—Reorganisation of the Original Group and Structure of Evraz Group”.

Social Object

NKMK's Charter (Articles of Association) establishes a multitude of objectives of its activities. Among other things, the list of NKMK's activities includes production of iron and steel products, production of rails, development and exploration of subsoil, production and transmission of electricity and others. Most of NKMK's listed activities require special approvals from the state and NKMK has been granted all licences required for its activities.

Share Capital

NKMK's issued share capital consists of 122,000 ordinary shares each with a par value of RUB 1,000. NKMK may issue 300,000 shares with a par value of RUB 1,000 in addition to the issued share capital.

NKMK's Shareholders

As of 1 June 2004, 98 per cent. of the issued shares of NKMK were held by Sibmetinvest and 2 per cent. by Mastercroft.

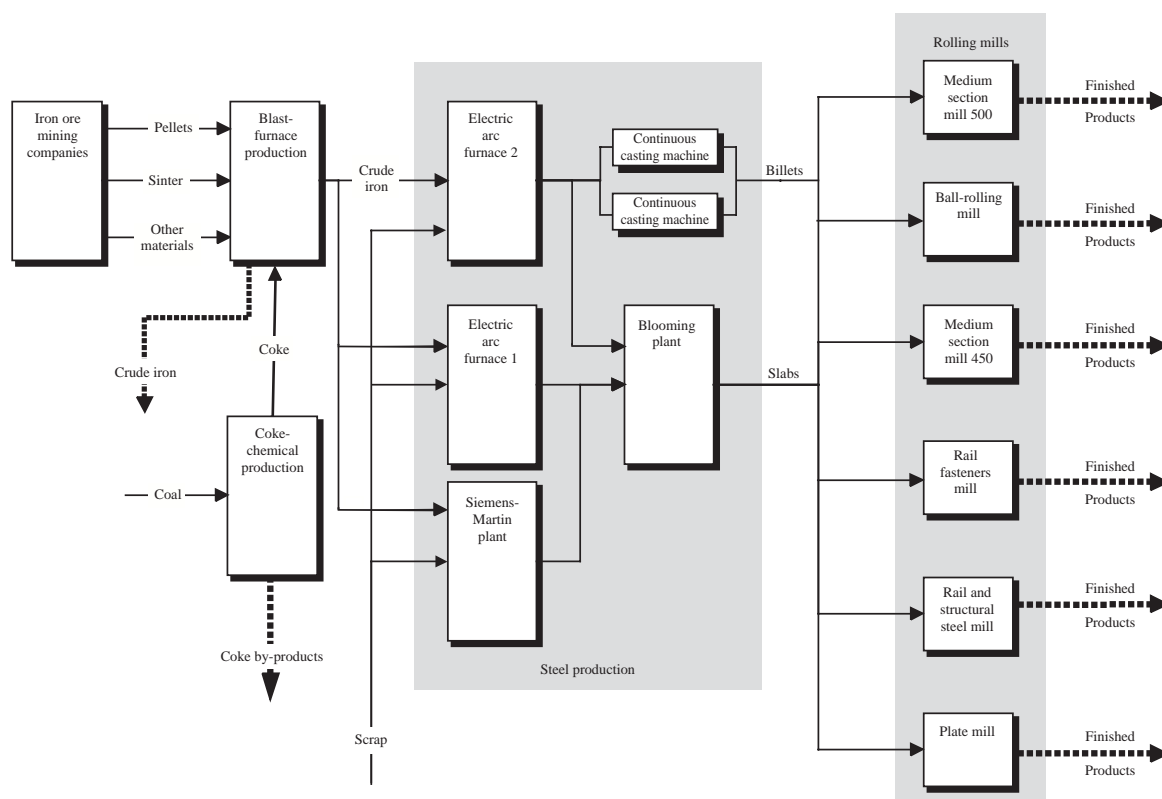
Debt Obligations and Other Commitments

As of 31 March 2004, the aggregate debt obligations of NKMK (including short-term loans, a long-term loan from a related party and finance lease obligations) equalled U.S.\$ 41.7 million which included U.S.\$ 11.1 million of secured debt. Short-term indebtedness represents approximately 92 per cent. of aggregate amount of NKMK's indebtedness. As of the date of this Offering Circular, NKMK has not issued convertible debt securities, exchangeable debt securities nor debt securities with warrants attached.

Production

NKMK is an integrated steel plant. It produces various types of steel products and is the leading rail producer in Russia. The production facilities include: a coke-chemical production plant, two blast furnaces, steel-making facilities (using electric arc furnaces and Siemens-Martin plant), a blooming plant, two continuous casting machines, rail production facilities and rolling mills.

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



Iron Production

Coke-chemical production

The coke-chemical production facilities include two coal preparation shops, two gas recovery shops, a rectification shop, a tar processing shop and a phthalic anhydride shop. There are three coking batteries, which produced 1,176 thousand tonnes of coke in 2003. Coke output is sufficient for the active blast furnaces.

NKMK also produces wet-quenched coke, which it consumes in blast-furnace production and sells coke to other companies.

Blast furnaces

The blast furnace shop has two blast furnaces with a total volume capacity of 3,029 m³.

In 2003, NKMK produced 2,169 thousand tonnes of iron.

The raw materials used in the blast furnace are sinter, pellets and coke. Coke is produced at NKMK.

Steel Production

All steel produced at NKMK is produced in a Siemens-Martin plant and two electric arc furnaces with a total capacity of 2,585 thousand tonnes per year.

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

Continuous casting machines

NKMK operates two continuous casting machines with a total capacity of 830 thousand tonnes per annum. In 2003, they produced 893 thousand tonnes of billets.

Blooming plant

NKMK has a blooming plant with a capacity of 2,900 thousand tonnes per annum. In 2003 it produced 1,718 thousand tonnes of slabs and blooms.

Rolling mills

NKMK has six rolling mills (a rail and structural steel mill, a plate mill, a ball-rolling mill, a rail fasteners mill and two section mills).

NKMK's production of rolled products (including semi-finished products) was 2,216 thousand tonnes in 2003.

The rail and structural steel mill consumes steel coming mostly from the electric arc furnaces through the two continuous casting machines, which effectively increases the quality of the rails being produced.

To further improve the quality of the final product, a thermal treatment of rails is performed at NKMK.

Production Output

In 2003, NKMK produced 2,169 thousand tonnes of pig iron, 2,459 thousand tonnes of steel, 1,175 thousand tonnes of coke and 2,216 thousand tonnes of products, including 945 thousand tonnes of rails.

On this performance, the iron production plant ran at 97 per cent. of its capacity, the coke batteries ran at 100 per cent. of their capacity, the medium-section mill 450 ran at 75.4 per cent. of its capacity, the rail and structural steel mill ran at 84.6 per cent. of its capacity, the plate mill ran at 93.2 per cent. of its capacity, the medium-sections mill 500 ran at 62.1 per cent. of its capacity and the blooming plant ran at 59.3 per cent. of its capacity.

NKMK's Capacity Utilisation

The following table sets out capacity utilisation in 2002 and 2003.

	2002 ⁽¹⁾	2003
	(per cent.)	
Iron, total	96.7	97.0
Steel, total	93.6	94.7
– <i>Electric arc furnaces</i>	84.2	105.0
– <i>Siemens-Martin plant</i>	100.1	87.7
Blooming plant	64.8	59.3
Rail and structural steel mill	81.5	84.6
Plate mill	77.2	93.2
Medium-section mill 500	49.4	62.1
Medium-section mill 450	66.7	75.4
Ball-rolling mill	77.2	88.4
Rail fasteners mill	101.0	90.9

(1) The figures for 2002 relate to KMK

Quality Control

Quality control of NKMK is performed on the basis of its “Quality Policy”, the international standard MS ISO 9001:2000 and the Russian standard GOST R ISO 9001-2001. The Quality Policy sets out the following priorities: involvement of all personnel in quality management, improvement of consumer properties of metal products and reduction of production costs. The quality management system covers all stages of NKMK's production process. All NKMK railway products are certified also by the Russian Railways' certification system.

Products and Sales

NKMK allocates its production capacity on a monthly basis depending on demand and profitability of particular products. NKMK's major products are rails, plates, construction steel and semi-finished goods (billets, slabs and pig iron).

Rails

In 2003, NKMK sold 659 thousand tonnes of rails and 78 thousand tonnes of rail fasteners, predominantly in Russia.

Three quarters of NKMK's sales in 2003 were to Russian Railways with another 14 per cent. being sold to railway points manufacturers who then sell their output mainly to Russian Railways. Hence almost 90 per cent. of sales are ultimately destined for Russian Railways. The remainder of sales are to the growing industrial sector for internal transportation systems with a small proportion going to urban transport authorities.

NKMK has a strong market share in Russia of 69 per cent. (with the remaining 31 per cent. being sold by NTMK) and together are exclusive rail suppliers to Russian Railways.

98.9 thousand tonnes of rails and 3.5 thousand tonnes of rail fasteners were exported in 2003, primarily to other CIS countries. NKMK plans to sustain export of railway products at the same level.

Construction Steel

Construction steel at NKMK consists of angles and channels. These products are mainly sold in the Russian market.

In 2003 NKMK sold 20 thousand tonnes of angles and 47 thousand tonnes of channels in Russia and exported 3 thousand tonnes of angles.

The Russian market for channels is dominated by 3 domestic companies (Evraz Group, MMK and Severstal) having 80 per cent. of the market, and imports from other CIS countries (notably, Azovstal in the Ukraine) taking the remaining share. ZapSib, MMK, Severstal, and Azovstal are also the major players in the angles market.

Semi-finished goods

Semi-finished products include billets, slabs and pig iron. They are mainly produced for export.

In 2003, NKMK sold 32 thousand tonnes of billets and 38 thousand tonnes of slabs in Russia and exported 659 thousand tonnes of billets. Sales of pig iron amounted to 998 thousand tonnes from which 784 thousand tonnes was exported.

Other products

Other products at NKMK include rounds and plates. In 2003, NKMK sold 83 thousand tonnes of rounds and 154 thousand tonnes of plates in Russia and exported 300 thousand tonnes of plates.

Procurement and Supply

Raw materials

The principal materials which are used by NKMK in the production process include sinter, coking coal, metal scrap, ferroalloys and refractory products.

Sinter

NKMK purchases about 280 thousand tonnes of sinter from Evraz Ruda and 50 thousand tonnes of other iron ore (mainly pellets) from other producers.

Coking coal

NKMK purchases approximately 135 tonnes of coking coal per month. Coking coal is mainly supplied from Uzhkuzbassugol by Evraz Resurs.

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

Scrap

Scrap is partially purchased from third parties and partially derived internally from the blooming plant and the rolling mills. The most important external supplier of scrap is Sibvtormet. All procurements from the suppliers and deliveries to NKMK are fulfilled through EH Trading House.

Ferroalloys

All procurements of ferroalloys are fulfilled through EH Trading House. The main suppliers for NKMK are Chelyabinsk Electrometallurgical Plant, Promspetskomplekt (Ukraine, Kazakhstan) and Ural-Siberian GMK.

Refractory materials

All procurements of refractory materials are fulfilled through EH Trading House (65 per cent.) and NTMK (35 per cent.). The main suppliers through EH Trading House are Magnesit, OAO Ogneupory and Pervouralsky Dinasovy Zavod.

Energy and Transportation

NKMK's energy related costs consist of natural gas costs (21 per cent.), electricity costs (31 per cent.) and the remaining costs include heat and power related expenses mainly provided by KMK-Energo, which is a subsidiary of MEF.

Transportation costs influence NKMK's operations indirectly – as part of NKMK's raw material costs as well as by impacting the prices of NKMK can charge customers for its products (as customers pay the cost of transportation from Novokuznetsk Severniy).

Electricity

In October 2003, NKMK entered into an agreement for the supply of electricity with MEF. Prices for the supply of electricity are established pursuant to an annual term sheet which forms a part of the electricity supply agreement and are calculated on the basis of tariffs stipulated by the local energy commission (within the annual margins stipulated by the Federal Tariffs Service). The contract terminates on 31 December 2004 and may be extended by the parties.

Natural Gas

NKMK has entered into contract for the gas supply and maintenance of gas pipes with OOO KMK-Energo (subsidiary of MEF), which covers all of NKMK's demand for natural gas.

Transportation

NKMK's main provider of rail transportation services for factory bound shipments is Russian Railways, the tariffs of which are linked to the changes in the prices for railway products supplied by Evraz Group to Russian Railways.

Investment Programme

The programme of restructuring of production facilities of NKMK, by upgrading electric arc furnaces, shutting down the Siemens-Martin plant and modernisation of rolling mills, is scheduled for completion in 2007. The costs of the entire reconstruction will approximately be U.S.\$ 134 million.

Increase in capacity of the second electric arc furnace

The key element of modernisation programme is modernisation in the electric arc furnaces. The capacity of the second electric arc furnace is to be increased, permitting steel production up to 1.54 million tonnes of crude steel per annum by 2005. This project will also result in a decrease in the cost of steel production. The capital investment for this project is expected to amount to approximately U.S.\$ 51 million. The project will contribute significantly to the ecological programme of NKMK due to installation of modern gas scrubbers. Badische Stahl Engineering, as well as numerous local suppliers, will supply NKMK with the equipment for this project.

Modernisation of rail and structural steel mill

Another key element of modernisation programme is the construction of a walking-beam furnace in rail and structural steel mill with investment in the amount of U.S.\$ 32.6 million. Realisation of the project began in October 2003 with the co-operation of Techint Compagnia Tecnica Internazionale s.p.a. (Milan, Italy), which is to supply the equipment, technical documentation and also provide technical support for the project. The project is financed by Natexis Banque Populaire s.a. and is insured by the ECA. Currently, preparation for installation is being undertaken.

Reconstruction of the oxygen production facility

NKMK plans to invest approximately U.S.\$ 22 million in a project aimed at increasing the in-house production of oxygen for the increased needs of electric arc furnaces. It is estimated that this project will be completed in 2006.

Apart from the above investment projects, NKMK incurs annual maintenance expenditures in the range of U.S.\$ 10-15 million.

Insurance

NKMK 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 NKMK has not yet obtained a comprehensive property insurance policy, it is intended that such insurance will be obtained in the next 12 months.

Environmental Matters

NKMK holds all the necessary environmental licences, including licences for use of water resources, water discharges, air emissions and waste disposal. The amount of environmental payments in 2003 totaled U.S.\$ 0.3 million.

NKMK has an on-site laboratory, which monitors emissions and discharges. The laboratory is certified by the Russian Committee for Certification and Metrology for the monitoring and analysis of emissions to the atmosphere and liquid effluents. The laboratory also has certification to ISO 17025: General Requirements for the Competence of Testing and Calibration Laboratories.

In the beginning of 2004 NKMK has undergone an environmental review by the independent technological consultant McLellan and Partners Ltd. The environmental review report stated that the current environmental performance of the works in terms of control of emissions to atmosphere, discharges to water and handling of solid waste is good having regard to the age of the plant and the types of pollution control systems installed. The major exception in terms of control of emissions is the open hearth steelmaking shop which lacks a fume cleaning plant.

The suggested environmental improvements included:

- improvement of coke oven gas purification plant for the removal of naphthalene, tar and ammonia;
- provision of closed cycle cooling for coke oven gas;
- closure of the coke oven battery No. 5;
- cessation of production of ammonium sulphate and its replacement by production of ammonium phosphate;
- provision of cast house dust capture equipment for blast furnace No. 5;
- construction of new gas cleaning plant for electric arc furnace No. 2;
- provision of an impermeable lining to the slurry lagoon and recovery of water for use in the plant;
- capture and treatment of site run-off water for use as make up to the process water systems;
- closure of medium-section mill 500 in 2005.

The above improvements should substantially reduce atmospheric emissions and river discharges. The planned reduction in dust emissions between 2003 and 2008 is approximately 50 per cent. It is anticipated that the improvements over the period of up to 2009 should result in an environmental performance which is acceptable to the regulatory authorities.

In the longer term, closure of the Siemens-Martin plant and an ongoing programme of plant modernisation and improvement will be necessary in order to comply with expected increasingly stringent regulatory requirements and to achieve high levels of environmental protection. NKMK also plans to obtain an ISO 14001 certification by 2010. It will ensure that the necessary management systems are in place and it is working to sustain the environmental improvements.

Management

Board of Directors

NKMK's Board of Directors consists of seven members. Unless otherwise stated, none of its members have functions outside Evraz Group.

Alexander I. Kopytov has been a member of the Board of Directors of NKMK since 2003. Mr. Kopytov is also a member of the Board of Directors of ZapSib. He is also Deputy Governor of Kemerovo region with responsibility for industry, transport and communication. Mr. Kopytov graduated from the 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 has been a member of the Board of Directors of NKMK since 2003. He is a Senior Vice President and the Chief Operating Officer of OOO EvrazHolding and is responsible for industrial policy of the group and management of the Evraz Group's strategy. Mr. Sevenyuk is also a member of the Board of Directors of NTMK and ZapSib. Mr. Sevenyuk has worked for the Original Group since 1999. Prior to joining Evraz Group, Mr. Sevenyuk operated private companies in the 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 has been a member of the Board of Directors of NKMK since 2003. Mr. Frolov is a Senior Vice President and the Chief Financial Officer of OOO EvrazHolding. He is in charge of financial and international activities of Evraz Group. Mr. Frolov is also a member of the Board of Directors of NTMK and ZapSib. 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.

Vyacheslav V. Pavlov has been a member of the Board of Directors of NKMK since 2004. Mr. Pavlov is also a Vice President and the Managing Director of NKMK. Mr. Pavlov joined the Evraz Group in 2003. Prior to that he worked as a Deputy General Director of KMK. Following the bankruptcy procedures and restructuring of KMK, Mr. Pavlov held several management positions in the restructured subsidiaries of the former KMK, including OOO Stal' KMK and OOO Relsy KMK. In 2003, he was appointed the General Director of NKMK, which consolidated a significant part of the former KMK's assets. For over 13 years Mr. Pavlov held various management positions at the Ural Steel (the former Orsk-Khalilovsky Integrated Iron and Steel Plant). He graduated from the Urals Technical Institute in 1972.

Viktor A. Akimov has been a member of the Board of Directors of NKMK since 2004. Mr. Akimov is also a member of the Board of Directors of NTMK and ZapSib. Mr. Akimov works for law firm "A. Makarov and A. Tobak" and was a vice-chairman of the Bashkortostan Republic Supreme Court. He graduated from Bashkir State University in 1977.

Eugene V. Potapov has been a member of the Board of Directors of NKMK since 2003. He also was first deputy general director of OOO Relsy KMK and is the president of Evraz Ruda.

Irina V. Kiseleva has been a member of the Board of Directors of NKMK since 2004. Ms. Kiseleva is also a member of the Board of Directors of NTMK and ZapSib. Ms. Kiseleva works for law firm "A. Makarov and A. Tobak". She graduated from Moscow Law Academy in 1997.

Auditors

OOO “Financial and Audit Consultants” are auditors of NKMK’s Russian statutory financial statements. Ernst & Young (CIS) Limited are the auditors of the financial statements of NKMK prepared in accordance with IFRS.

Financial Year

NKMK’s financial year corresponds to the calendar year.

Capitalisation and indebtedness

The following table sets out the capitalisation and indebtedness of NKMK as at 31 March 2004 and is derived from the management estimate of the balance sheet of NKMK as at 31 March 2004 prepared in accordance with IFRS. The estimate was made based on the unaudited statutory financial statements of NKMK. The actual capitalisation and indebtedness of NKMK as at 31 March 2004 may be materially different from the estimate.

	As at 31 March 2004 (U.S.\$ thousands)
Issued capital	4,283
Share premium	38,230
Translation difference	242
Reserve capital	214
Accumulated profits	49,516
Subtotal equity	92,485
Long-term loan from a related party	3,138
Finance lease obligations	2,944
Total non-current liabilities	6,082
Total current liabilities	105,027
TOTAL CAPITALISATION	203,594

This interim financial information of NKMK as at 31 March 2004 was not audited or reviewed by Ernst & Young (CIS) Limited. There has been no material changes in the capitalisation or indebtedness of NKMK since 31 March 2004.

Summary Financial Information

The following tables set out in summary form balance sheet and income statement information relating to NKMK:

Summary balance sheet

	31 December 2003
	(U.S.\$ thousands)
ASSETS	
Non-current assets	
Property, plant and equipment, net	52,550
Other non-current assets	508
	53,058
Current assets	
Inventories	41,007
Trade and other receivables, net	5,623
Cash and cash equivalents	3,466
Other current assets	45,365
	95,461
TOTAL ASSETS	148,519
EQUITY AND LIABILITIES	
Total equity	50,381
Total non-current liabilities	4,599
Total current liabilities	93,539
TOTAL EQUITY AND LIABILITIES	148,519

Summary income statement

	For the period from 5 May 2003 (inception) to 31 December 2003 (U.S.\$ thousands)
Revenues	154,853
Cost of revenues	132,173
Gross profit	22,680
Selling, general and administrative expenses	(8,058)
Foreign currency exchange gains net	120
Other operating expenses	(1,376)
Profit from operating activities	13,336
Interest expense	(1,010)
Profit before income taxes	12,356
Income tax expense	(3,197)
NET PROFIT	9,159

This information is derived from the financial statements of NKMK as at 31 December 2003 and for the period from 5 May 2003 (inception) to 31 December 2003. The financial statements of NKMK are prepared in accordance with IFRS. Such financial statements, together with report of Ernst & Young (CIS) Limited and the accompanying notes, appear elsewhere in this Offering Circular. The financial information presented above should be read in conjunction with such financial statements, reports and the notes thereto.

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. At the end of 2003 Ferrotrade Gibraltar established a subsidiary Steeltrade Limited as a holding company for EH Trading House and Evraz Resurs.

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 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.

Business

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

Prior to late 2003 when Evraz Group commenced the transfer of Ferrotrade UK's business to Ferrotrade Gibraltar, most of the exports of Evraz Group were made through Ferrotrade UK. The transfer of Ferrotrade UK's business to Ferrotrade Gibraltar was substantially completed in the first half of 2004 as described under "Business - Reorganisation of the Original Group and Structure of Evraz Group". As described under "Risk Factors - Risks Related to Evraz Group - There are Significant Differences between the Pro Forma and Actual Audited Financial Information for Mastercraft" the results of both Ferrotrade UK and Ferrotrade Gibraltar are included in the pro forma consolidated financial information of Mastercraft for the years ended 31 December 2003 and 31 December 2002. However, the financial results of Ferrotrade UK are not included in the audited consolidated financial statements of Mastercraft for the years ended 31 December 2003 and 31 December 2002 because Ferrotrade UK is not a subsidiary of Mastercraft.

All financial data in this document under the heading "Ferrotrade Gibraltar" has been extracted or derived from the pro forma consolidated financial information of Mastercraft for the years ended 31 December 2003 and 31 December 2002 unless otherwise stated. All operational data in this document under the heading "Ferrotrade Gibraltar" has been extracted or derived from management information of Ferrotrade Gibraltar for the year ended 31 December 2003 unless otherwise stated. Furthermore, the description of the business of Ferrotrade Gibraltar under the heading "Ferrotrade Gibraltar" assumes that the transfer of Ferrotrade UK's business to Ferrotrade Gibraltar had occurred prior to 1 January 2002 unless otherwise stated.

The audited financial statements of Ferrotrade Gibraltar for the period from 2 May 2003 (inception) to and as of 31 December 2003 are set out in full in the "F" pages of this document.

The audited consolidated financial statements of Ferrotrade UK for the years ended 31 December 2003 and 31 December 2002 are set out in full in the "F" pages of this document.

As at the end of 2003, Ferrotrade Gibraltar had bought and re-sold more than 90 per cent. of NTMK's, ZapSib's and NKMK's exports for that year. Steel products manufactured by NTMK, ZapSib and NKMK amounted for more than 99 per cent. of all steel products sold by Ferrotrade Gibraltar, including its agent East Metals S.A. Sales of NTMK's, ZapSib's and NKMK's products account for 30 per cent., 39 per cent. and 31 per cent. of Ferrotrade Gibraltar's sales (by volume), respectively.

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

The following table sets out Ferrotrade Gibraltar's shipments (by volume) by country in 2003:

China	20%
Taiwan	17%
South Korea	17%
Philippines	11%
Thailand	9%
Vietnam	9%
Hong Kong	8%
Iran	2%
Other	7%

There are 7 principal markets to which Ferrotrade Gibraltar sells in the Far East, with annual volumes ranging from 500 thousand to 1200 thousand tonnes.

Ferrotrade Gibraltar has relationships with more than 200 customers in 20 countries. The principal customers include Vanoment AG (Thailand), INI Steel (Korea), Golik Steel (Hong Kong), VSC Steel (Hong Kong), Tycoons Worldwide (Thailand), Shanghai Alison (China) and Shang Shing (Taiwan).

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

The following table sets out Ferrotrade Gibraltar's export product mix in 2003 (by volume):

Semi-finished products:	
Billets	47.1%
Slabs	12.1%
Pig iron	15.5%
Finished products:	
Rebars	10.3%
Wire rods	5.2%
Sections	4.4%
Plates	4.8%
Other:	0.5%

An important factor in Ferrotrade Gibraltar's overall costs is the cost of transporting the purchased steel products to its customers. Ferrotrade Gibraltar is responsible for transportation costs from the designated off-take location (Smychka with respect to NTMK and Novokuznetsk Severniy with respect to ZapSib and NKMK) to the relevant port or transport transfer location. In 2003, 51 per cent. of iron and steel products were shipped from Nakhodka Commercial Sea Port and 43 per cent. from Vladivostok Sea Port. Transportation costs incurred in 2003 amounted to U.S.\$ 237 million.

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 or 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

Baker Tilly Gibraltar are the auditors of Ferrotrade Gibraltar's statutory financial statements in Gibraltar. Ernst & Young (CIS) Limited are the auditors of the financial statements of Ferrotrade Gibraltar prepared in accordance with IFRS.

Financial Year

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

Capitalisation and Indebtedness

The following tables set out the capitalisation and indebtedness of Ferrotrade Gibraltar and Ferrotrade UK as at 31 March 2004 and are derived from the management estimates of the balance sheets of Ferrotrade Gibraltar and Ferrotrade UK, respectively, as at 31 March 2004 prepared in accordance with IFRS. The actual capitalisation and indebtedness of Ferrotrade Gibraltar and Ferrotrade UK as at 31 March 2004 may be materially different from these estimates.

Capitalisation and indebtedness of Ferrotrade Gibraltar

	As at 31 March 2004 (U.S.\$ thousands)
Issued capital	3
Accumulated profits	203,157
Subtotal equity	203,160
Loan payable to a related party	67,848
Total non-current liabilities	67,848
Total current liabilities	463,913
TOTAL CAPITALISATION	734,921

Capitalisation and indebtedness of Ferrotrade UK

	As at 31 March 2004 (U.S.\$ thousands)
Partnership capital	3,000
Unrealised gain on financial assets	2,392
Accumulated profits (losses)	270,969
Total equity	276,361
Total current liabilities	203,495
TOTAL CAPITALISATION	479,856

This interim financial information of Ferrotrade Gibraltar and Ferrotrade UK as at 31 March 2004 was not audited or reviewed by Ernst & Young (CIS) Limited. There has been no material change in the capitalisation or indebtedness of Ferrotrade Gibraltar or Ferrotrade UK since 31 March 2004.

Summary Financial Information relating to Ferrotrade Gibraltar and Ferrotrade UK

The following tables set out in summary form balance sheets and income statements relating to Ferrotrade Gibraltar and Ferrotrade UK:

Summary balance sheet of Ferrotrade Gibraltar

	31 December 2003
	(U.S.\$ thousands)
ASSETS	
Non-current assets	2
Current assets	
Inventories	260,330
Trade and other receivables, net	24,507
Receivables from related parties	74,958
Cash and cash equivalents	3,611
Other current assets	4,575
	367,981
TOTAL ASSETS	367,983
EQUITY AND LIABILITIES	
Total equity	45,955
Total non-current liabilities	98,702
Total current liabilities	223,326
TOTAL EQUITY AND LIABILITIES	367,983

Summary income statement of Ferrotrade Gibraltar

	For the period from May 2 2003 (inception) to 31 December 2003
	(U.S.\$ thousands)
Revenues	101,382
Cost of revenues	(69,932)
Gross profit	31,450
Selling, general and administrative expenses	(9,476)
Other operating expenses	(3,264)
Profit from operating activities	18,710
Interest expense	(274)
Other non-operating income	27,516
Profit before income taxes	45,952
Income tax (expense) benefit	—
NET PROFIT	45,952

This information is derived from the audited financial statements of Ferrotrade Gibraltar prepared in accordance with IFRS for the period from 2 May 2003 (inception) to 31 December 2003. Such financial statements, together with the report of Ernst & Young (CIS) Limited and the accompanying notes, appear elsewhere in this Offering Circular. The financial information presented above should be read in conjunction with such financial statements, report and the notes thereto.

Summary consolidated balance sheets of Ferrotrade UK

	31 December 2003	31 December 2002	31 December 2001
	<i>(U.S.\$ thousands)</i>		
ASSETS			
Non-current assets	99,970	19,322	45,131
Current assets			
Inventories	1,094	124,220	76,594
Trade and other receivables, net	90,083	76,700	98,775
Cash and cash equivalents	41,631	298	8
Other current assets	249,103	135,421	46,777
	381,911	336,639	222,154
TOTAL ASSETS	481,881	355,961	267,285
EQUITY AND LIABILITIES			
Total partnership funds	320,171	152,322	113,303
Total current liabilities	161,710	203,639	153,982
TOTAL LIABILITIES AND PARTNERSHIP FUNDS	481,881	355,961	267,285

Summary consolidated income statements of Ferrotrade UK

	Year ended 31 December 2003	Year ended 31 December 2002	Year ended 31 December 2001
	<i>(U.S.\$ thousands)</i>		
Revenues	1,477,459	1,024,630	982,662
Cost of revenues	(1,036,722)	(740,752)	(767,133)
Gross profit	440,737	283,878	215,529
Selling, general and administrative expenses	(95,849)	(98,272)	(102,276)
Foreign currency exchange gains (losses), net	(792)	571	336
Other operating expenses	(79)	(148)	(5,647)
Other operating income	—	—	856
Profit from operating activities	344,017	186,029	108,798
Interest income	2,158	1,026	—
Interest expense	(6,293)	(7,085)	(6,796)
Other non-operating expenses	(34,186)	—	(4,328)
Other non-operating income	46,810	—	—
NET PROFIT	352,506	179,970	97,674

This information is derived from the audited consolidated financial statements of Ferrotrade UK prepared in accordance with IFRS for the years ended 31 December 2003, 31 December 2002 and 31 December 2001. Such financial statements for years ended 31 December 2003 and 31 December 2002, together with the reports of Ernst & Young (CIS) Limited and the accompanying notes, appear elsewhere in this Offering Circular. The financial information presented above should be read in conjunction with such financial statements, reports and the notes thereto.

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 Dervis Street, 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.\$300,019,666. Mastercroat's paid-in capital as at 31 March 2004 was U.S.\$168,935,213. Mastercroat 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 on pages 12 and 78.

Business

Mastercroat is the holding company of Evraz Group.

Directors

The directors of Mastercroat are Costas L. Mavrocordatos and Aram Tavitian, both partners at PricewaterhouseCoopers in Cyprus. The business address of Costas L. Mavrocordatos is Evrytanias, 2 Strovolos, P.C. 2064, Nicosia, Cyprus. The business address of Aram Tavitian is Themistokli Dervi, 3 Julia House P.C. 1066, Nicosia, Cyprus.

Auditors

Ernst & Young (CIS) Limited are auditors of Mastercroat.

Financial Year

Mastercroat's financial year corresponds to the calendar year.

Capitalisation and indebtedness

The following table sets out the capitalisation and indebtedness of Mastercrocft as at 31 March 2004 and is derived from the management estimate of the non-consolidated balance sheet of Mastercrocft as at 31 March 2004 prepared in accordance with IFRS. The actual capitalisation and indebtedness of Mastercrocft as at 31 March 2004 may be materially different from the estimate.

	As at 31 March 2004
	(U.S.\$ thousands)
Share capital	168,935
Accumulated profits (losses)	(17,867)
Total equity	151,068
Loans form the related parties	169,695
Total non-current liabilities	169,695
Total current liabilities	8,044
TOTAL CAPITALISATION	328,807

This interim financial information of Mastercrocft as at 31 March 2004 was not audited or reviewed by Ernst & Young (CIS) Limited. There has been no material change in the capitalisation or indebtedness of Mastercrocft since 31 March 2004.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION

This Offering Circular contains summary consolidated financial information extracted from the pro forma consolidated financial information of Mastercrocft for the years ended 31 December 2003 and 31 December 2002 and the audited consolidated financial statements of Mastercrocft for the same periods. The financial information presented in the pro forma consolidated financial information of Mastercrocft for the years ended 31 December 2003 and 31 December 2002 differs significantly from the audited consolidated financial statements of Mastercrocft for the same periods as described under “Risk Factors - Risks Related to the Evraz Group - There are Significant Differences between the Pro Forma and Actual Audited Financial Information for Mastercrocft”.

The following tables set out in summary form the pro forma consolidated balance sheet and pro forma consolidated income statement information relating to Mastercrocft.

Pro Forma Summary Consolidated Balance Sheet

	31 December 2003	31 December 2002	31 December 2001
	(U.S.\$ thousands)		
ASSETS			
Non-current assets			
Property, plant and equipment, net	1,151,633	985,148	1,082,485
Negative goodwill	(140,281)	(136,706)	(168,910)
Goodwill	2,529	—	—
Other non-current assets	76,706	71,909	83,080
	1,090,587	920,351	996,655
Current assets			
Inventories	478,763	235,570	211,578
Trade and other receivables, net	148,202	107,438	134,915
Cash and cash equivalents	213,441	15,748	7,660
Other current assets	380,382	166,341	140,944
	1,220,788	525,097	495,097
TOTAL ASSETS	2,311,375	1,445,448	1,491,752
EQUITY AND LIABILITIES			
Total equity	876,287	440,799	324,100
Minority interest	169,206	138,942	137,977
Total non-current liabilities	586,325	326,099	405,399
Total current liabilities	679,557	539,608	624,276
TOTAL EQUITY AND LIABILITIES	2,311,375	1,445,448	1,491,752

Pro Forma Summary Consolidated Income Statement

	Year ended 31 December 2003	Year ended 31 December 2002	Year ended 31 December 2001
	<i>(U.S.\$ thousands)</i>		
Revenues	2,982,091	2,064,150	2,083,398
Cost of revenues	(2,030,994)	(1,604,821)	(1,816,319)
Amortisation of negative goodwill	32,204	32,204	20,044
Gross profit	983,301	491,533	287,123
Selling, general and administrative expenses	(268,061)	(241,658)	(257,158)
Tax related fines and penalties	–	(15,396)	(110,501)
Foreign currency exchange gains (losses), net	7,645	(14,022)	(24,931)
Gain on net monetary position	–	82,990	172,951
Other operating expenses	(53,036)	(46,026)	(30,413)
Other operating income	11,589	–	–
Profit from operating activities	681,438	257,421	37,071
Interest income	1,385	1,026	–
Interest expense	(49,503)	(62,284)	(31,957)
Gain on extinguishment of debts	2,346	46,787	138,190
Other non-operating income	4,792	–	–
Profit before income taxes	640,458	242,950	143,304
Income tax (expense) benefit	(69,035)	(9,161)	41,550
Minority interest	(43,850)	(573)	(11,786)
Net profit (loss) from ordinary activities	527,573	233,216	173,068
Extraordinary item – gain on extinguishment of debts under the Settlement Agreement (net of income tax)	–	1,899	106,709
Minority interest in extraordinary item	–	(392)	(25,181)
NET PROFIT	527,573	234,723	254,596

Such information is derived from the pro forma consolidated financial information of Mastercrocft as at and for the years ended 31 December 2003, 31 December 2002 and 31 December 2001. The pro forma consolidated financial information of Mastercrocft as at and for the years ended 31 December 2003 and 31 December 2002, 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 above should be read in conjunction with such financial statements, reports and the notes thereto.

The following tables set out in summary form the consolidated balance sheet and consolidated income statement information relating to Mastercraft:

Summary Consolidated Balance Sheets

	31 December 2003	31 December 2002
	<i>(U.S.\$ thousands)</i>	
ASSETS		
Non-current assets		
Property, plant and equipment, net	1,173,169	1,068,055
Negative goodwill	(290,337)	(284,572)
Other non-current assets	49,862	53,463
	932,694	836,946
Current assets		
Inventories	480,826	119,032
Trade and other receivables, net	68,969	37,623
Cash and cash equivalents	184,397	17,207
Other current assets	356,931	125,810
	1,091,123	299,672
TOTAL ASSETS	2,023,817	1,136,618
EQUITY AND LIABILITIES		
Total equity	407,840	24,825
Minority interest	163,680	203,318
Total non-current liabilities	690,107	384,299
Total current liabilities	762,190	524,176
TOTAL EQUITY AND LIABILITIES	2,023,817	1,136,618

Summary Consolidated Statements of Operations

	31 December 2003	31 December 2002
	<i>(U.S.\$ thousands)</i>	
Revenues	2,121,204	1,536,645
Cost of revenues	(1,598,203)	(1,338,456)
Amortisation of negative goodwill	23,452	14,159
Gross profit	546,453	212,348
Selling, general and administrative expenses	(179,835)	(148,619)
Tax related fines and penalties	—	(15,440)
Foreign currency exchange gains (losses), net	8,312	(14,984)
Gain on net monetary position	—	63,667
Other operating expenses	(46,488)	(45,572)
Other operating income	10,778	842
Profit from operating activities	339,220	52,242
Interest income	7,450	448
Interest expense	(54,235)	(57,304)
Gain on extinguishment of debts	2,346	16,302
Other non-operating expenses	(121)	(663)
Other non-operating income	35,518	—
Profit before income taxes	330,178	11,025
Income tax (expense) benefit	(72,560)	(11,009)
Minority interest	(43,451)	(582)
NET PROFIT (LOSS)	214,167	(566)

Such information is derived from the audited consolidated financial statements of Mastercraft as at and for the years ended 31 December 2003 and 31 December 2002. Such consolidated financial statements, together with the audit report of Ernst & Young (CIS) Limited and the accompanying notes appear elsewhere in this Offering Circular. The summary financial information presented above should be read in conjunction with such consolidated financial statements, report and the notes thereto.

SUBSCRIPTION AND SALE

Credit Suisse First Boston (Europe) Limited, ING Bank N.V., London Branch, MDM Bank, Renaissance Securities (Cyprus) Limited, Commerzbank Aktiengesellschaft and Moscow Narodny Bank Limited (together the “**Managers**”) have, pursuant to a Subscription Deed between the Issuer, NTMK and the Managers (the “**NTMK Subscription Deed**”), a Subscription Deed between the Issuer, ZapSib and the Managers (the “**ZapSib Subscription Deed**”), a Subscription Deed between the Issuer, NKMK and the Managers (the “**NKMK Subscription Deed**”) and a Subscription Agreement between the Issuer, Ferrotrade Gibraltar, Mastercroft and the Managers (together with the NTMK Subscription Deed, the ZapSib Subscription Deed and NKMK Subscription Deed, the “**Subscription Agreement**”) each dated 30 July 2004, agreed to subscribe or procure subscribers for the Notes at the issue price of 100 per cent. of the principal amount of the Notes less a combined management and underwriting commission of 0.7 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 the 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 Financial Services and Markets Act 2000 (“**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.

Grand Duchy of Luxembourg

The Notes may not be offered or sold to the public in the Grand Duchy of Luxembourg, directly or indirectly, and neither this Offering Circular nor any other circular, prospectus, form of application, advertisement or other material may be distributed, or otherwise made available in, or from or published in, the Grand Duchy of Luxembourg, except for the sole purpose of the listing of the Notes on the Luxembourg Stock Exchange and except in circumstances where the Luxembourg legal requirements for a public offer of securities have been met first.

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

The offer of the Notes does not, and shall not be construed to, constitute a public offering of securities in Austria as defined in the Austrian Capital Markets Act 1991 (*Kapitalmarktgesetz*), as amended, and no audited prospectus has therefore been published.

The Notes will only be offered in Austria to a certain limited range of persons who purchase and sell securities as part of their profession or business pursuant to § 3 para 1 No 11 of the Austrian Capital Markets Act and in accordance with any other applicable Austrian provision or statute governing the issue, sale, re-sale and offering of securities.

This Offering Circular (and any documents connected therewith) is not, and may not be, distributed to the public in Austria. Neither this Offering Circular nor any other document connected therewith constitute a prospectus according to the Austrian Capital Markets Act and neither this Offering Circular nor any other document connected therewith may be distributed, passed on or disclosed to any other person in Austria, save as specifically agreed with the Managers. No steps may be taken that would constitute a public offering of the Notes in Austria and the offering of the Notes may not be advertised in Austria.

Neither the Issuer nor the Guarantors are under the supervision of the Austrian Financial Market Authority (*Finanzmarktaufsichtsbehörde*) or any other Austrian supervision authority.

Belgium

This Offering Circular and related documents are not approved, reviewed or commented on by the Banking, Finance and Insurance Commission in Belgium. They are not intended to constitute, and may not be construed to constitute, a public offer in Belgium within the meaning of the Law of 22 April 2003 on the Public Offering of Securities. Accordingly, these documents may not be distributed or circulated to the public in Belgium. No Notes will: (i) be offered for sale, sold or marketed in Belgium to persons other than persons who subscribe to or purchase a minimum amount of Notes of EUR 250,000 each or to Qualifying Institutional Investors acting for their own account and listed in article 3, 2° of the Royal Decree of 7 July 1999; (ii) be sold to any person qualifying as a consumer within the meaning of Article 1.7° of the Belgian law of 14 July 1991 on consumer protection and trade practices unless such sale is made in compliance with the Belgian law of 14 July 1991 on consumer protection and trade practices and with its implementing legislation.

Republic of France

Each of the Managers, the Issuer and each of the Guarantors have represented and agreed that it have 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. This Offering Circular has not been submitted for clearance to the Autorité des Marchés Financiers.

The 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. 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.

Hong Kong

Each Manager has represented and agreed 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 had 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 the 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 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 “**Consolidated Banking Act**”); (b) in compliance with Article 129 of the Consolidated Banking Act and the implementing guidelines of the Bank of Italy pursuant to which the issue or the offer of securities in the Republic of Italy may need to be proceeded and followed by an appropriate notice to be filed with the Bank of Italy depending, inter alia, on the aggregate value of securities issued or offered in the Republic of Italy and their characteristics; and (c) in compliance with any other applicable laws and regulations. In any case the Notes shall not be

placed, offered, sold or delivered either in the primary or the 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 this Offering Circular may not be distributed and the Notes (including rights representing an interest in a Global Note) may not be offered, sold, transferred or delivered as part of their initial distribution or at any time thereafter, directly or indirectly, to individuals or legal entities who or which are established, domiciled or have their residence in The Netherlands (the “**Dutch Residents**”) other than to the following entities (collectively referred to as “**Professional Market Parties**” or “**PMPs**”) provided that they acquire the Notes for their own account and trade or invest in securities in the conduct of a business or profession:

- (a) banks, insurance companies, securities firms, collective investment institutions or pension funds that are supervised or licensed under Dutch law;
- (b) banks or securities firms licensed or supervised in a European Economic Area member state (other than The Netherlands) and registered with the Dutch Central Bank (*De Nederlandsche Bank N.V.*: “**DNB**”) or the Dutch Authority for the Financial Markets (*Stichting Autoriteit Financiële Markten*) acting through a branch office in The Netherlands;
- (c) Netherlands collective investment institutions which offer their shares or participations exclusively to professional investors and are not required to be supervised or licensed under Dutch law;
- (d) the Dutch government (*de Staat der Nederlanden*), DNB, Dutch regional, local or other decentralised governmental institutions, or any international treaty organisations and supranational organisations located in The Netherlands;
- (e) Netherlands enterprises or entities with total assets of at least €500,000,000 (or the equivalent thereof in another currency) according to their balance sheet at the end of the financial year preceding the date they purchase or acquire the Notes;
- (f) Netherlands enterprises, entities or individuals with net assets (*eigen vermogen*) of at least €10,000,000 (or the equivalent thereof in another currency) according to their balance sheet at the end of the financial year preceding the date they purchase or acquire the Notes and who or which have been active in the financial markets on average twice a month over a period of at least two consecutive years preceding such date;
- (g) Netherlands subsidiaries of the entities referred to under (a) above provided such subsidiaries are subject to prudential supervision;
- (h) Netherlands enterprises or entities that have a credit rating from an approved rating agency or whose securities have such a rating; and
- (i) such other Netherlands entities designated by the competent Netherlands authorities after the date hereof by any amendment of the applicable regulations.

Each Note (whether or not offered to Dutch Residents) shall bear a legend to the following effect, and upon the initial purchase or any subsequent transfer of an interest in a Note in the Netherlands or to or for the account or benefit of a Dutch Resident, each purchaser will be deemed to have represented and agreed as set forth in the following legend:

“THIS NOTE (OR ANY INTEREST HEREIN) MAY NOT BE SOLD, TRANSFERRED OR DELIVERED TO INDIVIDUALS OR LEGAL ENTITIES WHO ARE ESTABLISHED, DOMICILED OR HAVE THEIR RESIDENCE IN THE NETHERLANDS (“**DUTCH RESIDENTS**”) OTHER THAN TO PROFESSIONAL MARKET PARTIES WITHIN THE MEANING OF THE EXEMPTION REGULATION UNDER THE DUTCH ACT ON THE SUPERVISION OF CREDIT INSTITUTIONS 1992 THAT ACQUIRE SUCH NOTES (OR ANY INTEREST HEREIN) FOR THEIR OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER PROFESSIONAL MARKET PARTY AND THAT TRADE OR INVEST IN SECURITIES IN THE CONDUCT OF A BUSINESS OR PROFESSION (“**PMPs**”).

EACH DUTCH RESIDENT BY PURCHASING THIS NOTE (OR ANY INTEREST HEREIN), WILL BE DEEMED TO HAVE REPRESENTED AND AGREED FOR THE BENEFIT OF THE ISSUER THAT IT IS SUCH A PMP AND IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER PMP.

EACH HOLDER OF THIS NOTE (OR ANY INTEREST HEREIN), BY PURCHASING SUCH NOTE (OR ANY SUCH INTEREST), WILL BE DEEMED TO HAVE REPRESENTED AND AGREED FOR THE BENEFIT OF THE ISSUER THAT (1) SUCH NOTE (OR ANY INTEREST HEREIN) MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO DUTCH RESIDENTS OTHER THAN TO A PMP ACQUIRING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ANOTHER PMP AND THAT (2) THE HOLDER WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS DESCRIBED HEREIN TO ANY SUBSEQUENT TRANSFEREE.”

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 and Royal Decree 705/2002, of 19 July), on issues and public offers for the sale of securities.

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 or possession or distribution of the Offering Circular or any other offering or publicity marketing relating to 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 have in its possession, 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 the 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 certain Russian tax consequences relevant to the 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, and it should be noted that there may be 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. In particular, the interpretation and application of such provisions will, in practice, rest substantially with local tax inspectorates.

For purposes of this summary, a 'non-resident holder' means an individual resident in Russia for a 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 an individual or legal person resident in Russia for tax purposes is subject to all applicable Russian taxes in respect of gains from disposition of the Notes and interest received on the Notes.

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 or a person acting as an 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 and is not acting as an individual 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. To obtain the benefit of such tax treaty provisions, the holder must comply with the certification, information, and reporting requirements in force in Russia. Currently, a holder would need to provide to the payer a certificate of tax residence issued by a competent tax authority of the relevant treaty country. In addition, an individual must provide appropriate documentary proof of tax payments outside of Russia on income with respect to which treaty benefits are claimed. Because of uncertainties regarding the form and procedures for providing such documentary proof, individuals in practice may not be able to obtain treaty benefits on receipt of proceeds from a source within Russia. Non-resident holders who are individuals should consult their own tax advisers with respect to the tax consequences of the receipt of proceeds from a source within Russia in respect of a disposition of the Notes.

Non-Resident Legal Persons and Organisations

Non-resident Noteholders which are legal persons or organisations generally should not be subject to any Russian withholding tax on any gain realised on the sale, exchange, or other disposition of Notes, even if proceeds are received from a source within Russia.

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. If the payment upon sale or other disposal of the Notes is received from within Russia, 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, ZapSib and/or NKMK 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, ZapSib and/or NKMK 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 the Grand Duchy of Luxembourg which were in effect on the date of this Offering Circular 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 the Grand Duchy 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 realises 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 the Grand Duchy of 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 the Grand Duchy of 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 the Grand Duchy of 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 the Grand Duchy of 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 the Grand Duchy of 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 the Grand Duchy of 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 the Grand Duchy of Luxembourg; or
 - The gift is registered in the Grand Duchy of 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 the Grand Duchy of Luxembourg in respect of or in connection with the execution, delivery and enforcement by legal proceedings (including any foreign judgment in the courts of the Grand Duchy 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 the Grand Duchy of 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 the Grand Duchy of Luxembourg by reason only of the holding of a Note or the execution, performance, delivery and/or enforcement of the Note.

Cyprus

Payment under the Guarantee by Mastercraft

The following are tax consequences, from a Cyprus tax perspective, of guarantee payments made by Mastercraft on the Notes.

Taxation of payments made under the Guarantee will depend on the nature of the payment (interest or principal of the Notes) and the status of the Noteholders.

Capital

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.

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.

United Kingdom

The following is a discussion of certain United Kingdom tax considerations relating to the Notes. It is based on current law and practice in the United Kingdom. Prospective noteholders should consult their own tax advisers as to the consequences, both under the tax law of the country of which they are resident for tax purposes and the tax law of the United Kingdom, of acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes.

Withholding tax

No United Kingdom withholding tax will apply in relation to payments of principal and/or interest on the Notes.

Stamp duty and Stamp Duty Reserve Tax

The comments below are made on the assumption that the Notes are not registered in a register kept in the United Kingdom.

No United Kingdom stamp duty will be payable on the issue of the Notes in global form or on the issue of the Notes in definitive form provided that they are not issued in the United Kingdom.

No United Kingdom stamp duty will be payable on a transfer of the Notes provided the instrument of transfer is executed and retained outside the United Kingdom.

No United Kingdom Stamp Duty Reserve Tax will be payable on the issue of the Notes or on an agreement to transfer the Notes since the Notes will not be chargeable securities for these purposes.

EU Directive on the Taxation of Savings Income

The Council of the European Union has adopted the Directive 2003/48/EC of 3 June 2003 on the taxation of savings income in the form of interest payments (the “**Savings Directive**”). The Reporting of Savings Income Information Regulations 2003 (the “**regulations**”) were made under section 199 Finance Act 2003 by the United Kingdom Government to implement the Savings Directive. The implementation date of the Savings Directive, and that of the regulations, is yet to be determined but it is likely to be 1 July 2005.

Under the regulations, a paying agent (as defined in the regulations) established in the United Kingdom making cross-border interest payments to, or securing such payments for, an individual resident in a prescribed territory (which will include all other EU member states) will be required to obtain, verify, record and then provide to the Inland Revenue information about the identity and place of residence of the individual, as well as about the payment itself. In addition, a paying agent established in the United Kingdom who makes a payment of savings income to a residual entity (as defined in the regulations and broadly speaking a body of persons or an organisation established in a prescribed territory which is not a legal person and whose profits are not taxed under the general arrangements for business taxation and which is not a UCITS authorised under Council Directive 85/611/EEC) established in another EU member state, or an entity which has elected to be treated as if it were such UCITS, will be required to obtain, record and provide to the Inland Revenue information including the name and address of the residual entity and detail of the savings income payment. A paying agent established in the United Kingdom who makes a payment of savings income to any entity must regard the entity as a residual entity unless the paying agent has reason to believe, on the basis of official information produced to the paying agent, that the entity is not a residual entity.

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 29 July 2004.

The giving of the Guarantee in respect of the Notes has been authorised by,

- (a) a resolution of the Board of Directors of Mastercrocft dated 29 July 2004;
- (b) a resolution of the sole shareholder of Mastercrocft dated 29 July 2004;
- (c) a resolution of the Board of Directors of NTMK dated 1 July 2004;
- (d) a resolution of the Board of Directors of ZapSib dated 1 July 2004;
- (e) a resolution of the general shareholders' meeting of NKMK dated 29 June 2004; and
- (f) a resolution of the Board of Directors of Ferrotrade Gibraltar dated 29 July 2004.

2. Save as disclosed in this Offering Circular, none of the Issuer, Mastercrocft, NTMK, ZapSib, NKMK, Ferrotrade Gibraltar 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, Mastercrocft, NTMK, ZapSib, NKMK and Ferrotrade Gibraltar 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, Mastercrocft, NTMK, ZapSib, NKMK, Ferrotrade Gibraltar 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 Mastercrocft, NTMK, ZapSib and NKMK and their respective subsidiaries, 31 December 2003, that is material in the context 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, NKMK Agency Agreement (together, the "**Agency Agreements**"), 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 audited financial statements of the Issuer for the year ended 31 December 2003;
- (b) the examined pro forma consolidated financial information with respect to Mastercrocft for the years ended 31 December 2003, 31 December 2002 and 31 December 2001;
- (c) the audited consolidated financial statements of Mastercrocft for the years ended 31 December 2003 and 31 December 2002;
- (d) the audited parent company financial statements of NTMK for the years ended 31 December 2003, 31 December 2002 and 31 December 2001;
- (e) the audited parent company financial statements of ZapSib for the years ended 31 December 2003, 31 December 2002 and 31 December 2001;
- (f) the audited financial statements of NKMK for the period from 5 May 2003 (inception) to 31 December 2003;
- (g) the audited financial statements of Ferrotrade Gibraltar for the period from 2 May 2003 (inception) to 31 December 2003;

- (h) the latest published reviewed semi-annual and audited year-end consolidated financial statements of the Issuer and the Guarantors.

Mastercrocft has not published any non-consolidated 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 Mastercrocft, (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 Charter and the Certificate of Inclusion in the Unified State Register of Legal Entities of NKMK and (vi) the Articles of Association of Ferrotrade Gibraltar (each 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 Common Code reference number for the Notes is 019710904 and the International Security Identification Number is XS0197109043.

INDEPENDENT AUDITORS

The financial statements of the Issuer as at and for the year ended 31 December 2003 prepared in accordance with applicable legal requirements in the Grand Duchy of Luxembourg included in this Offering Circular have been audited by Ernst & Young S.A., independent accountants. Ernst & Young S.A. in their audit report expressed an unqualified opinion on these statements.

The IFRS parent company financial statements of NTMK as at and for the years ended 31 December 2003 and 31 December 2002 included in this Offering Circular, and 31 December 2001 have been audited by Ernst & Young (CIS) Limited, independent accountants. Ernst & Young (CIS) Limited in their audit reports expressed qualified opinions on these statements. The opinions were 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 2003 and 31 December 2002 included in this Offering Circular and 31 December 2001 have been audited by Ernst & Young (CIS) Limited, independent accountants. Ernst & Young (CIS) Limited in their audit reports expressed qualified opinions on these statements. The opinions were qualified for the omission of consolidated financial statements.

The IFRS financial statements of NKMK as at 31 December 2003 and for the period from 5 May 2003 (inception) to 31 December 2003 included in this Offering Circular have been audited by Ernst & Young (CIS) Limited, independent accountants. Ernst & Young (CIS) Limited issued an unqualified opinion on these statements.

The IFRS financial statements of Ferrotrade Gibraltar as at 31 December 2003 and for the period from 2 May 2003 (inception) to 31 December 2003 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 2003 and 31 December 2002 included in this Offering Circular has been examined by Ernst & Young (CIS) Limited, independent accountants. Ernst & Young (CIS) Limited issued examination reports on this information.

The IFRS consolidated financial statements of Mastercroft as at and for the years ended 31 December 2003 and 31 December 2002 included in this Offering Circular have been audited by Ernst & Young (CIS) Limited, independent accountants.

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.

GLOSSARY

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.
Rail fasteners	Metal devices used to link rails on the railways.
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	Scrap iron containing material (mainly industrial or household waste) that generally is remelted and recast into new steel.
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, pig iron 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, stabilisation 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.
Slag	Slag is a byproduct generated when non-ferrous substances in iron ore, limestone and coke are separated from the hot metal. Slag is used in cement and fertiliser production as well as for base course material in road construction.
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.
Walking beam furnace	The walking beam furnace is an advanced, heavy-load, continuous-processing system that is designed to provide accurate, stable and consistent reheating of the semi-finished products before the rolling process.
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.

INDEX TO FINANCIAL STATEMENTS

	Page
EvrazSecurities S.A.	
Financial statements for the year ended December 31, 2003 and Independent Auditor's Report	F-2
Mastercroft Limited	
Pro forma consolidated financial information for the years ended December 31, 2003 and 2002 with Independent Accountants' Examination Report	F-12
AO Nizhny Tagil Iron & Steel Plant	
Parent company financial statements for the years ended December 31, 2003 and 2002 with Independent Auditors' Report	F-40
AO West Siberian Iron & Steel Plant	
Parent company financial statements for the years ended December 31, 2003 and 2002 with Independent Auditors' Report	F-89
AO Novokuznetsk Iron & Steel Plant	
Financial statements for the period from May 5, 2003 (inception) to December 31, 2003 with Report of Independent Auditors	F-139
Ferrotrade & Co.	
Consolidated financial statements for the years ended December 31, 2003 and 2002 with Report of Independent Auditors	F-167
Ferrotrade Limited	
Financial statements for the period from May 2, 2003 (inception) to December 31, 2003 with Report of Independent Auditors	F-193
Mastercroft Limited	
Consolidated financial statements for the years ended December 31, 2003 and 2002 with Report of Independent Auditors	F-211

EVRAZSECURITIES S.A.

FINANCIAL STATEMENTS
December 31, 2003

AND

INDEPENDENT AUDITOR'S REPORT

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
EVRAZSECURITIES S.A.

We have audited the accompanying annual accounts of Evrazsecurities S.A. for the year ended December 31, 2003, and have read the related Director's report. These annual accounts and the Director's report are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these annual accounts based on our audit and to check that the Director's report is consistent with the annual accounts.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts 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 Board of Directors, as well as evaluating the overall annual accounts presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the accompanying annual accounts give, in conformity with the Luxembourg legal and regulatory requirements, a true and fair view of the financial position of Evrazsecurities S.A. as at December 31, 2003 and of the results of its operations for the year then ended.

The Director's report is in accordance with the financial statements.

The accumulated losses at the period end exceed fifty percent of the issued share capital of the company. In compliance with article 100 of the Luxembourg law of 10th August 1915 regarding commercial companies, the shareholders should deliberate on the eventual liquidation of the company.

ERNST & YOUNG
Société Anonyme
Réviseur d'entreprises


Thierry BERTRAND

Luxembourg, June 29, 2004

Bureaux:

Z, Parc d'Activité Syrdall
L-5365 Munsbach

6, rue Jean Monnet
L-2180 Luxembourg

DIRECTOR'S REPORT

The directors present their report and the financial statements for the period from August 21, 2003 to December 31, 2003.

1. ACTIVITIES AND REVIEW OF THE DEVELOPMENT OF THE BUSINESS

The Company's principal activities are to raise funds, including the issue of bonds, notes, obligations and obtain loans and on lend the proceeds thereof to Mastercorft Limited, a Cypriot company, in order to finance, directly or indirectly, transactions on operations of a group of companies (the brand name of which is EH Group) held by Mastercroft Limited; to enter in to 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 Company or any of its subsidiaries or affiliated companies, if any. The total expenses of EUR 3.139.851 are represented mainly by interest payable and similar charges of EUR 2.748.914. The total income of EUR 2.823.611 is represented entirely by interest receivable and similar income.

2. RESULTS AND ALLOCATION

The results for the period ended is a loss of EUR 316.240 which we propose to carry forward.

3. POST BALANCE SHEET EVENTS

There were no important events since the period end which could influence the presentation of the current financial statements

4. ACCUMULATED LOSSES

The accumulated losses at the period end exceed fifty percent of the issued share capital of the company. In the compliance with article 10 of the Luxembourg law of 10th August 1915 regarding commercial companies, the shareholders should deliberate on the eventual liquidation of the company.

5. PROPOSAL

We propose the approval of the annual financial statements as well as the proposed allocations of the results and to give full discharge to the board of directors and the statutory auditor for their mandates during the period from August 21, 2003 to December 31, 2003.

Luxembourg, June 29, 2004.


TMF Corporate Services S.A.
S.A.


TMF Secretarial Services


TMF Administrative Services S.A.

Evrazsecurities S.A.
BALANCE SHEET
As at December 31, 2003
(in EUR)

	2003
Fixed assets	
Financial Assets (Note 3)	
Loans to affiliated undertakings	134.737.679
Current assets	
Debtors	
Amounts owed by affiliated undertakings (Note 4)	3.218.400
Cash at bank	423.629
	<u>3.244.573</u>
Regularization accounts and prepayments (Note 5)	3.565.541
	<u>141.945.249</u>

The accompanying notes are an integral part of these financial statements.

2003

Capital and reserves (Note 6)

Subscribed capital	31.000
Profit/loss for the financial year	<u>(316.240)</u>
	<u>(285.240)</u>

Creditors

Notes payable (Note 7)	139.109.698
Other creditors (Note 8)	<u>3.120.791</u>
	<u>142.230.489</u>

141.945.249

Evrazsecurities S.A.
PROFIT AND LOSS ACCOUNT
For the year ended December 31, 2003
(in EUR)

	2003
Income	
Other interest and similar income	2.823.611
Profit or loss for the financial year	<u>316.240</u>
	<u>3.139.851</u>
Expenses	
Value adjustment in respect of the current assets	316.342
Other operating charges (Note 9)	74.595
Interest receivable and similar income	<u>2.748.914</u>
	<u>3.139.851</u>

The accompanying notes are an integral part of these financial statements.

Evrazsecurities S.A.
NOTES TO THE ANNUAL ACCOUNT
As at December, 31 2003
(in EUR)

NOTE 1 - OBJECT OF THE COMPANY

Evrazsecurities S.A. is incorporated under the law of Luxembourg by notary deed on August 21, 2003.

The Company has its registered address at 33, Boulevard du Prince Henri, L-1724 Luxembourg and is registered at the Luxembourg Commercial Register under number B 95.437.

The Company's principal activities are to:

- raise funds, including the issue of bonds, notes, obligations and obtain loans and on lend the proceeds thereof to Mastercraft Limited, a Cypriot company, in order to finance, directly or indirectly, transactions and operations of group of companies (the brand name of which is EH Group) held by Mastercraft Limited;
- enter in to 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 Company or any of its subsidiaries or affiliated companies, if any;
- perform all legal commercial, technical and financial investments or operation and in general all transactions which are necessary to fulfill its object as well as all operations connected directly to facilitating the accomplishment of its purpose in all areas described above, however without taking advantage of the act of July 31, 1929, on Holding Companies.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The Company maintains its books and records in EURO. The annual accounts are prepared in conformity with applicable legal requirements in Luxembourg including the following significant accounting policies:

a) Financial assets

Financial assets are stated at historical cost, expressed in EUR.

b) Trade and other receivables

Trade and other receivables are stated at their nominal value.

c) Creditors

Creditors are recorded at their repayment value.

d) Regularization accounts

The regularization accounts include the costs incurred for the issue of the notes payable. These costs are amortized over the lifetime of the notes payable.

Evrazsecurities S.A.
NOTES TO THE ANNUAL ACCOUNT
As at December, 31 2003
(in EUR)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - continued

e) *Foreign currencies*

Assets and liabilities, denominated in foreign currencies, are translated into EUR at the exchange rates in effect at the balance sheet date. Unrealized exchange losses are recorded in the income statement; unrealized exchange gains are not recognized.

Revenues and expenses, denominated in foreign currencies, are translated into EUR on the basis of the exchange rates prevailing on the transaction dates. Realized exchange gains and losses are recorded in the income statement.

NOTE 3 - FINANCIAL ASSETS

Loans to affiliated undertakings

	Principal	Maturity date	Annual interest %	December 31, 2003 EUR
Mastercraft Limited	USD 169.500.000	September 25, 2006	9,10 / 9,32	134.737.679

Part of the loan receivable to Mastercraft Limited amounting to USD 24.500.000 bears interest at 9,10% per annum and is repayable in full two business days prior to 25 September 2006. The loan interest is repayable in arrears two business days prior to 25 September and 25 March of each year, commencing on 11 December 2003. The interest receivable during the period amounted to USD 130.054.

The rest of the loan, amounting to USD 145.000.000 bears interest at 9,32% per annum and is repayable in full two business days prior to 25 September 2006. The loan interest is repayable in arrears two business days prior to 25 September and 25 March of each year, commencing on 29 September 2003. The interest receivable during the period amounted to USD 3.416.039.

In March 2004 Mastercraft Limited repaid USD 7.264.067 interest for all the three loans calculated upto the payment date.

NOTE 4 - AMOUNTS OWED BY AFFILIATED UNDERTAKINGS

a) *Accrued interests*

The amounts owed by affiliated undertakings consist in the accrued interests on the loan provided to Mastercraft Limited for an amount of EUR 2.820.944.

Evrazsecurities S.A.
NOTES TO THE ANNUAL ACCOUNT
As at December, 31 2003
(in EUR)

b) Loans to affiliated undertakings

	Principal	Maturity date	Annual interest %	December 31, 2003 EUR
Mastercraft Limited	USD 500.000	March 25, 2004	9,10	397.456

The loan receivable provided to Mastercraft Limited amounting to USD 500.000 bears interest at 9,10% per annum and is repayable in full two business days prior to March 25, 2004. The interest receivable during the period amounted to USD 2.654.

In March 2004 Mastercraft Limited repaid USD 500.000 of the loan along with the interest for all the three loans as described in Note 3.

NOTE 5 - REGULARIZATION ACCOUNTS AND PREPAYMENTS

The regularization accounts and prepaid expenses are comprised as follows:

Deferred discount on notes	702.092
Deferred set-up costs	2.735.953
Other deferred costs	114.702
Prepayments	12.794
Total	3.565.541

NOTE 6 - CAPITAL AND RESERVES

The carrying value of the shareholder's equity is comprised as follows:

	Issue and paid up share capital	Result for the period	Total
Issue of shares on incorporation August 21, 2003	31.000		31.000
Net result for the period		(316.240)	(316.240)
Balance as at December 31, 2003	31.000	(316.240)	(285.240)

The subscribed share capital of the Company consists of 31 shares with a per value of EUR 1.000 each. At December 31, 2003 shares were issued and fully paid.

Under Luxembourg law an amount equal to at least 5% of the annual income must be appropriated to a legal reserve until such reserve equals 10% of the issued share capital. This reserve is not available for dividend distribution.

Evrazsecurities S.A.
NOTES TO THE ANNUAL ACCOUNT
As at December, 31 2003
(in EUR)

NOTE 7 - NOTES PAYABLE

The notes payable, in the amount of EUR 139.109.698, are comprised as follows:

Principal	Issue price	Issue date	Maturity date	Annual interest %	December 31, 2003 EUR
USD 150.000.000	99,357%	September 25, 2003	September 25, 2006	8,875	119.236.884
USD 25.000.000	100%	December 10, 2003	September 25, 2006	8,875	19.872.814
					<u>139.109.698</u>

USD 175.000.000 8,875% guaranteed notes due September 25, 2006 have been issued during the period. The notes are unconditionally and irrevocably jointly and severally guaranteed by group companies. Interest on the notes is payable semi-annually in arrears on March 25 and September 25 of each year commencing with March 25, 2004. The interest payable during the period amounted to USD 3.463.715.

NOTE 8 - OTHER CREDITORS

The other creditors consists in interests accrued on the guaranteed notes.

NOTE 9 - OTHER OPERATIONAL CHARGES

The operational charges, in the amount for EUR 74.595 are comprised as follows:

Incorporation fees	3.188
Trustee fees	5.663
Listing fees	3.925
Rating agency fees	32.632
Legal fees	8.111
Set-up costs	16.800
Other operating costs	5.469
Foreign exchange	<u>6.107</u>
	74.595

NOTE 10 - OTHER NOTE

During the year under review, the Company did not employ any person and, consequently, no payments for wages, salaries or social securities were made.

Mastercraft Limited

Pro Forma Consolidated Financial Information

*Years ended December 31, 2003 and 2002
with Independent Accountants' Examination Report*

MASTERCROFT LIMITED
Pro Forma Consolidated Financial Information
Years ended December 31, 2003 and 2002

CONTENTS

Independent Accountants' Examination Report	F-14
Pro Forma Consolidated Financial Information	
Pro Forma Consolidated Balance Sheet as of December 31, 2003	F-16
Pro Forma Consolidated Balance Sheet as of December 31, 2002	F-18
Pro Forma Consolidated Income Statement for the year ended December 31, 2003	F-20
Pro Forma Consolidated Income Statement for the year ended December 31, 2002	F-21
Pro Forma Consolidated Cash Flow Statement for the year ended December 31, 2003	F-22
Pro Forma Consolidated Cash Flow Statement for the year ended December 31, 2002	F-25
Pro Forma Consolidated Statement of Changes in Equity for the year ended December 31, 2003 ...	F-28
Pro Forma Consolidated Statement of Changes in Equity for the year ended December 31, 2002 ...	F-29
Notes to Pro Forma Consolidated Financial Information	F-30

Independent Accountants' Examination Report

The Board of Directors
Mastercraft 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 Mastercraft Limited (the "Company") as of December 31, 2003 and 2002, 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 the Company, 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 financial statements of Novokuznetsk Iron & Steel Plant ("NKMK"), historical consolidated financial statements of Ferrotrade & Co. ("Ferrotrade UK"), historical financial statements of Ferrotrade Limited ("Ferrotrade Gibraltar") and historical financial statements of other subsidiaries of the Company listed in Note 2 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, 2003 and 2002 were audited by us and in our report dated April 20, 2004 we expressed a qualified opinion on them. The opinion was qualified for the omission of consolidated financial statements.

The parent company financial statements of ZapSib for the years ended December 31, 2003 and 2002 were audited by us and in our report dated April 30, 2004 we expressed a qualified opinion on them. The opinion was qualified for the omission of consolidated financial statements.

The financial statements of NKMK for the period from May 5, 2003 (inception) to December 31, 2003 were audited by us and in our opinion dated March 29, 2004 we expressed an unqualified opinion on them.

The consolidated financial statements of Ferrotrade UK for the years ended December 31, 2003 and 2002 were audited by us and in our report dated April 2, 2004 we expressed an unqualified opinion on them.

The financial statements of Ferrotrade Gibraltar for the period from May 2, 2003 (inception) to December 31, 2003 were audited by us and in our report dated April 2, 2004 we expressed an unqualified opinion on them.



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 sheets as of December 31, 2003 and 2002, and the pro forma consolidated statements of income, cash flows and changes in equity for the years then ended.

Ernst & Young (CIS) Limited

June 16, 2004

Mastercroft Limited

Pro Forma Consolidated Balance Sheet as of December 31, 2003

(In thousands of US dollars)

	Elimination adjustments					Pro forma adjustments				
						Acquisition of		Settlement of		
						Intragroup sales and purchases	Intragroup debts	NTMK, ZapSib, NMTP and VGOK	Minority interest	liabilities to Marteck
						(Note 3)	(Note 4)	(Notes 5-8)	(Note 11)	(Note 12)
Mastercroft	NTMK	ZapSib	NKMK	Ferrotrade UK	Ferrotrade Gibraltar	Other subsidiaries				Total
						(Note 2)				
ASSETS										
Non-current assets										
Property, plant and equipment, net	\$ -	\$ 623,165	\$ 366,026	\$ 52,550	\$ -	\$ 109,892	\$ -	\$ -	\$ -	\$ 1,151,633
Negative goodwill	-	-	-	-	-	-	-	(140,281)	-	(140,281)
Goodwill	-	-	-	-	-	-	-	2,529	-	2,529
Investments and notes receivable	146	13,466	17,465	-	8,083	2	337,928	(76,115)	(254,204)	46,771
Input VAT relating to the Settlement Agreements	-	3,483	495	-	-	-	-	-	-	3,978
Loans due from related parties	92,988	-	-	-	91,887	-	173,051	(354,465)	(3,461)	-
Restricted deposits at bank	-	-	-	-	-	-	14,617	-	-	14,617
Deferred income tax asset	-	-	-	508	-	-	-	-	-	508
Other assets	-	4,244	5,528	-	-	1,060	-	-	-	10,832
	93,134	644,358	389,514	53,058	99,970	2	636,548	(430,580)	(395,417)	1,090,587
Current assets										
Inventories	-	74,203	93,246	41,007	1,094	260,330	6,780	1,434	669	478,763
Trade and other receivables, net	-	8,861	7,908	5,623	92,207	24,507	9,096	-	-	148,202
Prepayments	7,206	7,844	12,103	1,675	10,427	75	1,626	-	-	40,956
Receivables from related parties	10	28,804	24,089	15,849	128,415	74,958	16,604	(6,725)	(1,429)	72,049
Loans due from related parties	207,024	-	-	-	95,764	-	108,044	(321,788)	-	89,044
Taxes receivable	-	52,184	43,886	27,616	-	-	4,076	-	-	127,762
Restricted deposits at banks	-	-	-	-	9,500	4,500	-	-	-	14,000
Investments and notes receivable	-	-	-	225	2,873	-	46,601	(13,128)	-	36,571
Cash and cash equivalents	24	73,466	49,582	3,466	41,631	3,611	41,661	-	-	213,441
	214,264	245,362	230,814	95,461	381,911	367,981	234,488	(341,641)	(760)	1,220,788
TOTAL ASSETS										
	\$ 307,398	\$ 889,720	\$ 620,328	\$ 148,519	\$ 481,881	\$ 367,983	\$ 871,036	\$ (772,221)	\$ (396,177)	\$ 2,311,375

Mastercroft Limited

Pro Forma Consolidated Balance Sheet as of December 31, 2003 (continued)

	Elimination adjustments				Pro forma adjustments					Total
					Intragroup sales and purchases (Note 3)	Other subsidiaries (Note 2)	Intragroup debts (Note 4)	Acquisition of NTMK, ZapSib, VGOK (Notes 5-8)	Minority interest (Note 11)	
Mastercroft	NTMK	ZapSib	NKMK	Ferrotrade UK	Ferrotrade Gibraltar					
EQUITY AND LIABILITIES										
Equity										
Issued capital	\$ 59,423	\$ 29,612	\$ 4,142	\$ 3,000	\$ 3	\$ 27,225	\$ -	\$ (93,636)	\$ (26,769)	\$ 141,935
Share premium and additional paid-in capital	-	-	-	-	-	-	-	-	-	-
Treasury shares	6,239	21,156	36,972	-	-	-	(4,300)	(54,251)	(5,816)	-
Reserve capital	-	-	-	-	-	(120)	-	101	19	-
Net unrealized gains on financial assets	2,321	227	207	-	-	130	-	(2,196)	(689)	-
Translation difference	-	-	-	2,392	-	19,844	-	(20,914)	-	-
Accumulated (losses) profits	3,279	4,753	108	-	-	475	11	60,586	(1,872)	1,322
Total equity	(13,356)	425,905	253,870	8,952	314,779	66,287	1,434	(262,890)	(176,476)	665,690
	497,167	309,618	50,381	320,171	45,955	113,841	1,434	(352,286)	(211,603)	876,287
Minority interest	-	-	-	-	-	-	-	(43,284)	211,603	169,206
Non-current liabilities										
Long-term loans	-	70,313	-	-	-	-	-	-	-	118,313
Long-term loan due to EvrazSecurities S.A.	-	-	-	-	-	-	-	-	-	169,500
Long-term loans due to related parties	33,204	-	1,751	-	98,702	262,113	-	(362,267)	-	33,503
Liabilities under the Settlement	-	-	-	-	-	-	-	-	-	-
Agreements	-	58,678	23,025	-	-	-	(44,512)	(354)	-	36,837
Promissory notes payable	-	1,125	657	-	-	-	(1,206)	-	-	576
Restructured taxes payable	-	13,211	10,933	-	-	1,856	-	-	-	26,000
Finance lease obligations	-	4,320	7,266	-	-	-	-	-	-	14,434
Deferred income tax liabilities	-	73,418	56,192	-	-	9,758	-	(721)	-	138,647
Other long-term liabilities	-	330	2,917	-	-	45,268	-	-	-	48,515
	169,500	254,599	148,990	4,599	98,702	318,995	(407,985)	(1,075)	-	586,325
Current liabilities										
Trade and other payables	206	53,733	11,917	18,825	13,618	19,572	-	-	-	127,353
Advances from customers	-	1,063	851	43	578	231	-	-	-	4,368
Short-term loans	-	4,003	82,364	22,533	82,511	6,017	-	-	-	276,095
Payables to related parties	320	41,541	15,546	28,978	68,115	77,186	(10,552)	-	-	141,371
Loans due to related parties	11,793	-	-	13,240	1,700	302,534	(321,788)	-	-	7,479
Taxes payable	-	18,289	37,408	8,580	-	12,752	-	-	-	77,029
Current portion of liabilities under the Settlement Agreements	-	18,925	10,123	-	-	-	(8,813)	468	-	20,703
Current portion of finance lease obligations	-	400	3,511	1,340	-	-	-	-	-	5,251
Current portion of other long-term liabilities	-	-	-	-	-	19,908	-	-	-	19,908
	12,319	137,954	161,720	93,539	161,710	438,200	(341,153)	468	-	679,557
TOTAL EQUITY AND LIABILITIES	\$ 307,398	\$ 889,720	\$ 620,328	\$ 148,519	\$ 481,881	\$ 871,036	\$ (773,221)	\$ (396,177)	\$ -	\$ 2,311,375

Mastercrocft Limited

Pro Forma Consolidated Balance Sheet as of December 31, 2002

(In thousands of US dollars)

	Elimination adjustments				Pro forma adjustments												
	Mastercrocft	NTMK	ZapSib	NKMK	Ferrotrade		Other subsidiaries (Note 2)	Acquisition of		Settlement of liabilities to Marteck (Note 12)							
					UK	Gibraltar		Intragroup sales and purchases (Note 3)	Intragroup debts (Note 4)		NMTP and VGOK (Notes 5-8)	Minority interest (Note 11)					
ASSETS																	
Non-current assets																	
Property, plant and equipment, net	\$	-	\$	586,622	\$	398,526	\$	-	\$	-	\$	-	\$	985,148			
Negative goodwill	-	-	-	-	-	-	-	-	-	-	-	-	-	(136,706)			
Investments and notes receivable	-	-	-	12,933	-	12,738	-	9,875	-	(40,019)	-	(57,161)	-	60,811			
Input VAT relating to the Settlement Agreements	-	-	-	3,877	-	443	-	-	-	-	-	-	-	4,320			
Receivables from related parties	-	-	-	-	-	-	-	3,680	-	-	-	-	-	-			
Loans due from related parties	-	-	-	-	-	-	-	5,767	-	-	-	-	-	6,778			
	-	-	-	603,432	-	411,707	-	19,322	-	(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	-	77,577	-	4	(33,179)	(46,557)	-	29,477			
Loans due from related parties	-	-	-	-	-	-	-	22,171	-	484	(460)	-	-	22,195			
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	-	1,005	-	-	-	15,748			
	-	-	-	124,202	-	142,792	-	336,639	-	(35,722)	(78,861)	-	-	525,097			
TOTAL ASSETS																	
\$	-	\$	727,634	\$	554,499	\$	-	\$	355,961	\$	(39,402)	\$	(193,867)	\$	-	\$	1,445,448

Mastercroft Limited

Pro Forma Consolidated Balance Sheet as of December 31, 2002 (continued)

	Elimination adjustments						Pro forma adjustments						
	Ferrotrade			Other subsidiaries	Intragroup sales and purchases	Intragroup debits	Acquisition of NTMK, ZapSib, NMTP and VGOK		Minority interest	Settlement of liabilities to Marteck			
Mastercroft	NTMK	ZapSib	NKMK	Gibraltar	UK		(Note 2)	(Note 3)	(Note 4)	(Notes 5-8)	(Note 11)	(Note 12)	Total
\$	\$ 55,067	\$ 27,441	\$	\$	\$ 3,000	\$	\$ 9	\$	\$	\$ (62,734)	\$ (19,783)	\$ 56,972	\$ 59,972
Issued capital													
Share premium and additional paid-in capital	5,781	15,620								(16,697)	(4,704)		
Reserve capital	2,151									(1,599)	(552)		
Net unrealised gains on financial assets					34,049		6,520		(40,569)				
Translation difference										26,199			26,199
Accumulated profits	334,089	134,691			115,273		(2,775)	(2,543)	28,832	(139,036)	(113,903)		354,628
Total equity	397,088	177,752			152,322		3,754	(2,543)	(11,737)	(193,867)	(138,942)	56,972	440,799
Minority interest											138,942		138,942
Non-current liabilities													
Long-term loans	992						1,803						2,795
Long-term loan due to related parties	30,770												30,770
Liabilities under the Settlement Agreements	65,553	21,942							(26,637)				60,858
Promissory notes payable	6,803	955					3,680	(3,680)	(2,405)				5,353
Payables to related parties													
Loans due to related parties							40,014					(40,014)	
Restructured taxes payable	13,790	12,723											
Finance lease obligations	3,971	7,518											26,513
Deferred income tax liabilities	89,300	64,665											11,489
Other long-term liabilities	265	2,072					32,019						153,965
	211,444	109,875					77,516	(3,680)	(29,042)			(40,014)	326,099
Current liabilities													
Trade and other payables	33,979	43,462			19,415		277		(249)				96,884
Advances for sale of securities					10,000		6,569						16,569
Advances from customers	11,132	1,052			6,820								19,004
Short-term loans	8,526	50,468			146,526		15,250						220,770
Payables to related parties	29,335	80,526			12,993		21,278	(33,179)	(60,322)				50,631
Loans due to related parties							16,958					(16,958)	
Taxes payable	17,783	54,825					2						72,610
Current portion of liabilities under the Settlement Agreements	17,999	29,887							(17,530)				30,356
Current portion of finance lease obligations	348	1,652											2,000
Current portion of other long-term liabilities							17,899						17,899
Dividends payable					7,885								7,885
Provisions		5,000											5,000
	119,102	266,872			203,639		78,233	(33,179)	(78,101)			(16,958)	539,608
TOTAL EQUITY AND LIABILITIES	\$ 727,634	\$ 554,499	\$	\$	\$ 355,961	\$	\$ 159,503	\$ (39,402)	\$ (118,880)	\$ (193,867)	\$	\$	\$ 1,445,448

Mastercrocft Limited

Pro Forma Consolidated Income Statement for the year ended December 31, 2003

(In thousands of US dollars)

	Elimination adjustments						Pro forma adjustments				
							Acquisition of		Settlement of		
Mastercrocft	NTMK	ZapSib	NKMK	Ferrotrade	Ferrotrade	Other	Intragroup	Intragroup	NTMK, ZapSib	Minority	liabilities to
				UK	Gibraltar	subsidiaries	sales and	debts	VGOK	interest	Marteck
						(Note 2)	(Note 3)	(Note 4)	(Notes 5-8)	(Note 11)	(Note 12)
Revenue											
Sale of goods	\$ -	\$ 1,016,528	\$ 152,100	\$1,477,459	\$ 101,382	\$ -	\$ (823,689)	\$ -	\$ -	\$ -	\$ -
Rendering of services	-	23,266	2,753	-	-	6,441	-	-	-	-	-
Cost of revenues	-	(811,314)	(1,321,173)	(1,036,722)	(69,932)	-	821,225	-	-	-	-
Amortization of negative goodwill	-	-	-	-	-	-	-	-	32,204	-	-
Gross profit	-	228,480	22,680	440,737	31,450	6,441	(2,464)	-	32,204	-	-
Selling and distribution costs	-	(21,423)	(1,784)	(81,935)	(12,569)	-	6,441	-	-	-	-
General and administrative expenses	(852)	(50,982)	(6,274)	(13,914)	(162)	(2,634)	-	-	-	-	-
Social and social infrastructure maintenance expenses	-	(18,451)	(538)	-	-	-	-	-	-	-	-
Loss on disposal of property, plant and equipment	-	(12,106)	(430)	-	-	-	-	-	-	-	-
Loss on disposal of investments	-	-	-	-	-	109	-	(109)	-	-	-
Foreign exchange gains/(losses)	-	1,798	120	(792)	-	776	-	37	-	-	-
Loss on revaluation of assets under construction	-	(13,131)	-	-	-	-	-	-	-	-	-
Other operating income (expense)	-	4,282	(408)	(79)	(9)	(3)	-	-	-	-	-
Profit (loss) From operating activities	(852)	118,467	13,366	344,017	18,710	4,689	3,977	(72)	32,204	-	-
Interest income	3,243	-	-	2,158	-	3,623	-	(7,639)	-	-	-
Interest expense	(3,550)	(23,459)	(1,010)	(6,293)	(274)	(9,860)	-	5,033	-	-	-
Realised gains removed from equity and reported in net profit for the year	-	-	-	-	-	-	-	-	-	-	-
Gain on sale of investments	-	-	-	32,031	-	-	-	(32,031)	-	-	-
Other non-operating income/(expense)	-	-	-	14,779	-	-	-	59	(14,838)	-	-
Gain/(loss) on transactions with related parties	(12,197)	-	-	-	-	-	-	-	-	-	-
Gain on extinguishments of debts	-	-	-	(34,186)	27,516	10,944	-	7,923	-	-	-
	-	587	-	-	-	-	-	15	-	-	-
Profit (loss) from ordinary activities before income taxes	(13,356)	95,595	12,356	352,506	45,952	9,396	3,977	(26,712)	17,366	-	-
Income tax expense	-	(30,205)	(3,197)	-	-	(1,004)	-	-	-	-	-
Minority interest in profit from ordinary activities	-	-	-	-	-	-	-	(887)	-	(42,963)	-
Net profit (loss)	\$ (13,356)	\$ 65,390	\$ 9,159	\$ 352,506	\$ 45,952	\$ 8,392	\$ 3,977	\$ (27,599)	\$ 17,366	\$ (42,963)	\$ -
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Mastercrocft Limited

Pro Forma Consolidated Income Statement for the year ended December 31, 2002

(In thousands of US dollars)

	Elimination adjustments				Pro forma adjustments							
					Acquisition of				Settlement			
							Other subsidiaries	Intragroup sales and purchases	Intragroup debts	NMTP and VGOK	Minority interest	of liabilities to Marteck
	Mastercroft	NTMK	ZapSib	NKMK	Ferrotrade UK	Ferrotrade Gibraltar	(Note 2)	(Note 3)	(Note 4)	(Notes 5-8)	(Note 11)	(Note 12)
Revenue												
Sale of goods	\$ -	\$ 783,521	\$ 689,410	\$ -	\$ 1,024,630	\$ -	\$ -	\$ (482,881)	\$ -	\$ -	\$ -	\$ 2,014,680
Rendering of services	-	26,885	22,585	-	-	-	-	-	-	-	-	49,470
Cost of revenues	-	(687,123)	(640,003)	-	(740,752)	-	-	463,057	-	-	-	(1,604,821)
Amortization of negative goodwill	-	-	-	-	-	-	-	-	-	32,204	-	32,204
Gross profit	-	123,283	71,992	-	283,878	-	-	(19,824)	-	32,204	-	491,533
Selling and distribution costs	-	(32,195)	(21,020)	-	(89,601)	-	-	-	-	-	-	(142,816)
General and administrative expenses	-	(30,374)	(59,613)	-	(8,671)	-	(184)	-	-	-	-	(98,842)
Tax-related fines and penalties	-	(8,186)	(7,210)	-	-	-	-	-	-	-	-	(15,396)
Social and social infrastructure maintenance expenses	-	(26,002)	(2,127)	-	-	-	-	-	-	-	-	(28,129)
Loss on disposal of property, plant and equipment	-	(14,084)	(742)	-	-	-	-	-	-	-	-	(14,826)
Loss on disposal of investments	-	-	-	-	-	-	(114)	-	59	55	-	-
Foreign exchange (losses)/gains	-	(7,407)	(7,074)	-	571	-	(112)	-	-	-	-	(14,022)
Gain on net monetary position	-	28,996	34,022	-	-	-	-	19,972	-	-	-	82,990
Other operating income/(expense)	-	4,429	(6,926)	-	(148)	-	(426)	-	-	-	-	(3,071)
Profit (loss) from operating activities	-	38,460	1,302	-	186,029	-	(836)	148	59	32,259	-	257,421
Interest income	-	-	-	-	1,026	-	-	-	-	-	-	1,026
Interest expense	-	(27,503)	(19,630)	-	(7,085)	-	(1,885)	-	(6,181)	-	-	(62,284)
Gain on extinguishment of debts	-	12,482	3,820	-	-	-	-	-	30,485	-	-	46,787
Profit (loss) from ordinary activities before income taxes	-	23,439	(14,508)	-	179,970	-	(2,721)	148	24,363	32,259	-	242,950
Income tax benefit/(expense)	-	(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	-	(2,740)	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	\$ -	\$ (2,740)	\$ 148	\$ 24,363	\$ 32,259	\$ (965)	\$ -
												\$ 234,723

Pro Forma Consolidated Cash Flow Statement for the year ended December 31, 2003
(In thousands of US dollars)

F-22

Mastercroft Limited

Pro Forma Consolidated Cash Flow Statement for the year ended December 31, 2003 (continued)

	Elimination adjustments						Pro forma adjustments						Total
	Mastercroft	NTMK	ZapSib	NKMK	Ferrotrade UK	Ferrotrade Gibraltar	Other subsidiaries (Note 2)	Intragroup sales and purchases (Note 3)	Intragroup debts (Note 4)	Acquisition of NTMK, ZapSib, NMTP and VGOK (Notes 5-8)	Minority interest (Note 11)	Settlement of liabilities to Marteck (Note 12)	
Cash flows from investing activities													
Long-term loans issued to related parties	-	-	-	-	(100,582)	-	(47,308)	-	131,052	-	-	-	
Short-term loans issued to related parties	(222,982)	(7,548)	(2,388)	-	(214,095)	-	(240,188)	-	470,717	-	-	-	
Repayments of short-term loans issued to related parties	-	-	-	-	132,000	-	134,750	-	(135,490)	-	-	-	
Acquisitions of subsidiaries, net of cash acquired	-	-	-	-	-	-	(9,702)	-	-	9,702	-	-	
Purchases of shares in subsidiaries	-	-	-	-	-	-	(129,857)	-	-	39,819	-	-	
Proceeds from sale of shares in subsidiaries	-	-	-	-	8,000	-	-	-	-	-	-	8,000	
Additional contribution to a subsidiary	-	-	-	-	-	-	(4,300)	-	4,300	-	-	-	
Payments to acquire debts of subsidiaries	-	-	-	-	-	-	(72,665)	-	72,665	-	-	-	
Repayments by subsidiaries of its debts	-	-	-	-	-	-	90,445	-	(90,445)	-	-	-	
Repayments of short-term loans receivable	-	-	-	-	10,871	-	634	-	-	-	-	-	
Restricted deposits at banks	-	-	-	-	4,000	(4,500)	(13,990)	-	-	-	-	-	
Payments for property, plant and equipment	-	(99,562)	(18,811)	(46,663)	-	-	(164)	-	-	-	-	-	
Proceeds from the sale of property, plant and equipment	-	32	1,085	-	-	-	-	-	-	-	-	1,117	
Payments to acquire equity of other enterprises	-	(660)	(4,779)	-	-	-	(2,603)	-	-	-	-	(8,042)	
Proceeds from sale of equity of other enterprises	-	1,095	165	-	-	-	17,426	-	-	-	-	18,686	
Payments to acquire debt instruments of other enterprises	-	-	(825)	-	-	-	(37,874)	-	-	-	-	(38,699)	
Proceeds from the sale/redemption of debt instruments of other enterprises	-	-	657	-	49,158	-	-	-	-	-	-	49,815	
Net cash flows used in investing activities	(222,982)	(106,643)	(24,896)	(46,663)	(110,648)	(4,500)	(315,396)	-	452,799	49,521	-	(329,408)	

Mastercroft Limited

Pro Forma Consolidated Cash Flow Statement for the year ended December 31, 2003 (continued)

	Elimination adjustments				Pro forma adjustments							
	Ferrotrade		Other subsidiaries	Intragroup sales and purchases	Intragroup debts	NTMK, ZapSib, V GOK	Minority interest	Settlement of liabilities to Marteck				
Mastercroft	NTMK	ZapSib	NKMK	UK	Gibraltar	(Note 2)	(Note 3)	(Note 4)	(Notes 5-8)	(Note 11)	(Note 12)	Total
Cash flows from financing activities												
Proceeds from issue of share capital	52,935	-	40,632	-	3	37	-	-	(40,672)	-	-	52,935
Proceeds from issue of shares by a consolidated subsidiary to minority shareholder	-	-	-	-	-	-	-	-	853	-	-	853
Acquisition of subsidiaries net of cash acquired	-	-	-	-	-	-	-	-	(7,623)	-	-	(7,623)
Purchases of debts of subsidiaries	-	-	-	-	-	-	-	(70,216)	-	-	-	(70,216)
Proceeds from long-term loan provided by EvrazSecurities S.A.	169,500	-	-	-	-	-	-	-	-	-	-	169,500
Proceeds from long-term loans provided by related parties	-	-	1,751	-	101,656	235,016	-	(338,423)	-	-	-	-
Proceeds from short-term loans provided by related parties	8,167	-	53,763	-	1,700	271,932	-	(272,361)	-	-	-	63,201
Repayments of short-term loans provided by related parties	-	(5,568)	(41,574)	-	-	(144,812)	-	152,976	-	-	-	(47,609)
Proceeds from short-term bank loans, net	-	-	11,229	(38,915)	78,667	-	-	-	-	-	-	50,981
Proceeds from short-term borrowings	-	58,560	162,550	11,021	-	59	-	-	-	-	-	232,190
Repayments of short-term borrowings, including interest	-	(68,358)	(137,963)	-	(32,185)	(14,430)	-	-	-	-	-	(252,936)
Proceeds from long-term borrowings	-	71,375	49,120	-	-	-	-	-	-	-	-	120,495
Repayments of long-term borrowings, including interest	-	(712)	-	-	-	-	-	-	-	-	(712)	-
Dividends paid	-	-	-	(162,500)	-	-	-	-	-	-	-	(162,500)
Payments under finance lease, including interest	-	(1,379)	(3,222)	-	-	-	-	-	-	-	-	(4,601)
Payments of a restructured liability to a related party	-	-	(49,364)	-	-	-	-	49,364	-	-	-	-
Payments under the Settlement Agreements, including interest	-	(21,596)	(22,963)	-	-	-	-	20,944	-	-	-	(23,615)
Proceeds from issuance of long-term promissory notes	-	-	625	-	-	-	-	-	-	-	-	625
Payments under promissory notes	-	(5,715)	(2,174)	-	-	-	-	5,179	-	-	-	(2,710)
Payments under restructured taxes, including interest	-	(4,280)	(12,617)	-	-	-	-	-	-	-	-	(16,897)
Net cash flows from (used in) financing activities	230,602	22,327	(24,639)	(233,600)	182,026	347,802	-	(452,537)	(47,442)	-	-	101,361
Effect of foreign exchange rate changes on cash and cash equivalents	-	3,663	679	-	-	468	-	-	-	-	-	4,852
Net increase in cash and cash equivalents	24	59,574	49,029	41,333	3,611	38,577	-	-	2,079	-	-	197,693
Cash and cash equivalents at beginning of year	-	13,892	553	298	-	1,005	-	-	-	-	-	15,748
Cash and cash equivalents at end of year	\$ 24	\$ 73,466	\$ 49,582	\$ 41,631	\$ 3,611	\$ 39,582	\$ -	\$ -	\$ 2,079	\$ -	\$ -	\$ 213,441

Mastercroft Limited

Pro Forma Consolidated Cash Flow Statement for the year ended December 31, 2002

(In thousands of US dollars)

	Elimination adjustments				Pro forma adjustments								
					Acquisition of				Settlement of				
	Mastercroft	NTMK	ZapSib	NKMK	Ferrotrade UK	Ferrotrade Gibraltar	Other subsidiaries (Note 2)	Intragroup sales and purchases (Note 3)	Intragroup debts (Note 4)	NTMK, ZapSib, NMTP and VGOK (Notes 5-8)	Minority interest (Note 11)	Marteck (Note 12)	Total
Cash flows from operating activities													
Net profit (loss)	\$ -	\$ 12,004	\$ (10,316)	\$ -	\$ 179,970	\$ -	\$ (2,740)	\$ 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)	-	-	(32,204)
Depreciation and amortization	-	80,238 (949)	72,766 (9,405)	-	-	-	-	-	-	-	-	-	153,004 (10,354)
Deferred income taxes	-	-	-	-	-	-	-	-	-	-	-	-	-
Loss on disposal of property, plant and equipment	-	14,084	742	-	-	-	-	-	-	-	-	-	14,826
Foreign exchange losses (gains)	-	7,407 (28,996)	7,074 (34,022)	-	(571)	-	112	-	-	-	-	-	14,022 (82,990)
Gain on net monetary position	-	-	-	-	-	-	-	(19,972)	-	-	-	-	-
Bad debt expense	-	3,081 (12,482)	7,792 (3,820)	-	574	-	-	-	(30,485)	-	-	-	11,447 (46,787)
Gain on extinguishment of debts	-	-	2,773	-	-	-	426	-	-	-	-	-	3,199
Impairment of investments	-	-	-	-	-	-	-	-	-	-	965	-	965
Minority interest	-	-	-	-	-	-	114	-	(59)	(55)	-	-	-
Loss on disposal of investments	-	27,503	19,630 (1,899)	-	7,085	-	1,885	-	6,181	-	-	-	62,284 (1,899)
Interest accrued	-	-	-	-	-	-	-	-	-	-	-	-	-
Extraordinary item	-	-	-	-	-	-	-	-	-	-	-	-	-
Changes in operating assets and liabilities:													
Inventories	-	9,795 (6,204)	5,976 2,964	-	(47,626) 21,247	-	-	4,503	-	-	-	-	(27,352) 17,977
Trade and other receivables	-	-	-	-	-	-	(30)	-	-	-	-	-	(10,100)
Prepayments	-	(6,530)	(4,140)	-	570	-	-	-	-	-	-	-	16,640
Receivables from and payables to related parties	-	6,019	15,730	-	(20,565)	-	135	15,321	-	-	-	-	-
Taxes receivable	-	(5,474)	(18,809)	-	-	-	-	-	-	-	-	-	(24,283)
Trade and other payables	-	(27,506)	(33,569)	-	(276)	-	10	-	-	-	-	-	(61,341)
Advances from customers	-	10,163	(141)	-	5,732	-	-	-	-	-	-	-	15,754
Taxes payable	-	10,110	4,424	-	-	-	-	-	-	-	-	-	14,534
Other long-term liabilities	-	-	1,912	-	-	-	-	-	-	-	-	-	1,912
Net cash flows from (used in) operating activities	-	92,263	25,662	-	146,140	-	(88)	-	-	-	-	-	263,977

Mastercrocft Limited

Pro Forma Consolidated Cash Flow Statement for the year ended December 31, 2002 (continued)

	Elimination adjustments					Pro forma adjustments					Total
	Ferrotrade		Other subsidiaries		Intragroup sales and purchases	Intragroup debts	Acquisition of NTMK, ZapSib, NMTP and VGOK		Minority interest	Settlement of liabilities to Marteck	
	UK	NKMK	Gibraltar	(Note 2)	(Note 3)	(Note 4)	(Notes 5-8)	(Note 11)	(Note 12)		
Mastercroft	NTMK	ZapSib									
Cash flows from investing activities											
Purchases of shares in subsidiaries	-	-	-	(31,443)	-	-	31,443	-	-	-	
Proceeds from sale of shares in subsidiaries	-	-	10,000	-	-	-	-	-	-	10,000	
Purchases of debts of subsidiaries	-	-	-	(23,584)	-	23,584	-	-	-	-	
Repayments by subsidiaries of its debts	-	-	-	16,955	-	(16,955)	-	-	-	-	
Long-term loans issued to related parties	-	-	(2,000)	-	-	-	-	-	-	(2,000)	
Short-term loans issued to related parties	-	-	(19,100)	(5,517)	-	5,000	-	-	-	(19,617)	
Prepayments of short-term loans by related parties	-	-	-	-	-	(5,000)	-	-	-	3,955	
Issuance of short-term loans receivable	(1,325)	-	(2,622)	(19,686)	-	-	-	-	-	(23,633)	
Repayments of short-term loans receivable	-	-	10,822	16,922	-	-	-	-	-	27,744	
Restricted deposits at banks	-	-	(5,300)	-	-	-	-	-	-	(5,300)	
Payments for property, plant and equipment	(38,258)	-	-	-	-	-	-	-	-	(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)	
Proceeds from sale of equity of other enterprises	-	-	-	6,569	-	-	-	-	-	6,569	
Payments to acquire debt instruments of other enterprises	-	(1,900)	-	(6,142)	-	-	-	-	-	(8,042)	
Proceeds from the sale/redemption of debt instruments of other enterprises	-	-	11,342	163	-	-	-	-	-	21,454	
Net cash flows (used in) from investing activities	(28,375)	(19,667)	9,275	(61,118)	-	6,629	31,443	-	-	(61,813)	

Mastercrocft Limited
Pro Forma Consolidated Cash Flow Statement for the year ended December 31, 2002 (continued)

	Elimination adjustments					Pro forma adjustments							
						Acquisition of							
	Mastercrocft	NTMK	ZapSib	NKMK	Ferrotec UK	Ferrotec Gibraltar	Other subsidiaries (Note 2)	Intragroup sales and purchases (Note 3)	Intragroup debts (Note 4)	NTMK, ZapSib, NMTP and VGOK (Notes 5-8)	Minority interest (Note 11)	Settlement of liabilities to Marteck (Note 12)	Total
Cash flows from financing activities													
Purchases of shares in subsidiaries	-	-	-	-	-	-	-	-	-	(31,443)	-	-	(31,443)
Purchases of debts of subsidiaries	-	-	-	-	-	-	-	-	(23,584)	-	-	-	(23,584)
Proceeds from long-term loans provided by related parties	-	30,290	-	-	-	-	47,885	-	-	-	-	-	78,175
Proceeds from short-term loans provided by related parties	-	10,009	-	-	-	-	5,000	-	(5,000)	-	-	-	10,009
Repayments of short-term loans to related parties	-	(9,439)	-	-	-	-	(5,159)	-	5,159	-	-	-	(9,439)
Proceeds from long-term loans	-	976	-	-	-	-	-	-	-	-	-	-	976
Proceeds from short-term bank loans, net	-	-	-	-	27,492	-	-	-	-	-	-	-	27,492
Proceeds from short-term loans	-	328,404	110,970	-	27,910	-	18,903	-	-	-	-	-	486,187
Repayments of short-term loans, including interest	-	(381,063)	(86,946)	-	(14,000)	-	(1,850)	-	-	-	-	-	(483,859)
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 (used in) financing activities	-	(52,343)	(8,969)	-	(155,125)	-	62,204	-	(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	-	995	-	-	-	-	-	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	\$ -	\$ 1,005	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,748

Mastercraft Limited
Pro Forma Consolidated Statement of Changes in Equity for the year ended December 31, 2003
(In thousands of US dollars)

	Mastercraft	NTMK	ZapSib	NKMK	Ferrotrade		Other subsidiaries (Note 2)	Elimination adjustments		Pro forma adjustments				
					UK	Gibraltar		Intragroup sales and purchases (Note 3)	Intragroup debts (Note 4)	Acquisition of		Settlement of liabilities to Marteck (Note 12)		
										NTMK, ZapSib, NMTP and VGOK (Notes 5-8)	Minority interest (Note 11)			
Total														
Issued capital														
Balance at December 31, 2002	\$ -	\$ 55,067	\$ 27,441	\$ -	\$ 3,000	\$ -	\$ 9	\$ -	\$ -	\$ (62,734)	\$ (19,783)	\$ 56,972	\$ 59,972	
Issue of share capital	138,935	-	-	-	-	-	-	-	-	-	-	(56,972)	81,963	
Acquisition of additional shares in subsidiaries	-	-	-	4,094	-	-	27,216	-	-	(25,893)	(5,420)	-	-	
Translation differences	-	4,356	2,171	48	-	-	-	-	-	(1,566)	(1,566)	-	-	
Balance at December 31, 2003	138,935	59,423	29,612	4,142	3,000	3	27,225	-	-	(93,636)	(26,769)	-	141,935	
Share premium and additional paid-in capital														
Balance at December 31, 2002	-	5,781	15,620	-	-	-	-	-	-	(16,697)	(4,704)	-	-	
Issue of share capital	-	-	-	36,538	-	-	-	-	-	(35,808)	(730)	-	-	
Expenses paid on behalf of subsidiary	-	-	4,300	-	-	-	-	-	(4,300)	-	-	-	-	
Translation differences	-	458	1,236	434	-	-	-	-	-	(1,746)	(382)	-	-	
Balance at December 31, 2003	-	6,239	21,156	36,972	-	-	-	-	(4,300)	(54,251)	(5,816)	-	-	
Treasury shares														
Balance at December 31, 2002	-	-	-	-	-	-	-	-	-	-	-	-	-	
Acquisition of treasury shares	-	-	-	-	-	-	(120)	-	-	101	19	-	-	
Balance at December 31, 2003	-	-	-	-	-	-	(120)	-	-	101	19	-	-	
Reserve capital														
Balance at December 31, 2002	-	2,151	-	-	-	-	-	-	-	(1,599)	(552)	-	-	
Appropriation of profit to reserve capital	-	-	227	207	-	-	130	-	-	(471)	(93)	-	-	
Translation differences	-	170	-	-	-	-	-	-	-	(126)	(44)	-	-	
Balance at December 31, 2003	-	2,321	227	207	-	-	130	-	-	(2,196)	(689)	-	-	
Unrealised gains														
Balance at December 31, 2002	-	-	-	-	34,049	-	6,520	-	(40,569)	-	-	-	-	
Gains (losses) not recognized in the statement of income	-	-	-	-	374	-	17,275	-	(16,327)	-	-	-	1,322	
Gains (losses) removed from equity and reported in net profit for the year	-	-	-	-	(32,031)	-	(3,951)	-	35,982	-	-	-	-	
Balance at December 31, 2003	-	-	-	-	2,392	-	19,844	-	(20,914)	-	-	-	1,322	
Translation difference:														
Balance at December 31, 2002	-	-	-	-	-	-	-	-	-	26,199	-	-	26,199	
Net effect of foreign exchange differences	-	3,279	4,753	108	-	-	475	-	11	34,387	(1,872)	-	41,141	
Balance at December 31, 2003	-	3,279	4,753	108	-	-	475	-	11	60,586	(1,872)	-	67,340	
Accumulated profits (losses):														
Balance at December 31, 2002	-	334,089	134,691	-	115,273	-	(2,775)	(2,543)	28,832	(139,036)	(113,903)	-	354,628	
Acquisition of additional shares in subsidiaries	-	-	-	-	-	-	60,670	-	-	(113,478)	(10,703)	-	(63,511)	
Net profit (loss)	(13,356)	65,390	108,749	9,159	352,506	45,952	8,392	3,977	(27,599)	17,366	(42,963)	-	527,573	
Translation differences	-	26,426	10,657	-	-	-	-	-	-	(28,108)	(8,975)	-	-	
Appropriation of profit to reserve capital	-	-	(227)	(207)	-	-	-	-	-	366	68	-	-	
Dividends declared	-	-	-	-	(153,000)	-	-	-	-	-	-	-	(153,000)	
Balance at December 31, 2003	(13,356)	425,905	253,870	8,952	314,779	45,952	66,287	1,434	1,233	(262,890)	(176,476)	-	665,690	
Total equity	\$ 125,579	\$ 497,167	\$ 309,618	\$ 50,381	\$ 320,171	\$ 45,955	\$ 113,841	\$ 1,434	\$ (23,970)	\$ (352,286)	\$ (211,603)	\$ -	\$ 876,287	

Mastercroft Limited

Pro Forma Consolidated Statement of Changes in Equity for the year ended December 31, 2002

(In thousands of US dollars)

	Elimination adjustments							Pro forma adjustments					
	Ferrotrade		Other Subsidiaries		Intragroup sales and purchases		Intragroup debts	Acquisition of NTMK, ZapSib, NMTP and VGOK		Minority interest	Settlement of liabilities to Marteck		
Mastercroft	NTMK	ZapSib	NKMK	UK	Gibraltar	(Note 2)	(Note 3)	(Note 4)	(Notes 5-8)	(Note 11)	(Note 12)	Total	
Issued capital													
Balance at December 31, 2001	\$ 55,067	\$ 23,441	\$ -	\$ 3,000	\$ -	\$ 5	\$ -	\$ -	\$ (59,550)	\$ (18,958)	\$ -	\$ 3,005	
Issue of share capital	-	4,000	-	-	-	4	-	-	(3,184)	(825)	56,972	56,967	
Balance at December 31, 2002	-	55,067	-	3,000	-	9	-	-	(62,734)	(19,783)	56,972	59,972	
Share premium and additional paid-in capital													
Balance at December 31, 2001	-	5,781	-	-	-	-	-	-	(19,872)	(5,529)	-	-	
Issue of share capital	-	(4,000)	-	-	-	-	-	-	3,175	825	-	-	
Balance at December 31, 2002	-	5,781	-	-	-	-	-	-	(16,697)	(4,704)	-	-	
Reserve Capital													
Balance at December 31, 2001	-	688	-	-	-	-	-	-	(512)	(176)	-	-	
Appropriation of profit to reserve capital	-	1,463	-	-	-	-	-	-	(1,087)	(376)	-	-	
Balance at December 31, 2002	-	2,151	-	-	-	-	-	-	(1,599)	(552)	-	-	
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)	-	-	-	-	
Translation difference													
Balance at December 31, 2001	-	-	-	-	-	-	-	-	26,199	-	-	26,199	
Balance at December 31, 2002	-	-	-	-	-	-	-	-	26,199	-	-	26,199	
Accumulated profits (losses)													
Balance at December 31, 2001	-	323,548	-	110,303	-	(35)	(2,691)	4,469	(172,382)	(113,314)	-	294,905	
Net profit (loss)	-	12,004	-	179,970	-	(2,740)	148	24,363	32,259	(965)	-	234,723	
Appropriation of profit to reserve capital	-	(1,463)	-	-	-	-	-	-	1,087	376	-	-	
Dividends declared	-	-	-	(175,000)	-	-	-	-	-	-	-	(175,000)	
Balance at December 31, 2002	-	334,089	-	115,273	-	(2,775)	(2,543)	28,832	(139,036)	(113,903)	-	354,628	
Total equity	\$ -	\$ 397,088	\$ 177,752	\$ -	\$ 152,322	\$ -	\$ 3,754	\$ (2,543)	\$ (11,737)	\$ (193,867)	\$ (138,942)	\$ 56,972	\$ 440,799

Mastercrocft Limited

Notes to Pro Forma Consolidated Financial Information

Years ended December 31, 2003 and 2002

(All amounts are in thousands of US dollars, unless specified otherwise)

1. Corporate Information

Mastercrocft Limited (the “Company” or “Mastercrocft”) is a limited liability company registered under the laws of Cyprus on December 31, 2002. The registered address of the Company is 3 Themistocles Dervis Street, Julia House, P.C.1066, Nicosia, Cyprus.

The Company holds equity investments in the following subsidiaries: Ferroblast Overseas Investments Limited (“Ferroblast”), Tradeline Enterprises Limited (“Tradeline”), Lakemill Trading & Investments Limited (“Lakemill”), Logicmind Investments Limited (“Logicmind”), Ferrotrade Limited (“Ferrotrade Gibraltar”), OOO Sibmetinvest (“SMI”), East Metals S.A. (“East Metals”), Mastercrocft Finance Limited (“MFL”), East Metals (Cyprus) Limited (“EML”), Mastercrocft Mining Limited (“Mastercrocft Mining”) and Mastercrocft Pipe Projects Limited (“Mastercrocft Pipe Projects”).

Ferroblast is a limited liability company registered in Cyprus in 2002. Ferroblast holds investments in other enterprises. As of December 31, 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. Tradeline holds investments in other enterprises. As of December 31, 2003, Tradeline held 581,695,662 (44.40%) 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 December 31, 2003, Ferroblast and Tradeline, the subsidiaries of the Company, owned 74.35% of common shares in NTMK.

Lakemill is a limited liability company registered in Cyprus in 1999. Lakemill holds investments in other enterprises. As of December 31, 2003, Lakemill held 6,885,144 (51.43%) shares in OAO West-Siberian Iron & Steel Plant (“ZapSib”), consisting of 6,625,080 common shares and 260,064 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.

Mastercrocft Limited

Notes to Pro Forma Consolidated Financial Information (continued)

1. Corporate Information (continued)

Logicmind is a limited liability company registered in Cyprus in 2001. Logicmind holds investments in other enterprises. As of December 31, 2003, Logicmind held 5,613,404 (41.93%) shares in ZapSib, consisting of 5,524,617 common shares and 88,787 Class A preferred shares. Logicmind acquired these shares in transactions, which occurred in the period from October 2002 to December 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.

ZapSib is an open joint stock company registered in Russia and mainly involved in the production of steel products. As of December 31, 2003, Lakemill and Logicmind, the subsidiaries of the Company, owned 93.36% 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, totalling 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.

Ferrotrade Gibraltar is a limited liability company registered in Gibraltar. Ferrotrade Gibraltar was incorporated in 2003, as part of the restructuring of a group of enterprises controlled by the Company. In accordance with the restructuring plan, the business and operations of Ferrotrade & Co. ("Ferrotrade UK"), an enterprise under common control with the Company, are being transferred to Ferrotrade Gibraltar. The transfer commenced on October 1, 2003 and is scheduled to be completed in the first half of 2004. The Company owns 10% of the share capital of Ferrotrade Gibraltar, but is entitled to all of the profits of Ferrotrade Gibraltar and exercises unilateral managerial control over this subsidiary.

Ferrotrade UK is a limited partnership registered in the United Kingdom. Ferrotrade UK was engaged in the export of steel products from Russia. Marteck International Ltd. ("Marteck"), the general partner in Ferrotrade UK, is entitled to all of Ferrotrade UK's profits up to 10 million British pounds and to 99.999% of Ferrotrade UK's profits exceeding 10 million British pounds. All losses of Ferrotrade UK are to be borne by the general partner. Marteck is an enterprise under common control with the Company.

Mastercroft Limited

Notes to Pro Forma Consolidated Financial Information (continued)

1. Corporate Information (continued)

SMI is a limited liability company incorporated in Russia in 2003. Shares in SMI are held by Mastercroft (50%), NTMK (25%) and ZapSib (25%). SMI holds investments in other enterprises.

On May 5, 2003, SMI and OOO EvrazHolding (“EvrazHolding”), an enterprise under common control with the Company, registered OAO Novokuznetsk Iron & Steel Plant (“NKMK”), an open joint stock company under the law of the Russian Federation. As of December 31, 2003, SMI held 119,560 (98%) common shares in NKMK. NKMK is mainly involved in the production of steel products.

On December 30, 2003, SMI acquired 41,055,936 (91.51%) common shares in OAO Nakhodka Commercial Sea Port (“NMTP”) in transactions among enterprises under common control. NMTP is an open joint stock company registered in Russia and mainly involved in rendering of commercial seaport services.

On December 31, 2003, SMI acquired 681,625,507 (87.38%) common shares in OAO Vysokogorsky Mining-and-Processing Works (“VGOK”) in transactions among enterprises under common control. VGOK is an open joint stock company registered in Russia and mainly involved in ore mining and processing.

EvrazHolding is a limited liability company registered in Russia. EvrazHolding renders management services to the subsidiaries of the Company. In addition, EvrazHolding holds investments in other enterprises. As of December 31, 2003, EvrazHolding held 2,440 (2%) common shares in NKMK. The Company holds an option to acquire all the ownership interest in EvrazHolding for \$1,000.

East Metals is an enterprise registered in Switzerland. East Metals is sales agent of Ferrotrade UK and Ferrotrade Gibraltar.

MFL is a limited liability company registered in Cyprus in 2003. MFL is engaged providing intra-group financing for subsidiaries of the Company.

EML, Mastercroft Pipe Projects and Mastercroft Mining are limited liability companies registered in Cyprus in 2003. These subsidiaries did not have activities in 2003.

2. Basis of Preparation

The accompanying pro forma consolidated financial information of the Company for the years ended December 31, 2003 and 2002 includes the historical financial statements of the Company, NTMK, ZapSib, NKMK, Ferrotrade UK, Ferrotrade Gibraltar, Ferroblast, Tradeline, Lakemill, Logicmind, East Metals, NMTP, VGOK, MFL and SMI prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

Mastercroft Limited

Notes to Pro Forma Consolidated Financial Information (continued)

2. Basis of Preparation (continued)

The financial statements of Ferrotrade UK are included in the accompanying pro forma consolidated financial information for the years ended December 31, 2003 and 2002 to reflect the pro forma effect of the transfer of Ferrotrade UK's business to Ferrotrade Gibraltar.

In addition, the accompanying pro forma consolidated financial information of the Company for the years ended December 31, 2003 and 2002 includes adjustments to eliminate intra-group balances and transactions 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 UK to Ferrotrade Gibraltar;
- 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.

December 31, 2002:

- additional capital contributions in the Company and settlement of liabilities due to Marteck (Note 12).

December 31, 2003:

- acquisition by SMI of 91.51% of common shares in NMTP;
- acquisition by SMI of 87.38% of common shares in VGOK;
- acquisition by Logicmind of additional 13.98% of shares in ZapSib;
- acquisition by Tradeline of additional 0.11% of shares in NTMK.

Financial information of Ferroblast, Tradeline, Lakemill, Logicmind, East Metals, NMTP, VGOK, MFL and SMI, which was derived from their respective historical financial statements, is included in the column "Other subsidiaries" in the accompanying pro-forma consolidated financial information.

Mastercrocft Limited

Notes to Pro Forma Consolidated Financial Information (continued)

2. Basis of Preparation (continued)

The accompanying pro forma consolidated financial information of the Company for the year ended December 31, 2003 does not include the financial statements of EML, Mastercrocft Pipe Projects, Mastercrocft Mining and EvrazHolding because pro-forma consolidation of these subsidiaries has no material effect on the accompanying pro forma consolidated financial information.

3. Intragroup Sales and Purchases

In the years ended December 31, 2003 and 2002, Ferrotrade UK and Ferrotrade Gibraltar purchased steel products produced by NTMK, ZapSib and NKMK. Ferrotrade UK and Ferrotrade Gibraltar made purchases of such products directly from NTMK, ZapSib and NKMK and from intermediaries acting as sales agents of NTMK, ZapSib and NKMK or as re-sellers of the products of NTMK, ZapSib and NKMK. In addition, there were sales/purchases of steel products between Ferrotrade UK and Ferrotrade Gibraltar.

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, ZapSib and NKMK's steel products by Ferrotrade UK and Ferrotrade Gibraltar and transactions between Ferrotrade UK and Ferrotrade Gibraltar were eliminated in the accompanying pro forma consolidated financial information.

4. Intragroup Debts

In the years ended December 31, 2003 and 2002, Ferrotrade UK 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 UK, Lakemill, MFL and the Company granted loans to other subsidiaries of the Company, and those subsidiaries 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.

Mastercroft Limited

Notes to Pro Forma Consolidated Financial Information (continued)

5. Acquisition of NTMK (continued)

Negative goodwill was presented as a deduction from non-current assets in the accompanying pro forma consolidated balance sheets as of December 31, 2003 and 2002. 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 years ended December 31, 2003 and 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 years ended December 31, 2003 and 2002 for \$21,263 and \$25,187, respectively;
- acquisition by Ferroblast of shares in NTMK in transactions with enterprises under common control with the Company in the years ended December 31, 2003 for \$16,647.

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 sheet as of December 31, 2002. Amortization of negative goodwill was recognised as income through December 31, 2003 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.

The fair value of identifiable net assets as of December 31, 2003 was \$293,294. Goodwill of \$19,017 in respect of the acquisition of 13.98% of shares in ZapSib represented excess of cost of the acquisition of \$60,019 over 13.98% of the fair value of net assets of ZapSib as of December 31, 2003. The amount of goodwill recognized on the acquisition of 13.98% of shares in ZapSib as of December 31, 2003 was reduced by the carrying amount of negative goodwill as of that date and amounted to \$2,348 included in the accompanying pro forma consolidated balance sheet.

Mastercroft Limited

Notes to Pro Forma Consolidated Financial Information (continued)

6. Acquisition of ZapSib (continued)

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, 2003 and 2002 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, 2003 and 2002 for \$996 and \$8,004, 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 not under common control with the Company in the year ended December 31, 2003 for \$1,063;
- 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 UK's loss for \$4,328 on the transfer of shares of ZapSib to the government of Russia at no charge.

December 31, 2003:

- acquisition by Logicmind of shares in ZapSib in a transaction with enterprises which were not under common control with the Company in the year ended December 31, 2003 for \$60,019.

Mastercroft Limited

Notes to Pro Forma Consolidated Financial Information (continued)

7. Acquisition of NMTP

The fair value of identifiable net assets of NMTP as of December 31, 2003 approximated their carrying value in the financial statements of NMTP prepared in accordance with IFRS. Negative goodwill of \$11,029 in respect of the acquisition of NMTP represented the excess of 84.12% (91.51% ownership by SMI, adjusted by minority interests in NTMK and ZapSib, the direct owners of SMI) of the fair value of net assets of NMTP as of December 31, 2003 over the cost of acquisition of 84.12% of shares in NMTP 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 \$16,553.

Negative goodwill was presented as a deduction from non-current assets in the accompanying pro forma consolidated balance sheets as of December 31, 2003 and 2002.

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, 2003 and 2002 and directly linked to the acquisition of 84.12% of shares in NMTP 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, 2003.

8. Acquisition of VGOK

The fair value of identifiable net assets of VGOK as of December 31, 2003 approximated their carrying value in the financial statements of VGOK prepared in accordance with IFRS. Negative goodwill of \$42,570 in respect of the acquisition of VGOK represented the excess of 80.29% (87.38% ownership by SMI, adjusted by minority interests in NTMK and ZapSib, the direct owners of SMI) of the fair value of net assets of VGOK as of December 31, 2003 over the cost of acquisition of 80.29% of shares in VGOK 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 \$1,735.

Negative goodwill was presented as a deduction from non-current assets in the accompanying pro forma consolidated balance sheets as of December 31, 2003 and 2002.

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, 2003 and 2002 and directly linked to the acquisition of 80.29% of shares in VGOK 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, 2003.

Mastercroft Limited

Notes to Pro Forma Consolidated Financial Information (continued)

9. Ferrotrade UK's Investment in Shares of ZapSib

As of December 31, 2002, Ferrotrade UK owned 1,819,490 shares of common stock in ZapSib for their subsequent sale. These shares were sold in 2003. Investment in these shares of \$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.

10. General Partner's Interest in Ferrotrade and Ownership Interests in Other Subsidiaries

General partner's interest in Ferrotrade UK and ownership interests in NKMK, Ferrotrade Gibraltar, Ferroblast, Tradeline, Lakemill, Logicmind, East Metals, MFL and SMI have been with the enterprises under common control with the Company since their foundation. Therefore, no acquisition adjustments have been made to the financial statements of NKMK, Ferrotrade Gibraltar, Ferroblast, Tradeline, Lakemill, Logicmind, East Metals, MFL and SMI prepared in accordance with IFRS in the accompanying pro forma consolidated financial information of the Company.

11. Minority Interest

In the years ended December 31, 2003 and 2002 and as of December 31, 2002, minority interest in net profits and net assets of NTMK and ZapSib in the accompanying pro forma consolidated financial information was determined at the rates of 25.76% and 20.62%, respectively.

As of December 31, 2003, minority interest in net assets of NTMK, ZapSib, NKMK, NMTP and VGOK in the accompanying pro forma consolidated financial information was determined at the rates of 25.65%, 6.64%, 9.91%, 15.88% and 19.71%, respectively.

12. Settlement of Liabilities to Marteck

In June 2003, the owners of Mastercroft contributed Marteck's promissory notes to the capital of Mastercroft. These promissory notes were transferred by Mastercroft to Lakemill, Logicmind and Tradeline in the form of loans. In June 2003, Lakemill, Logicmind and Tradeline settled their liabilities due to Marteck by transferring Marteck's promissory notes to Marteck.

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 Mastercroft in the same amount as if those transactions took place on December 31, 2002.

Mastercroft Limited

Notes to Pro Forma Consolidated Financial Information (continued)

13. Equity

Equity in the accompanying pro forma consolidated financial information as of December 31, 2003 and 2002 was determined as the sum of the following:

- equity of the Company;
- equity of Ferrotrade UK;
- adjustments to equity for a difference between the cost of acquisitions of shares in NTMK, ZapSib, NMTP and VGOK by subsidiaries of the Company from the enterprises under common control with the Company and the cost of acquisitions of shares in NTMK, ZapSib, NMTP and VGOK by enterprises under common control with the Company from the enterprises which were not under common control with the Company.

ОАО Нижний Тагил Iron & Steel Plant

Parent Company Financial Statements

*Years ended December 31, 2003 and 2002
with Independent Auditors' Report*

ОАО НИЖНИЙ ТАГИЛ ИЖЕЛ ПЛАТ
РАТЕН КОМПАНИ ФИНАНСИАЛ СТАТЕМЕНТС

Years ended December 31, 2003 and 2002

CONTENTS

Independent Auditors' Report	F-42
Parent Company Financial Statements	
Parent Company Balance Sheets	F-43
Parent Company Income Statements	F-44
Parent Company Cash Flow Statements	F-45
Parent Company Statements of Changes in Equity	F-47
Notes to Parent Company Financial Statements	F-48

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, 2003 and 2002 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.

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, 2003 and 2002, 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

April 20, 2004

OAO Nizhny Tagil Iron & Steel Plant

Parent Company Balance Sheets

(In thousands of US dollars)

	Notes	December 31, 2003	2002
ASSETS			
Non-current assets			
Property, plant and equipment, net	6	\$ 623,165	\$ 586,622
Investments in subsidiaries and associates	7	13,466	12,933
Input VAT relating to the Settlement Agreement	16	3,483	3,877
Other assets	8	4,244	–
		<u>644,358</u>	<u>603,432</u>
Current assets			
Inventories	9	74,203	45,471
Trade and other receivables, net	10	8,861	18,519
Prepayments		7,844	10,084
Receivables from related parties	11	28,804	11,547
Taxes receivable	12	52,184	24,689
Cash and cash equivalents		73,466	13,892
		<u>245,362</u>	<u>124,202</u>
TOTAL ASSETS		<u>\$ 889,720</u>	<u>\$ 727,634</u>
EQUITY AND LIABILITIES			
Equity			
Issued capital	13	\$ 59,423	\$ 55,067
Share premium		6,239	5,781
Reserve capital	13	2,321	2,151
Accumulated profits		425,905	334,089
Translation difference		3,279	–
Total equity		<u>497,167</u>	<u>397,088</u>
Non-current liabilities			
Long-term loans	14	70,313	992
Loan from a related party	15	33,204	30,770
Liabilities under the Settlement Agreement	16	58,678	65,553
Promissory notes payable	17	1,125	6,803
Restructured taxes payable	18	13,211	13,790
Finance lease obligations	19	4,320	3,971
Deferred income tax liabilities	5	73,418	89,300
Provisions	20	330	265
		<u>254,599</u>	<u>211,444</u>
Current liabilities			
Trade and other payables	21	53,733	33,979
Advances from customers		1,063	11,132
Short-term loans	22	4,003	8,526
Payables to related parties	11	41,541	29,335
Taxes payable	23	18,289	17,783
Current portion of liabilities under the Settlement Agreement	16	18,925	17,999
Current portion of finance lease obligations	19	400	348
		<u>137,954</u>	<u>119,102</u>
TOTAL EQUITY AND LIABILITIES		<u>\$ 889,720</u>	<u>\$ 727,634</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	2003	2002
Revenues			
Sale of goods		\$ 1,016,528	\$ 783,521
Rendering of services		23,266	26,885
		<u>1,039,794</u>	<u>810,406</u>
Cost of revenues	4	(811,314)	(687,123)
Gross profit		<u>228,480</u>	<u>123,283</u>
Selling and distribution costs	4	(21,423)	(32,195)
General and administrative expenses	4	(50,982)	(38,560)
Social and social infrastructure maintenance expenses	4	(18,451)	(26,002)
Loss on disposal of property, plant and equipment	6	(12,106)	(14,084)
Foreign exchange gains/(losses), net		1,798	(7,407)
Gain on net monetary position		–	28,996
Other operating income, net		4,282	4,429
Loss on revaluation of assets under construction		(13,131)	–
Profit from operating activities		<u>118,467</u>	<u>38,460</u>
Interest expense		(23,459)	(27,503)
Gain on extinguishment of debts	18	587	12,482
Profit before income taxes		<u>95,595</u>	<u>23,439</u>
Income tax expense	5	(30,205)	(11,435)
Net profit		<u>\$ 65,390</u>	<u>\$ 12,004</u>

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,	
	2003	2002
Cash flows from operating activities		
Net profit	\$ 65,390	\$ 12,004
Adjustments to reconcile net profit to net cash provided by operating activities:		
Depreciation and amortisation	83,430	80,238
Deferred income taxes	(22,019)	(949)
Loss on disposal of property, plant and equipment	12,106	14,084
Loss on revaluation of assets under construction	13,131	—
Gain on extinguishment of debts	(587)	(12,482)
Foreign exchange (gains)/losses	(1,798)	7,407
Gain on net monetary position	—	(28,996)
Bad debt expense	(1,837)	3,081
Interest accrued	23,459	27,503
Loss on discounting of other assets	1,060	—
Loss on disposal of investments	34	—
Operating profit before working capital changes	172,369	101,890
Changes in operating assets and liabilities:		
Inventories	(23,060)	9,795
Trade and other receivables	9,324	(6,204)
Prepayments	5,074	(6,530)
Receivables from related parties	(7,366)	1,568
Taxes receivable	(24,565)	(5,474)
Trade and other payables	9,239	(27,506)
Advances from customers	(10,460)	10,163
Payables to related parties	14,731	4,451
Taxes payable	621	10,110
Other assets	(5,680)	—
Net cash flows from operating activities	140,227	92,263

Continued on the next page

The accompanying notes form an integral part of these parent company financial statements.

OAO Nizhny Tagil Iron & Steel Plant

Parent Company Cash Flow Statements (continued)

(In thousands of US dollars)

	For the years ended December 31,	
	2003	2002
Cash flows from investing activities		
Payments for property, plant and equipment	(99,562)	(38,258)
Proceeds from the sale of property, plant and equipment	32	1,277
Payments to acquire equity of other enterprises	(660)	(18)
Proceeds from the sale of debt instruments of other enterprises	—	9,949
Proceeds from the sale of long-term investments	1,095	—
Loans provided to related parties and other enterprises	(7,548)	(1,325)
Net cash flows used in investing activities	(106,643)	(28,375)
Cash flows from financing activities		
Proceeds from short-term borrowings	58,560	328,404
Repayment of short-term borrowings, including interest	(68,358)	(381,063)
Proceeds from long-term borrowings	71,375	976
Repayment of long-term borrowings, including interest	(712)	—
Proceeds from a loan from a related party	—	30,290
Repayment of interest on a loan from a related party	(5,568)	—
Redemption of debt securities, including interest payments	—	(13,361)
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	(1,379)	(1,091)
Payments under the Settlement Agreement, including interest	(21,596)	(12,854)
Payments under long-term promissory notes, including interest	(309)	(185)
Payments under short-term promissory notes	(5,406)	—
Payments under restructured taxes, including interest	(4,280)	(4,029)
Net cash flows (used in) from financing activities	22,327	(52,343)
Effect of foreign exchange rate changes on cash and cash equivalents	3,663	95
Effect of hyperinflation on cash and cash equivalents	—	(1,599)
Net increase/(decrease) in cash and cash equivalents	59,574	10,041
Cash and cash equivalents at beginning of period	13,892	3,851
Cash and cash equivalents at end of period	\$ 73,466	\$ 13,892
Supplementary cash flow information:		
Cash flows during the period:		
Interest paid	\$ 20,154	\$ 28,407
Income taxes paid	52,964	10,351

The accompanying notes form an integral part of these parent company financial statements.

OAo Nizhny Tagil Iron & Steel Plant

Parent Company Statements of Changes in Equity

For the years ended December 31, 2003 and 2002

(In thousands of US dollars)

	Issued capital	Share premium	Reserve capital	Accumulated profits	Translation difference	Total
Balance at December 31, 2001	\$ 55,067	\$ 5,781	\$ 688	\$ 323,548	\$ –	\$ 385,084
Net profit	–	–	–	12,004	–	12,004
Appropriation of profit to reserve capital	–	–	1,463	(1,463)	–	–
Balance at December 31, 2002	\$ 55,067	\$ 5,781	\$ 2,151	\$ 334,089	–	\$ 397,088
Net profit	–	–	–	65,390	–	65,390
Effect of exchange rate changes	4,356	458	170	26,426	3,279	34,689
Balance at December 31, 2003	\$ 59,423	\$ 6,239	\$ 2,321	\$ 425,905	\$ 3,279	\$ 497,167

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

For the years ended December 31, 2003 and 2002

(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, 2003 and 2002 were authorised for issue in accordance with a resolution of the Managing Director on April 20, 2004. 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 its products both domestically and abroad. For the years ended December 31, 2003 and 2002, the domestic revenues were approximately 73% and 70% of total revenues, respectively. The majority of the Company’s metal products in Russia is sold to railway transportation, construction and pipe making industries.

On August 1, 2002, the Company’s shareholders appointed OOO EvrazHolding (“EvrazHolding”) as a management executive body of the Company.

At December 31, 2003, Tradeline Enterprises Limited and Ferroblast Overseas Investments Limited, both the wholly-owned subsidiaries of Mastercrocft Limited, an entity incorporated under the laws of Cyprus, owned 74.4% of the Company’s share capital.

At December 31, 2003, the Company employed approximately 31,000 employees.

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 complies with all of the requirements of IFRS, except for the preparation of consolidated financial statements.

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.

ОАО 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 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, 2003 and 2002 the official rates of exchange were 29.4545 roubles = US\$1 and 31.7844 roubles = US\$1, respectively. Transactions denominated in foreign currencies are recorded at the official exchange rate on the date of the transaction.

The Company’s presentation currency, US dollars, 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.

In 2002, the Russian Federation met the definition of a hyperinflationary economy, as defined by IAS 29, Financial Reporting in Hyperinflationary Economies. The inflation rate based on the Russian consumer price index (“CPI”), as calculated by the State Committee on Statistics (Goskomstat), was 15.1% for 2002 (18.8% and 20.2% for 2001 and 2000, respectively). Although the cumulative inflation index for the three-year period ended in 2002 was less than 100%, it was considered that the remaining criteria set forth by IAS 29 indicated that the Russian Federation continued to experience conditions that meet the definition of a hyperinflationary economy during 2002.

IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. In applying IAS 29, the Company used conversion factors derived from the Russian CPI.

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.

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

- 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 year ended December 31, 2002 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 was charged to the Company's income.

International accounting and financial reporting bodies have determined that effective from January 1, 2003 the Russian Federation no longer meets the criteria of IAS 29 for hyperinflation. Beginning 2003, the Company ceased to apply IAS 29 and only recognises the cumulative impact of inflation indexing through December 31, 2002, on non-monetary elements of the financial statements. Transactions undertaken subsequent to December 31, 2002 are reported at actual, nominal amounts except for those involving non-monetary assets and liabilities existing at December 31, 2002. Results of operations (including gains and losses on disposal) involving such assets and liabilities are recognised based on the "restated cost", which was calculated by applying through December 31, 2002 the relevant conversion factors to the carrying values of these assets and liabilities.

As a consequence of not applying IAS 29 as of December 31, 2003 and for the year then ended, assets and liabilities as of December 31, 2003 have been translated into US dollars at the exchange rate existing at the balance sheet date. Income and expense items have been translated at the year average rate. Furthermore, equity items other than net profit for the period have been translated into US dollars at the exchange rate as of December 31, 2003. All exchange differences resulting from translation have been recognised directly in equity.

The comparative information as of December 31, 2002 and for the year then ended has been translated into US dollars in accordance with the IFRS requirements applicable for hyperinflationary economies at the exchange rate as of December 31, 2002.

Investments

All investments, including equity investments in subsidiaries and associates in the separate parent company financial statements, are initially recognised 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.

ОАО 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”, 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 recognised 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 amortised 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 amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortised cost, any gain or loss is recognised in income when the investment is derecognised or impaired, as well as through the amortisation 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, except for assets under construction, are stated at revalued amounts less accumulated depreciation, 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.

In 2003, the Company changed its accounting policy in respect of measurement of assets under construction and revalued assets under construction (Note 6). This change was made to achieve a more appropriate presentation of the Company’s assets. Assets under construction are stated at fair value at December 31, 2003 less accumulated impairment loss.

OAo Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

At December 31, 2002 assets under construction are stated at cost expressed in terms of the value of the measurement currency at December 31, 2002, less 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.

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 capitalised 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.

Capitalised 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 recognised 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.

OAo Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Impairment of Assets (continued)

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 recognised for the difference between the estimated recoverable amount and the carrying value as follows:

- For property, plant and equipment at amortised revalued amounts or cost, for financial assets at amortised 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 recognised directly in equity as a result of the write-down of the asset to recoverable amount, the cumulative net loss recognised 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 recognised. 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 recognised.

Employee Benefits

The Company has a defined contribution plan designed for providing additional pensions to its employees. Under the terms of this plan, the Company's obligations are limited to the amount that it should contribute to a pension fund.

When an employee has rendered service to the Company during a period, the Company recognises the contribution payable to a defined contribution plan in exchange for that service:

- (a) as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the balance sheet date, this excess is recognised as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund; and

OA0 Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Employee Benefits (continued)

- (b) as an expense, unless any International Accounting Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the period in which the employees render the related service, they are discounted using the discount rate determined by reference to market yields at the balance sheet date on government bonds.

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, 2003 and 2002, cash and cash equivalents consisted primarily of cash in banks.

Accounts Receivable

Accounts receivable are recognised 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 realisable 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 realisable 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 recognised 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 recognised 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 recognised 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 recognised 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 recognised 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 recognised 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% and 34% of the employees' salaries in the years ended December 31, 2003 and 2002, respectively.

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 recognised for all taxable temporary differences. Deferred tax assets are recognised 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 utilised.

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 utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised 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 recognised 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 amortised cost. Amortised 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 amortised cost, any gain or loss is recognised in the income statement when the liability is de-recognised, and through the amortisation process.

Borrowing costs are expensed as incurred.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, consisting of short-term accounts, short-term and long-term loans payable and long-term obligations under promissory notes approximate their fair value.

The fair value of long-term obligations under the Settlement Agreement with a carrying amount of \$77,603 is equal to \$88,907.

The fair value of restructured taxes with a carrying amount of \$17,652 is equal to \$20,380.

The fair value of long-term obligations under the Settlement Agreement, restructured taxes, and long-term obligations under promissory notes was determined based on the future payments discounted at the annual rates of 13%, 6% and 6% for the financial instruments denominated in roubles, US dollars and euros, respectively.

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.

OA O Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Revenue Recognition

Revenue is recognised 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 recognised:

Sale of Goods

Revenue is recognised 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 recognised 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

Certain reclassifications have been made in 2002 balances to conform to the presentation of the financial statements as of and for the year ended December 31, 2003.

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

3. Change in Estimate

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:

	<u>Before the change</u>	<u>After the change</u>
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.

4. Revenues and Expenses

Revenues from sales of goods and cost of revenues for the years ended December 31, 2003 and 2002 in the accompanying parent company income statements included the amounts of \$175,370 and \$97,244, 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:

	<u>2003</u>	<u>2002</u>
Cost of inventories recognised as expense	\$ 517,817	\$ 435,437
Staff cost, including social security taxes	126,835	107,237
Depreciation and amortisation	83,430	80,238

5. Income Taxes

Major components of income tax expense were as follows for the years ended December 31:

	<u>2003</u>	<u>2002</u>
<i>Current income tax</i>	\$ (52,224)	\$ (12,384)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	22,019	949
Income tax expense reported in the income statement	<u>\$ (30,205)</u>	<u>\$ (11,435)</u>

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. 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:

	2003	2002
Profit before income tax	\$ 95,595	\$ 23,439
At Russian statutory income tax rate of 24%	(22,943)	(5,625)
Effect of non-deductible expenses and other permanent differences	(7,262)	(5,810)
Income tax expense reported in the income statement	\$ (30,205)	\$ (11,435)

Deferred income tax assets and liabilities related to the following as of December 31:

	2003	2002
Deferred income tax liabilities:		
Property, plant and equipment	\$ 64,975	\$ 76,297
Liabilities under the Settlement Agreement and restructured taxes	9,283	11,722
Investments	601	751
Inventories	127	1,218
	74,986	89,988
Deferred income tax assets:		
Accrued liabilities	1,109	608
Accounts receivable	449	80
Other assets	10	—
	1,568	688
Net deferred income tax liability	\$ 73,418	\$ 89,300

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:

	2003	2002
Valuation or cost:		
Land	\$ 6,658	\$ 6,170
Buildings and constructions	274,782	250,799
Machinery and equipment	1,515,032	1,393,094
Transport and motor vehicles	18,135	15,733
Other assets	18,571	13,675
Assets under construction	130,231	76,670
	1,963,409	1,756,141
Accumulated depreciation:		
Buildings and constructions	(180,964)	(161,435)
Machinery and equipment	(1,125,298)	(978,505)
Transport and motor vehicles	(14,662)	(13,067)
Other assets	(9,692)	(6,854)
	(1,330,616)	(1,159,861)
Government grants:		
Machinery and equipment, net	(9,628)	(9,658)
	\$ 623,165	\$ 586,622

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of \$30,736 and \$11,383 as of December 31, 2003 and 2002, respectively.

The movement in property, plant and equipment for the year ended December 31, 2003 was as follows:

	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Other assets	Assets under construction	Total
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
Additions		–	–	–	1,721	99,674	101,395
Assets put into operation	–	5,133	20,418	1,380	1,947	(28,878)	–
Disposals	–	(404)	(1,796)	–	(7)	(12,618)	(14,825)
Depreciation charge	–	(7,237)	(73,941)	(808)	(2,205)	–	(84,191)
Amortisation of government grants	–	–	761	–	–	–	761
Revaluation						(13,131)	(13,131)
Translation difference	488	6,962	29,733	235	602	8,514	46,534
At December 31, 2003, valuation, net of accumulated depreciation and government grants	\$ 6,658	\$ 93,818	\$ 380,106	\$ 3,473	\$ 8,879	\$ 130,231	\$ 623,165

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, 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)
Amortisation 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

During 2003 and 2002, additions to property, plant and equipment included the amount of \$1,627 and \$1,320, respectively, representing non-monetary exchange for finished goods of the Company.

In the year ended December 31, 2003, certain items of property, plant and equipment with a carrying value of \$14,825 (2002: \$16,015) were disposed of. Proceeds from the disposal were \$2,719 (2002: \$1,931), including cash proceeds of \$32 (2002: \$1,277).

In 2003, the Company revalued its assets under construction. The independent valuers determined the fair value of the assets as of December 31, 2003. The revaluation decrease of \$13,131 was included in loss on revaluation of assets under construction in the accompanying parent company statement of income for the year ended December 31, 2003.

As of December 31, 2003 and 2002, certain items of production equipment with an approximate carrying value of \$26,562 and \$151,429, respectively, were pledged to banks as collateral against loans to the Company (Notes 14 and 21).

In addition, the Company pledged property, plant and equipment with an approximate carrying value of \$15,285 and \$37,199 as of December 31, 2003 and 2002, respectively, in respect of loans received by the Company's related parties (Note 24).

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.

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

7. Investments

Investments in subsidiaries and associates, stated at cost, net of impairment loss, were as follows as of December 31:

	2003	2002
OAO Large-Diameter Pipe Plant	\$ 12,450	\$ 11,538
OOO Plant of Metallurgical Reagents	679	–
OAO Vysokogorsky GOK	–	1,075
OAO TagilBank	325	300
OOO Sibmetinvest	8	–
OOO Trade House EvrazHolding	–	16
OOO Trade House of OAO NTMK	2	2
OOO Financial Company EvrazHolding	1	1
OOO Uralsdomnaremont	1	1
	\$ 13,466	\$ 12,933

In 2001, the Company made a contribution in OAO Large-Diameter Pipe Plant (“LDPP”) of 366,728,407 roubles (\$12,450 at the exchange rate as of December 31, 2003). LDPP is an entity which is at a development stage. The Company owns 25% plus one share in the investee.

In May 2003, the Company made a contribution of 19,993,000 roubles (\$679 at the exchange rate as of December 31, 2003) to the charter capital of OOO Plant of Metallurgical Reagents (“PMR”). PMR is a newly established entity which is at a development stage. The Company owns 50% in the investee.

OAO Vysokogorsky GOK (“VGOK”) is a mining-and-processing integrated works, which supplies agglomerate and ore-materials to the Company. As of December 31, 2002, the Company owned 18.95% of VGOK share capital and had representation on the Board of directors of the investee. In 2003, the Company sold its share in VGOK.

OAO TagilBank (“TagilBank”) 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.

In April 2003, the Company made a contribution of 250,000 roubles (\$8 at the exchange rate as of December 31, 2003) to the charter capital of OOO Sibmetinvest (“Sibmetinvest”). The Company owns 25% of the new entity’s capital. The participatory interests in Sibmetinvest are held by Mastercroft (50%) and ZapSib (25%). Sibmetinvest was created for the purpose of acquisition of mining and steel production assets.

As of December 31, 2002, the Company owned 49% in OOO Trade House EvrazHolding (“Trade House EvrazHolding”). Trade House EvrazHolding operates as the Company’s purchases and sales agent. In December 2003, the Company sold its share in Trade House EvrazHolding to Steeltrade Ltd. (Cyprus), an entity under common control with the Company.

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

7. Investments (continued)

OOO Trade House of OAO NTMK (“Trade House”) is a wholly owned subsidiary of the Company. Trade House operated as the Company’s sales and purchases agent. Trade House ceased its activity and is expected to be liquidated in 2004-2005.

OOO Financial Company EvrazHolding (“FC EvrazHolding”) is a wholly owned subsidiary of the Company, created for the purpose of raising debt finance on the capital markets for the Company (Note 15).

OOO Uraldomnaremont (“UDR”) is a 70%-owned subsidiary of the Company. UDR is involved in repair and maintenance of the Company’s blast furnaces and other items of property, plant and equipment.

8. Other Assets

	2003	2002
Prepaid contributions to a pension scheme	\$ 3,630	\$ —
Prepaid expenses	580	—
Loans provided to other companies	34	—
	\$ 4,244	\$ —

Prepaid Contributions to a Pension Scheme

In July 2003, the Company introduced a defined contribution pension scheme, which requires contributions to be made to a separately administrated fund. This scheme covers substantially all of the Company’s employees. The Company’s contributions represent a partial matching of employee contributions generally up to a maximum of a 6% of the employee’s salary. As of December 31, 2003, there were no participants in the scheme.

In the year ended December 31, 2003, the Company made a prepaid contribution of 174,335,991 roubles (\$5,680 at the exchange rate as of the date of contribution) to the pension fund, which was initially recognised at cost. At December 31, 2003, prepaid expense was measured at its present value determined based on expected timing of recognition of the contribution as an expense and a discount rate of 8% per annum. The long-term portion of the present value of the contribution was included in other non-current assets in the amount of \$3,630 and the current portion in the amount of \$1,184 was included in prepayments in the accompanying parent company balance sheet as of December 31, 2003. The difference of \$1,060 (at the year average exchange rate) between the amount paid and the carrying amount of prepaid employee benefit was included in staff costs in the accompanying parent company income statement for the year ended December 31, 2003.

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

8. Other Assets (continued)

Prepaid Expenses

Prepaid expenses represent the long-term portion of agent commission paid by the Company in relation to the arrangement of a syndicated loan (Note 14).

9. Inventories

Inventories, at cost, consisted of the following as of December 31:

	2003	2002
Raw materials and spare parts	\$ 58,190	\$ 36,042
Work-in-progress	16,664	8,835
Finished goods	436	1,409
	<u>75,290</u>	<u>46,286</u>
Allowance for obsolete and slow-moving items	(1,087)	(815)
	<u><u>\$ 74,203</u></u>	<u><u>\$ 45,471</u></u>

10. Trade and Other Receivables

Trade and other receivables consisted of the following as of December 31:

	2003	2002
Trade accounts receivable	\$ 5,908	\$ 16,968
Other receivables	4,464	8,667
	<u>10,372</u>	<u>25,635</u>
Allowance for doubtful accounts	(1,511)	(7,116)
	<u><u>\$ 8,861</u></u>	<u><u>\$ 18,519</u></u>

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

11. 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 16)	
	2003	2002	2003	2002	2003	2002
Continuous Casting Machine # 4	1	—	—	—	—	—
D.E. Metals	130	—	1,539	—	—	—
Duferco S.A.	—	—	—	—	—	63
EAM Group	—	—	—	121	7,661	20,963
EvrazTrans	1,327	—	23	—	—	—
FC EvrazHolding	—	—	350	274	—	—
Ferrottrade & Co.	248	8,850	—	\$ 14,822	—	—
Ferrottrade Limited	4,061	—	4,777	—	—	—
Ferrottransrade	1,996	—	2,271	—	—	—
FOC Uralets	24	23	—	—	—	—
GBRU-Yuzhnaya	4,889	201	—	—	—	—
Goroblagodatskoe Ore Mine	7,159	6,975	—	6	—	—
Interural	—	66	—	1,571	—	2
Kuzbassuglepostavka	—	—	19,408	—	—	—
Lakemill Trading and Investments Ltd.	—	—	1,162	4,888	37,311	14,802
Large-Diameter Pipe Plant	89	121	—	657	—	—
Mayerton Trading Ltd.	816	—	—	—	3,962	4,188
Mechanical Plant Uralets	93	50	38	2	—	—
Metallenergofinance	1,775	—	—	—	—	—
Metallurg-Forum	—	—	11	—	—	—
Nikom Cross	—	32	—	—	—	—
Nikom Obshepit	201	98	—	—	—	—
Nikom Torg	—	—	—	9	—	—
Nikomelektrotrans	—	—	—	1	—	—
Nikomogneupor	20	1	287	278	—	—
Nikomproject	2	2	—	—	—	—
NK Prinko	—	—	—	—	—	1,617
Novokuznetsk Iron & Steel Plant	8	—	—	—	—	—
Plibur	9	—	—	—	—	—
Poliform	196	148	2	4	—	—
Starwood Trading Ltd.	—	257	—	8	11	10
TagilBank	6	1	1	1	64	61
Trade House EvrazHolding	10,125	—	10,294	3,901	—	—
Trade House of OAO NTMK	—	654	243	1,259	—	—
Uralsdomnaremont	11	552	22	138	—	—
Ust-Utka	—	2	—	—	—	—
Vysokogorsky GOK	2,760	1,079	956	1,340	3,558	3,419
West-Siberian Iron & Steel Plant	107	—	157	55	—	—
	36,053	19,112	41,541	29,335	52,567	45,125
Less allowance for doubtful receivables	(7,249)	(7,565)	—	—	—	—
	\$ 28,804	\$ 11,547	\$ 41,541	\$ 29,335	\$ 52,567	\$ 45,125

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

11. Related Party Disclosures (continued)

In the years ended December 31, 2003 and 2002, the Company's transactions with related parties were as follows:

	Sales to related parties		Purchases from related parties	
	2003	2002	2003	2002
D.E. Metals	\$ —	\$ —	\$ 24,629	\$ —
Duferco S.A.	—	22,317	—	—
EAM Group	—	47,646	377	223
EvransTrans	—	—	3,035	—
Ferrottrade & Co.	151,296	156,180	—	—
Ferrottrade Limited	55,091	—	—	—
Ferrottransrade	7,377	—	1,570	—
Goroblagodatskoe Ore Mine	114	904	361	420
Interural	1,278	9,853	37	99
Kuzbassuglepostavka	6,822	—	229,280	—
Large-Diameter Pipe Plant	638	99	—	—
Metallenergofinance	391	—	7,149	—
MZ Uralets	58	—	843	—
Nikomogneupor	24	—	2,792	—
Novokuznetsk Iron & Steel Plant	—	—	473	—
OOO EvrazHolding	—	—	1,955	328
Starwood Trading Ltd.	1	16,097	—	—
TagilBank	—	—	832	1,286
Trade House EvrazHolding	6,075	—	6,637	471
Trade House of OAO NTMK	—	—	278	472
Uralsdomnaremont	22	—	1,946	—
Vysokogorsky GOK	4,652	3,200	48,174	32,681
West-Siberian Iron & Steel Plant	160	—	2,325	912

It is the nature of transactions with related parties that they cannot be presumed to be carried out on an arm's-length basis.

OOO Continuous Casting Machine No.4 ("CCM") is a subsidiary of Dufin Caster Project S.A., a special purpose entity under common control (Note 24).

ZAO D.E.Metals ("D.E.Metals") is an entity under common control with the Company. D.E.Metals is the Company's customer and purchases agent. D.E.Metals became the Company's related party in 2003.

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 and ceased to be a related party. Duferco S.A. is the Company's customer.

OA O Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

11. Related Party Disclosures (continued)

ZAO EAM Group (“EAM”) is an entity under common control with the Company. The Company pays its liabilities under the Settlement Agreement to EAM.

OOO EvrazHolding (“EvrazHolding”) is an entity under common control with the Company. In 2002, the Company’s shareholders appointed EvrazHolding as a management executive body of the Company. The Company pays fees for management services provided by EvrazHolding.

ZAO EvrazTrans, an entity under common control with the Company, provides freight-forwarding services to the Company. ZAO EvrazTrans became the Company’s related party in 2003.

OOO Financial Company EvrazHolding (“FC EvrazHolding”) is a 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 15).

Ferrotrade & Co. (UK) is an entity under common control with the Company. The Company sells finished goods to Ferrotrade & Co.

Ferrotrade Limited (Gibraltar) is an entity under common control with the Company. The Company sells finished goods to Ferrotrade Limited. In 2004, the Company transferred its operations from Ferrotrade & Co. to Ferrotrade Limited.

OA O Ferrotranstrade (“Ferrotranstrade”) is an entity under common control with the Company. Ferrotranstrade became the Company’s related party in 2003. Ferrotranstrade is the Company’s customer and also acts as a sales agent. Sales transactions executed through Ferrotranstrade included transactions in the amount of \$6,607 with Kuzbassuglepostavka and Stal EA, the entities under common control with the Company. Agent and other fees of Ferrotranstrade amounted to \$1,570 in 2003.

OOO FOC Uralets (“FOC Uralets”) is a wholly owned subsidiary of the Company liquidated in 2004.

OOO GBRU Yuzhnaya (“GBRU Yuzhnaya”) is a newly established wholly owned subsidiary of Vysokogorsky GOK, an entity under common control with the Company. In 2003, the Company provided a loan to GBRU Yuzhnaya in the amount of \$114 and purchased its promissory notes payable upon demand with a nominal value of 133,800,000 roubles (\$4,543 at the exchange rate as of December 31, 2003).

OA O Goroblagodatskoye Ore Mine (“GBRU”) is a wholly owned subsidiary of the Company. GBRU supplied agglomerate and bought the Company’s products. GBRU is under the bankruptcy proceedings. In 2002, the Company provided short-term loans to GBRU in the amount of \$1,089.

OA0 Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

11. Related Party Disclosures (continued)

ZAO Interural (“Interural”) is an entity under control of a shareholder of the Company. Interural is the Company’s customer. In 2003, Interural ceased to be a related party.

OOO Kuzbassuglepostavka (“KUP”) is an entity under common control with the Company. KUP became the Company’s related party in 2003. The Company provides tolling services to KUP and purchases coal from KUP.

Lakemill Trading & Investments Limited (“Lakemill”) is an entity under common control with the Company. In September 2002, Lakemill acquired the Company’s debts with a nominal value of \$22,490 included in the Settlement Agreement (Note 16). In 2003, Lakemill acquired the Company’s debts under the Settlement agreement and long-term accounts payable with a total nominal value of \$36,365. In December 2002, Lakemill purchased the Company’s payable on demand promissory notes with a 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 a carrying value of \$1,699 (Note 17). In 2003, the Company repaid to Lakemill all its liabilities under the payable on demand promissory notes. As of December 31, 2003, accounts payable to Lakemill in the amount of \$1,162 represent long-term promissory notes with current maturities (Notes 17 and 21).

OA0 Large-Diameter Pipe Plant (“LDPP”) is the Company’s associate (Note 7). The Company rents office space and provides services to LDPP.

Mayerton Trading Ltd. (“Mayerton”) is an entity under control of a shareholder of the Company. The Company purchases materials from Mayerton.

OOO Mechanical Plant Uralets (“MZ Uralets”) is a wholly owned subsidiary of the Company. MZ Uralets sells goods and provides repair services to the Company.

OOO Metallenergofinance (“MEF”) is an entity under common control with the Company. MEF supplies the Company with electricity. MEF became the Company’s related party in 2003.

OOO Metallurg-Forum is a sport centre and stadium. The Company holds 75% in the share capital of Metallurg-Forum.

OOO Nikom Cross is the Company’s subsidiary which was liquidated in 2002.

OOO Nikom Obschepit is the Company’s wholly owned subsidiary liquidated in 2004.

OOO Nikom Torg is the Company’s wholly owned subsidiary liquidated in 2002.

OOO Nikomelektrotrans is the Company’s wholly owned subsidiary liquidated in 2003.

OOO Nikomogneupor (“Nikomogneupor”) is a wholly owned subsidiary of the Company.

OAo Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

11. Related Party Disclosures (continued)

Nikomogneupor leases production assets to the Company (Note 19). Total lease payments for the years ended December 31, 2003 and 2002 were \$1,379 and \$1,101, respectively.

OOO Nikomproject is the Company's wholly owned subsidiary liquidated in 2004.

ZAO NK Prinko ("Prinko") is a 75%-owned subsidiary of the Company. Prinko is an investment company. In 2003, the Company sold its share in Prinko.

OAo Novokuznetsk Iron & Steel Plant ("NKMK") is a newly established entity under common control with the Company. In 2003, NKMK sold metal products to the Company.

OOO Plibur is the Company's associate which produces and sells refractory products.

OOO Poliform is the Company's wholly owned subsidiary which produces and sells furniture.

Starwood Trading Ltd. ("Starwood") is an entity under control of a shareholder of the Company. Starwood is the Company's customer.

Steeltrade Ltd. (Cyprus), an entity under common control with the Company, purchased 49% share in OOO Trade House EvrazHolding, the Company's associate.

OAo TagilBank ("TagilBank"), the Company's associate (Note 7), provides payroll payment processing services to the Company.

OOO Trade House EvrazHolding was the Company's associate in 2002-2003 (Note 7). It operates as the Company's purchases and sales agent. Sales transactions executed through Trade House EvrazHolding included transactions in the amount of \$6,029 with Stal EA, Evrazmetall-Centre, Evrazmetall-Sibir, Centrpromstal, EAM Group and D.E. Metals, the entities under common control with the Company. Purchases transactions executed through Trade House EvrazHolding included purchases from Ferrotrade & Co., Vysokogorsky GOK, Mayerton, GBRU and Ferrotranstrade in the amount of \$1,965. Agent fees of Trade House EvrazHolding amounted to \$4,672 in 2003.

OOO Trade House of OAo NTMK ("Trade House") is a wholly owned subsidiary of the Company (Note 7).

OOO Uraldomnaremont ("UDR") is a 70%-owned subsidiary of the Company (Note 7).

OAo Vysokogorsky GOK ("VGOK") is an entity under common control with the Company (Note 7). It supplies agglomerate and raw materials to the Company and purchases services from the Company.

OOO Ust-Utka, an entity involved in agricultural business, was a wholly owned subsidiary of the Company.

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

11. Related Party Disclosures (continued)

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.

12. Taxes Receivable

Taxes receivable consisted of the following as of December 31:

	2003	2002
Input VAT	\$ 40,950	\$ 24,386
Other taxes	11,234	303
	<u>\$ 52,184</u>	<u>\$ 24,689</u>

As of December 31, 2003 and December 31, 2002, input VAT included the current portion of input VAT related to the restructured liabilities under the Settlement Agreement dated November 26, 1999 of \$1,550 and \$1,489, respectively (Note 16).

13. Share Capital and Reserves

The Company was reorganised 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, 2003 and December 31, 2002, the Company’s authorised, issued and paid-up share capital consisted of 1,310,002,996 common shares, with a par value of one ruble per share.

According to the Russian Law, the Company creates a reserve capital in the amount of 5% of share capital per the Russian statutory accounts by annual appropriations which should be at least 5% of the annual net profit per statutory financial statements. The reserve capital can be used only for covering losses as well as for redemption of the Company’s bonds and purchase of own shares if there are no other sources of financing.

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

14. Long-Term Loans

Long-term loans consisted of the following as of December 31:

	2003	2002
<i>Rouble-denominated loan:</i>		
The Russian Bank for Development	\$ 1,528	\$ —
	1,528	—
<i>US dollar-denominated loans:</i>		
Syndicated loan	50,000	—
Sberbank	6,650	—
The Russian Bank for Development	1,512	—
	58,162	—
<i>Euro-denominated loans:</i>		
MDM-Bank	9,967	992
Gazprombank	4,659	—
	14,626	992
Less: Current portion	(4,003)	—
	\$ 70,313	\$ 992

Syndicated loan

On December 18, 2003, the Company entered into a loan agreement with joint lenders (Société Générale, Commerzbank (Eurasija), Moscow Narodny Bank, BNP Paribas, Ost-West Handelsbank AG, GarantiBank International N.V., Natexis Banques Populaires). The loan is due for repayment from December 18, 2004 to December 18, 2006 by twenty-five equal monthly installments. The loan is to be used to finance working capital needs and investments in connection with the production and export of steel. The liability bears interest at an annual rate of LIBOR plus a margin of 3.7% per annum which may be increased by a maximum of 0.8% per annum in case of deterioration of the company rating of Mastercrocft Limited published by Moody's Investors Service. In December 2003, the interest rate was equal to 4.86% per annum.

The loan agreement provides for certain covenants in respect of Mastercrocft Limited and its subsidiaries. The covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness and profitability.

All proceeds from sales of steel pursuant to the export contract with Ferrotrade Limited (Gibraltar) can be used to satisfy the obligations under the loan agreement in the event of a default.

OA0 Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

14. Long-Term Loans (continued)

Sberbank

On July 3, 2003, the Company entered into an agreement with Sberbank for a credit line of \$10,000. Under the agreement, the credit line will be used to finance an energy programme of the Company.

The interest rate varies from 10.5% to 11% per annum. The loan is due for repayment from August 27, 2005 to June 27, 2008 by thirteen equal quarterly installments. At December 31, 2003, the Company had equipment with a carrying value of \$8,814 (Note 6) pledged as collateral under the credit line from Sberbank.

The Russian Bank for Development

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. In connection with this contract, on September 25, 2003 the Company entered into an agreement with the Russian Bank for Development for a credit line of \$2,622 for payment of 85% of the contract amount. The liability bears interest at an annual rate of LIBOR plus 4.3% margin. The loan is due for repayment from March 31, 2005 to September 30, 2007 by six equal semi-annual installments. The financing bank is ING Bank (the Czech Republic). The Company's liabilities under the credit line are insured by EGAP, a Czech Republic export credit agency.

On September 1, 2003, the Company signed a contact with Uralspromremont for construction works on blast furnace No.6. On December 17, 2003, the Company entered into an agreement with the Russian Bank for Development for a credit line of 45,000,000 roubles (\$1,528 at the exchange rate as of December 31, 2003) for financing of this project. The liability under the credit line bears interest of 13% per annum and is due for repayment from May 31, 2005 to November 30, 2007 by six equal semi-annual installments.

At December 31, 2003, the Company had equipment with a carrying value of \$2,682 (Note 6) pledged as collateral under the loan agreements with the Russian Bank for Development.

MDM-Bank

On January 27, 2003, the Company signed a contract with Paul WURTH S.A. (Luxembourg) for the purchase of equipment amounting to EUR 5,756,500. This contract is financed through a borrowing facility for EUR 5,180,735 provided by MDM-Bank. The liability under this credit line bears fixed interest of 6.88% per annum. The loan will be repaid by ten equal semi-annual installments from September 30, 2004 to March 31, 2009. The financing bank is Societe Generale (Belgium). The Company's liabilities under the credit line are insured by ODL, a Luxembourg export credit agency.

OA0 Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

14. Long-Term Loans (continued)

MDM-Bank (continued)

The Company's equipment with a carrying value of \$2,262 was pledged as collateral under the credit line agreement. At December 31, 2003, the liability amounted to \$3,190, including a current portion of \$648.

On April 10, 2002, the Company entered into a contract with Deutsche Voest-Alpine for the purchase and installation of equipment for EUR 6,400,000. In connection with this contract, on June 6, 2002, MDM-Bank provided the Company with a credit line of EUR 5,482,500. The liability under the credit line bears interest at an annual rate of EURIBOR plus 6% and is due for repayment in ten semi-annual installments from March 31, 2004 to September 30, 2008. The financing bank is Bayerische Landesbank Girozentrale (Germany). The Company's liabilities under the credit line are insured by Euler Hermes, a German export credit agency.

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 EUR 5,482,500. The guarantee matures on May 31, 2009. At December 31, 2003 and 2002 the liability under the credit line amounted to \$6,777 and \$992, respectively, including a current portion of \$1,355 and \$0.

At December 31, 2003, the Company had equipment with a carrying value of \$3,926 (Note 6) pledged as collateral under this loan agreement.

Gazprombank

On January 16, 2003, the Company signed a EUR 8,450,000 purchase contract with VAI for engineering, procurement, and installation of certain equipment for automation of blast furnace No.6. In connection with this contract, on July 31, 2003 the Company entered into agreements with Gazprombank for a credit line of EUR 7,182,500 for payment of 85% of the contract amount and for an additional loan of EUR 478,382 for payment of the OeKB premium. The Company's liabilities under the credit line are insured by OeKB, an Austrian export credit agency. The financing bank is Bank Austria Creditanstalt (Austria).

The loans are due for repayment from June 30, 2005 to December 31, 2009 by ten equal semi-annual installments and bear interest at an annual rate of OeKB rate plus a margin of 3.65% and OeKB rate plus a margin of 3.58%, respectively. As of December 31, 2003, the interest rates were 7.2% and 7.1%, respectively. The Company's equipment with a carrying value of \$4,886 was pledged as collateral under these loan agreements.

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

15. Loan from a Related Party

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 (\$33,204 and \$30,770 at the exchange rate as of December 31, 2003 and 2002, respectively). The loan matures on December 1, 2005. The liability under the loan agreement bears interest of 18.15%, 16.95%, 15.40%, 15.40%, 15.10%, and 15.10% per annum for six semi-annual interest periods, respectively.

16. 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 amortised 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 liabilities under the Settlement Agreement as of December 31, 2003 and 2002 was \$110,150 and \$123,752, respectively, including the amount of \$49,921 and \$57,766, respectively, denominated in roubles, \$44,157 and \$50,192, respectively, denominated in US dollars and \$16,072 and \$15,795, respectively, denominated in euros.

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

16. Liabilities Under the Settlement Agreement (continued)

Liabilities under the Settlement Agreement, at carrying amounts, consisted of the following as of December 31:

	2003	2002
Related parties (Note 11)	\$ 52,567	\$ 45,125
Others	25,036	38,427
	77,603	83,552
Less current portion	(18,925)	(17,999)
	\$ 58,678	\$ 65,553

Liabilities under the Settlement Agreement include other long-term obligations which are repaid in accordance with terms of the Settlement Agreement. The fair value of other long-term obligations was determined based on the future cash payments discounted at the annual rate of 20%.

Input VAT relating to the liabilities under the Settlement Agreement with the nominal value of \$7,696 and \$8,812 as of December 31, 2003 and 2002, 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 \$5,033 and \$5,366 at December 31, 2003 and 2002, respectively, including the current portion of \$1,550 and \$1,489, respectively, and non-current portion of \$3,483 and \$3,877, respectively.

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 amortised cost in the accompanying parent company balance sheets at December 31, 2003 and December 31, 2002. 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%.

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

17. Long-Term Promissory Notes Payable

Long-term promissory notes payable consisted of the following as of December 31:

	Maturity	2003	2002
Notes payable to related parties:			
Lakemill (a)	2004-2008	\$ 2,287	\$ 1,699
		2,287	1,699
Notes payable to others:			
OOO Internetservice (b)	December 1, 2004	5,316	3,473
AO Ural Elektromed (c)	July 11, 2004	2,519	1,776
OOO Ural Company	September 13, 2004	151	104
		7,986	5,353
		10,273	7,052
Less notes with current maturities (Notes 11 and 21)		(9,148)	(249)
		\$ 1,125	\$ 6,803

(a) In 2002 and 2003, Lakemill acquired the Company's long-term promissory notes payable to OOO Metallenergofinance (Note "d"), OOO Internetservice and OOO Project Investments.

(b) On December 1, 2001, the Company entered into an agreement with OOO Internetservice ("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.

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 amortised 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%.

(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 amortised 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)

17. Long-Term Promissory Notes Payable (continued)

- (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 Metallenergofinance ("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 amortised 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%.

18. Restructured Taxes Payable

Restructured taxes consisted of the following as of December 31:

	2003	2002
Restructured taxes:		
Road users tax	\$ 12,893	\$ 12,104
Social insurance taxes	4,332	4,934
Tax-related fines and penalties	427	615
	17,652	17,653
Less current portion:		
Road users tax	(2,590)	(2,148)
Social insurance taxes	(1,714)	(1,588)
Tax-related fines and penalties	(137)	(127)
	(4,441)	(3,863)
	\$ 13,211	\$ 13,790

OA O Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

18. Restructured Taxes Payable (continued)

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 amortised cost in the accompanying parent company balance sheets as of December 31, 2003 and 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.

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 amortised 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, 2003 and December 31, 2002 based on the management's assessment that it is probable that the Company will comply with the payment terms of the restructuring agreement.

OA O Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

18. Restructured Taxes Payable (continued)

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.

In 2004, in accordance with the Government Decree dated April 24, 2002, the tax authorities decided to forgive 50% of the nominal value of restructured tax-related fines and penalties outstanding at December 31, 2003.

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 amortised 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 \$587 was included in gain on extinguishment of debts in the accompanying parent company statement of income for the year ended December 31, 2003.

19. 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, 2003 and 2002, the aggregate carrying value of the leased assets amounted to \$4,840 and \$5,183, respectively, net of accumulated depreciation of \$2,686 and \$1,792, respectively. It is included in property, plant and equipment in the accompanying parent company balance sheets.

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

19. Finance Lease Obligations (continued)

Future minimum lease payments were as follows at December 31, 2003:

	Principal	Interest	Total
January 1, 2004 – December 31, 2004	\$ 400	\$ 908	\$ 1,308
January 1, 2005 – December 31, 2008	2,690	2,544	5,234
January 1, 2009 – March 31, 2011	1,630	264	1,894
	4,720	3,716	8,436
Less current portion	(400)	(908)	(1,308)
	\$ 4,320	\$ 2,808	\$ 7,128

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
	4,319	3,954	8,273
Less current portion	(348)	(825)	(1,173)
	\$ 3,971	\$ 3,129	\$ 7,100

20. Provisions

The Company utilises a parcel of land to store sillage materials generated from the output of steel-mill production. The Company utilises in its production process the sillage accumulated during the past years, and plans to utilise 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)

21. Trade and Other Payables

Trade and other payables consisted of the following as of December 31:

	2003	2002
Trade accounts payable	\$ 33,952	\$ 20,416
Long-term promissory notes with current maturities	7,986	–
Promissory notes payable on demand	1,262	1,476
Accrued payroll	8,219	5,464
Other payables	2,324	6,623
	\$ 53,733	\$ 33,979

22. Short-Term Loans

Short-term loans and borrowings were as follows as of December 31:

	2003	2002
<i>Short-term loans:</i>		
TransCreditBank	\$ –	\$ 8,526
	–	8,526
<i>Current portion of long-term loans:</i>		
Syndicated loan (Note 14)	2,000	–
MDM-bank (Note 14)	2,003	–
	\$ 4,003	\$ 8,526

Citibank

On May 23, 2003, the Company signed an agreement with Citibank for a revolving multi-currency credit line for a total borrowing facility of \$10,000. The agreement will remain in effect until October 8, 2004. The maximum term of any loan granted under the agreement is limited to 364 days. The interest rate is to be fixed for each loan individually prior to disbursement. The receipts under the credit line are intended for working capital needs. In accordance with the agreement, the Company pledged certain items of property, plant and equipment with a carrying value of \$3,992. In addition, the Company pledged its revenues from sale of metal products via Ferrotranstrade in the amount of \$12,500. The liabilities of the Company under the credit line are guaranteed by Ferrotrade & Co. (UK). As of December 31, 2003, the Company had no liabilities under the credit line.

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

22. Short-Term Loans (continued)

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 bore interest of 17% per annum and matured 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.

In 2003, the Company repaid all of the loans under the credit line.

23. Taxes Payable

Taxes payable consisted of the following as of December 31:

	2003	2002
Social insurance taxes	\$ 4,969	\$ 4,084
Income tax	3,325	3,795
VAT related fines and penalties	692	2,130
Road users tax	1,640	2,241
Current portion of restructured road users tax (Note 18)	2,590	2,148
Current portion of restructured social insurance taxes (Note 18)	1,714	1,588
Current portion of restructured tax-related fines and penalties (Note 18)	137	127
Property tax	1,262	395
Personal income taxes	1,416	910
Other taxes, fines and penalties	544	365
	\$ 18,289	\$ 17,783

OA0 Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

24. Commitments and Contingencies

Economic Environment

In 2003, the Russian Federation has continued economic growth. However, the Russian economy continues to display certain traits consistent with that of a market in transition. These characteristics in the past included higher than normal inflation, lack of liquidity in the capital markets, dependence on oil and gas prices, widespread of tax evasion, and the existence of currency controls which caused 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 actions with regard to supervisory, legal, and economic reforms. No assurance can be given that reform policies will be successful and the Russian economy will improve.

The Russian government has initiated reforms of the tax system that have resulted in some improvement in the tax climate. Many tax laws and related regulations were introduced in 2003 and previous years which were not always clearly written, subject to varying interpretation and inconsistent enforcement. 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.

Government authorities have a high degree of discretion in Russia and exercise their discretion arbitrarily, sometimes in a manner that may be contrary to the law. Unlawful government actions include withdrawal of licences, prejudiced tax audits, criminal prosecutions and civil actions.

As of December 31, 2003, 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.

ОАО Нижны Тагил Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

24. Commitments and Contingencies (continued)

Economic Environment (continued)

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 18) 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

In September and December 2003, EvrazSecurities S.A., a special purpose entity incorporated under the laws of Luxembourg, issued notes amounting to \$175,000. The notes bear interest of 8.875% per annum payable semi-annually and mature on September 25, 2006. The net proceeds of the issue were on-lent to Sibmetinvest, the Company's associate, which used the loan for acquisition of mining, steel production and transportation assets.

The Company, together with Mastercroft Limited (Cyprus), Ferrotrade & Co. (UK), Ferrotrade Limited (Gibraltar), and West-Siberian Iron and Steel Plant guaranteed, on a joint and several basis, due and punctual payments of all amounts in respect of the notes. The conditions of the notes provide for certain covenants in respect of Mastercroft Limited and its subsidiaries. The covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness and profitability.

On October 9, 2003, the Company issued a guarantee to Alfa Bank of all obligations of Trade House EvrazHolding under the loan agreements between Trade House EvrazHolding and Alfa Bank amounting to 336,000,000 roubles and 384,000,000 roubles (\$11,407 and \$13,037 at the exchange rate as of December 31, 2003). The liabilities under the loan agreements bear interest of 15% per annum and mature on October 9, 2004 and November 15, 2004, respectively.

In connection with the loan agreements between Trade House EvrazHolding and Alfa Bank, the Company pledged equipment with a carrying value of \$8,452 as of December 31, 2003.

In April 2004, Trade House EvrazHolding repaid the liability in the amount of 336,000,000.

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

24. 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 15).

The Company guaranteed the debts of other companies for the total amount of \$127.

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, including VAT (\$6 at the exchange rate as of December 31, 2003).

Dufin and CCM contracted with Voest-Alpine Industrieanlagenbau GmbH & Co. of Austria ("VAI") for EUR 74,500,000 for the purchase and installation of equipment for CCM-4. The construction is expected to be completed in 2004. 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 EUR 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 EUR 64,580,000 bearing interest at rates ranging from 5.4% 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

OA O Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

24. Commitments and Contingencies (continued)

Agreements with Dufin Caster Project S.A. (continued)

In connection with the loan agreements signed by Dufin and CCM, the Company issued a guarantee of the obligations of Dufin and CCM to BLB in the amount of approximately EUR 83,000,000. In addition, the Company pledged equipment with a carrying value of \$304 as collateral and issued a guarantee of CCM obligations in the amount of EUR 4,000,000 under agreements between CCM and MDM-Bank. In 2004, the Company increased the collateral amount by \$232.

On October 17, 2003, MDM-Bank provided a payment guarantee of EUR 13,400,000 on part of a loan facility (EUR 49,580,000 out of EUR 64,580,000) provided to Dufin by BLB. In connection with the guarantee, the Company granted a pledge to MDM-Bank of certain items of property, plant and equipment with a carrying value of \$6,529 and provided to MDM-Bank a guarantee on obligations of Dufin in the amount of EUR 13,400,000.

In 2003, Mastercroft Limited (Cyprus), the ultimate parent of the Company, and Ferrotrade & Co. (UK), an entity under common control with the Company, provided payment guarantees under the loan agreements with BLB in the amount of EUR 64,580,000.

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.

Reconstruction of Blast Furnace No.6

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. This contract is financed with the borrowing facility provided by the Russian bank for Development (Note 14).

On January 16, 2003, the Company signed an EUR 8,450,000 purchase contract with VAI for engineering, procurement, and installation of certain equipment for automation of blast furnace No.6. This contract is financed with the borrowing facility provided by Gazprombank (Note 14).

On February 27, 2003, the Company signed an equipment purchase contract with Paul WURTH S.A. (Luxembourg) amounting to EUR 5,756,500. This contract is financed with the borrowing facility provided by MDM-Bank (Note 14).

OA O Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

24. Commitments and Contingencies (continued)

Reconstruction of Blast Furnace No.6 (continued)

In connection with reconstruction of blast furnace No.6, the Company signed a contract with Uraldomnoremont with an approximate value of construction works in the amount of 971,127,600 roubles (\$32,970 at the exchange rate as of December 31, 2003). The Company will purchase refractory materials from Mayerton Trading Co., Ltd. under the contract for \$1,725.

Reconstruction of the Railcar Wheel Rolling Shop

On February 14, 2003, the Company signed a contract with SMS-Eumuco GmbH for the supply of certain rolling and pressing equipment and technical documentation for the project of reconstruction of the railcar wheel rolling shop, amounting to EUR 20,850,000. On November 18, 2003, the Company signed an agreement with Commerzbank AG (Germany) for a credit line in the amount of EUR 18,887,500 for financing of the contract. The Company's liabilities under the credit line are insured by Euler Hermes, a German export credit agency.

The credit line bears interest at a rate of EURIBOR plus a margin of 1% per annum and is due for repayment from January 15, 2006 to December 31, 2013 by equal semi-annual installments.

In connection with the reconstruction project, the Company signed a contract in 2003 with Prokatmontazh for construction works amounting to 350,000,000 roubles (\$11,883 at the exchange rate as of December 31, 2003).

Other Capital Expenditures

In 2003, the Company signed a contract with Huller Hille GmbH for purchase and installation of equipment amounting to EUR 9,995,000. On December 15, 2003 the Company signed an agreement with TransCreditBank for a credit line in the amount of EUR 8,495,750 for financing of the contract. The credit line bears interest at a rate of EURIBOR plus a margin of 5.6% per annum and is to be repaid by twelve equal semi-annual installments. The financing bank is Hypo Vereinsbank (Germany). The Company's liabilities under the credit line are insured by Euler Hermes, a German export credit agency.

In 2003 and 2004, the Company concluded several contracts with Lonas Technology for the purchase of production equipment, installation and construction works for a total amount of 512,301,840 roubles (\$17,393 at the exchange rate as of December 31, 2003).

The Company signed other contracts for purchase of production equipment and construction works for an approximate amount of \$18,000.

OAO Nizhny Tagil Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

25. Subsequent Events

Acquisition of Kachkanarsky GOK

In March and April 2004, the Company made payments in the amount of 2,315,400,000 roubles (\$78,609 at the exchange rate as of December 31, 2003) for the acquisition of a share in Kachkanarsky Mining-and-Processing Integrated Works (“KGOK”), the Company’s supplier of agglomerate. The Company plans to acquire approximately 51% in share capital of KGOK. In addition, the Company will acquire the debts of KGOK in the amount of 1,426,335,105 roubles (\$48,425 at the exchange rate as of December 31, 2003). The total amount of transactions approximates \$162,000. The remaining balance is due for payment in June 2004.

Borrowings

On February 18, 2004, the Company entered into an agreement with Commerzbank (Eurasija) for a credit line of EUR 9,158,000. The liability under this credit line bears interest at a rate of EURIBOR plus a margin of 2.3% per annum and matures on August 18, 2004. Under the agreement, the credit line will be used for working capital needs in respect of payments under a letter of credit in the amount of EUR 17,637,500 opened by Commerzbank (Eurasija) in favour of SMS Eumuco GmbH.

Loan to NKMK

On January 12, 2004, the Company entered into a loan agreement with NKMK, under which the Company provided to NKMK a borrowing facility of 350,000,000 roubles (\$12,072 at the exchange rate as of January 12, 2004). The liability under the loan agreement bears interest of 9.0% per annum and matures on December 30, 2004.

Guarantees of Debts of Others

In April 2004, the Company signed an agreement with Alfa-Bank under which it guaranteed the repayment of all liabilities under a loan agreement between Trade House EvrazResurs, an entity under common control, and Alfa-Bank. The loan, in the amount of 336,000,000 roubles, bears interest of 12.5% per annum and matures on October 21, 2004. Certain items of the Company’s production equipment with a carrying value of \$7,389 as of December 31, 2003 were pledged as collateral under the credit line agreement.

Contracts for capital expenditures

The Company signed contracts for purchase of production equipment and construction works for an approximate amount of \$24,000.

OA O West-Siberian Iron & Steel Plant

Parent Company Financial Statements

*Years ended December 31, 2003 and 2002
with Independent Auditors' Report*

**OAo WEST-SIBERIAN IRON & STEEL PLANT
PARENT COMPANY FINANCIAL STATEMENTS**

Years ended December 31, 2003 and 2002

CONTENTS

Independent Auditors' Report	F-91
Parent Company Financial Statements	
Parent Company Balance Sheets	F-92
Parent Company Income Statements	F-93
Parent Company Cash Flow Statements	F-94
Parent Company Statement of Changes in Equity	F-96
Notes to Parent Company Financial Statements	F-97

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, 2003 and 2002 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, 2003 and 2002, 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

April 30, 2004

OAO West-Siberian Iron & Steel Plant

Parent Company Balance Sheets

(In thousands of US dollars)

	Notes	December 31, 2003	2002
ASSETS			
Non-current assets			
Property, plant and equipment, net	5	\$ 366,026	\$ 398,526
Investments	6	17,465	12,738
Input VAT relating to the Settlement Agreement	14	495	443
Other assets	7	5,528	–
		<u>389,514</u>	<u>411,707</u>
Current assets			
Inventories	8	93,246	68,422
Trade and other receivables, net	9	7,908	11,935
Prepayments		12,103	7,766
Receivables from related parties	10	24,089	20,085
Taxes receivable	11	43,886	34,031
Cash and cash equivalents		49,582	553
		<u>230,814</u>	<u>142,792</u>
TOTAL ASSETS		<u><u>\$ 620,328</u></u>	<u><u>\$ 554,499</u></u>
EQUITY AND LIABILITIES			
Equity			
Issued capital	12	29,612	\$ 27,441
Share premium		16,856	15,620
Reserve capital	12	227	–
Additional paid-in capital	21	4,300	–
Accumulated profits		253,870	134,691
Translation difference		4,753	–
Total equity		<u>309,618</u>	<u>177,752</u>
Non-current liabilities			
Long-term loans	13	48,000	–
Liabilities under the Settlement Agreement	14	23,025	21,942
Long-term promissory notes	15	657	955
Restructured taxes payable	16	10,933	12,723
Finance lease obligations	17	7,266	7,518
Deferred income tax liabilities	4	56,192	64,665
Other long-term liabilities		2,917	2,072
		<u>148,990</u>	<u>109,875</u>
Current liabilities			
Trade and other payables	18	11,917	43,462
Advances from customers		851	1,052
Interest bearing loans and borrowings	19	82,364	50,468
Payables to related parties	10	15,546	80,526
Taxes payable	20	37,408	54,825
Current portion of liabilities under the Settlement Agreement	14	10,123	29,887
Current portion of finance lease obligations	17	3,511	1,652
Provisions	21	–	5,000
Total current liabilities		<u>161,720</u>	<u>266,872</u>
TOTAL EQUITY AND LIABILITIES		<u><u>\$ 620,328</u></u>	<u><u>\$ 554,499</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	2003	2002
Revenue			
Sale of goods		\$ 986,899	\$ 689,410
Rendering of services		38,952	22,585
	3	1,025,851	711,995
Cost of revenues	3	(802,078)	(640,003)
Gross profit		223,773	71,992
Selling and distribution costs		(10,401)	(21,020)
General and administrative expenses		(71,461)	(59,613)
Tax-related fines and penalties		(111)	(7,210)
Social and social infrastructure maintenance expense		(5,233)	(2,127)
Loss on disposal of property, plant and equipment		(3,147)	(742)
Foreign exchange gains/(losses), net		5,706	(7,074)
Gain on net monetary position		–	34,022
Other operating income		11,039	4,723
Other operating expenses		(3,233)	(11,649)
Profit from operating activities		146,932	1,302
Interest expense		(10,090)	(19,630)
Gain on extinguishment of debts	15,16	1,744	3,820
Non-operating gain	18	4,792	–
Profit/(loss) before income tax		143,378	(14,508)
Income tax (expense)/benefit	4	(34,629)	2,293
Net profit/(loss) from ordinary activities		\$ 108,749	\$ (12,215)
Extraordinary item – gain on extinguishment of debts under the Settlement Agreement, net of income tax of \$599	14	\$ –	\$ 1,899
Net profit/(loss)		\$ 108,749	\$ (10,316)

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,	
	2003	2002
Cash flows from operating activities		
Net profit/(loss)	\$ 108,749	\$ (10,316)
Adjustments to reconcile net profit/(loss) to net cash provided by operating activities:		
Depreciation and amortisation	74,185	72,766
Deferred income tax benefit	(13,043)	(9,405)
Loss on disposal of property, plant and equipment	3,147	742
Gain on extinguishment of debts	(1,744)	(3,820)
Foreign exchange (gains)/losses	(5,706)	7,074
Gain on net monetary position	—	(34,022)
Bad debt expense	185	7,792
Impairment of investments	974	2,773
Interest accrued	10,090	19,630
Loss on discounting of other assets	877	—
Extraordinary item	—	(1,899)
Operating profit before working capital changes	177,714	51,315
Changes in operating assets and liabilities:		
Inventories	(18,962)	5,976
Trade and other receivables	3,171	2,964
Prepayments	(2,052)	(4,140)
Receivables from related parties	2,108	(4,398)
Taxes receivable	(6,799)	(18,809)
Trade and other payables	(27,368)	(33,569)
Advances from customers	(273)	(141)
Payables to related parties	(10,988)	20,128
Taxes payable	(11,880)	4,424
Other assets	(7,440)	—
Other long term liabilities	654	1,912
Net cash flows from operating activities	97,885	25,662
Cash flows from investing activities		
Payments for property, plant and equipment	(18,811)	(17,589)
Proceeds from the sale of property, plant and equipment	1,085	—
Payments to acquire equity of other enterprises	(4,779)	(178)
Proceeds from the sale of equity of other enterprises	165	—
Payments to acquire debt instruments of other enterprises	(825)	(1,900)
Proceeds from redemption of debt instruments of other enterprises	657	—
Loans provided to related parties	(2,388)	—
Net cash flows used in investing activities	(24,896)	(19,667)

Continued on the next page

OAO West-Siberian Iron & Steel Plant

Parent Company Cash Flow Statements (continued)

(In thousands of US dollars)

	For the years ended December 31,	
	2003	2002
Cash flows from financing activities		
Proceeds from interest bearing loans and borrowings	162,550	105,570
Repayment of interest bearing loans and borrowings, including interest	(137,963)	(79,360)
Proceeds from long-term borrowings	49,120	—
Proceeds from interest-free loans	—	5,400
Repayment of interest-free loans	—	(7,586)
Proceeds from issuance of long-term promissory notes	625	—
Payments under short-term promissory notes to other enterprises	(2,174)	—
Payments under short-term promissory notes to a related party	(8,631)	—
Payment of a restructured liability to a related party	(49,364)	—
Payments under finance leases, including interest	(3,222)	(1,249)
Payments under the Settlement Agreement, including interest	(22,963)	(24,226)
Payments under restructured taxes, including interest	(12,617)	(7,518)
Net cash flows (used in) financing activities	(24,639)	(8,969)
Effect of foreign exchange rate changes on cash and cash equivalents	679	4
Effect of hyperinflation on cash and cash equivalents	—	(268)
Net increase/(decrease) in cash and cash equivalents	49,029	(3,238)
Cash and cash equivalents at beginning of period	553	3,791
Cash and cash equivalents at end of period	\$ 49,582	\$ 553
Supplementary cash flow information:		
Cash flows during the period:		
Interest paid	\$ 10,132	\$ 11,244
Income taxes paid	40,417	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, 2003 and 2002

(In thousands of US dollars)

	Issued capital	Share premium	Reserve capital	Additional paid-in capital	Accumulated profits	Translation difference	Total
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
Net profit	—	—	—	—	108,749	—	108,749
Appropriation of profit to reserve capital	—	—	227	—	(227)	—	—
Shareholder's contributions (Note 21)	—	—	—	4,300	—	—	4,300
Effect of exchange rate changes	2,171	1,236	—	—	10,657	4,753	18,817
Balance at December 31, 2003	\$ 29,612	\$16,856	\$ 227	\$ 4,300	\$ 253,870	\$ 4,753	\$ 309,618

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

For years ended December 31, 2003 and 2002

(In thousands of US dollars)

1. Corporate Information

The financial statements of OAO West-Siberian Iron & Steel Plant (the “Company”) for the years ended December 31, 2003 and 2002 were authorised for issue in accordance with a resolution of the Managing Director on April 30, 2004.

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 its products both domestically and abroad. For the years ended December 31, 2003 and 2002, the domestic revenues were approximately 58% and 52% of total revenues, respectively.

On June 17, 2002, the Company’s shareholders appointed OOO EvrazHolding (“Evraz Holding”) as the management executive body of the Company.

At December 31, 2003, Lakemill Trading and Investments Limited and Logicmind Investments Limited, both wholly-owned subsidiaries of Mastercroft Limited, an entity incorporated under the laws of Cyprus, owned 93.36% of the Company’s share capital.

At December 31, 2003, the Company employed 29,182 employees.

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 complies with all of the requirements of IFRS, except for the preparation of consolidated financial statements.

OA 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 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 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, 2003 and 2002 the official rates of exchange were 29.4545 roubles = US\$1 and 31.7844 roubles = US\$1, respectively. Transactions denominated in foreign currencies are recorded at the official exchange rate on the date of the transaction.

The Company's presentation currency, US dollars, 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.

In 2002, the Russian Federation met the definition of a hyperinflationary economy, as defined by IAS 29, Financial Reporting in Hyperinflationary Economies. The inflation rate based on the Russian consumer price index ("CPI"), as calculated by the State Committee on Statistics (Goskomstat), was 15.1% for 2002 (18.8% and 20.2% for 2001 and 2000, respectively). Although the cumulative inflation index for the three year period ended in 2002 was less than 100%, it was considered that the remaining criteria set forth by IAS 29 indicated that the Russian Federation continued to experience conditions that meet the definition of a hyperinflationary economy during 2002.

IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. In applying IAS 29, the Company used conversion factors derived from the Russian CPI.

OA West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

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.
- 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 year ended December 31, 2002 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 was charged to the Company's income.

International accounting and financial reporting bodies have determined that effective from January 1, 2003 the Russian Federation no longer meets the criteria of IAS 29 for hyperinflation. Beginning 2003, the Company ceased to apply IAS 29 and only recognises the cumulative impact of inflation indexing through December 31, 2002, on non-monetary elements of the financial statements. Transactions undertaken subsequent to December 31, 2002 are reported at actual, nominal amounts except for those involving non-monetary assets and liabilities existing at December 31, 2002. Results of operations (including gains and losses on disposal) involving such assets and liabilities are recognised based on the "restated cost", which was calculated by applying through December 31, 2002 the relevant conversion factors to the carrying values of these assets and liabilities.

As a consequence of not applying IAS 29 as of December 31, 2003 and for the year then ended, assets and liabilities as of December 31, 2003 have been translated into US dollars at the exchange rate existing at the balance sheet date. Income and expense items have been translated at the year average rate. Furthermore, equity items other than net profit for the period have been translated into US dollars at the exchange rate as of December 31, 2003. All exchange differences resulting from translation have been recognised directly in equity.

The comparative information as of December 31, 2002 and for the year then ended has been translated into US dollars in accordance with the IFRS requirements applicable for hyperinflationary economies at the exchange rate as of December 31, 2002.

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Investments

All investments, including equity investments in subsidiaries and associates in the separate parent company financial statements, are initially recognised 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 recognised 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 amortised 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 amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortised cost, any gain or loss is recognised in income when the investment is derecognised or impaired, as well as through the amortisation 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 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.

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

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	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 capitalised 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.

Capitalised 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 recognised 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.

OAQ West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Impairment of Assets (continued)

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 recognised for the difference between the estimated recoverable amount and the carrying value as follows:

- For property, plant and equipment at amortised revalued amount or cost, for financial assets at amortised 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 recognised directly in equity as a result of the write-down of the asset to recoverable amount, the cumulative net loss recognised 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 recognised. 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 recognised.

Employee Benefits

The Company has a defined contribution plan designed for providing additional pensions to its employees. Under the terms of this plan, the Company's obligations are limited to the amount that it should contribute to a pension fund.

When an employee has rendered service to the Company during a period, the Company recognises the contribution payable to a defined contribution plan in exchange for that service:

- (a) as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the balance sheet date, this excess is recognised as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund; and

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Employee Benefits (continued)

- (b) as an expense, unless any International Accounting Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the period in which the employees render the related service, they are discounted using the discount rate determined by reference to market yields at the balance sheet date on government bonds.

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 recognised 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 realisable 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 realisable 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 recognised at the fair value of the consideration received by the Company.

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

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 recognised 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 recognised 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 32.8% and 35.6 % of the employees' salaries in the years ended December 31, 2003 and 2002, respectively.

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 recognised for all taxable temporary differences. Deferred tax assets are recognised 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 utilised.

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 utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Loans and Borrowings

All loans and borrowings are initially recognised 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 amortised cost. Amortised 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 amortised cost, any gain or loss is recognised in the income statement when the liability is de-recognised, and through the amortisation process.

Borrowing costs are expensed as incurred.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, consisting of short-term accounts, short-term and long-term loans payable, long-term obligations under promissory notes and restructured taxes approximate their fair value.

The fair value of long-term obligations under the Settlement Agreement with a carrying amount of \$33,148 is equal to \$59,412.

The fair value of long-term obligations under the Settlement Agreement, restructured taxes, and long-term obligations under promissory notes was determined based on the future payments discounted at the annual rates of 13% and 6% for the financial instruments denominated in roubles and US dollars, respectively.

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 recognised 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 recognised:

Sale of Goods

Revenue is recognised 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.

OA0 West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

2. Significant Accounting Policies (continued)

Revenue Recognition (continued)

Rendering of Services

Service revenue is recognised 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 2002 and 2003, 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.

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

Certain reclassifications have been made in 2002 balances to conform to the presentation of the financial statements as of and for the year ended December 31, 2003.

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

3. Revenues and Expenses

For the years ended December 31, 2003 and 2002, revenues and cost of revenues in the accompanying parent company income statement included the amounts of \$62,481 and \$140,915, respectively, representing non-monetary exchange of dissimilar goods and 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:

	2003	2002
Cost of inventories recognised as expense	\$ 588,338	\$ 402,300
Staff cost, including social security taxes	138,618	120,938
Depreciation and amortisation	74,185	72,766

4. Income Taxes

Major components of income tax expense for the years ended December 31 were as follows:

	2003	2002
<i>Current income tax expense</i>	\$ (47,672)	\$ (7,112)
<i>Deferred income tax benefit</i>		
Relating to origination and reversal of temporary differences	13,043	9,405
Income tax (expense)/benefit reported in the income statement	<u>\$ (34,629)</u>	<u>\$ 2,293</u>

The Russian Federation was the only tax jurisdiction in which the Company's income was subject to taxation.

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:

	2003	2002
Profit/(loss) from ordinary activities before income tax	\$ 143,378	\$ (14,508)
At Russian statutory income tax rate of 24%	(34,411)	3,482
Effect of non-deductible expenses and other permanent differences	(111)	(8,018)
Effect of temporary differences not recognised as measured by the change in valuation allowance	(107)	6,829
Income tax (expense)/benefit reported in the financial statements	<u>\$ (34,629)</u>	<u>\$ 2,293</u>

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

4. Income Taxes (continued)

Deferred income tax assets and liabilities related to the following as of December 31:

	<u>2003</u>	<u>2002</u>
Deferred income tax liabilities:		
Property, plant and equipment	\$ 33,376	\$ 42,550
Liabilities under the Settlement Agreement and restructured taxes	28,192	33,027
Long-term promissory notes	243	—
Taxes receivable	93	—
Other assets	48	—
	<u>\$ 61,952</u>	<u>\$ 75,577</u>
Deferred income tax assets:		
Unused tax loss carry-forward	—	6,150
Investments	3,557	3,197
Accrued liabilities	3,143	4,128
Accounts receivable	1,918	26
Inventories	655	533
Other assets	44	75
	<u>\$ 9,317</u>	<u>\$ 14,109</u>
Valuation allowance	<u>(3,557)</u>	<u>(3,197)</u>
Net deferred income tax liability	<u>\$ 56,192</u>	<u>\$ 64,665</u>

For Russian income tax purposes, the Company had unused tax losses incurred in 1997 and 1998, which could be carried forward for 10 years for use against future income, although deductibility was restricted to a maximum of 30% of taxable income in any single year. At December 31, 2002, the Company's unused tax losses carry forward approximated \$25,623. In 2003, tax losses were fully utilised.

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

5. Property, Plant and Equipment

Property, plant and equipment consisted of the following as of December 31:

	2003	2002
Valuation or cost:		
Land	\$ 10,439	\$ 9,674
Buildings and constructions	269,010	248,125
Machinery and equipment	1,030,957	951,979
Transport and motor vehicles	5,562	3,594
Other assets	11,332	8,933
Assets under construction	25,580	24,360
	1,352,880	1,246,665
Accumulated depreciation:		
Buildings and constructions	169,769	147,601
Machinery and equipment	808,913	695,960
Transport and motor vehicles	2,257	1,464
Other assets	5,915	3,114
	986,854	848,139
	\$ 366,026	\$ 398,526

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of \$170 and \$653 as of December 31, 2003 and 2002, respectively.

An analysis of activity in property, plant and equipment for the year ended December 31, 2003 was as follows:

	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Other assets	Assets under construction	Total
At December 31, 2002, valuation or cost, net of accumulated depreciation	\$ 9,674	\$ 100,524	\$ 256,019	\$ 2,130	\$ 5,819	\$ 24,360	\$ 398,526
Additions	—	—	2,661	—	389	15,848	18,898
Assets put into operation	—	1,400	6,763	1,682	1,435	(11,280)	—
Disposals	—	(134)	(574)	(28)	(170)	(5,246)	(6,152)
Depreciation charge	—	(10,128)	(60,887)	(689)	(2,481)	—	(74,185)
Translation difference	765	7,579	18,062	210	425	1,898	28,939
At December 31, 2003, valuation or cost, net of accumulated depreciation	\$ 10,439	\$ 99,241	\$ 222,044	\$ 3,305	\$ 5,417	\$ 25,580	\$ 366,026

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

5. 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 or cost, 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 operation	–	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 or cost, net of accumulated depreciation	\$ 9,674	\$ 100,524	\$ 256,019	\$ 2,130	\$ 5,819	\$ 24,360	\$ 398,526

During 2003 and 2002, additions to property, plant and equipment included the amount of \$335 and \$7,883, respectively, representing non-monetary exchange for finished goods of the Company.

In the year ended December 31, 2003, certain items of property, plant and equipment with a carrying value of \$6,152 (2002: \$2,799) were disposed of. Proceeds from the disposal were \$3,005 (2002: \$2,057), including cash proceeds of \$1,085 (2002: \$0).

As of December 31, 2003 and 2002, certain items of property, plant and equipment with an approximate carrying amount of \$54,434 and \$241,560, respectively, were pledged to banks as collateral against loans to the Company (Note 19).

In addition, the Company pledged property, plant and equipment with an approximate carrying value of \$12,752 and \$0 as of December 31, 2003 and 2002, respectively, in respect of loans received by the Company's related parties (Note 22).

6. Investments

Investments, stated at cost net of impairment loss, were as follows as of December 31:

	2003	2002
Investments in subsidiaries:		
OOO Abakan Mining Company	\$ 12,215	\$ 10,216
OOO Mundybash Processing Plant	4,748	2,049
Other subsidiaries	152	4
Investments in associates	155	167
Other investments	195	302
	<u>\$ 17,465</u>	<u>\$ 12,738</u>

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

6. Investments (continued)

Impairment loss in the amount of \$974 and \$2,773 was included in other expenses in the accompanying statements of income for the years ended December 31, 2003 and 2002.

In 2001, the Company made a contribution, primarily property, plant and equipment, to OOO Abakan Mining Company ("Abakan"), which produces iron ore. The Company owns 100% of shares in the investee. In 2003, the Company paid off the outstanding amount of charter capital contribution of 45,854,000 roubles (\$1,557 at the exchange rate as of December 31, 2003). The Company assessed the recoverability of its investment in Abakan and determined its investment in Abakan was impaired. Impairment loss of \$351 and \$1,280 was included in the accompanying statements of income for the years ended December 31, 2003 and 2002, respectively.

In 2002, the Company made a contribution, primarily property, plant and equipment, to OOO Mundybash Processing Plant ("Mundybash"), which processes and enriches iron ore. The Company owns 100% of shares in the investee. In 2003, the Company paid off the outstanding amount of charter capital contribution of 84,974,000 roubles (\$2,885 at the exchange rate as of December 31, 2003). The Company assessed the recoverability of its investment in Mundybash and determined its investment in Mundybash was impaired. Impairment loss of \$334 was included in the accompanying statement of income for the year ended December 31, 2003.

OAO Novokuznetskzhilstroy is a real estate company. The Company owns 72% of its share capital. In 2002, 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 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.

In 2003 and 2002, the Company assessed the recoverability of investments in other subsidiaries and associates and determined that some investments were impaired. Impairment loss of \$289 and \$229 was included in the accompanying statements of income for the year ended December 31, 2003 and 2002, respectively.

7. Other Assets

	2003	2002
Prepaid contributions to a pension scheme	\$ 4,401	\$ —
Prepaid expenses	583	—
Loans provided to other companies	544	—
	<u>\$ 5,528</u>	<u>\$ —</u>

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

7. Other Assets (continued)

Prepaid Contributions to a Pension Scheme

In July 2003, the Company introduced a defined contribution pension scheme, which requires contributions to be made to a separately administrated fund. This scheme covers substantially all of the Company's employees. The Company's contributions represent a partial matching of employee contributions generally up to a maximum of a 6% of the employee's salary. As of December 31, 2003, there were no participants in the scheme.

In the year ended December 31, 2003, the Company made a prepaid contribution of 195,667,062 roubles (\$6,375 at the exchange rate as of the date of contribution) to the pension fund, which was initially recognised at cost. At December 31, 2003, prepaid expense was measured at its present value determined based on expected timing of recognition of the contribution as an expense and a discount rate of 8% per annum. The long-term portion of the present value of contribution was included in other non-current assets in the amount of \$4,401 and the current portion in the amount of \$1,329 was included in prepayments in the accompanying parent company balance sheet as of December 31, 2003. The difference of \$877 (at the year average exchange rate) between the amount paid and the carrying amount of prepaid employee benefit was included in staff costs in the accompanying parent income statement for the year ended December 31, 2003.

Prepaid expenses

Prepaid expenses represent long-term portion of agent commission paid by the Company in relation to the arrangement of a syndicated loan (Note 13).

8. Inventories

Inventories, at cost, consisted of the following as of December 31:

	2003	2002
Raw materials and spare parts	\$ 85,382	\$ 59,005
Work-in-progress	8,934	10,111
Finished goods	2,767	2,508
	97,083	71,624
Allowance for obsolete and slow-moving items	(3,837)	(3,202)
	\$ 93,246	\$ 68,422

As of December 31, 2003 and 2002, certain items of inventory with an approximate carrying amount of \$0 and \$30,218, respectively, were pledged to banks as collateral against loans to the Company (Note 19).

Trade and other receivables consisted of the following as of December 31:

	2003	2002
Trade accounts receivable	\$ 8,554	\$ 17,097
Other receivables	4,270	2,742
	12,824	19,839
Allowance for doubtful accounts	(4,916)	(7,904)
	\$ 7,908	\$ 11,935

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 14)	
	2003	2002	2003	2002	2003	2002
Abakan Mining Company	1	4	3	7	—	—
Betonne-rastvorny zavod ZSMK	29	125	38	109	—	—
Blagoustroystvo Zapsiba	—	88	83	94	—	—
Evrast-Ruda	289	33	334	192	—	—
Evrasttrans	2,238	—	—	—	—	—
Ferrotrade & Co.	—	—	10	55,978	—	—
Ferrotrade Limited	9,974	—	—	—	—	—
Food and Trade Company	50	46	—	1	—	—
Kuznetsk Coal Company	809	—	392	—	—	—
Kuznetskugol	—	1	48	—	3	152
Kuznetskuglesbyt	2	155	—	—	—	1
Lakemill Trading & Investments Limited	—	—	2,665	8,417	16,012	29,365
Metallenergofinance	419	—	98	—	—	—
Metallurgremstroy	213	643	210	206	—	—
Mundybash Processing Plant	2	1,799	1	4	—	—
Nedra Sibiri	3	—	—	—	—	—
Nizhny Tagil Iron & Steel Plant	77	55	68	—	—	—
Novokuznetsk Iron & Steel Plant	240	—	89	—	—	—
Novokuznetskzhilstroy	—	—	—	1	1	1
Novosibirsk Metallurgical Plant	—	7,908	—	190	—	—
Primavera	—	—	13	16	—	—
Relsy KMK	157	—	2	—	—	—
Sanatory Slavino	3	—	—	17	—	—
SEAR MF	—	—	—	—	1,562	3,681
Shahta Esaulskaya	—	—	3	—	—	—
Sibirskaya Gornaya Company	—	6	11	5,530	—	—

	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 14)	
	2003	2002	2003	2002	2003	2002
Sibirskaia Gorno-Metallurgicheskaya Company	46	283	—	—	—	—
Sibkir	—	—	—	3	—	—
SMU-1 Zapsiba	35	281	—	3	—	—
Sovkhoz Antonovsky	623	1,804	—	11	—	—
Spetsmash-MT	2,262	—	—	—	28	—
Steel of KMK	—	1,012	66	36	—	—
Trade House EvrazHolding	7,240	6,211	10,305	9,287	—	—
Upravlenie socialnymi objektami	—	717	19	4	37	87
Upravliayuschaya Company ZapsibStroyHolding	—	108	765	196	—	—
Vysokogorsky GOK	7	—	—	—	—	—
ZAO UK Yuzhkuzbassugol	6	—	—	—	—	—
OAO OUK Yuzhkuzbassugol	2	—	1	—	—	—
Zapsib-Asia	245	—	302	50	—	—
Zapsibmetal-Novosibirsk	1	1,786	—	—	—	—
Zapsibpolymer	—	153	19	—	—	—
Zapsibspetsremstroy	16	8	—	1	—	—
Zapsibspetsstroy	52	69	1	24	—	—
Zapsibtorq	1	47	—	—	—	—
Zapsibzhilstroy	24	31	—	149	—	—
	25,066	23,373	15,546	80,526	17,643	33,287
Allowance for doubtful debts	(977)	(3,288)	—	—	—	—
	\$ 24,089	\$ 20,085	\$ 15,546	\$ 80,526	\$ 17,643	\$ 33,287

In the years ended December 31, 2003 and 2002 the Company's transactions with related parties were as follows:

	Sales to related parties		Purchases from related parties	
	2003	2002	2003	2002
Abakan Mining Company	1	29	—	8,340
Betonno-rastvorny zavod ZSMK	84	443	106	563
Blagoustroystvo Zapsiba	354	343	1,319	704
Centrpromstal	4	—	—	—
EvrazHolding	—	—	1,955	179
Evraz-Ruda	1,374	35	63,145	11,094
Evraztrans	—	—	11,568	—
Metallurg Zapsib	2	—	235	—
Ferrotrade & Co.	257,156	155,649	—	—
Ferrotrade Limited	101,093	—	—	—

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

10. Related Party Disclosures (continued)

	Sales to related parties		Purchases from related parties	
	2003	2002	2003	2002
Kuznetsk Coal Company	104,414	—	142,738	—
Kuznetskugol	7,115	5,450	—	—
Kuznetskuglesbyt	—	150,878	94	18,251
Metallenergofinance	4,121	—	56,280	—
Metallurgremstroy	313	1,036	2,503	413
Mundybash Processing Plant	30	2,900	—	709
Nedra Sibiri	—	—	14	26
Nizhny Tagil Iron & Steel Plant	2,325	911	160	—
Novokuznetsk Iron & Steel Plant	8,501	—	605	—
Novosibirsk Metallurgical Plant	—	27,656	—	2,055
Primavera	—	121	—	—
Relsy KMK	21,018	—	1,165	—
Sanatory Slavino	54	55	246	214
Shahta Esaulskaya UK "Kuznetskugol"	—	—	3	—
Sibirskaya Gornaya Company	—	472	—	40,274
Sibirskaya Gorno-Metallurgicheskaya Company	1	3	—	471
SMU-1 Zapsiba	313	354	35	13
Sovkhoz Antonovsky	948	1,833	74	23
Spetsmash-MT	—	—	322	—
Steel of KMK	15,792	25,880	873	17,485
Steeltrade	391	—	—	—
Trade House EvrazHolding	82,732	—	6,359	575
Upravlenie socialnymi objektami	—	2,181	1,636	1,447
Upravliayuschaya Company	—	—	—	—
ZapsibStroyHolding	1	342	8,207	10,292
Vysokogorsky GOK	13	—	90	—
ZAO UK Yuzhkuzbassugol	14,609	—	6,122	—
OAO OUK Yuzhkuzbassugol	44	—	1	—
Zapsib-Asia	235	205	—	—
Zapsibmetal-Novosibirsk	—	11,593	—	—
Zapsibpolymer	2	239	228	7
Zapsibspetsremstroy	25	—	5	—
Zapsibspetstroy	37	89	41	45
Zapsibtorg	—	6	—	—
Zapsibzhilstoy	759	—	73	—

OAo West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

10. Related Party Disclosures (continued)

It is the nature of transactions with related parties that they cannot be presumed to be carried out on an arm's-length basis.

OOO Abakan Mining Company ("Abakan") is a wholly owned subsidiary of the Company. In 2002, Abakan sold iron ore to the Company and purchased materials and 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 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.

ZAO Centrpromstal, is an entity under common control with the Company. The Company provides services to ZAO Centrpromstal.

OOO EvrazHolding ("EvrazHolding") is an entity under common control with the Company. In 2002, the Company's shareholders appointed EvrazHolding as a management executive body of the Company. The Company pays fees for management services provided by EvrazHolding.

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 Evraztrans, an entity under common control with the Company, provides freight-forwarding services to the Company.

Ferrotrade & Co. (UK) is an entity under common control with the Company. The Company sells finished goods to Ferrotrade & Co. 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. 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 & Co to other entities in the year ended December 31, 2002. In addition, as of December 31, 2002, the Company had a liability of \$47,017 (at the exchange rate as of December 31, 2002) to Ferrotrade & Co. not included in the listing of creditors under the Settlement Agreement (Note 14). In 2003, the Company repaid the liability to Lakemill, a related party, in the amount of \$49,364 (at the exchange rate as of the date of payment).

Ferrotrade Limited (Gibraltar) is an entity under common control with the Company. The Company sells finished goods to Ferrotrade Limited. In 2004, the Company transferred its operations from Ferrotrade & Co. to Ferrotrade Limited.

OOO Food and Trade Company is a wholly owned subsidiary of the Company. In 2002, it sold consumer goods to the Company and purchased agricultural products from the Company. In 2003, Food and Trade Company was under the bankruptcy proceedings.

OAo West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

10. Related Party Disclosures (continued)

OOO Kuznetsk Coal Company, an entity under common control with the Company, sells coal and coke to the Company and purchases services and materials from the Company.

ZAO Kuznetskuglesbyt, an entity under common control with the Company, sold spare parts and provided transportation services to the Company.

OAo UK Kuznetskugol ("Kuznetskugol") is an entity under common control with the Company. In 2002 and 2003, the Company sold metal products and rendered services to Kuznetskugol.

Lakemill Trading & Investments Limited ("Lakemill") 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. In 2003, the Company paid to Lakemill \$49,364 (at the exchange rate as of the date of payment) of debts reassigned by Ferrotrade & Co. to Lakemill.

OOO Metallenergofinance ("MEF") is an entity under common control with the Company. MEF supplies the Company with electricity and purchases services from the Company.

OOO Metallurgremstroy, a wholly owned subsidiary of the Company, provides repair services to the Company and purchases metal products from the Company.

Metallurg-Zapsib is a football club created by the Company together with authorities of the Kemerovo region. The Company provides services and sponsorship to the club.

OOO Mundybash Processing Plant ("Mundybash") is a wholly owned subsidiary of the Company. Mundybash sold iron ore to the Company and purchased materials and services from the Company.

OAo Nedra Sibiri ("Nedra Sibiri"), a joint venture of the Company, is engaged in extraction of manganese ore on Durnovskoye field in the Kemerovo region. In 2002, Nedra Sibiri provided services to the Company. On December 25, 2003, the Company made a decision to cease its activities in the joint venture.

OAo Nizhny Tagil Iron & Steel Plant, an entity under common control with the Company, provided services to the Company and purchased metal products from the Company during the years ended December 31, 2003 and 2002.

OAo Novokuznetsk Iron & Steel Plant ("NKMK") is an entity under common control with the Company established in 2003. NKMK sells metal products to the Company and purchases metal products from the Company.

OAo Novokuznetskzhilstroy, a subsidiary of the Company, was included in the listing of creditors under the Settlement Agreement dated November 14, 2001.

OAo West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

10. Related Party Disclosures (continued)

OAo Novosibirsk Metallurgical Plant (“NMZ”) was an entity under common control with the Company. In the year ended December 31, 2002, the Company sold metal products to NMZ and purchased services from NMZ. In 2003, NMZ ceased to be a related party.

OOO Primavera (“Primavera”), a subsidiary of the Company, purchased services from the Company. On February 18, 2004, Primavera was liquidated.

OOO Relsy KMK, an entity under common control with the Company, sells metal products and materials to the Company and purchases metal products from the Company. The Company determined that, in accordance with IFRS, some transactions for the amount of \$2,011, representing sale of steel pellets to Relsy KMK, do not meet the criteria for revenue recognition.

SKU Sanatory Slavino is a subsidiary of the Company. It provides health related services to the Company’s employees and purchases services from the Company.

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 Shahta Esaulskaya, an entity under common control with the Company, sold materials to the Company in 2003.

ZAO Sibirskaya Gornaya Company (“SGK”), an entity under common control with the Company, was liquidated in 2003. In 2002, SGK sold raw materials to the Company and purchased metal products from the Company.

OAo Sibirskaya Gorno-Metallurgicheskaya Company is an entity under common control with the Company. It purchases services from the Company.

OAo Sibkir, an associate of the Company, is in the liquidation process.

OOO SMU-1 Zapsiba, a wholly owned subsidiary of the Company, provides construction services to the Company and purchases metal products from the Company.

OAo Sovkhoz Antonovsky (“Antonovsky”), a wholly owned subsidiary of the Company, sells agricultural and dairy products to the Company and purchases services and materials from the Company. On February 24, 2004, the Company sold all of its shares in Antonovsky to a third party.

OOO Spetsmash-MT (“Spetsmash-MT”) is an entity under common control with the Company. On July 17, 2003, Spetsmash-MT acquired debt of the Company under the Settlement agreement with a nominal value of \$335 (at the exchange rate as of December 31, 2003). In addition, Spetsmash-MT issued promissory notes to the Company with a nominal value of \$2,262 (at the exchange rate as of December 31, 2003).

OAo West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

10. Related Party Disclosures (continued)

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 metal products and materials from the Company.

Steeltrade Ltd. (Cyprus), an entity under common control with the Company, purchased from the Company 49% share in OOO Trade House EvrazHolding, the Company’s associate.

OOO Trade House EvrazHolding (“Trade House EvrazHolding”) was the Company’s associate in 2002-2003. As of December 31, 2002, the Company owned 49% share in Trade House EvrazHolding. On December 17, 2003, the Company sold its share in Trade House EvrazHolding to Steeltrade Ltd., an entity under common control with the Company. Trade House EvrazHolding operates as the Company’s purchases and sales agent. Sales transactions executed through Trade House EvrazHolding included transactions in the amount of \$82,732 with Evrazmetall-Sibir, Evrazmetall-Centre, Promsib, Stal EA Centrpromstal and Zapsibmetal – Novosibirsk, the entities under common control with the Company. Purchases transactions executed through Trade House EvrazHolding included purchases from entities under common control with the Company in the amount of \$684. Agent fees of Trade House EvrazHolding amounted to \$5,675 in 2003.

OOO Upravlenie Socialnymi Objektami, a wholly owned subsidiary of the Company, renders services to the Company relating to the maintenance of social infrastructure.

ZAO Upravliayuschaya Company ZapsibStroiHolding, a wholly owned subsidiary of the Company, provides construction services to the Company and purchases metal products from the Company.

Vysokogorsky GOK, an entity under common control with the Company, sells iron ore to the Company and purchases materials and services from the Company.

ZAO UK Yuzhkuzbassugol, an entity under common control with the Company, sells coal and services to the Company and purchases metal products from the Company.

OAo OUK Yuzhkuzbassugol, an entity under common control with the Company, renders services to the Company and purchases services from the Company.

DP Zapsib-Asia, a wholly owned subsidiary of the Company, purchases metal products from the Company.

ZAO Zapsibmetal-Novosibirsk, an entity under common control with the Company, purchased metal products from the Company.

OAo Zapsibpolymer (“Zapsibpolymer”) is a wholly owned subsidiary of the Company. The Company provides services to Zapsibpolymer and purchases equipment from Zapsibpolymer.

OA0 West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

10. Related Party Disclosures (continued)

OOO Zapsibspetsremstroy, a wholly owned subsidiary of the Company, is engaged in construction and maintenance of the Company's social assets. The Company sells materials to the subsidiary.

OOO Zapsibspetstroy, a wholly owned subsidiary of the Company, sold equipment to the Company and purchased services from the Company. Since November 21, 2003, the entity is under the bankruptcy proceedings.

ZAO Zapsibtorg Ltd. is the Company's associate liquidated in April 2004.

OOO Zapsibzhilstroy ("Zapsibzhilstroy"), a wholly owned subsidiary of the Company, is engaged in construction of social assets. The Company sells services and fixed assets to Zapsibzhilstroy and purchases construction services from the subsidiary.

11. Taxes Receivable

Taxes receivable consisted of the following as of December 31:

	2003	2002
Input VAT	\$ 32,570	\$ 23,534
Other taxes	11,316	10,497
	<u>\$ 43,886</u>	<u>\$ 34,031</u>

As of December 31, 2003 and 2002, input VAT included the current portion of input VAT related to the restructured liabilities under the Settlement Agreement dated November 14, 2001 of \$56 and \$988, respectively (Note 14).

12. Share Capital and Reserves

The Company was reorganised 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.

Authorised Shares

At December 31, 2003 and 2002, the Company's authorised shares comprised of 111,000,000 shares.

Shares Issued and Fully Paid

At December 31, 2003 and December 2002, the Company's issued and paid share capital comprised of 13,387,549 shares.

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

12. Share Capital and Reserves (continued)

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	
	Common	Preferred Class A	Preferred Class B	Total	(in thousands of US dollars)
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
Effect of exchange rate changes	—	—	—	—	2,171
At December 31, 2003	12,782,723	604,826	—	13,387,549	\$ 29,612

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 on 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. As of the date of the issuance of the accompanying financial statements, the annual meeting of shareholders has not been held, but the same decision is on the agenda of the coming meeting. 10% of the Company's net profit per its Russian statutory accounts for 2003 is 475,236,100 roubles (\$15,483 at the average exchange rate for the year ended December 31, 2003).

OAQ West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

12. Share Capital and Reserves (continued)

In 2002, 238,554 Class B preferred shares were converted into common shares.

According to the Russian Law, the Company creates a reserve capital in the amount of 5% of share capital per the Russian statutory accounts by annual appropriations which should be at least 5% of the annual net profit per statutory financial statements. The reserve capital can be used only for covering losses as well as for redemption of the Company's bonds and purchase of own shares if there are no other sources of financing.

13. Long-Term Loans

Long-term loans consisted of the following as of December 31:

	2003	2002
Syndicated loan	\$ 50,000	\$ —
Less: current portion	(2,000)	—
	<u>\$ 48,000</u>	<u>\$ —</u>

On December 18, 2003, the Company entered into a US dollar-denominated loan agreement with joint lenders (Société Générale, Commerzbank (Eurasija), Moscow Narodny Bank, BNP Paribas, Ost-West Handelsbank AG, GarantiBank International N.V., Natexis Banques Populaires). The loan is due for repayment from December 18, 2004 to December 18, 2006 by twenty-five equal monthly installments. The loan is to be used to finance working capital needs and investments in connection with the production and export of steel. The liability bears interest at an annual rate of LIBOR plus a margin of 3.7% per annum which may be increased by a maximum of 0.8% per annum in case of deterioration of the company rating of Mastercrocft Limited published by Moody's Investors Service. In December 2003, the interest rate was equal to 4.86% per annum.

The loan agreement provides for certain covenants in respect of Mastercrocft Limited and its subsidiaries. The covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness and profitability.

Proceeds from sales of steel pursuant to the export contract with Ferrotrade Limited (Gibraltar) can be used to satisfy the obligations under the loan agreement in case of a default.

On April 1, 2004, the borrowing facility under the agreement was increased by \$30,000.

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

14. 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, 2003 and 2002 was \$179,594 and \$197,759 respectively, including the amount of \$118,032 and \$131,917, respectively, denominated in US dollars and \$61,562 and \$65,842, 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.

The new financial liabilities were measured at amortised 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.

Liabilities under the Settlement Agreement, at carrying amounts, consisted of the following as of December 31:

	2003	2002
Related parties (Note 10)	\$ 17,643	\$ 33,287
Others	15,505	18,542
	33,148	51,829
Less current portion		
Related parties (Note 10)	(1,460)	(17,887)
Others	(8,663)	(12,000)
	(10,123)	(29,887)
	\$ 23,025	\$ 21,942

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).

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

14. Liabilities Under the Settlement Agreement (continued)

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.

Restated pro forma information for the year ended December 31, 2002 is presented in Note 18 as if the error had been corrected in 2001.

Input VAT relating to the liabilities under the Settlement Agreement with the nominal value of \$5,866 and \$6,445 as of December 31, 2003 and 2002, 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 \$551 and \$1,431 at December 31, 2003 and 2002, respectively, including the current portion of \$56 and \$988, respectively, and non-current portion of \$495 and \$443, respectively.

15. Long-Term Promissory Notes

	Maturity	2003	2002
Notes payable to related parties	March 31, 2004- December 31, 2026	\$ 94	\$ 955
Notes payable to others	April 1, 2005- July 1, 2005	576	—
		<u>670</u>	<u>955</u>
Less notes with current maturities (Notes 10)		(13)	—
		<u>\$ 657</u>	<u>\$ 955</u>

Notes Payable to Related Parties

On March 12, 2002, the Company entered into an agreement with OOO Metallenergofinance (“MEF”), under which certain rouble-denominated debts of the Company under the Settlement Agreement dated November 14, 2001 with a total nominal value of 30,349,057 roubles (\$955 at the exchange rate as of December 31, 2002) were replaced with the Company’s promissory notes with the same nominal value and payable upon demand but not earlier than March 31, 2004 and maturing as follows:

- from March 31, 2004 to December 31, 2021 – equal quarterly installments in the amount of \$3.2 each;
- from March 31, 2022 to September 30, 2026 – equal quarterly installments in the amount of \$36.3 each;
- from December 31, 2026 – final payment in the amount of \$36.8.

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

15. Long-Term Promissory Notes (continued)

In 2002, Lakemill acquired the Company's long-term promissory notes from MEF.

The restructuring of the liability under promissory notes 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 amortised cost in the accompanying parent company balance sheet as of December 31, 2003.

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 \$899 was included in interest expense in the accompanying parent company statement of income for the year ended December 31, 2003.

Notes Payable to Others

In 2003, the Company issued two long-term promissory notes with a total nominal value of 19,178,254 roubles (\$651 at the exchange rate as of December 31, 2003) and sold them to OOO Avtoresurssnab (\$601) and OOO Energoprom (\$50). The promissory note with the nominal value of \$601 is payable upon demand but not earlier than April 1, 2005. The liability to OOO Energoprom is payable upon demand but not earlier than July 1, 2005.

The liabilities were measured at amortised cost in the accompanying parent company balance sheet as of December 31, 2003. The cost of the liabilities was determined based on the future cash payments discounted at the annual rate of 13%. The gain on discounting of the liabilities of \$72 was included in gain on extinguishment of debts in the accompanying parent company statement of income for the year ended December 31, 2003.

16. Restructured Taxes Payable

Restructured taxes consisted of the following as of December 31:

	2003	2002
Restructured taxes:		
Social insurance taxes	\$ 15,672	\$ 22,393
Tax-related fines and penalties	2,602	1,611
	<u>18,274</u>	<u>24,004</u>
Less current portion:		
Social insurance taxes	7,175	10,594
Tax-related fines and penalties	166	687
	<u>7,341</u>	<u>11,281</u>
	<u>\$ 10,933</u>	<u>\$ 12,723</u>

OAo West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

16. Restructured Taxes Payable (continued)

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 quarterly installments through December 31, 2006:

2002	\$7,506
2003	\$8,819
2004	\$6,192
2005	\$6,192
2006	\$6,192

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 amortised cost in the accompanying parent company balance sheets at December 31, 2003 and 2002. 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 \$37,544 to be forgiven if all the other payments are made on a timely basis was not included in the liabilities as of December 31, 2003 and 2002 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.

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 100% 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 within four years of the date of the agreement.

OA0 West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

16. Restructured Taxes Payable (continued)

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 amortised cost in the accompanying parent company balance sheets as of December 31, 2003 and 2002. 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, 2003 and 2002 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.

On September 1, 2003, the amount of \$3,884, representing penalties related to road users tax, was included in the restructuring agreement. The amount should be paid in equal quarterly installments through June 2012. 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 amortised cost in the accompanying parent company balance sheet as of December 31, 2003. 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 13%.

The gain on the restructuring of the liabilities of \$1,672 was included in gain on extinguishment of debts in the accompanying parent company statement of income for the year ended December 31, 2003.

17. 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 2003, OOO Deltorg purchased the leased assets from RMB Leasing and became the only lessor.

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. In 2002, RMB Leasing reassigned its rights under the lease agreement to OOO Deltorg.

Under the new lease agreements with OOO Deltorg, the amount and time schedule of lease payments were changed. During the year ended December 31, 2003, the Company leased additional production assets and computer equipment with a fair value of \$2,661.

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

17. Finance Lease Obligations (continued)

The leases were accounted for as finance leases in the accompanying parent company financial statements. At December 31, 2003 and 2002, the aggregate carrying value of the leased assets amounted to \$9,561 and \$8,068, respectively, net of accumulated depreciation of \$4,286 and \$2,194, respectively. The leased assets are included in other assets in property, plant and equipment in the accompanying parent company balance sheets (Note 5).

Future minimum lease payments were as follows at December 31, 2003:

	Principal	Interest	Total
January 1, 2004 – December 31, 2004	\$ 3,511	\$ 1,127	\$ 4,638
January 1, 2005 – December 31, 2008	7,203	1,130	8,333
January 1, 2009 – September 30, 2009	63	5	68
	10,777	2,262	13,039
Less current portion	(3,511)	(1,127)	(4,638)
	\$ 7,266	\$ 1,135	\$ 8,401

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

18. Trade and Other Payables

Trade and other payables consisted of the following as of December 31:

	2003	2002
Trade accounts payable	\$ 4,489	\$ 23,259
Promissory notes with current maturities or payable on demand	218	4,118
Accrued payroll	5,903	6,124
Other payables	1,307	9,961
	\$ 11,917	\$ 43,462

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

18. Trade and Other Payables (continued)

In 2003, the Company made a write-off of other payables incorrectly accounted for as current liabilities amounting to \$4,792 as of December 31, 2002. The write-off is included in non-operating gain in the accompanying parent company income statement for the year ended December 31, 2003. Restated pro forma information for the years ended December 31, 2003 and 2002 is presented below as if the error had been corrected before 2002.

In addition, restated pro forma information for the year ended December 31, 2002 reflects the effect of restructuring of certain rouble-denominated liabilities under the Settlement agreement with the nominal value of 92,713 thousand roubles (\$2,917 at the exchange rate as of December 31, 2002) which were incorrectly accounted for as current liabilities as of December 31, 2001 (Note 14). Pro forma information is presented below as if these liabilities were accounted for at amortised cost in 2001.

	As reported		Pro forma (restated)	
	December 31,		December 31,	
	2003	2002	2003	2002
Accumulated profits	\$ 253,870	\$ 134,691	\$ 253,870	\$ 139,483
Total equity	309,618	177,752	309,618	182,544
Trade and other payables	11,917	43,462	11,917	38,670
Total current liabilities	161,720	266,872	161,720	262,080
Gain on net monetary position	–	34,022	–	33,800
Profit from operating activities	146,932	1,302	146,932	1,080
Non-operating gain	4,792	–	–	–
Profit/(loss) before income tax	143,378	(14,508)	138,586	(14,730)
Income tax (expense)/benefit	(34,629)	2,293	(34,629)	2,347
Profit/(loss) from ordinary activities	108,749	(12,215)	103,957	(12,383)
Extraordinary item – gain on extinguishment of debts under the Settlement Agreement, net of income tax		1,899		–
Net profit/(loss)	\$ 108,749	\$ (10,316)	\$ 103,957	\$ (12,383)

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

19. Interest Bearing Loans and Borrowings

Short-term loans and borrowings were as follows as of December 31:

	Collateral	2003	2002
US dollar-denominated loans:			
Alfa Bank	Equipment	\$ —	\$ 20,000
Transcreditbank	Inventory	—	12,000
The Savings Bank of the Russian Federation	Equipment and inventory	—	17,000
Vneshtorgbank	Equipment	80,000	
Interest payable		364	
Rouble-denominated loans:			
Gazprombank	Equipment	—	1,468
Current portion of long-term loans (Note 13)		2,000	—
		\$ 82,364	\$ 50,468

Vneshtorgbank

On September 22, 2003, the Company entered into an agreement with Vneshtorgbank for a credit line of \$80,000. The liability under this credit line bears interest of 8% per annum and matures on March 22, 2004. OOO EvrazHolding, a related party, guaranteed the repayment of the liability. At December 31, 2003, the Company had equipment with an approximate carrying value of \$49,722 pledged as collateral under the agreement with Vneshtorgbank (Note 5). On February 27, 2004, the Company repaid all its liabilities under the credit line.

International Moscow Bank ("IMB")

On December 30, 2003, the Company entered into a loan agreement with IMB for \$10,000. The loan bears interest at an annual rate of LIBOR plus a margin which varies from 4.5% to 8.0% per annum depending on the amount of proceeds from revenues received on the Company's accounts in IMB.

The receipts under the loan are intended for working capital needs. In accordance with the agreement, the Company pledged certain items of property, plant and equipment with a carrying value of \$4,712. As of December 31, 2003, the Company had no liabilities under the loan agreement.

OA West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

19. Interest Bearing Loans and Borrowings (continued)

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 bore interest of 12% per annum and matured on November 28, 2003. At December 31, 2002, the Company had equipment with an approximate carrying value of \$148,959 pledged as collateral under the agreement with Alfa Bank (Note 5). The liability under the credit line was repaid in 2003.

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 bore interest of 12% per annum and matured 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 5). The liability under the credit line was repaid in 2003.

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 matured 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 5).

The Savings Bank of the Russian Federation ("Sberbank") (continued)

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 5).

In 2003, the Company repaid the liabilities under the loan agreements with Sberbank.

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 bore interest of 17% per annum and matured on January 6, 2003. At December 31, 2002, the Company had equipment with an approximate carrying value of \$3,105 pledged as collateral under the agreement with Gazprombank (Note 5). In 2003, the Company repaid the loan.

OAO West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

20. Taxes Payable

Taxes payable consisted of the following as of December 31:

	2003	2002
Road users tax	\$ —	\$ 27,948
Current portion of restructured social insurance taxes (Note 16)	7,175	10,594
Profit tax	14,176	6,042
Social insurance taxes	2,827	1,792
VAT payable	2,753	1,706
Personal income taxes	1,128	1,073
Environmental tax	647	944
Current portion of restructured tax-related fines and penalties (Note 16)	166	687
Property tax	724	685
Other taxes, fines and penalties	7,812	3,354
	<u>\$ 37,408</u>	<u>\$ 54,825</u>

21. Provisions

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 was approximately \$48,000. A provision of \$5,000 was recorded in the accompanying parent company financial statements as at December 31, 2002.

On December 16, 2003, Noble Resources Ltd. and the Company reached an out of court settlement agreement. The claim was settled for the amount of \$4,300 paid by a shareholder. The shareholder's contribution was included in additional paid-in capital in the accompanying parent company balance sheet as of December 31, 2003.

22. Commitments and Contingencies

Economic Environment

In 2003, the Russian Federation has continued economic growth. However, the Russian economy continues to display certain traits consistent with that of a market in transition. These characteristics in the past included higher than normal inflation, lack of liquidity in the capital markets, dependence on oil and gas prices, widespread of tax evasion, and the existence of currency controls which caused 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 actions with regard to supervisory, legal, and economic reforms. No assurance can be given that reform policies will be successful and the Russian economy will improve.

OA0 West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

22. Commitments and Contingencies (continued)

The Russian government has initiated reforms of the tax system that have resulted in some improvement in the tax climate. Many tax laws and related regulations were introduced in 2003 and previous years which were not always clearly written, subject to varying interpretation and inconsistent enforcement. 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 \$7,500. Management believes that it is not probable that the ultimate outcome of such matters would result in a liability.

Government authorities have a high degree of discretion in Russia and exercise their discretion arbitrarily, sometimes in a manner that may be contrary to the law. Unlawful government actions include withdrawal of licences, prejudiced tax audits, criminal prosecutions and civil actions.

Economic Environment (continued)

As of December 31, 2003, 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.

OA West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

22. Commitments and Contingencies (continued)

Litigations, 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 14) 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 amortised cost, in the accompanying parent company balance sheet as of December 31, 2002 - Note 14). 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 2004, Lakemill, a shareholder of the Company, acquired the liability of the Company to Golden Lion, Inc.

Restructured Taxes Payable

If the Company does not comply with the terms of the restructuring of its taxes payable, all the restructured liabilities (Note 16) will become payable immediately. Management intends to comply with the terms of the restructuring.

Capital Commitments

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.

On December 22, 2003, the Company signed contracts with ZAO Kuznetskmetallurgstroy for construction works, amounting to 151,000,000 roubles (\$ 5,126 at the exchange rate as of December 31, 2003).

The Company signed other contracts for the purchase of production equipment and construction works for an approximate amount of \$3,000.

OA0 West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

22. Commitments and Contingencies (continued)

Guarantees of the Debts of Others

In September and December 2003, EvrazSecurities S.A., a special purpose entity incorporated under the laws of Luxembourg, issued notes amounting to \$175,000. The notes bear interest of 8.875% per annum payable semi-annually and mature on September 25, 2006. The net proceeds of the issue were on-lent to Sibmetinvest, the Company's associate, which used the loan for acquisition of mining, steel production and transportation assets.

The Company, together with Mastercroft Limited (Cyprus), Ferrotrade & Co. (UK), Ferrotrade Limited (Gibraltar), and Nizhny Tagil Iron and Steel Plant guaranteed, on a joint and several basis, due and punctual payments of all amounts in respect of the notes. The conditions of the notes provide for certain covenants in respect of Mastercroft Limited and its subsidiaries. The covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness and profitability.

On November 24, 2003, the Company issued a guarantee to MDM-Bank in respect of liabilities of OOO EvrazInvest, a related party, under the loan agreement between OOO EvrazInvest and MDM-Bank. The loan, amounting to \$8,600, bears interest of 8.5% per annum and matures on February 20, 2004. In 2004, the loan was repaid and refinanced with another loan maturing on August 16, 2004. The Company guaranteed the repayment of liabilities of OOO EvrazInvest under the new loan agreement.

Guarantees of the Debts of Others (continued)

On May 30, 2003, the Company issued a guarantee to Alfa-Bank in respect of liabilities of ZAO UK Yuzhkuzbassugol, a related party, under the credit line agreement between ZAO UK Yuzhkuzbassugol and Alfa-Bank. The borrowing facility in the amount of \$15,000 bears interest of 11.25% per annum and matures on May 27, 2005. The Company pledged certain items of property, plant and equipment with a carrying value of \$12,752 as collateral under the credit line agreement.

Arrangements for the Purchase of a 2-strand Continuous Slab Casting Machine

On December 1, 2003, Mastercroft Limited (Cyprus), the ultimate parent of the Company, and Voest-Alpine Industrieanlagenbau GmbH & Co. ("VAI") entered into an agreement for the construction of a 2-strand continuous slab casting machine ("CCM") at the premises of the Company. The construction is expected to be completed by the end of 2005.

The value of the contract is EUR 38,700,000. On December 30, 2003, Mastercroft Limited made a down payment of EUR 5,804,890 to VAI.

OAo West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

22. Commitments and Contingencies (continued)

It is intended that in June 2004 Mastercroft Limited will terminate the agreement with a subsequent reimbursement of the down payment by VAI, and a new agreement will be signed between VAI and Caplink Ltd. ("Caplink"), a company incorporated under laws of Cyprus, which is 100% owned by a third party, Barion Investment Trust (BVI). Caplink will establish a 100% owned subsidiary in Russia ("NewCo.") and contribute the purchased equipment into the share capital of NewCo. NewCo will provide tolling services to the Company for processing of liquid steel into slabs.

It is intended that Caplink will act as a borrower under the loan, which will be provided by Bank Austria Creditanstalt with Export Credit Agency support (OeKB, Austria).

The Company intends to sign a long-term share purchase agreement with Caplink under which it will have an obligation to purchase Caplink's shares in NewCo in accordance with a pre-determined price (fixed in Euro) and time schedule. The purchase price and time schedule will mirror Caplink's obligations under the loan agreement with Bank Austria Creditanstalt.

23. Subsequent Events

Acquisition of Kachkanarsky GOK

On March 26, 2004, the Company made a payment in the amount of 400,000,000 roubles (\$13,580 at the exchange rate as of December 31, 2003) for the acquisition of a 16.51% share in Kachkanarsky Mining-and-Processing Integrated Works ("KGOK"), which produces agglomerate and sells it to NTMK, an entity under common control with the Company. The total amount of the transaction approximates \$40,600. The remaining balance is due for payment in June 2004.

Guarantees of the Debts of Others

On February 19, 2004, the Company issued a guarantee to Alfa-Bank of liabilities of OAO OUK Yuzhkuzbassugol, a related party, under the credit line agreement between OAO UK Yuzhkuzbassugol and Alfa-Bank. The borrowing facility, amounting to \$10,000, bears interest of 10% per annum and matures on February 18, 2005. The Company pledged certain items of property, plant and equipment with a carrying value of \$5,170 as collateral under the credit line agreement.

Guarantees of the Debts of Others

On March 19, 2004, Alfa-Bank provided a loan for EUR 2,364,190 to OAO UK Neryungrigol ("Neryungrigol"). The loan bears interest at an annual rate of EURIBOR plus a margin of 3.41% per annum and is due for repayment from May 3, 2005 to November 3, 2008 by eight equal semi-annual installments. In connection with the agreement, the Company granted a pledge to Alfa-Bank of certain items of property, plant and equipment with a carrying value of \$862 as of December 31, 2003 and provided a guarantee on all obligations of Neryungrigol under the loan agreement with Alfa-Bank.

OA0 West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

23. Subsequent Events (continued)

On April 29, 2004, the Company pledged certain items of property, plant and equipment with a carrying value of \$1,287 and provided a guarantee on obligations of Neryungrugol in respect of a letter of credit in the amount of \$2,457 opened by Alfa-Bank in favour of Voest Alpine Mining and Tunneling Pty Limited, Tomago, NSW, Australia.

On April 20, 2004, Ferrotrade Limited (Gibraltar), an entity under common control with the Company, entered into a loan agreement with ING BANK N.V. (Netherlands) for a \$150,000 loan facility for financing of acquisitions of mining and steel production assets. The loan matures on October 20, 2004 and bears interest at an annual rate of LIBOR plus a margin of 1.9% (up to July, 20, 2004) and 2% (after July 20, 2004). The Company secured the repayment of liabilities of Ferrotrade Limited by assignment of its rights in respect of the export contract with Ferrotrade Limited dated April 15, 2004.

Contracts for Capital Expenditures

In January 2004, the Company signed contracts with ZAO Yuzhkuzbasstroy for the construction works and installation of steel casting equipment, amounting to 465,000,000 roubles (\$15,787 at the exchange rate as of December 31, 2003).

In January 2004, the Company signed contracts with OOO Metallurgremstroy for repairs and maintenance works, amounting to 59,968,430 roubles (\$2,036 at the exchange rate as of December 31, 2003).

On February 19, 2004, the Company signed a contract with ZAO Kuznetskmetallurgstroy for construction works, amounting to 106,000,000 rubles (\$ 3,599 at the exchange rate as of December 31, 2003).

Contracts for Capital Expenditures (continued)

On February 20, 2004, the Company signed a contract with ZAO Koksokhimmontazh-Kuznetsk for construction works, amounting to 96,386,000 rubles (\$3,272 at the exchange rate as of December 31, 2003).

On March 24, 2004, the Company signed a contract with ZAO Konecranes for the purchase and installation of production equipment, amounting to EUR 10,299,736 (\$12,877 at the exchange rate as of December 31, 2003).

Contracts for Capital Expenditures

On April 26, 2004, the Company signed a contract with ZAO WELD for the purchase and installation of production equipment, amounting to 90,080,020 roubles (\$ 3,058 at the exchange rate as of December 31, 2003).

The Company signed other contracts for the purchase of production equipment and construction works for an approximate amount of \$20,500.

OA0 West-Siberian Iron & Steel Plant

Notes to Parent Company Financial Statements (continued)

23. Subsequent Events (continued)

Borrowings

On March 23, 2004, the Company entered into a loan agreement with Kazkommertsbank and Moskommertsbank amounting to \$30,000. The loan is intended for financing the production and installation of steel casting equipment. The liability bears interest at an annual rate of 8% and is due for repayment from March 23, 2006 to March 23, 2010 by seventeen equal quarterly installments. The Company pledged certain items of property, plant and equipment with a carrying value of \$17,901 as collateral under the loan agreement. Mastercroft Limited and Ferrotrade Limited guaranteed the repayment of the Company's obligations.

ОАО Новокучнецк Iron & Steel Plant

Financial Statements

***Period from May 5, 2003 (inception) to December 31, 2003
with Report of Independent Auditors***

ОАО НОВОКУЗНЕЦКИЙ ЖЕЛЕЗО-И СТАЛЬНЫЙ ЗАВОД

ФИНАНСОВЫЕ УЧЕТЫ

ПЕРИОД С 5 МАЯ 2003 ГОДА (НАЧАЛО) ДО 31 ДЕКАБРЯ 2003 ГОДА

СОДЕРЖАНИЕ

Отчет независимых аудиторов	F-141
Финансовые Учеты	
Баланс	F-142
Учет доходов	F-143
Учет денежных потоков	F-144
Учет изменений в капитале	F-145
Примечания к финансовым отчетам	F-146

Report of Independent Auditors

The Board of Directors
OAO Novokuznetsk Iron & Steel Plant

We have audited the accompanying balance sheet of OAO Novokuznetsk Iron & Steel Plant (the "Company") as of December 31, 2003 and the related statements of income, cash flows and changes in equity for the period from May 5, 2003 (inception) to December 31, 2003. 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 audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2003, and the results of its operations and its cash flows for the period from May 5, 2003 (inception) to December 31, 2003 in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to Note 1 to the financial statements. The majority of the Company's revenues and expenses were generated or incurred in transactions with related parties.

Ernst & Young (CIS) Limited

March 29, 2004

OAO Novokuznetsk Iron & Steel Plant

Balance Sheet

December 31, 2003

(In thousands of US dollars)

	<u>Notes</u>	
ASSETS		
Non-current assets		
Property, plant and equipment, net	5	\$ 52,550
Deferred income tax asset	4	508
		<u>53,058</u>
Current assets		
Inventories	6	41,007
Trade and other receivables, net	7	5,623
Prepayments		1,675
Receivables from related parties	8	15,849
VAT receivable		27,616
Promissory notes receivable		225
Cash and cash equivalents		3,466
		<u>95,461</u>
TOTAL ASSETS		<u><u>\$ 148,519</u></u>
EQUITY AND LIABILITIES		
Equity		
Issued capital	9	\$ 4,142
Share premium	9	36,972
Reserve capital	9	207
Translation difference		108
Accumulated profits		8,952
Total equity		<u>50,381</u>
Non-current liabilities		
Long-term loan from a related party	10	1,751
Finance lease obligations	11	2,848
		<u>4,599</u>
Current liabilities		
Trade and other payables	12	18,868
Short-term loans	13	22,533
Short-term loan from a shareholder	14	13,240
Payables to related parties	8	28,978
Taxes payable	15	8,580
Current portion of finance lease obligations	11	1,340
		<u>93,539</u>
TOTAL EQUITY AND LIABILITIES		<u><u>\$ 148,519</u></u>

The accompanying notes form an integral part of these financial statements.

OAO Novokuznetsk Iron & Steel Plant

Income Statement

Period from May 5, 2003 (inception) to December 31, 2003

(In thousands of US dollars)

	<u>Notes</u>	
Revenues		
Sales of goods	3	\$ 152,100
Rendering of services		2,753
		<u>154,853</u>
Cost of revenues	3	<u>(132,173)</u>
Gross profit		22,680
Selling and distribution costs	3	(1,784)
General and administrative expenses	3	(6,274)
Social and social infrastructure maintenance expenses	3	(538)
Loss on disposal of property, plant and equipment		(430)
Foreign exchange gain, net		120
Other operating expenses, net		<u>(408)</u>
Profit from operating activities		13,366
Interest expense		<u>(1,010)</u>
Profit before income taxes		12,356
Income tax expense	4	<u>(3,197)</u>
Net profit		<u>\$ 9,159</u>

The accompanying notes form an integral part of these financial statements.

OAO Novokuznetsk Iron & Steel Plant

Cash Flow Statement

Period from May 5, 2003 (inception) to December 31, 2003

(In thousands of US dollars)

Cash flows from operating activities	
Net profit	\$ 9,159
Adjustments to reconcile net profit to net cash used in operating activities:	
Depreciation	391
Loss on disposal of property, plant and equipment	430
Deferred income taxes	(502)
Interest accrued	1,010
Foreign exchange gain	(120)
Operating profit before working capital changes	10,368
Changes in operating assets and liabilities:	
Inventories	(40,525)
Trade and other receivables	(5,332)
Prepayments	(1,655)
Receivables from related parties	(14,792)
Taxes receivable	(27,292)
Trade and other payables	16,253
Payables to related parties	27,760
Taxes payable	8,480
Net cash flows used in operating activities	(26,735)
Cash flows from investing activities	
Payments for property, plant and equipment	(46,663)
Net cash flows used in investing activities	(46,663)
Cash flows from financing activities	
Proceeds from issuance of share capital	40,632
Proceeds from loans from related parties	55,514
Repayment of loans from related parties, including interest	(41,574)
Proceeds from bank overdrafts, net	11,229
Proceeds from short-term loans	11,021
Net cash flows from financing activities	76,822
Effect of exchange rate changes on cash and cash equivalents	42
Net increase in cash and cash equivalents	3,466
Cash and cash equivalents at beginning of period	—
Cash and cash equivalents at end of period	\$ 3,466
Supplementary cash flow information:	
Cash flows during the period:	
Interest paid	\$ 106
Income taxes paid	\$ —

The accompanying notes form an integral part of these financial statements.

Statement of Changes in Equity

Period from May 5, 2003 (inception) to December 31, 2003

(In thousands of US dollars)

	Issued capital	Share premium	Reserve capital	Translation difference	Accumulated profit	Total
Balance at May 5, 2003 (inception)	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Issuance of share capital	4,094	36,538	—	—	—	40,632
Net profit	—	—	—	—	9,159	9,159
Appropriation of profit to reserve capital	—	—	207	—	(207)	—
Net effect of foreign exchange differences	48	434	—	108	—	590
Balance at December 31, 2003	\$ 4,142	\$ 36,972	\$ 207	\$ 108	\$ 8,952	\$ 50,381

The accompanying notes form an integral part of these financial statements.

OAO Novokuznetsk Iron & Steel Plant

Notes to Financial Statements

Period from May 5, 2003 (inception) to December 31, 2003

(All amounts are in thousands of US dollars, unless specified otherwise)

1. Corporate Information

The financial statements of OAO Novokuznetsk Iron & Steel Plant (“NKMK” or the “Company”) for the period from May 5, 2003 (inception) to December 31, 2003 were authorised for issue in accordance with a resolution of the directors on March 29, 2004.

NKMK, a Russian open joint stock company, was incorporated on May 5, 2003 and commenced operations in October 2003. The Company’s shareholders are OOO Sibmetinvest (“SMI”) (98% of share capital) and OOO EvrazHolding (“EvrazHolding”) (2% of share capital), both ultimate subsidiaries of Mastercroft Limited. The registered office of the Company is located at 1 Ploshad Pobedy, Novokuznetsk, the Kemerovo region, the Russian Federation.

NKMK is one of the major metallurgical plants in Russia. The Company is a steel production plant, comprising of a coke-chemical production, electric-furnace and blast furnace productions, steel making facilities and rolling mills. These production facilities were previously owned by OAO Kuznetsk Iron & Steel Works (“KMK”) established in 1932. In June 2003, KMK was dissolved in the bankruptcy proceedings. In accordance with the bankruptcy plan approved by the creditors’ committee, KMK incorporated nine wholly owned subsidiaries. Each subsidiary, representing one of the major production lines or service functions, leased property, plant and equipment of KMK under operating lease agreements. The ownership interests in subsidiaries and leased property, plant and equipment were sold by KMK on public auctions or through direct sale contracts. Proceeds from the sale were used to repay KMK debts.

In the period from May 5, 2003 (inception) to December 31, 2003, the Company acquired items of property, plant and equipment of KMK, as follows:

Seller	Amount of transaction (excluding VAT)
OOO RKDL	\$ 20,490
OOO Relsy KMK	10,340
OOO PriorInvest	5,287
OOO Spetsmash-MT	2,351
OOO Business Diapason 2000	2,195
OOO Prioritet Resurs 2000	1,404
OOO ATP KMK	907
ZAO EAM-Vostok	797
OOO Centerprom-MT	708
OOO Steel of KMK	219
OOO KMK-Energo	7
OOO USO ZSMK	4
	<u>\$ 44,709</u>

OAO Novokuznetsk Iron & Steel Plant

Notes to Financial Statements (continued)

1. Corporate Information (continued)

NKMK derives approximately 95% of its revenues from sales of metal products. Other revenue sources include sales of slag, refractory materials and coke, and non-production service revenues.

The Company sells metal products both domestically and abroad. For the period from May 5, 2003 (inception) to December 31, 2003, domestic revenues were approximately 59% of total revenues. The Company's specialization is rolled long metal products for the transportation industry. The Company is the largest producer of rail-track products on the domestic market.

In the period from May 5, 2003 (inception) to December 31, 2003, approximately 52% of revenues and approximately 56% of purchases of raw materials were generated or made in transactions with related parties. For detailed information related to such activities see Note 8.

On December 1, 2003, the Company's shareholders appointed EvrazHolding as the management executive body of the Company.

At December 31, 2003, the Company employed 12,750 employees.

2. Significant Accounting Policies

Basis of Preparation

The 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 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. 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, and (5) measurement of financial instruments.

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

OAO Novokuznetsk Iron & Steel Plant

Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

otherwise measured in roubles. For presentation purposes, the financial statements have been translated into US dollars, the presentation currency. 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.

Pursuant to the requirements of Standing Interpretations Committee ("SIC") 30, financial statements presented in a currency other than the measurement currency were translated into the presentation currency as follows:

- Assets and liabilities for the balance sheet presented were translated at the closing rate existing at the date of the balance sheet presented;
- Income and expense items for the period presented were translated at the exchange rates existing at the dates of the transactions or a rate that approximates the actual exchange rates;
- Equity items other than the net profit for the period that is included in the balance of accumulated profit were translated at the closing rate existing at the date of the balance sheet presented; and
- All exchange differences resulting from the translation were recognised directly in equity.

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, 2003, the official rate of exchange was 29.45 roubles = US\$1. Transactions denominated in foreign currencies are recorded at the official exchange rate on the date of the transaction.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings and constructions	3-48 years
Machinery and equipment	1-29 years
Transport and motor vehicles	1-12 years
Other assets	3-15 years

OAO Novokuznetsk Iron & Steel Plant

Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

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 capitalised 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.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets, which are owned. If there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

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 recognised 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 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. 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

OA0 Novokuznetsk Iron & Steel Plant

Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

Impairment of Assets (continued)

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 recognised for the difference between the estimated recoverable amount and the carrying value as follows:

- For property, plant and equipment 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

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 recognised. 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 recognised.

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.

At December 31, 2003, cash and cash equivalents consisted primarily of cash in banks.

Accounts Receivable

Accounts receivable are recognised 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 realisable 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.

OAO Novokuznetsk Iron & Steel Plant

Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

Inventories (continued)

Net realisable 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 recognised 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 recognised 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 recognised 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 34.6% of the employees' salaries in 2003.

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 recognised for all taxable temporary differences. Deferred tax assets are recognised 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 utilised.

OAO Novokuznetsk Iron & Steel Plant
Notes to 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 utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised 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 recognised 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 amortised cost. Amortised 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 amortised cost, any gain or loss is recognised in the income statement when the liability is de-recognised, and through the amortisation process.

Borrowing costs are expensed as incurred.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, consisting of short-term accounts receivable, accounts and taxes payable, and short-term and long-term loans payable approximate their fair value.

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 recognised 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 recognised:

OAO Novokuznetsk Iron & Steel Plant
Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

Revenue Recognition (continued)

Sale of Goods

Revenue is recognised 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 Kemerovo Region.

Rendering of Services

Service revenue is recognised when services are rendered.

Non-Monetary Exchanges

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

The Company has the title to certain items of social infrastructure. 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.

3. Revenues and Expenses

Revenues and cost of revenues in the accompanying income statement include non-monetary exchanges of dissimilar goods amounting to \$1,314, which includes \$879 in respect of exchanges with related parties.

OAO Novokuznetsk Iron & Steel Plant

Notes to Financial Statements (continued)

3. Revenues and Expenses (continued)

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 period from May 5, 2003 (inception) to December 31, 2003:

Cost of inventories recognised as expense	\$ 123,675
Staff cost, including social security taxes	12,072
Depreciation	391

4. Income Taxes

Major components of income tax expense for the period from May 5, 2003 (inception) to December 31, 2003 were as follows:

<i>Current income tax</i>	\$ 3,699
<i>Deferred income tax</i>	
Relating to origination and reversal of temporary differences	<u>(502)</u>
Income tax expense reported in the income statement	<u><u>\$ 3,197</u></u>

The Russian Federation was the only tax jurisdiction in which the Company's income was subject to taxation. During 2003, the statutory income tax rate in Russia was 24%.

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 period from May 5, 2003 (inception) to December 31, 2003 is as follows:

Profit before income tax	\$ 12,356
At Russian statutory income tax rate of 24%	2,965
Effect of non-deductible expenses and other permanent differences	<u>232</u>
Income tax expense reported in the financial statements	<u><u>\$ 3,197</u></u>

OAO Novokuznetsk Iron & Steel Plant

Notes to Financial Statements (continued)

4. Income Taxes (continued)

Deferred income tax assets and liabilities at December 31, 2003 related to the following:

Deferred income tax assets:	
Accounts payable	\$ 423
Accounts receivable	331
Prepaid expenses	20
	<u>774</u>
Deferred income tax liabilities:	
Inventory	(245)
Property, plant and equipment	(21)
	<u>(266)</u>
Net deferred income tax asset	<u><u>\$ 508</u></u>

5. Property, Plant and Equipment

Property, plant and equipment consisted of the following at December 31, 2003:

Cost:	
Land	\$ 7,955
Buildings and constructions	11,909
Machinery and equipment	22,538
Transport and motor vehicles	1,711
Other assets	156
Assets under construction	8,676
	<u>52,945</u>
Accumulated depreciation:	
Buildings and constructions	(103)
Machinery and equipment	(255)
Transport and motor vehicles	(33)
Other assets	(4)
	<u>(395)</u>
	<u><u>\$ 52,550</u></u>

At December 31, 2003, assets under construction include prepayments to contractors and suppliers of property, plant and equipment in the amount of \$2,085 (Note 16).

OAO Novokuznetsk Iron & Steel Plant

Notes to Financial Statements (continued)

5. Property, Plant and Equipment (continued)

An analysis of activity in property, plant and equipment for the period from May 5, 2003 (inception) to December 31, 2003 was as follows:

	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Other assets	Assets under construction	Total
At May 5, 2003 (inception)	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –	\$ –
Additions	7,863	11,786	22,523	1,691	323	8,576	52,762
Disposals	–	(15)	(246)	–	(169)	–	(430)
Depreciation charge	–	(102)	(252)	(33)	(4)	–	(391)
Translation difference	92	137	258	20	2	100	609
At December 31, 2003, cost, net of accumulated depreciation	<u>\$7,955</u>	<u>\$ 11,806</u>	<u>\$ 22,283</u>	<u>\$ 1,678</u>	<u>\$ 152</u>	<u>\$ 8,676</u>	<u>\$ 52,550</u>

As of December 31, 2003, certain items of property, plant and equipment with an approximate carrying amount of \$805 were pledged as collateral against the loans to the Company (Note 13).

6. Inventories

Inventories, at cost, consisted of the following at December 31, 2003:

Raw materials and spare parts	\$ 33,732
Work-in-progress	7,128
Finished goods	<u>147</u>
	<u><u>\$ 41,007</u></u>

7. Trade and Other Receivables

Trade and other receivables consisted of the following at December 31, 2003:

Trade accounts receivable	\$ 4,996
Other receivables	<u>627</u>
	<u><u>\$ 5,623</u></u>

OAO Novokuznetsk Iron & Steel Plant

Notes to Financial Statements (continued)

8. Related Party Disclosures

Amounts owed by/to related parties were as follows at December 31, 2003:

	Amounts owed by related parties	Amounts owed to related parties
OOO Trade House EvrazHolding	\$ 4,505	\$ 10,631
OOO Steel of KMK	3,608	5,321
OAO Ferrotranstrade	2,865	1,158
OAO Evrazruda	1,804	4,463
Ferrottrade Limited	1,476	–
OOO Relsy KMK	1,102	6,416
OAO Evraztrans	170	–
OOO Spetsmash-MT	152	44
OAO West-Siberian Iron & Steel Plant	144	288
OOO EvrazHolding	11	–
OOO Gazeta Metallurg	11	10
OOO Metallenergofinance	1	608
OAO Nizhny Tagil Iron & Steel Plant	–	39
ZAO EAM-Vostok	–	–
	\$ 15,849	\$ 28,978

In the period from May 5, 2003 (inception) to December 31, 2003, the Company's transactions with related parties were as follows:

	Sales to related parties	Purchases from related parties
Ferrottrade Limited	\$ 67,595	\$ –
OOO Trade House EvrazHolding	2,529	382
OAO Ferrotranstrade	–	175
OOO Steel of KMK	2,053	12,495
OOO Relsy KMK	5,299	50,286
OAO Evrazruda	1,464	24,785
OAO West-Siberian Iron & Steel Plant	516	7,194
OAO Nizhny Tagil Iron & Steel Plant	402	32
OOO Metallenergofinance	–	5,239
OOO Spetsmash-MT	–	2,351
ZAO EAM-Vostok	–	797
OOO EvrazHolding	–	419
OOO USO ZSMK	–	4

It is the nature of transactions with related parties that they cannot be presumed to be carried out on an arm's-length basis.

OAo Novokuznetsk Iron & Steel Plant

Notes to Financial Statements (continued)

8. Related Party Disclosures (continued)

OOO Trade House EvrazHolding (“Trade House”), an entity under common control with the Company, operates as the Company’s purchases and sales agent. Trade House’s agency commission is 0.5% of sales and purchase transactions value. Sales transactions executed through Trade House included sales transactions with entities under common control with the Company totaling to \$2,529. In addition, Trade House provided to the Company a loan for 168,770,000 roubles (\$5,664 at the exchange rate as of the date of loan receipt). The liability under the loan agreement bore interest of 5% per annum and matured on December 31, 2003. The Company repaid this loan in 2003.

OOO Steel of KMK (“Steel of KMK”) is an entity under common control with the Company. In 2003, the Company acquired from Steel of KMK items of property, plant and equipment for 6,553,477 roubles (\$219 at the exchange rate as of the date of acquisitions). In addition, the Company provided to Steel of KMK raw materials and pig iron, which were used by Steel of KMK for production of blanks and blooms. The Company purchased substantially all blanks and blooms produced by Steel of KMK from the Company’s raw materials and pig iron. In 2003, the Company sold raw materials and pig iron to Steel of KMK for \$8,030 and \$27,379, respectively, and purchased blanks and blooms from Steel of KMK for \$46,651. The Company determined that, in accordance with IFRS, the transactions with Steel of KMK for the amount of \$35,409, representing supply of raw materials and sale of pig iron, do not meet the criteria for revenue recognition.

OAo Ferrotranstrade (“Ferrotranstrade”), an entity under common control with the Company, operates as the Company’s sales agent. Ferrotranstrade’s agency commission is 0.5% of sales proceeds collected by Ferrotranstrade from customers on the domestic market and 1.0% of export sales proceeds.

OOO Relsy KMK (“Relsy KMK”) was an entity under common control with the Company until July 7, 2003. The following paragraph describes transactions with Relsy KMK for the period from May 5, 2003 (inception) to December 31, 2003.

The Company acquired from Relsy KMK items of property, plant and equipment for 308,506,799 roubles (\$10,340 at the exchange rate as of the date of acquisitions). In addition, the Company purchased raw materials from Relsy KMK and sold finished goods to Relsy KMK. Relsy KMK guaranteed obligations of the Company under certain agreements (Notes 13, 17) and provided a loan to the Company for 5,000,000 roubles (\$168 at the dates of loan receipts). The liability under the loan agreement bore interest of 1% per annum and matured on December 31, 2003. The Company repaid this loan in 2003.

OAo Evrazruda (“Evrazruda”) is an entity under common control with the Company. The Company purchases raw materials from Evrazruda and sells finished goods to Evrazruda.

OA0 Novokuznetsk Iron & Steel Plant

Notes to Financial Statements (continued)

8. Related Party Disclosures (continued)

Ferrottrade Limited is an entity under common control with the Company. The Company sells finished goods to Ferrottrade Limited.

EvrazHolding is a shareholder of the Company. On December 1, 2003, the Company's shareholders appointed EvrazHolding as a management executive body of the Company. The Company pays to EvrazHolding 15,000,000 roubles (\$509 at the exchange rate as of December 31, 2003) per month, including VAT, for management services.

OA0 Evraztrans ("Evraztrans") is an entity under common control with the Company. At December 31, 2003 accounts receivable from Evraztrans represent the Company's advance payment for transportation service.

OOO Spetsmash-MT ("Spetsmash") is an entity under common control with the Company. In 2003, the Company acquired from Spetsmash items of property, plant and equipment for 70,876,671 roubles (\$2,351 at the exchange rate as of the date of acquisitions).

OA0 West-Siberian Iron & Steel Plant ("ZapSib") is an entity under common control with the Company. The Company purchases raw materials from ZapSib and sells finished goods to ZapSib.

OOO Gazeta Metallurg ("Gazeta Metallurg") is the Company's associate. Gazeta Metallurg is an entity, which publishes local newspaper "Metallurg". The Company provides services to Gazeta Metallurg and places advertising in the newspaper. In 2003, the Company acquired 25% participation in Gazeta Metallurg for \$3. At December 31, 2003, the Company determined that its investment in Gazeta Metallurg was fully impaired.

OOO Metallenergofinance ("MEF") is an entity under common control with the Company. The Company purchases utilities from MEF.

OA0 Nizhny Tagil Iron & Steel Plant ("NTMK") is an entity under common control with the Company. NTMK purchased finished goods from the Company.

Mastercroft Finance Limited ("MFL"), an entity under common control with the Company, provided loans to the Company. In accordance with a loan agreement dated September 10, 2003, MFL made available to the Company a borrowing facility up to 1,220,000,000 roubles (\$41,420 at the exchange rate as of December 31, 2003). The liability under the agreement bore interest of 2% per annum and had original maturity on October 31, 2004. On September 24, 2003, under this agreement, the Company borrowed 201,300,000 roubles (\$6,600 at the exchange rate as of the date of loan receipt). This amount was repaid on October 21, 2003. Interest expense in respect of this loan included in the accompanying income statement was \$10. In addition, MFL provided a long-term loan to the Company (Note 10).

OAO Novokuznetsk Iron & Steel Plant

Notes to Financial Statements (continued)

8. Related Party Disclosures (continued)

SMI is a shareholder of the Company. SMI provided a borrowing facility to the Company (Note 14).

ZAO EAM-Vostok ("EAM-Vostok") is an entity under common control with the Company. In 2003, the Company acquired from EAM-Vostok items of property, plant and equipment for 24,157,574 roubles (\$797 at the exchange rate as of the date of acquisitions).

OOO Larrit, an entity under common control with the Company, leases production assets to the Company (Note 11).

9. Shareholders' Equity

Issued Capital and Share Premium

On August 8, 2003, the Company issued to SMI and EvrazHolding 980 and 20 ordinary shares with a nominal value of 1,000 roubles each at par (\$34 at the exchange rate as of December 31, 2003).

On December 19, 2003, the Company issued to EvrazHolding 2,420 ordinary shares with a nominal value of 1,000 roubles each for 24,200 thousand roubles (\$821 at the exchange rate as of December 31, 2003).

On December 31, 2003, the Company issued to SMI 118,580 ordinary shares with a nominal value of 1,000 roubles each for 1,185,800 thousand roubles (\$40,259 at the exchange rate as of December 31, 2003).

At December 31, 2003, the Company's authorised, issued and paid share capital consisted of 300,000, 122,000 and 122,000 ordinary shares with a nominal value of 1,000 roubles each, respectively.

Reserve Capital

In 2003, the Company created a reserve capital in accordance with its articles of association. Reserve capital is created by appropriation of profit annually in the amount of 5% of net profit per statutory financial statements for each year up to the amount equal to 5% of issued capital. The Company may use this reserve to cover losses as well as for redemption of the Company's bonds and purchase of own ordinary shares.

OAO Novokuznetsk Iron & Steel Plant

Notes to Financial Statements (continued)

10. Long-Term Loan from a Related Party

In accordance with a loan agreement dated September 16, 2003, the Company obtained an unsecured borrowing facility of 2,000,000 Euro (\$2,500 at the exchange rate as of December 31, 2003) from MFL. The liability under the borrowing facility bears interest of 4.5% per annum and matures on December 31, 2005. As of December 31, 2003, loan payable to MFL was 1,400,659 Euro (\$1,751 at the exchange rate as of December 31, 2003), including accrued interest of 15,709 Euro (\$20 at the exchange rate as of December 31, 2003).

11. Finance Lease Obligations

In 2003, the Company entered into lease agreements with OOO Larrit, an entity under common control with the Company. Under the agreements, ownership of the assets is transferred to the Company at the end of the lease term. The estimated average remaining useful life of leased assets is 11 years.

The leases were accounted for as finance leases and included in property, plant and equipment in the accompanying financial statements. At December 31, 2003, the aggregate carrying value of the leased assets amounted to \$4,136, net of accumulated depreciation of \$69.

Future minimum lease payments were as follows at December 31, 2003:

	Amounts representing principal	Amounts representing interest	Total
2004	\$ 1,340	\$ 874	\$ 2,214
2005-2008	2,611	1,140	3,751
2009	237	21	258
	4,188	2,035	6,223
Less current portion	(1,340)	(874)	(2,214)
	\$ 2,848	\$ 1,161	\$ 4,009

12. Trade and Other Payables

Trade and other payables consisted of the following at December 31, 2003:

Trade accounts payable	\$ 14,835
Accrued payroll	2,721
Accrued vacation	909
Other payables	403
	<u>\$ 18,868</u>

OAO Novokuznetsk Iron & Steel Plant

Notes to Financial Statements (continued)

13. Short-Term Loans

Short-term loans and borrowings were as follows at December 31, 2003:

Rouble-denominated loans:	
Transcreditbank	\$ 6,670
Sberbank	4,763
	<u>11,433</u>
US dollar-denominated loans:	
Sberbank	11,100
	<u>\$ 22,533</u>

Transcreditbank

On November 6, 2003, the Company entered into an agreement for an overdraft facility with Transcreditbank ("TCB") for a total borrowing facility of 200,000,000 roubles (\$6,790 at the exchange rate as of December 31, 2003). The liability under the overdraft bears interest of 9.0% per annum and should be repaid within 30 days from the date of the respective borrowings. Under the terms of the agreement, the Company is required to have minimum monthly cash receipts of 300,000,000 roubles (\$10,185 at the exchange rate as of December 31, 2003) on its bank accounts with the lender. The agreement with TCB expires on May 6, 2004. The Company's obligations under the overdraft agreement are guaranteed by Relsy KMK.

On January 13, 2004, the Company and TCB signed a new overdraft agreement, under which the overdraft limit was increased to 300,000,000 roubles (\$10,391 at the exchange rate as of January 13, 2004) and minimum monthly cash receipts were increased to 450,000,000 roubles (\$15,587 at the exchange rate as of January 13, 2004). This agreement expires on June 13, 2004.

Sberbank

On December 8, 2003, the Company entered into a non-revolving credit line agreement with the Savings Bank of the Russian Federation ("Sberbank") for a total borrowing facility of \$11,100. The liability under the agreement bears interest of 7.6% per annum and matures on June 4, 2004.

At December 31, 2003, the Company had production equipment and transportation assets with a total carrying value of approximately \$805 (Note 5) pledged as collateral under the credit line from Sberbank. In addition, the Company's obligations under the credit line agreement are guaranteed by OOO Relsy KMK.

OAO Novokuznetsk Iron & Steel Plant

Notes to Financial Statements (continued)

13. Short-Term Loans (continued)

Sberbank (continued)

On December 25, 2003, the Company entered into an agreement for overdraft facility with Sberbank for a total borrowing facility of 200,000,000 roubles (\$6,790 at the exchange rate as of December 31, 2003). The liability under the overdraft bears interest of 9.0% per annum and should be repaid within 30 days from the date of the respective borrowings. Under the terms of the agreement, the Company is required to have minimum monthly cash receipts of 500,000,000 roubles (\$16,975 at the exchange rate as of December 31, 2003) on its bank accounts with the lender. The agreement with Sberbank expires on June 22, 2004.

14. Short-Term Loan From a Shareholder

In accordance with a loan agreement dated October 3, 2003, SMI made available to the Company an unsecured borrowing facility up to 2,000,000,000 roubles (\$67,901 at the exchange rate as of December 31, 2003). The liability under the agreement bears interest of 11% per annum and matures on October 2, 2004. As of December 31, 2003, loan payable to SMI was 389,979,627 roubles (\$13,240 at the exchange rate as of December 31, 2003), including accrued interest of 22,734,457 roubles (\$772 at the exchange rate as of December 31, 2003).

15. Taxes Payable

Taxes payable consisted of the following at December 31, 2003:

Income tax	\$ 3,843
Value added tax	2,282
Unified social insurance tax	1,310
Personal income tax	514
Property tax	284
Other taxes, fines and penalties	347
	<hr/>
	\$ 8,580

OAO Novokuznetsk Iron & Steel Plant
Notes to Financial Statements (continued)

16. Commitments and Contingencies

Economic Environment

In 2003, the Russian Federation has continued economic growth. However, the Russian economy continues to display certain traits consistent with that of a market in transition. These characteristics in the past included higher than normal inflation, lack of liquidity in the capital markets, dependence on oil and gas prices, widespread of tax evasion, and the existence of currency controls which caused 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 actions with regard to supervisory, legal, and economic reforms. No assurance can be given that reform policies will be successful and the Russian economy will improve.

The Russian government has initiated reforms of the tax system that have resulted in some improvement in the tax climate. Many tax laws and related regulations were introduced in 2003 and previous years which were not always clearly written, subject to varying interpretation and inconsistent enforcement. 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 \$5,900. Management believes that it is not probable that the ultimate outcome of such matters would result in a liability.

Government authorities have a high degree of discretion in Russia and exercise their discretion arbitrarily, sometimes in a manner that may be contrary to the law. Unlawful government actions include withdrawal of licenses, prejudiced tax audits, criminal prosecutions and civil actions.

As of December 31, 2003, 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.

OA0 Novokuznetsk Iron & Steel Plant

Notes to Financial Statements (continued)

16. Commitments and Contingencies (continued)

Economic Environment (continued)

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.

Commitments

On July 31, 2003, the Company signed an equipment purchase contract with Techint Compagnia Tecnica Internazionale S.p.A. (Italy) ("Techint") for 9,233,000 Euro (\$10,566 at the exchange rate as of the date of the contract). As of December 31, 2003, the Company had made an advance payment to Techint in the amount of 1,384,950 Euro (\$1,731 at the exchange rate as of December 31, 2003). The Company's obligations to Techint are guaranteed by Ferrotrade Limited, an entity under common control with the Company.

On November 17, 2003, the Company signed an equipment purchase contract with Badische Stahl-Engineering GmbH (Germany) ("BSE") amounting to 1,353,800 Euro (\$1,595 at the exchange rate as of November 17, 2003). As of December 31, 2003, the Company had made an advance payment to BSE in the amount of 203,070 Euro (\$254 at the exchange rate as of December 31, 2003).

17. Subsequent Events

On January 12, 2004, the Company entered into a loan agreement with NTMK, under which NTMK provided to the Company a borrowing facility of 350,000,000 roubles (\$12,072 at the exchange rate as of January 12, 2004). The liability under the loan agreement bears interest of 9.0% per annum and matures on December 30, 2004.

On February 17, 2004, the Company entered into an agreement with Alfa Bank for a credit line of 1,150,730 Euro (\$1,466 at the exchange rate as of February 17, 2004). This credit line is used to finance the equipment purchase contract with BSE. The liability under the credit line bears interest at the Euro Interbank Offered Rate ("EURIBOR") plus 3.4% per annum and matures on November 30, 2008. The liability under the credit line should be repaid in equal semi-annual installments commencing November 30, 2004. The Company pays to Alfa Bank loan origination commission of 0.25% of the total borrowings made under the credit line. The Company's liability under the credit line is insured by Hermes, a German export credit agency. In addition, the Company's obligations are guaranteed by Relsy KMK and Steel of KMK, and the Company had equipment with approximate carrying value of \$55 pledged as collateral under the credit line agreement.

ОАО Novokuznetsk Iron & Steel Plant

Notes to Financial Statements (continued)

17. Subsequent Events (continued)

On March 4, 2004, Trade House, on the Company's behalf, signed an equipment purchase contract with ООО Uralmash – Metallurgical Equipment amounting to 65,047,500 roubles (\$2,275 at the exchange rate as of March 4, 2004).

On March 22, 2004, the Company signed a contract with Techint for revamping of certain equipment for 2,800,000 Euro (\$3,471 at the exchange rate as of March 22, 2004).

Ferrotrade & Co.

Consolidated Financial Statements

*Years ended December 31, 2003 and 2002
with Report of Independent Auditors*

FERROTRADE & CO.

CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2003 and 2002

CONTENTS

Report of Independent Auditors	F-169
Consolidated Financial Statements	
Consolidated Balance Sheets	F-170
Consolidated Statements of Income	F-171
Consolidated Statements of Changes in Partnership Funds	F-172
Consolidated Statements of Cash Flows	F-173
Notes to Consolidated Financial Statements	F-175

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, 2003 and 2002 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 audit.

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, 2003 and 2002, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to Note 2 to the consolidated 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

April 2, 2004

Ferrotrade & Co.

Consolidated Balance Sheets

(In thousands of US dollars)

		December 31,	
	Notes	2003	2002
Assets			
Current assets:			
Cash		\$ 41,631	\$ 298
Restricted deposits at banks	4	9,500	13,500
Trade accounts receivable, net	5	90,083	76,700
Amounts and loans due from related parties	6	224,179	99,748
Advances to suppliers		10,427	12,610
Goods in transit		1,094	124,220
Investments and notes receivable	7	2,873	9,309
Interest receivable		509	254
Dividends to partners paid in advance		1,615	—
Total current assets		381,911	336,639
Amounts and loans due from related parties	6	91,887	9,447
Investments and notes receivable	7	8,083	9,875
Total assets		\$ 481,881	\$ 355,961
Liabilities and partnership funds			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 9,482	\$ 19,415
Amounts due to related parties	6	68,115	12,993
Advances from customers		1,602	6,820
Advance for sale of securities	7	—	10,000
Loans	8	82,511	146,526
Dividends payable to partners		—	7,885
Total current liabilities		161,710	203,639
Partnership funds:			
Partnership capital	9	3,000	3,000
Unrealized gains on financial instruments	6c, 7c	2,392	34,049
Accumulated profits		314,779	115,273
Total partnership funds		320,171	152,322
Total liabilities and partnership funds		\$ 481,881	\$ 355,961

The accompanying notes form an integral part of these consolidated financial statements.

Ferrotrade & Co.
Consolidated Statements of Income

(In thousands of US dollars)

	Notes	Years ended December 31, 2003	2002
Sales		\$ 1,477,459	\$ 1,024,630
Cost of sales	10	1,036,722	740,752
Gross profit		440,737	283,878
Selling, general and administrative expenses	11	(95,849)	(98,272)
Foreign exchange (loss)/gain		(792)	571
Other operating income/(expense), net		(79)	(148)
Profit from operations		344,017	186,029
Interest income		2,158	1,026
Interest expense		(6,293)	(7,085)
Loss on transactions with a related party	6i	(24,433)	—
Realized gain on financial instruments removed from equity and reported in net profit for the year	6c	32,031	—
Gain on sale of investments, net	7 e, f	14,779	—
Loss on initial recognition of a loan to a related party	6k	(9,753)	—
Net profit		\$ 352,506	\$ 179,970

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,	
		2003	2002
Partnership capital:			
Balance at January 1 and December 31		\$ 3,000	\$ 3,000
Unrealized gains not recognized in the statement of income:			
Balance at January 1		34,049	—
Gain on debts of West Siberian Iron & Steel Plant	6	—	34,049
Gain on debts of West Siberian Iron & Steel Plant removed from equity and reported in net profit for the year	6	(32,031)	—
Gain on assignment of Tenniel debts to Cordova	7c	374	—
Balance at December 31		2,392	34,049
Accumulated profits:			
Balance at January 1		115,273	110,303
Net profit		352,506	179,970
Dividends declared	9	(153,000)	(175,000)
Balance at December 31		314,779	115,273
Total partnership funds		\$ 320,171	\$ 152,322

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,	
		2003	2002
Cash flows from operating activities			
Net profit		\$ 352,506	\$ 179,970
Adjustment for:			
Bad debt expense		47	574
Foreign exchange loss/(gain)		792	(571)
Realized gain on financial instruments removed from equity and reported in net profit for the year	6	(32,031)	—
Loss on initial recognition of a loan from a related party	6	9,753	—
Interest income accrued on a loan from a related party	6	(1,351)	—
Net gains on sale of investments	7	(14,779)	—
Gain on sale of a subsidiary	6	(76)	—
Changes in working capital:			
Trade accounts receivable		(13,430)	21,501
Amounts due from related parties		(87,168)	(25,876)
Advances to suppliers		2,183	570
Goods in transit		123,126	(47,626)
Accounts payable and accrued liabilities		(9,933)	(276)
Amounts due to related parties		55,122	5,311
Advances from customers		(5,218)	5,732
Other current assets		(255)	(254)
Net cash flows from operating activities		379,288	139,055
Cash flows from investing activities			
Purchases of shares in Nakhodka Trade Seaport	7	—	(1,246)
Long-term loans receivable issued to related parties		(100,582)	(2,000)
Prepayment for sales of securities	7	—	10,000
Issuance of short-term loans receivable		—	(16,722)
Issuance of short-term loans receivable to related parties		(214,095)	(5,000)
Restricted deposits at banks		4,000	(5,300)
Proceeds from repayment of short-term loans receivable		10,871	13,141
Proceeds from sales of shares in West Siberian Iron & Steel Plant		8,000	—
Proceeds from Bucovina		—	3,493
Proceeds from Tenniel	6,7	4,928	7,849
Proceeds from Cordova	6	44,230	—
Proceeds from repayment of short-term loans receivable issued to related parties		132,000	5,060
Net cash flows (used in)/from investing activities		(110,648)	9,275
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		(32,622)	34,577
Proceeds from other loans		—	27,910
Repayments of other loans		(32,185)	(14,000)
Dividends paid to partners		(162,500)	(196,527)
Net cash flows used in financing activities		(227,307)	(148,040)
Net increase in cash and cash equivalents		41,333	290
Cash and cash equivalents at beginning of year		298	8
Cash and cash equivalents at end of year		\$ 41,631	\$ 298

Ferrotrade & Co.

Consolidated Statements of Cash Flows (continued)

(In thousands of US dollars)

		Years ended December 31,	
		2003	2002
Supplementary cash flow information:			
Cash flows during the period:			
Interest paid		\$ (6,293)	\$ (7,085)
Interest received		552	388
Non-cash activities:			
Purchase of shares from VIGO and MFC	[a]	—	8,600
Sales and Amendment to sales of debts of West Siberian Iron and Steel Plant	6a	—	(12,968)
Dividends payable		—	(7,885)
Receivables from sale of a subsidiary	6	76	—
Receivable from sale of investments	7	5,761	—

- [a] 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.

The accompanying notes form an integral part of these consolidated financial statements.

Ferrotrade & Co.

Notes to Consolidated Financial Statements

Years ended December 31, 2003 and 2002

(All amounts in thousands of US dollars unless otherwise indicated)

1. Description of Business

Financial statements of Ferrotrade & Co. for the years ended December 31, 2003 and 2002 were authorized for issue in accordance with a resolution of the Partners on April 2, 2004.

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. Four of the major suppliers, providing approximately 98% 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. Transfer of the Partnership’s Operations to Another Entity

In the year ended December 2003, Marteck, its subsidiaries and associates were going through a group restructuring. As a part of that restructuring, Marteck transferred the business and operations of the Partnership to a new entity being incorporated under the laws of Gibraltar named Ferrotrade Limited. The transfer started in October 2003. By December 2003, the Partnership stopped entering into new trading agreements and is expecting to fulfill its obligations and to cover all balances outstanding as of the year-end, during 2004.

Management has analyzed the consequences of transferring the business and believes the Partnership will be able to repay all its liabilities when they become due and payable.

Ferrotrade & Co.

Notes to Consolidated Financial Statements (continued)

3. Summary of Significant Accounting Policies

Basis of Preparation

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 October 27, 2003, when East Metals was sold to Mastercrocft Ltd (Note 6).

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 unrealized gains or losses on trading securities recognized in income and unrealized 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)

3. Summary of Significant Accounting Policies (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 derecognized 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.

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, accounts payable to related parties 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.

4. Restricted Deposits at Banks

Deposits were held at the following banks as of December 31:

	2003	2002
UBS AG	\$ —	\$ 4,500
Donau-Bank AG	—	1,000
Credit Suisse	3,500	3,000
BNP Paribas	6,000	5,000
	<u>\$ 9,500</u>	<u>\$ 13,500</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:

	2003	2002
Trade accounts receivable	\$ 90,989	\$ 77,720
Allowance for uncollectible accounts	(906)	(1,020)
	\$ 90,083	\$ 76,700

6. Related Party Disclosures

Amounts and loans due from related parties comprised the following as of December 31:

	2003	2002
Marteck [a]	\$ 456	\$ 4,857
Marteck – loan [a]	74,841	–
Nizhny Tagil Iron & Steel Plant [b]	–	14,822
West Siberian Iron & Steel Plant – prepayments [c]	11	8,961
West Siberian Iron & Steel Plant – long-term debts [c]	–	47,017
Ferrotrade Ltd. Niue – accounts receivable [d]	3,772	3,767
Ferrotrade Ltd. Niue – loan [d]	12,390	12,390
Lakemill Trading & Investments Limited [e]	3,680	3,680
Fletcher Holdings International Corp. [f]	1,920	1,920
Logicmind Investments Ltd. [g]	1,174	–
Shareteam Investments Ltd. [h]	5,761	–
Ferrotrade Limited [i]	111,641	–
Mastercroft Ltd. [j]	7,623	–
Mastercroft Finance Ltd. [k]	91,887	–
Steel of Kuznetsk Steel Plant [l]	\$ 910	\$ 11,781
	316,066	109,195
Less current portion	(224,179)	(99,748)
Total long-term amounts and loans due from related parties	\$ 91,887	\$ 9,447

Ferrotrade & Co.

Notes to Consolidated Financial Statements (continued)

6. Related Party Disclosures (continued)

Amounts due to related parties comprised the following as of December 31:

	2003	2002
Ferrotrade Limited [i]	\$ 60,862	\$ –
Marteck Shipping Ltd. [m]	6,132	3,214
Nizhny Tagil Iron & Steel Plant [b]	248	8,881
Nakhodka Port [n]	873	898
	\$ 68,115	\$ 12,993

- [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. 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 accordance with the above-mentioned agreement, Partnership received from Tenniel a total of \$11,298 (\$7,849 – in 2002 and \$3,449 in 2003). Those payments 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 2002 and 2003, the Partnership and Marteck made certain payments on behalf of each other in the net amount of \$278, which decreased accounts receivable from Marteck as of December 31, 2003.

In 2003, the Partnership issued to Marteck short-term loans in the total amount of \$206,548 of which Marteck repaid \$132,000. Management expects to receive the remaining \$74,548 in 2004. Interest income in the amount of \$293 was accrued in 2003 and included in the accompanying income statement.

- [b] The amounts due from and to Nizhny Tagil Iron & Steel Plant (“NTMK”), an entity under common control with the Partnership, represent prepayments and accounts payable under different contracts for the purchase of goods from NTMK. For the years ended December 31, 2003 and 2002, purchases of goods from NTMK were \$218,869 and \$223,171, respectively, including purchases under contracts with agents of NTMK of \$67,572 and \$73,730, respectively.

Ferrotrade & Co.

Notes to Consolidated Financial Statements (continued)

6. Related Party Disclosures (continued)

- [c] The amounts due from ZapSib, an entity under common control with the Partnership, represent prepayments under different contracts for the purchase of goods from ZapSib. For the years ended December 31, 2003 and 2002, purchases of goods from ZapSib were \$269,083 and \$239,882, respectively, including purchases under contracts with agents of ZapSib of \$11,927 and \$91,442, respectively.

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 for the year ended December 31, 2002.

On April 2, 2003 the Partnership assigned long-term debts due from Zapsib to Cordova Investments Ltd. for 1,494,230 thousand roubles (\$50,730 at exchange rate as of December 31, 2003) payable before December 31, 2003. In 2003 the Partnership received \$44,230. Gains on ZapSib debts of \$32,031, previously recorded as unrealized gains, were removed from equity and included into the accompanying statement of income for the year ended December 31, 2003. Management expects to receive the remaining amount in 2004.

- [d] As of December 31, 2003 and December 31, 2002, the amounts due from Ferrotrade Ltd. Niue, an entity under common control with the Partnership, were in respect of payments made by the Partnership on behalf of Ferrotrade Ltd. Niue.

On January 28, 2002, the Partnership acquired shares of ZAO Nakhodka Trade Seaport ("Nakhodka Port") from Ferrotrade Ltd. Niue for \$1,792 (Note 7). This amount was offset against the amounts receivable from Ferrotrade Ltd. Niue.

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. Niue. 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. Niue. Original maturity of the loan was May 31, 2003, but the parties to the loan agreed to extend it until December 31, 2004. Management expects to receive the total outstanding amount by that time.

Ferrotrade & Co.

Notes to Consolidated Financial Statements (continued)

6. Related Party Disclosures (continued)

- [e] The amounts due from Lakemill Trading and Investments Ltd. ("Lakemill"), an entity under common control with the Partnership, 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 for \$4,336 (Note 7). This amount was offset against the amounts receivable from Lakemill.

- [f] The amounts due from Fletcher Holdings International Corporation ("Fletcher"), an entity under common control with the Partnership, were in respect of payments made by the Partnership on behalf of Fletcher.
- [g] The amounts due from Logicmind Investments Ltd. ("Logicmind"), an entity under common control with the Partnership, were in respect of sales of 857,459 preferred shares of ZapSib and purchase of 51,480 preferred shares of ZapSib for \$1,389 and for \$215, respectively (Note 7).
- [h] The amounts due from Shareteam Investments Ltd., an entity under common control with the Partnership, were in respect of sale of 7,403,360 and 4,142,000 shares of common stock of Nakhodka Sea Trade Port for \$3,038 and \$2,723, respectively (Note 7).
- [i] In accordance with group restructuring plans, in October 2003 the transfer of trading activity commenced from the Partnership to Ferrotrade Limited. As of December 31, 2003, balances due from and due to Ferrotrade Limited were \$111,641 and \$60,862, respectively.

During the year ended December 31, 2003, the Partnership sold 521,560 metric tons (mt) of steel products to Ferrotrade Limited for \$109,931; and purchased 834,024 mt of steel products from Ferrotrade Limited for \$210,581. Out of these transactions, only purchases of 312,464 mt for \$76,217 were recognized as cost of revenue in the accompanying statement of income. Other transactions, which were not recognized as revenue and cost of revenue in the accompanying statement of income, resulted in a loss of \$24,433 for the Partnership. This loss on transactions with a related party is presented separately in the accompanying statement of income.

- [j] In accordance with the loan agreement dated October 10, 2003, the Partnership granted a non-interest bearing US dollar denominated loan of \$50,000 to Mastercroft Ltd., an entity under common control with the Partnership. The loan matures on December 31, 2004. As of December 31, 2003, the Partnership provided \$7,547 under this loan agreement.

Ferrotrade & Co.

Notes to Consolidated Financial Statements (continued)

6. Related Party Disclosures (continued)

On October 27, 2003, the Partnership entered into agreement with Mastercraft Limited to sell its wholly owned subsidiary, East Metals S.A., for 100 thousand Swiss Francs, which constituted \$76 at the exchange rate on the day of the transaction. Gain on the sale of \$76 was recorded as part of other income/expense in the accompanying consolidated financial statements. The receivable was outstanding as of December 31, 2003.

- [k] In accordance with the loan agreement dated June 1, 2003, as amended on August 1, 2003 and September 25, 2003, the Partnership granted a non-interest bearing US dollar denominated loan of \$120,000 to Mastercraft Finance Ltd, the entity under common control with the Partnership. The liability under this borrowing facility matures on June 1, 2006. As of December 31, 2003, the Partnership provided \$100,582 under this loan agreement.

Long-term loan due from Mastercraft Finance Ltd. was initially measured at \$90,829 – the present value of the loan amounts at the dates of cash payments determined based on contractual maturity and a discount rate of 3.96%. Difference between the initial measurement and nominal amount of the loan of \$9,753 was recognized as loss on initial recognition of a loan to a related party in the accompanying income statement. In addition, in December 2003, the Company recognized interest income in respect of the loan in the amount of \$1,058.

- [l] 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 Partnership, 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, 2003 outstanding amount under this loan was \$910. Remaining amount of the loan was recovered in the first quarter of 2004.
- [m] Marteck Shipping Ltd., an entity under common control with the Partnership, provided freight services to the Partnership. The cost of these services for the years ended December 31, 2003 and 2002 was \$52,876 and \$45,253, respectively.
- [n] 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, 2003 and 2002 were \$9,711 and \$5,889, respectively.

Ferrotrade & Co.

Notes to Consolidated Financial Statements (continued)

7. Investments and Notes Receivable

The carrying amounts of investments and notes receivable were as follows as of December 31:

	2003	2002
Deltorg [a]	6,650	6,650
Tenniel Systems Ltd. / Bucovina Trading Limited [b]	—	2,538
Cordova Investments Ltd. [c]	4,220	—
Duferco Participations Holding Limited [d]	86	2,622
Nakhodka Port [e]	—	3,038
West Siberian Iron & Steel Plant [f]	—	4,336
	10,956	19,184
Less current portion	(2,873)	(9,309)
Total long-term investments and notes receivable	\$ 8,083	\$ 9,875

- [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.

On October 2, 2002, the Partnership entered into an assignment agreement with CSFB, under which CSFB assigned all its rights under the original financing agreement to the Partnership. The amounts under the credit line bear interest at a rate of 8% per annum and mature in July 2004. In the year ended December 31, 2003, the Partnership accrued and received interest income of \$509.

- [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. 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 the 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.

Ferrotrade & Co.

Notes to Consolidated Financial Statements (continued)

7. Investments and Notes Receivable (continued)

In the years ended December 31, 2002 and December 31, 2003, the Partnership received payments of \$3,493 and \$1,479, respectively, in respect of the amount receivable from Tenniel.

In 2003, the amount receivable from Tenniel was assigned to Cordova Investments Ltd. (Note 7[c]).

- [c] On July 1, 2003 the Partnership assigned to Cordova Investments Ltd. ("Cordova") all the outstanding receivable due from Tenniel (Note 7[b]) for \$5,767, payable no later than July 2007. No payments were received from Cordova in 2003. As of December 31, 2003, the estimated recoverable amount of receivable from Cordova was determined as \$1,433. Unrealized gain of \$374 was included as unrealized gain in the accompanying consolidated statement of changes in Partnership funds.

Amount receivable from Cordova also includes \$2,787 in respect of long-term debts of Zapsib assigned to Cordova by the Partnership on April 2, 2003 (Note 6).

- [d] 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 was to 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, 2003, no payments in respect of the amounts due under the loan agreement were received from Duferco. The Partnership and Duferco agreed to decrease the loan amount by \$2,536 through the offset against sales commission due to Duferco. The remaining amount of \$86 was fully recovered in 2004.

- [e] On January 28, 2002, the Partnership acquired 4,265,665 shares of voting common stock of Nakhodka Port from Ferrotrade Ltd. Niue 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. On December 1, 2003, the Partnership acquired 4,142,000 shares of voting common stock of Nakhodka Port from Vanguard International for \$2,783. Nakhodka Port is a trading seaport in the Far East of Russia.

By December 31, 2003, the whole stake in Nakhodka port was sold to Shareteam Investments Ltd., an entity under common control with the Partnership, for \$5,761 (Note 6). Loss of \$59 was included in net gain on sale of investments in the accompanying consolidated statement of income for the year ended December 31, 2003.

Ferrotrade & Co.

Notes to Consolidated Financial Statements (continued)

7. Investments and Notes Receivable (continued)

- [f] On November 21, 2002, the Partnership acquired 2,677,399 shares of common stock of ZapSib from Lakemill for \$4,336 (Note 6). On June 30, 2003, the Partnership acquired 51,480 preferred shares of Zapsib from Logicmind for \$215.

In 2003, the Partnership sold the shareholding in Zapsib as follows: on June 29, 2003 it sold 857,459 shares of common stock of Zapsib to Logicmind for \$1,389. On October 6, 2003, the Partnership sold 51,480 preferred and 1,819,940 common shares of Zapsib to R.R.&Rapport Research and Analysis Company Ltd. for \$18,000. Gain of \$14,838 was included in gain on sale of investments in the accompanying consolidated statement of income for the year ended December 31, 2003.

8. Loans

Short-term interest-bearing loans and borrowings were as follows as of December 31:

	2003	2002
Lines of credit:		
UBS AG [a]	\$ —	\$ 45,362
BNP Paribas [b]	40,187	36,009
Credit Suisse [c]	22,759	16,420
Bank Brussels Lambert [d]	16,353	12,740
Credit Lyonnais (Suisse) S.A. [e]	3,005	2,977
Donau-Bank AG [f]	—	1,625
Banque de Commerce and de Placements [g]	207	—
	82,511	115,133
Other loans:		
Brindil International Ltd. [h]	—	20,000
Moscow Business World Bank [i]	—	11,393
	—	31,393
	\$ 82,511	\$ 146,526

Lines of credit

Except for 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, being London Interbank Offered Rate (“LIBOR”) plus 1.00%–2.50% per annum, during the years ended December 31, 2003 and 2002.

Liabilities under certain lines of credit were secured by restricted cash deposits (Note 4) and pledge of assets. All lines of credit were also available to Ferrotrade Limited. Both Ferrotrade Limited and the Partnership are jointly liable for funds borrowed under lines of credit.

Ferrotrade & Co.

Notes to Consolidated Financial Statements (continued)

8. Loans (continued)

- [a] The credit line granted by UBS AG, Lugano was entirely repaid by December 31, 2003. The same credit line was available to Ferrotrade Limited.
- [b] BNP Paribas, Geneva, placed at the disposal of the Partnership a credit line for \$80,000. The credit line was available to both and / or the Partnership, as co-borrower. A cash deposit of \$6,000 must be maintained at all times. The credit line is secured by a pledge on the financed goods, assignment of relevant letters of credit, assignment of the sales proceeds of the financed goods, and by a Mastercroft corporate guarantee. As of the December 31, 2003, the outstanding credit line is pledged by goods owned by Ferrotrade Limited.
- [c] Credit Suisse AG, Geneva, in accordance with the agreement signed in December 2003, provided to the Partnership a credit line for \$35,000. A cash deposit of \$3,500 must be maintained at all times. The facility is uncommitted and secured by a pledge on the financed goods, assignment of relevant letters of credit, assignment of the sales proceeds of the financed goods, and by a Mastercroft corporate guarantee. As of the December 31, 2003, the outstanding credit line is pledged by goods owned by Ferrotrade Limited.
- [d] Bank Brussels Lambert placed at the disposal of the Partnership a credit line for \$40,000. The credit line was available to both Ferrotrade Limited and / or the Partnership, as co-borrower. The credit line is secured a by pledge on the financed goods, assignment of relevant letters of credit, assignment of the sales proceeds of the financed goods, and by a Mastercroft corporate guarantee. As of the December 31, 2003, the outstanding credit line is pledged by goods owned by Ferrotrade Limited.
- [e] Credit Lyonnais, Geneva, placed at the disposal of the Partnership a credit line for \$10,000. The credit line is secured by a pledge on the financed goods, assignment of relevant letters of credit, assignment of the sales proceeds of the financed goods, and by a Mastercroft corporate guarantee. The credit line was transferred to Ferrotrade Limited during the first quarter of 2004. As of the December 31, 2003, the outstanding credit line is pledged by goods owned by Ferrotrade Limited.
- [f] As of December 31, 2003, the entire loan granted by Donau Bank, Vienna was repaid.

Ferrotrade & Co.

Notes to Consolidated Financial Statements (continued)

8. Loans (continued)

- [g] Banque De Commerce et de Placement 'BCP', Geneva, accepted both Ferrotrade Limited and East Metals, Geneva, as co-borrower of the facility given to the Partnership, and regulated by the facility letter dated June 10, 2003, a credit line for \$5,000 in total was available. The bank allowed the Partnership borrowings in excess of the total credit amount, based on a single transaction approval. On February 23, 2004, the facility letter has been replaced by a new one, with only Ferrotrade Limited and East Metals as co-borrowers and the amount was increased to \$10,000. The facility is uncommitted and secured by a pledge on the financed goods, assignment of relevant letters of credit, assignment of the sales proceeds of the financed goods, and by a Mastercraft corporate guarantee. As of the December 31, 2003, the outstanding credit line is pledged by goods owned by Ferrotrade Limited.

Other loans

- [h] 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. Loan was fully repaid in February 2003.
- [i] In accordance with the loan agreement dated May 17, 2001, Moscow Business World Bank ("MDM Bank") provided the Partnership with a rouble denominated loan for 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 bore interest of 21% per annum and was due within 10 days upon a request of MDM Bank but no later than December 19, 2003. The loan was fully repaid in 2003 along with the interest amount of \$1,671. Exchange loss of \$792 was included in the accompanying consolidated statement of income.

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 bore interest of 23% per annum and was due within 10 days upon a request of MDM Bank, but not later than December 31, 2003. The loan was fully repaid in 2003 along with the interest amount of \$157.

Ferrotrade & Co.

Notes to Consolidated Financial Statements (continued)

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 November and December 2003, the general partner made decisions to declare dividends for the year ended December 31, 2003 in the amount of \$85,000 and \$68,000, respectively. Dividend payments in the year ended December 31, 2003 were \$162,500. As of December 31, 2003, dividends advanced amounted to \$1,615.

In January 2004, the general partner made decisions to declare dividends for the year ended December 31, 2003 in the total amount of \$40,000.

10. Cost of Sales

Cost of sales consisted of the following for the year ended December 31:

	2003	2002
Cost of goods sold	\$ 816,263	\$ 569,873
Cost of railway transportation	220,459	170,879
	<u>\$ 1,036,722</u>	<u>\$ 740,752</u>

Ferrotrade & Co.

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:

	2003	2002
Freight	\$ 53,151	\$ 46,044
Port services	21,918	26,125
Sales commissions	5,464	13,405
Bank charges	6,195	5,232
Marketing expenses	1,402	4,027
Other	7,719	3,439
	\$ 95,849	\$ 98,272

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, 2003, 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.

Guarantees of Debt of Others

On September 24, 2003 and December 9, 2003, the Partnership guaranteed all of the obligations of EvrazSecurities S.A., a company incorporated under the laws of Luxemburg, under the \$150,000 8.875 per cent. Guaranteed Notes due 2006 issued on September 25, 2003 and the \$25,000 8.875 per cent. Guaranteed Notes due 2006 (to be consolidated and form a single series with the \$150,000 8.875 per cent. Guaranteed Notes due 2006) issued on December 10, 2003.

On December 18, 2003, the Partnership guaranteed to a consortium of banks led by Societe Generale all of the obligations of NTMK arising out of a pre-export finance facility agreement of \$50,000 executed on the same date between NTMK and the consortium of banks. The liability bears interest at an annual rate of LIBOR plus a margin of 3.7% per annum which may be increased by a maximum of 0.8% per annum in case of deterioration of the company rating of Mastercraft Limited published by Moody's Investors Service. In December 2003, the interest rate was equal to 4.86% per annum. The liability matures in December 2006.

Ferrotrade & Co.

Notes to Consolidated Financial Statements (continued)

12. Contingent Liabilities (continued)

Guarantees of Debt of Others (continued)

On December 18, 2003, the Partnership guaranteed to a consortium of banks led by Societe Generale all of the obligations of ZapSib arising out of a pre-export finance facility agreement of \$50,000 executed on the same date between ZapSib and the consortium of banks. The liability bears interest at an annual rate of LIBOR plus a margin of 3.7% per annum which may be increased by a maximum of 0.8% per annum in case of deterioration of the company rating of Mastercroft Limited published by Moody's Investors Service. In December 2003, the interest rate was equal to 4.86% per annum. The liability matures in December 2006.

On March 29, 2004, the Partnership guaranteed all of the obligations of ZapSib arising out of the First Amendment Agreement dated March 29, 2004 relating to the \$50,000 pre-export finance facility, which increased the amount of that facility up to \$80,000. The additional loan bears interest of LIBOR plus 3.7% per annum as of December 31, 2003, as the first tranche, and will mature simultaneously with the first tranche of \$50,000.

In 2003, the Partnership together with Mastercroft Limited (Cyprus), provided payment guarantees under the loan agreements of NTMK with Bayerische Landesbank Girozentrale in the amount of EUR 64,580,000. The amount represents the principal amount plus interest repayable by NTMK within 5 years as follows: the principal amount semi-annually by equal installments (EUR 12,400 per annum) and interest -quarterly.

In 2003, the Partnership issued a guarantee in favour of ZAO Citibank for its revolving working capital facility provided to NTMK under General Credit Agreement dated May 1, 2003. The total credit facility equals to US\$10,000 consisting of US\$5,000 and RUR equivalent of US\$5,000.

13. Subsequent Events

In March 2004, the Partnership, as a lender, entered into a loan agreement with Mastercroft Finance Ltd., as a borrower, providing for a \$200,000 interest-free loan facility due on December 31, 2007.

In February 2004, the Partnership, as a lender, entered into a loan agreement with Ferrotrade Limited, as a borrower. Loan facility of \$36,000 under this loan agreement is interest-free and repayable on December 31, 2004.

In February 2004 the Partnership, as a lender, entered into a loan agreement with Mastercroft Finance Ltd., as a borrower. Loan facility of \$200,000 under this loan agreement is interest-free and repayable on December 31, 2008.

Ferrotrade Limited

Financial Statements

*Period from May 2, 2003 (inception) to December 31, 2003
with Report of Independent Auditors*

Ferrotrade Limited

FINANCIAL STATEMENTS

PERIOD FROM MAY 2, 2003 (INCEPTION) TO DECEMBER 31, 2003

CONTENTS

Report of Independent Auditors	F-195
Financial Statements	
Balance Sheet	F-196
Statement of Income	F-197
Statement of Changes in Equity	F-198
Statement of Cash Flows	F-199
Notes to Financial Statements	F-200

Report of Independent Auditors

The Board of Directors
Ferrotrade Limited

We have audited the accompanying balance sheet of Ferrotrade Limited (the "Company") as of December 31, 2003 and the related statements of income, changes in equity and cash flows for the period from May 2, 2003 (inception) to December 31, 2003. 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 audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2003, and the results of its operations and its cash flows for the period from May 2, 2003 (inception) to December 31, 2003 in accordance with International Financial Reporting Standards.

Ernst & Young (CIS) Limited

April 2, 2004

Ferrotrade Limited

Balance Sheet

(In thousands of US dollars)

	Notes	December 31, 2003
Assets		
Current assets		
Cash		\$ 3,611
Restricted deposit	3	4,500
Accounts receivable		24,507
Amounts due from related parties	4	74,958
Goods in transit		260,330
Advances to suppliers		75
Total current assets		367,981
Non-current assets		
Investment in subsidiary	6	2
Total assets		\$ 367,983
Liabilities and equity		
Current liabilities		
Accounts payable and accrued liabilities		\$ 13,618
Amounts due to related parties	4	128,763
Advances from customers		578
Loan payable to a related party	5	1,700
Loans	7	78,667
Total current liabilities		223,326
Non-current liabilities		
Loan payable to a related party	5	98,702
Equity		
Share capital	8	3
Accumulated profits		45,952
Total equity		45,955
Total liabilities and equity		\$ 367,983

The accompanying notes form an integral part of these financial statements.

Ferrotrade Limited

Statement of Income

Period from May 2, 2003 (inception) to December 31, 2003

(In thousands of US dollars)

	<u>Notes</u>	
Sales	9	\$ 101,382
Cost of sales	10	<u>69,932</u>
Gross profit		31,450
Selling, general and administrative expenses	11	(9,476)
Bad debt expense		(3,255)
Other operating (expense) income, net		<u>(9)</u>
Profit from operations		18,710
Gain on transactions with a related party	4	24,433
Gain on initial recognition of a loan from a related party	5	3,083
Interest expense		<u>(274)</u>
Profit before income taxes		<u>45,952</u>
Income tax	2	—
Net profit		<u><u>\$ 45,952</u></u>

The accompanying notes form an integral part of these financial statements.

Ferrotrade Limited

Statement of Changes in Equity

Period from May 2, 2003 (inception) to December 31, 2003

(In thousands of US dollars)

	<u>Notes</u>	
Share capital:		
Balance at May 2 and December 31, 2003	8	\$ 3
Accumulated profits:		
Balance at May 2, 2003		—
Net profit		<u>45,952</u>
Balance at December 31, 2003		<u>45,952</u>
Total equity		<u>\$ 45,955</u>

The accompanying notes form an integral part of these financial statements.

Ferrotrade Limited
Statement of Cash Flows
Period from May 2, 2003 (inception) to December 31, 2003
(In thousands of US dollars)

	<u>Notes</u>	
Cash flows from operating activities:		
Net profit		\$ 45,952
Adjustment for:		
Gain on initial recognition of a loan from a related party	5	(3,083)
Interest accrued on loan from a related party	5	130
Bad debt expense		3,255
Changes in working capital:		
Accounts receivable		(24,507)
Amounts due from related parties		(74,958)
Goods in transit		(260,330)
Advances to suppliers		(3,330)
Accounts payable and accrued liabilities		13,618
Amounts due to related parties		128,760
Advances from customers		578
Net cash flows used in operating activities		(173,915)
Cash flows from investing activities:		
Restricted deposits at banks	3	(4,500)
Net cash flows used in investing activities		(4,500)
Cash flows from financing activities:		
Receipts from shareholders	8	3
Net proceeds from lines of credit from the banks	7	78,667
Loan proceeds from related parties	5	103,356
Net cash flows from financing activities		182,026
Net increase in cash and cash equivalents		3,611
Cash and cash equivalents at beginning of period		—
Cash and cash equivalents at end of period		\$ 3,611

The accompanying notes form an integral part of these financial statements.

Ferrotrade Limited

Notes to Financial Statements

Period from May 2, 2003 (inception) to December 31, 2003

(All amounts in thousands of US dollars unless otherwise indicated)

1. Description of Business

Financial statements of Ferrotrade Limited for the period from May 2, 2003 (inception) to December 31, 2003 were authorized for issue in accordance with a resolution of directors on April 2, 2004.

Ferrotrade Limited (the “Company”), a limited company under the laws of Gibraltar, was incorporated on May 2, 2003. The shareholders of the Company are Mastercroft Limited (“Mastercroft”), holding 200 Class A ordinary shares, and Jasper Investments Limited, holding 1,800 Class B ordinary shares (Note 8). The registered holders of the Class A ordinary shares are entitled to all and any dividends and to vote on all resolutions of the Company. The registered holders of the Class B ordinary shares are entitled to vote on certain specifically defined resolutions of the Company and are not entitled to any dividends or to participate in capital or other distributions in the Company on liquidation. The registered address of the Company is 10/8 International Commercial Centre, Casemates Square, Gibraltar.

The Company was established as part of the restructuring of a group of entities controlled by Mastercroft (the “Evraz Group”). In accordance with the restructuring plan, the business and operations of Ferrotrade & Co., a limited partnership under the law of the United Kingdom, are being transferred to the Company. Ferrotrade & Co is an entity under common control with the Company. The transfer commenced on October 1, 2003 and is scheduled to be completed in the first half of 2004.

Prior to the transfer, Ferrotrade & Co. was engaged in the export of steel products from Russia. The major customers of Ferrotrade & Co. were located in the Far East (China, Taiwan, South Korea and the Philippines) and the Middle East (Iran and Saudi Arabia). Ferrotrade & Co. purchased steel products from the steel mills, which were the entities under common control with Ferrotrade & Co.

In the period from May 2, 2003 (inception) to September 30, 2003, the Company did not have any trading activities. In October 2003, the Company commenced its operations and made purchases of steel products. The Company executed its first sales contract in December 2003.

The Company buys steel products from three major suppliers. Termination of business relationship with one of those suppliers could adversely affect the Company’s business.

Ferrotrade Limited

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies

Basis of Preparation

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.

Foreign Currency Translation

The Company’s measurement currency is the US dollar as all of its revenue, inventory purchases and 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.

Investment in Subsidiary

On October 31, 2003, the Company registered in Cyprus a wholly owned subsidiary, Steeltrade Limited. Authorized share capital of Steeltrade is 10,000 ordinary shares CY£1 each of which 1,000 shares are issued and not yet paid. The accompanying financial statements do not include balances and result of operations of Steeltrade as of December 31, 2003 and for the period since inception to December 31, 2003. Mastercroft Limited, the parent of Ferrotrade Limited, will prepare consolidated financial statements in accordance with IFRS. The consolidated financial statements can be obtained from 3 Themistocles Dervis Street, Julia House, 1066 Nicosia, Cyprus.

Investments in subsidiaries 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 in subsidiaries are measured at cost, net of impairment.

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.

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.

Ferrotrade Limited

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Trade and Other Receivables (continued)

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 Company 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.

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 Company.

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, short-term payables to related parties and loans approximate their fair value.

Share Capital

Share capital is recognized at the fair value of the consideration received by the Company.

Ferrotrade Limited

Notes to Financial Statements (continued)

2. 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 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 port of exit out of Russia.

Interest

Revenue is recognized as the interest accrues (taking into account the effective yield on the asset) unless collection is in doubt.

Borrowing Costs

Borrowing costs are recognized as expenses in the period in which they are incurred.

Income Taxes

The Company is subject to income tax at a fixed annual rate under the Gibraltar legislation.

3. Restricted Deposits at Banks

Restricted deposit represents a fiduciary deposit with UBS AG (see Note 7).

4. Related Party Disclosures

Amounts due from related parties comprised the following as of December 31, 2003:

Ferrotrade & Co. [b]	\$ 60,862
NTMK [a]	4,777
East Metals [c]	1,399
Evraztrans [d]	7,920
	<hr/>
	\$ 74,958

Ferrotrade Limited

Notes to Financial Statements (continued)

4. Related Party Disclosures (continued)

Amounts due to related parties comprised the following as of December 31, 2003:

Ferrotrade & Co. [b]	\$ 111,641
NTMK [a]	4,061
ZapSib [e]	9,974
NKMK [f]	1,476
Nakhodka port [g]	1,246
Marteck Shipping [h]	363
Steeltrade (see Note 6)	2
	<hr/>
	\$ 128,763

[a] The amounts due from and to Nizhny Tagil Iron & Steel Plant (“NTMK”), an ultimate subsidiary of Mastercraft, represent prepayments and accounts payable under different contracts for the purchase of goods from NTMK. For the year ended December 31, 2003, purchases of goods from NTMK were \$84,253, including purchases under contracts with agents of NTMK of \$29,162.

[b] In accordance with group restructuring plans, in October 2003 the transfer of trading activity commenced from Ferrotrade & Co. to the Company. As of December 31, 2003 balances due from and due to Ferrotrade & Co. were \$60,862 and \$111,641, respectively.

During the period from inception to December 31, 2003, the Company purchased 521,560 metric tons (mt) of steel products from Ferrotrade & Co. for \$109,931; and sold 834,024 mt of steel products to Ferrotrade & Co. for \$210,581. Out of these transactions only sales of 312,464 mt for \$76,217 were recognized as revenue in the accompanying statement of income. Other transactions, which were not recognized as revenue in the accompanying statement of income, resulted in gain of \$24,433 for the Company. This gain on transactions with a related party is presented separately in the accompanying statement of income.

[c] The amounts due from East Metals S.A., a trading and service agent of the Company, represent the net balance of cash payments effected by East Metals on behalf of the Company, cash receipts on the East Metals’ account from the Company’s customers and sales commission in the amount of \$ 4,970 payable to East Metals S.A. East Metals S.A. is a subsidiary of Mastercraft.

[d] The amounts due from Evraztrans represent advances provided by the Company for transportation services. Total purchases of services during the period from inception to December 31, 2003 were \$44,906.

[e] The amounts due to ZapSib, an ultimate subsidiary of Mastercraft, represent payables under different contracts for the purchase of goods from ZapSib. For the period from inception to December 31, 2003, purchases of goods from ZapSib were \$103,828, including purchases under contracts with agents of ZapSib of \$2,735.

Ferrotrade Limited

Notes to Financial Statements (continued)

4. Related Party Disclosures (continued)

- [f] The amounts due to NKMK, an ultimate subsidiary of Mastercrocft, represent payables under different contracts for the purchase of goods from NKMK. For the period from inception to December 31, 2003, purchases of goods from NKMK were \$67,595.
- [g] The amounts due to Nakhodka Port, an ultimate subsidiary of Mastercrocft, represent amounts due for services rendered to the Company at the port. Total purchases of services during the period from inception to December 31, 2003 were \$1,246.
- [h] Marteck Shipping Ltd., an entity under common control with the Company, provided freight services to the Company. The cost of these services for the period from inception to December 31, 2003 was \$1,263.

5. Loans Payable to Related Parties

Loans due to related parties comprised the following as of December 31, 2003:

Mastercrocft Finance Ltd [a]	\$ 98,702
Mastercrocft Ltd. [b]	1,700
	<hr/> 100,402
Less current portion	(1,700)
	<hr/>
Total long-term loans	<u>\$ 98,702</u>

- [a] In accordance with a loan agreement dated October 3, 2003, as amended on October 30, 2003, Mastercrocft Finance Limited ("MFL"), a subsidiary of Mastercrocft, granted to the Company a non-interest bearing borrowing facility of \$120,000. The liability under this borrowing facility matures on December 31, 2005. As of December 31, 2003, the Company borrowed \$101,656 under this agreement. In the first quarter of 2004, the Company received additionally \$12,100 under this loan agreement and made repayments in the amount of \$73,484.

Long-term loan due from MFL was initially measured at \$98,572 – the present value of the loan amounts at the dates of cash receipts determined based on contractual maturity and a discount rate of 3.96%. Difference between the initial measurement and nominal amount of the loan of \$3,083 was recognized as gain on initial recognition of a loan from a related party in the accompanying income statement. In addition, in October 2003, the Company recognized interest expense in respect of the loan in the amount of \$130.

- [b] In accordance with a loan agreement dated December 4, 2003, Mastercrocft granted to the Company a non-interest bearing borrowing facility of \$50,000. The liability under this borrowing facility matures on December 31, 2004. As of December 31, 2003, the Company borrowed \$1,700 under this agreement.

Ferrotrade Limited

Notes to Financial Statements (continued)

6. Investment in Subsidiary

Investment in subsidiary represents a 100% ownership in Steeltrade Limited, a company registered under the laws of Cyprus.

7. Loans

The Company benefits of a certain number of uncommitted short terms credit facilities, from the below listed financial institutions. While the liabilities to those financial institutions are short-term liabilities, the Company is significantly dependent on availability of those lines of credit in order to continue its trading activities.

All the bank loans listed below are guaranteed by a pledge on goods in transit.

All lines of credit bore interest on outstanding balances at variable bank interest rates London Interbank Offered Rate ("LIBOR") plus 1.00%–2.50% per annum during the period from inception to December 31, 2003.

Short-term interest-bearing loans and borrowings were as follows as of December 31, 2003:

UBS AG [a]	\$ 26,687
BNP Paribas [b]	18,418
Credit Suisse [c]	1
BCL [d]	12,881
Banque de Commerce et de Placements [e]	9,953
Bank Brussels Lambert [f]	10,727
	<hr/>
	\$ 78,667

[a] UBS AG, Lugano, in accordance with an agreement signed in December 2003, gave at the disposal of the Company and / or East Metals S.A., Geneva a credit line for \$45,000. A cash deposit of \$4,500 must be maintained at all times in respect of this credit line.

The facility is uncommitted and secured by pledge on the financed goods, assignment of relevant letters of credit, assignment of the sales proceeds of the financed goods, and by a Mastercroc corporate guarantee.

The outstanding loan amount was secured by the pledge of 172,990 mt of goods with a book value of \$34,798.

Ferrotrade Limited

Notes to Financial Statements (continued)

7. Loans (continued)

- [b] BNP Paribas, Geneva, placed at the disposal of the Company a credit line for \$80,000. The credit line was available to both the Company and / or Ferrotrade & Co., as co-borrower. A cash deposit of \$6,000 must be maintained at all times, which as of December 31, 2003 was maintained by Ferrotrade & Co.

The credit line is secured by a pledge on the financed goods, assignment of relevant letters of credit, assignment of the sales proceeds of the financed goods, and by a Mastercroft corporate guarantee.

As of December 31, 2003, the Company pledged in favor of BNP Paribas 294,160 mt of steel goods, with a book value of \$57,946. Being in excess of the Company's loan outstanding, such a value was partially securing the bank's loan to the co-borrower, Ferrotrade & Co.

- [c] Credit Suisse AG, Geneva, in accordance with the agreement signed on December 1, 2003, provided to the Company and / or Ferrotrade & Co., a credit line for \$35,000. A cash deposit of \$3,500 must be maintained at all times. As of December 31, 2003 such deposit was maintained by Ferrotrade & Co. The facility is uncommitted and secured by a pledge on the financed goods, assignment of relevant letters of credit, assignment of the sales proceeds of the financed goods, and by a Mastercroft corporate guarantee.

As of December 31, 2003, the Company pledged in favor of Credit Suisse 222,700 mt of steel goods, with a book value of \$35,807. Such a value was securing a loan to the co-borrower, Ferrotrade & Co. (as of December 31, 2003 - \$22,759).

- [d] BCL Lugano, placed at the disposal of the Company a credit line for \$18,000. The credit line was available to both the Company and / or Ferrotrade & Co., as co-borrower. The credit line is secured by a pledge on the financed goods, assignment of relevant letters of credit, assignment of the sales proceeds of the financed goods, and by a Mastercroft corporate guarantee.

As of December 31, 2003, the book value of pledged goods was \$8,317, corresponding to 44,450 mt of steel goods, to be increased by 4,782 mt (value \$821) put in pledge by Ferrotrade & Co.

- [e] Banque De Commerce et de Placements 'BCP', Geneva, accepted both the Company and East Metals SA, Geneva, as co-borrower of the facility given to Ferrotrade & Co., and regulated by the facility letter dated June 10, 2003, a credit line for \$5,000 in total was available. The bank allowed the Company borrowings in excess of the total credit amount, based on a single transaction approval. On February 23, 2004, the facility letter was replaced by a new one, with only the Company and East Metals SA as co-borrowers; the amount was increased to \$10,000. The facility is uncommitted and secured by a pledge on the financed goods, assignment of relevant letters of credit, assignment of the sales proceeds of the financed goods, and by a Mastercroft corporate guarantee.

Ferrotrade Limited

Notes to Financial Statements (continued)

7. Loans (continued)

As of December 31, 2003 the amount due by Ferrotrade & Co. was \$207, the total quantity of pledged goods was 67.340 mt, with a book value of \$12,367, which was covering both the outstanding balances under the line of credit due from Ferrotrade & Co. and the Company.

- [f] Bank Brussels Lambert (BBL) placed at the disposal of the Company a credit line for \$40,000. The credit line was available to both the Company and / or Ferrotrade & Co., as co-borrower. The credit line is secured by a pledge on the financed goods, assignment of relevant letters of credit, assignment of the sales proceeds of the financed goods, and by a Mastercroft corporate guarantee.

As of December 31, 2003, the Company pledged in favour of BBL 144,860 mt, for a book value of \$28,334.

8. Share Capital

Authorized share capital consists of 200 class A ordinary shares of GB£1 each and 1,800 class B ordinary shares of GB£1 each. As of December 31, 2003, all share capital was issued and fully paid.

9. Sales

Sales for the period from May 2, 2003 (inception) to December 31, 2003 were:

Sales to Ferrotrade & Co.	\$ 76,217
Sales to other parties	25,165
	<hr/>
	\$ 101,382
	<hr/>

10. Cost of Sales

Cost of sales for the period from May 2, 2003 (inception) to December 31, 2003 were:

Cost of goods sold	\$ 52,998
Cost of railway transportation	16,934
	<hr/>
	\$ 69,932
	<hr/>

Ferrotrade Limited

Notes to Financial Statements (continued)

11. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the period from May 2, 2003 (inception) to December 31, 2003 were:

Freight	\$	1,263
Port services		3,021
Sales commissions, including commission paid to related party, see Note 4		5,030
Bank charges		162
	\$	<u>9,476</u>

12. Contingent Liabilities

The Company was registered in Gibraltar under the Exempt Company regime, and therefore was liable for tax in Gibraltar at the fixed annual rate. The annual fixed tax was equal to 225 Gibraltar pounds in 2003. The European commission is considering a recommendation for the abolition or reform of the Exempt Company regime in Gibraltar by 2005.

The major suppliers of the Company 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, 2003, the Company 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 financial statements in order for those statements not to be misleading.

Guarantees of Debt of Others

On September 24, 2003 and December 9, 2003, the Company guaranteed all of the obligations of EvrazSecurities S.A., a company incorporated under the laws of Luxemburg, under the \$150,000 8.875 per cent. Guaranteed Notes due 2006 issued on September 25, 2003 and the \$25,000 8.875 per cent. Guaranteed Notes due 2006 (to be consolidated and form a single series with the \$150,000 8.875 per cent. Guaranteed Notes due 2006) issued on December 10, 2003.

Ferrotrade Limited

Notes to Financial Statements (continued)

12. Contingent Liabilities (continued)

Guarantees of Debt of Others (continued)

On December 18, 2003, the Company guaranteed to a consortium of banks led by Societe Generale all of the obligations of NTMK arising out of a pre-export finance facility agreement of \$50,000 executed on the same date between NTMK and the consortium of banks. The liability bears interest at an annual rate of LIBOR plus a margin of 3.7% per annum which may be increased by a maximum of 0.8% per annum in case of deterioration of the company rating of Mastercroft Limited published by Moody's Investors Service. In December 2003, the interest rate was equal to 4.86% per annum. The liability matures in December 2006.

On December 18, 2003, the Company guaranteed to a consortium of banks led by Societe Generale all of the obligations of ZapSib arising out of a pre-export finance facility agreement of \$50,000 executed on the same date between ZapSib and the consortium of banks. The liability bears interest at an annual rate of LIBOR plus a margin of 3.7% per annum which may be increased by a maximum of 0.8% per annum in case of deterioration of the company rating of Mastercroft Limited published by Moody's Investors Service. In December 2003, the interest rate was equal to 4.86% per annum. The liability matures in December 2006.

On February 18, 2004, the Company guaranteed obligations of NKMK arising out of the steel supply agreement between NKMK and Techint Compagnia Tecnica Internazionale S.p.A. (Italy). Maximum amount of guarantee is 5 mln EURO (approximately \$6,275 at the exchange rate effective on December 31, 2003).

On March 23, 2004, the Company guaranteed all of the obligations of ZapSib under a loan facility agreement of \$30,000 executed on the same date between ZapSib as the borrower and Kazkommertsbank, Almaty and Moskommertsbank, Moscow as the lenders. The loan bears interest of 8% per annum and will mature in March 2010.

On March 29, 2004, the Company guaranteed all of the obligations of ZapSib arising out of the First Amendment Agreement dated March 29, 2004 relating to the \$50,000 pre-export finance facility, which increased the amount of that facility up to \$80,000. The additional loan bears interest of LIBOR plus 3.7% per annum as of December 31, 2003, as the first tranche, and will mature simultaneously with the first tranche of \$50,000.

13. Subsequent Events

In February 2004, the Company entered into a loan agreement with Ferrotrade & Co. under which a loan facility of \$36,000 was provided to the Company. The loan amount is interest-free and repayable by December 31, 2004.

Mastercraft Limited

Consolidated Financial Statements

*Years ended December 31, 2003 and 2002
with Independent Auditors' Report*

MASTERCROFT LIMITED
CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2003 and 2002

CONTENTS

Report of Independent Auditors	F-213
Consolidated Statements of Operations	F-214
Consolidated Balance Sheets	F-215
Consolidated Cash Flow Statements	F-216
Consolidated Statements of Changes in Equity	F-218
Notes to Consolidated Financial Statements	F-219

Report of Independent Auditors

The Directors
Mastercrocft Limited

We have audited the accompanying consolidated balance sheets of Mastercrocft Limited (the "Company") as of December 31, 2003 and 2002 and the related consolidated statements of operations, changes in equity and cash flows 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 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 consolidated financial position of the Company as of December 31, 2003 and 2002, and the consolidated results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements. A significant part of the Company's revenues and purchases were generated or made in transactions with related parties.

Ernst & Young (CIS) Limited

July 8, 2004,
except for Note 31, as to which the date is
July 16, 2004

Mastercraft Limited
Consolidated Statements of Operations

(In thousands of US dollars)

		Year ended December 31,	
	<i>Notes</i>	2003	2002
Revenue			
Sale of goods	6	\$ 2,010,769	\$ 1,470,736
Rendering of services		110,435	65,909
		2,121,204	1,536,645
Cost of revenues	6	(1,598,203)	(1,338,456)
Amortisation of negative goodwill		23,452	14,159
Gross profit		546,453	212,348
Selling and distribution costs	6	(46,889)	(54,527)
General and administrative expenses	6	(132,946)	(94,092)
Social and social infrastructure maintenance expenses	6	(25,968)	(28,574)
Tax-related fines and penalties		–	(15,440)
Loss on disposal of property, plant and equipment		(15,452)	(15,079)
Impairment of assets		(5,068)	(1,919)
Foreign exchange gains/(losses), net		8,312	(14,984)
Gain on net monetary position		–	63,667
Other operating income, net		10,778	842
Profit from operations		339,220	52,242
Interest income		7,450	448
Interest expense		(54,235)	(57,304)
Gain on sale of investments		1,366	–
Gain on transactions with related parties	14, 22	34,152	–
Gain on extinguishment of debts	21	2,346	16,302
Loss from associates		(121)	(663)
Profit before tax		330,178	11,025
Income tax expense	7	(72,560)	(11,009)
Profit after tax		257,618	16
Minority interests		(43,451)	(582)
Net profit (loss)		\$ 214,167	\$ (566)

The accompanying notes form an integral part of these consolidated financial statements.

Mastercraft Limited
Consolidated Balance Sheets
(In thousands of US dollars)

	<i>Notes</i>	December 31, 2003	2002
ASSETS			
Non-current assets			
Property, plant and equipment, net	8	\$ 1,173,169	\$ 1,068,055
Negative goodwill, net	4	(290,337)	(284,572)
Long-term investments	9	22,319	47,928
Restricted deposits at banks	10	14,617	–
Input VAT relating to the Settlement Agreements	16,20	3,978	4,320
Receivables from related parties		–	1,011
Other non-current assets	11	8,948	204
		932,694	836,946
Current assets			
Inventories	12	480,826	119,032
Trade and other receivables, net	13	68,969	37,623
Prepayments		39,865	20,523
Loans receivable		2,474	2,680
Receivables from related parties	14	117,557	31,322
Loans receivable from related parties	15	16,958	10,611
Taxes receivable	16	129,202	60,208
Short-term investments and notes receivable	17	46,375	466
Restricted deposits at banks	10	4,500	–
Cash and cash equivalents		184,397	17,207
		1,091,123	299,672
Total assets		\$ 2,023,817	\$ 1,136,618
EQUITY AND LIABILITIES			
Equity			
Issued capital	18	\$ 138,935	\$ –
Additional paid-in capital		47	47
Accumulated profits/(losses)		187,602	(601)
Unrealised gain on financial assets		948	–
Translation difference		80,308	25,379
		407,840	24,825
Minority interests		163,680	203,318
Non-current liabilities			
Long-term loans, net of unamortised debt issue costs	19	331,628	34,257
Liabilities under the Settlement Agreements	20	39,413	58,098
Restructured taxes payable	21	26,000	29,064
Promissory notes payable		576	5,353
Loans payable to related parties	22	92,200	40,014
Deferred income tax liabilities	7	137,813	161,788
Finance lease liabilities	23	14,434	11,489
Provisions	24	12,546	10,145
Other long-term liabilities	25	35,497	34,091
		690,107	384,299
Current liabilities			
Trade and other payables	26	160,063	101,672
Advances from customers		24,313	21,735
Short-term loans and current portion of long-term loans, net of unamortised debt issue costs	19	220,152	87,038
Payables to related parties	14	223,580	159,649
Short-term loans from related parties	27	11,036	16,958
Taxes payable	28	78,304	82,526
Current portion of liabilities under the Settlement Agreements	20	19,583	29,697
Current portion of finance lease liabilities	23	5,251	2,000
Current portion of other long-term liabilities	25	19,908	17,901
Provisions	24	–	5,000
		762,190	524,176
Total equity and liabilities		\$ 2,023,817	\$ 1,136,618

The accompanying notes form an integral part of these consolidated financial statements.

Mastercraft Limited

Consolidated Cash Flow Statements

(In thousands of US dollars)

	Year ended December 31, 2003	2002
Cash flows from operating activities		
Net profit (loss)	\$ 214,167	\$ (566)
Adjustments to reconcile net profit (loss) to net cash provided by operating activities:		
Amortisation of negative goodwill	(23,452)	(14,159)
Depreciation, depletion and amortisation	165,960	154,902
Deferred income taxes	(34,745)	(9,578)
Loss on disposal of property, plant and equipment	15,452	15,079
Impairment of assets	5,068	1,919
Gain on extinguishments of debts	(2,346)	(16,302)
Foreign exchange (gains)/losses	(8,312)	14,984
Minority interests	43,451	582
Loss from associates	121	663
Net gains on disposal of investments	(1,366)	—
Interest income	(7,450)	(448)
Interest expense	54,235	57,304
Gains on transactions with related parties <i>(Notes 14, 22)</i>	(34,152)	—
Gain on net monetary position	—	(63,667)
Bad debt expense	2,044	11,243
	388,675	151,956
Changes in operating assets and liabilities:		
Inventories	(346,552)	18,695
Trade and other receivables	(63,851)	(13,591)
Prepayments	(19,949)	(11,885)
Receivables from / payables to related parties	85,782	10,561
Taxes receivable	(59,849)	(25,285)
Other assets	(11,222)	—
Trade and other payables	47,334	(43,779)
Advances from customers	2,021	19,429
Taxes payable	1,355	15,222
Other liabilities	632	1,843
Net cash flows from operating activities	24,376	123,166
Cash flows from investing activities		
Short-term loans issued to related parties	(20,184)	(6,098)
Proceeds from repayment of short-term loans issued to related parties	—	2,339
Issuance of short-term loans receivable	—	(20,810)
Proceeds from repayment of short-term loans receivable	634	16,922
Purchases of shares in subsidiaries	(90,030)	(13,197)
Restricted deposits at banks	(18,490)	—
Purchases of property, plant and equipment	(180,679)	(66,257)
Proceeds from disposal of property, plant and equipment	1,117	1,277
Payments to acquire equity of other companies	(4,921)	(17,054)
Proceeds from sales of equity of other companies	18,478	6,569
Payments to acquire debt instruments of other companies	(52,008)	(19,074)
Proceeds from sale/redemption of debt instruments of other companies	40,184	16,427
Net cash flows used in investing activities	(305,899)	(98,956)

Continued on the next page.

Mastercrocft Limited

Consolidated Cash Flow Statements (continued)

(In thousands of US dollars)

	Year ended December 31,	
	2003	2002
Cash flows from financing activities		
Proceeds from issuance of share capital, net of issuance costs of \$65 (Note 18)	\$ 52,935	\$ —
Proceeds from issue of shares by a consolidated subsidiary to minority shareholders	1,784	—
Payments to entities under common control for the transfer of ownership interest in subsidiaries, net of cash acquired	(9,344)	(18,246)
Proceeds from long-term loans provided by related parties	94,729	48,051
Repayment of long-term loans provided by related parties	(8,253)	—
Proceeds from short-term loans provided by related parties	61,915	15,009
Repayment of short-term loans provided by related parties	(35,946)	(14,598)
Proceeds from bank overdrafts, net	89,896	—
Proceeds from short-term loans	307,244	469,326
Repayment of short-term loans, including interest	(276,092)	(483,652)
Proceeds from long-term loans and promissory notes	291,635	33,294
Repayment of long-term loans and promissory notes, including interest	(11,388)	(27,852)
Dividends of consolidated subsidiary paid to minority shareholders	(31)	—
Payments under finance leases, including interest	(4,601)	(2,340)
Payments under the Settlement Agreements, including interest, and purchases of debts in subsidiaries	(93,091)	(20,433)
Payments of restructured taxes, including interest	(17,592)	(11,617)
Net cash flows from (used in) financing activities	443,800	(13,058)
Effect of foreign exchange rate changes on cash and cash equivalents	4,913	268
Effect of hyperinflation on cash and cash equivalents	—	(1,867)
Net increase in cash and cash equivalents	167,190	9,553
Cash and cash equivalents at beginning of year	17,207	7,654
Cash and cash equivalents at end of year	\$ 184,397	\$ 17,207
Supplementary cash flow information:		
Cash flows during the year:		
Interest paid	\$ 36,026	\$ 37,149
Income taxes paid	95,205	11,965
Non-cash activities:		
Exchange of promissory notes for equity of other enterprises	\$ 27,875	\$ —
Exchange of debt instruments of other enterprises for debt instruments of subsidiaries	6,025	—
Settlement of amounts due to EAM Group by promissory notes of Group EAM	16,858	904
Repayment of loan receivable by promissory notes	—	3,890
Receipt of promissory notes of Marteck as capital contribution	86,000	—
Settlement of amounts due to Marteck by promissory notes of Marteck	(84,000)	—
Offset of loan payable to Cordova against receivable for sold shares in other enterprises	7,822	—
Loans from Ferrotrade & Co. granted in the form of payments made on behalf of the Company	(47,384)	—
Accounts payable for purchases of shares in subsidiaries	46,206	19,267

The accompanying notes form an integral part of these consolidated financial statements.

Mastercraft Limited
Consolidated Statements of Changes in Equity
Years ended December 31, 2002 and 2003
(In thousands of US dollars)

	Issued capital	Translation difference	Unrealised gain on financial assets	Accumulated profits (losses)	Additional paid-in capital	Total
At December 31, 2001	\$ —	\$ —	\$ —	\$ (35)	\$ —	\$ (35)
Contributions from entities under common control (Note 5)	—	—	—	—	47	47
Net loss	—	—	—	(566)	—	(566)
Effect of exchange rate changes	—	25,379	—	—	—	25,379
At December 31, 2002	—	25,379	—	(601)	47	24,825
Issue of share capital, net of issuance costs of \$65 (Note 18)	138,935	—	—	—	—	138,935
Net gains on available-for-sale financial assets	—	—	948	—	—	948
Distributions to entities under common control (Note 5)	—	—	—	(25,964)	—	(25,964)
Net profit	—	—	—	214,167	—	214,167
Effect of exchange rate changes	—	54,929	—	—	—	54,929
At December 31, 2003	\$ 138,935	\$ 80,308	\$ 948	\$ 187,602	\$ 47	\$ 407,840

The accompanying notes form an integral part of these consolidated financial statements.

Mastercrocft Limited

Notes to the Consolidated Financial Statements

Years ended December 31, 2002 and 2003

(In thousands of US dollars)

1. Corporate Information

The consolidated financial statements of Mastercrocft Limited for the years ended December 31, 2003 and 2002 were authorised for issue in accordance with a resolution of the directors on July 8, 2004.

Mastercrocft Limited ("Mastercrocft") is a limited liability company registered under the laws of Cyprus on December 31, 2002. The registered address of the Company is 3 Themistokles Dervis, Julia House, P.C.1066, Nicosia, Cyprus.

Mastercrocft is a wholly owned subsidiary of Crosland Limited, a limited liability company incorporated in Cyprus.

Mastercrocft was established as a holding company to consolidate certain steel production, mining and trading entities under control of the owners of Crosland. In 2003, controlling ownership interests in such entities were transferred to Mastercrocft in transactions with entities under common control with Mastercrocft.

Mastercrocft, together with its subsidiaries (the "Company"), is involved in production and distribution of steel and related products. In addition, the Company owns and operates certain mining assets. The Company's steel production and mining facilities are located in the Russian Federation. The Company operates three iron and steel plants in Russia: one plant in the Sverdlovsk region and two plants in the Kemerovo region. The Company is one of the biggest steel producers in the Russian Federation.

As of December 31, 2003, Mastercrocft's subsidiaries included in the consolidated financial statements were as follows:

Subsidiary	Effective ownership interest, %	Business activity	Location
OA0 Nizhny Tagil Iron & Steel Plant	74.35	Steel production	Russia
OA0 West-Siberian Iron & Steel Plant	93.36	Steel production	Russia
OA0 Novokuznetsk Iron & Steel Plant	90.09	Steel production	Russia
OA0 Vysokogorsky Mining-and-Processing Integrated Works	80.32	Ore mining and processing	Russia
OOO Abakan Mining Company	93.36	Ore mining	Russia
OOO Mundybash Processing Plant	93.36	Ore processing	Russia
OOO GBRU-Yuzhnaya	80.32	Ore mining	Russia
Ferrotrade Limited	100.00	Trading	Gibraltar
OOO Trade House EvrazHolding	98.00	Trading	Russia
East Metals S.A.	100.00	Trading	Switzerland
Le Chai Holdings Limited	100.00	Trading	Gibraltar
OA0 Nakhodka Commercial Sea Port	84.12	Seaport services	Russia
Lakemill Trading and Investments Limited	100.00	Holding entity	Cyprus
Logicmind Investments Limited	100.00	Holding entity	Cyprus

Mastercrocft Limited

Notes to the Consolidated Financial Statements (continued)

1. Corporate Information (continued)

Subsidiary	Effective ownership interest, %	Business activity	Location
Ferrobblast Overseas Investments Limited	100.00	Holding entity	Cyprus
Tradeline Enterprises Limited	100.00	Holding entity	Cyprus
OOO Sibmetinvest	91.93	Holding entity	Russia
Mastercrocft Mining Limited	100.00	Holding entity	Cyprus
Mastercrocft Pipe Projects Limited	100.00	Holding entity	Cyprus
Steeltrade Limited	100.00	Holding entity	Cyprus
OOO EvrazHolding (1)	–	Management services	Russia
East Metals Limited	100.00	Management services	Cyprus
Mastercrocft Finance Limited	100.00	Financing	Cyprus
EvrazSecurities S.A. (2)	–	Financing	Luxembourg
OOO Financial Company EvrazHolding	74.35	Financing	Russia

(1) OOO EvrazHolding (“EvrazHolding”) is a limited liability company registered in Russia. EvrazHolding renders management services to certain subsidiaries of the Company. In addition, EvrazHolding holds investments in other enterprises. As of December 31, 2003, EvrazHolding held 2,440 (2%) common shares in NKMK. The Company holds an option to acquire all the ownership interest in EvrazHolding for \$1,000. The Company consolidates EvrazHolding under the provisions of Interpretation SIC-33, Consolidation and Equity Method – Potential Voting Rights and Allocation of Voting Interests. The Company has potential controlling voting rights in EvrazHolding that are presently exercisable.

(2) EvrazSecurities S.A. (“EvrazSecurities”) is a special purpose entity of the Company. In 2003, EvrazSecurities issued \$175,000 8.875 per cent guaranteed notes due on September 25, 2006 (the “Notes”), which are listed on the Luxembourg stock exchange. Mastercrocft and certain of its subsidiaries guaranteed EvrazSecurities’ liabilities under the Notes. The Company has an option to buy 100% of the shares of EvrazSecurities, which is exercisable only on or after the maturity date of the Notes. The Company consolidates EvrazSecurities under the provisions of Interpretation of Standing Interpretations Committee (“SIC”) SIC-12, Consolidation – Special Purpose Entities. In substance, the activities of EvrazSecurities are being conducted on behalf of the Company so that the Company benefits from EvrazSecurities’ operations, and the Company is exposed to risks incidental to the activities of EvrazSecurities.

In the years ended December 31, 2003 and 2002, approximately 34% and 40%, respectively, of the Company’s revenues were generated in transactions with related parties. In addition, a significant part of the Company’s purchases was made in transactions with related parties. For detailed information related to such activities refer to Note 14.

At December 31, 2003, the Company employed approximately 85,000 employees.

Mastercroft Limited

Notes to the Consolidated Financial Statements (continued)

2. Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), which comprise standards and interpretations approved by the International Accounting Standards Board and interpretations of Standing Interpretations Committee approved by the International Accounting Standards Board that remain in effect.

The Company early adopted and applied IFRS 1, First-time Adoption of International Financial Reporting Standards, in the preparation of its first consolidated financial statements. The Company's transition date to IFRS is December 31, 2001. The Company elected to use exemptions from the requirements of IAS 22, Business Combinations, and account for the acquisitions which occurred prior to December 31, 2001 as if those occurred on the transition date. For such acquisitions, the Company adjusted the carrying amounts of the subsidiaries' assets and liabilities to the amounts that IFRS would require in the separate subsidiaries' balance sheets. The deemed cost of goodwill/negative goodwill was determined as the difference at the date of transition to IFRS between: (i) the parent's interest in those adjusted carrying amounts; and (ii) the cost in the parent's separate financial statements of its investment in the subsidiary. In addition, the Company elected under IFRS 1 to account for property, plant and equipment in its subsidiaries at deemed cost being the fair value of property, plant and equipment at the transition date to IFRS.

The consolidated financial statements have been prepared on an historical cost basis, other than in respect of property, plant and equipment as described in the preceeding paragraph.

Mastercroft and its subsidiaries maintain their accounting records and prepare their financial statements in accordance with the requirements of the countries in which they are located. The accompanying financial statements may differ from the financial statements issued for statutory purposes in those countries 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. The principal adjustments relate to (1) expense and revenue recognition, (2) valuation of unrecoverable assets, (3) depreciation and valuation of property, plant and equipment, (4) accounting for income taxes, (5) measurement of financial instruments, (6) business combinations and (7) restatement of financial statements to reflect the effect of hyperinflation.

In accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, and its interpretations, the measurement currency of the Company is the US dollar.

Mastercroft Limited

Notes to the Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

The measurement currency of the Company's subsidiaries located in the Russian Federation (the "Russian Subsidiaries") is the Russian rouble (the "rouble"). 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, 2003 and 2002, the official rates of exchange were 29.4545 roubles = US\$1 and 31.7844 roubles = US\$1, respectively.

In 2002, the Russian Federation met the definition of a hyperinflationary economy, as defined by IAS 29, Financial Reporting in Hyperinflationary Economies. The inflation rate based on the Russian consumer price index ("CPI"), as calculated by the State Committee on Statistics ("Goskomstat"), was 15.1% for 2002 (18.8% and 20.1% for 2001 and 2000, respectively). Although the cumulative inflation index for the three-year period ended in 2002 was less than 100%, it was considered that the remaining criteria set forth by IAS 29 indicated that the Russian Federation continued to experience conditions that meet the definition of a hyperinflationary economy during 2002.

IAS 29 requires that financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. In applying IAS 29, the Company used conversion factors derived from the Russian CPI.

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.
- 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 year ended December 31, 2002 were restated using the price indices from the date of the transaction to December 31, 2002.
- Certain statement of operations 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.

The net monetary gain was recorded in the Company's statement of operations.

Mastercroft Limited

Notes to the Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

International accounting and financial reporting bodies have determined that effective from January 1, 2003, the Russian Federation no longer meets the criteria of IAS 29 for hyperinflation. Beginning 2003, the Company ceased to apply IAS 29 and only recognises the cumulative impact of inflation indexing through December 31, 2002, on non-monetary elements of the financial statements. Transactions undertaken subsequent to December 31, 2002 are reported at actual, nominal amounts except for those involving non-monetary assets and liabilities existing at December 31, 2002. Results of operations (including gains and losses on disposal) involving such assets and liabilities are recognised based on the “restated cost”, which was calculated by applying through December 31, 2002 the relevant conversion factors to the carrying values of these assets and liabilities.

Foreign Currency Translation

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are recorded in the statement of operations.

The assets and liabilities of the Russian subsidiaries are translated from roubles into US dollars at the rate of exchange existing at the date of each balance sheet presented. The statements of operations of the Russian subsidiaries for the year ended December 31, 2002 (the year of hyperinflation in Russia) are translated at the rate of exchange at December 31, 2002. The statements of operations of the Russian subsidiaries for the year ended December 31, 2003 are translated at average exchange rates for the year. The exchange differences arising on the retranslation are taken directly to equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the acquiring company and recorded at the exchange rate at the date of transaction.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of Mastercroft and its subsidiaries drawn up to December 31 each year. Subsidiaries are consolidated from the date on which control is transferred to the Company and cease to be consolidated from the date on which control is lost. Subsidiaries are included in the consolidated financial statements using the purchase method of accounting. Except for the acquisitions that occurred prior to December 31, 2001, which were discussed in Basis of Preparation above, the purchase consideration has been allocated to the assets and liabilities on the basis of fair value at the date of acquisition. Minority interests represent the interests in the subsidiaries not held by the Company.

Mastercroft Limited

Notes to the Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Transfers of Equity Interests in Subsidiaries in Transactions with Entities under Common Control

The Company obtained equity interests in certain subsidiaries in transactions with entities under common control with the Company. The assets and liabilities of such subsidiaries transferred to the Company in such transactions were initially recognised in the preparation of the accompanying consolidated financial statements in the amounts which were the carrying amounts of such assets and liabilities in the financial statements of the transferring entities. The accompanying consolidated financial statements report the results of operations and cash flows of each of such subsidiaries from the later of (1) January 1, 2002 and (2) the date of acquisition of equity interests in such subsidiaries by entities under common control with the Company from entities not under common control with the Company.

The difference between (1) the carrying amount of the assets and liabilities of such subsidiaries recognised in the accompanying consolidated financial statements and (2) the amount paid by the Company to the entities under common control with the Company in exchange for equity interests in such subsidiaries is either added to additional paid-in capital, if positive, or charged to retained earnings, if negative, in the accompanying consolidated financial statements.

Investments in Associates

The Company's investments in its associates are accounted for under the equity method of accounting. These are entities in which the Company has significant influence and which are neither subsidiaries nor joint ventures of the Company. The investment in associates is carried in the balance sheet at cost plus post-acquisition changes in the Company's share of net assets of the associates, less any impairment in value. The statement of operations reflects the Company's share of the results of operations of the associates. The Company's investment in its associates includes goodwill/negative goodwill (net of accumulated amortisation) on acquisition, which is treated in accordance with the accounting policy for goodwill stated below.

Property, Plant and Equipment

The Company's property, plant and equipment, except for the items acquired prior to December 31, 2001, are stated at historical cost less accumulated depreciation and any impairment in value. Land is not depreciated. As described under Basis of Presentation above, the items of property, plant and equipment acquired prior to December 31, 2001 were accounted for at deemed cost being their fair value at December 31, 2001.

Mastercroft Limited

Notes to the Consolidated 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 lives of the assets as follows:

Buildings and constructions	15-60 years
Machinery and equipment	4-45 years
Transport and motor vehicles	7-20 years
Other assets	3-15 years

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.

Depletion of mining assets including capitalised site restoration costs is calculated using the units-of production method based upon proved developed mineral reserves.

Leases

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised 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 to interest expense.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets, which are owned. If there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

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 recognised as an expense in the statement of operations on a straight-line basis over the lease term.

Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable net assets of subsidiaries at the date of acquisition. Goodwill is amortised on a straight-line basis over its useful economic life. It is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is stated at cost less accumulated amortisation and any impairment in value.

Mastercroft Limited

Notes to the Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Negative Goodwill

Negative goodwill is recognised if the cost of acquisition is less than the fair value of identifiable net assets of subsidiaries acquired. To the extent that negative goodwill does not relate to identifiable expected future losses and expenses that can be measured reliably at the date of acquisition, negative goodwill is recognised in the consolidated statement of operations as follows:

- The amount of negative goodwill not exceeding the fair values of acquired identifiable non-monetary assets is recognised as income over the remaining average useful life of the identifiable acquired depreciable assets;
- The amount of negative goodwill in excess of the fair values of acquired identifiable non-monetary assets is recognised as income immediately.

Investments

All investments are initially recognised 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 are measured at fair value. Gains or losses on investments held for trading are recognised in income. Gains or losses on available-for-sale investments are recognised 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.

Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

For investments that are actively traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

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.

Mastercroft Limited

Notes to the Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

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 recognised for the difference between the estimated recoverable amount and the carrying value as follows:

- For property, plant and equipment at cost, for financial assets at amortised 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 recognised directly in equity as a result of the write-down of the asset to recoverable amount, the cumulative net loss recognised 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 recognised. 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 recognised.

Inventories

Inventories are valued at the lower of cost and net realisable 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.

Mastercroft Limited

Notes to the Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Inventories (continued)

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

Accounts Receivable

Accounts receivable, which generally have 30-180 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectable amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Interest-Bearing Loans and Borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue cost, and any discount or premium on settlement.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised or impaired, as well as through the amortisation process.

Borrowing costs are expensed as incurred.

Government Grants

Government grants are recognised 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 recognised 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 recognised as a deduction from depreciation expense over the life of the asset.

Mastercroft Limited

Notes to the Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Provisions

Provisions are recognised 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. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

Provisions for site restoration costs are capitalised in mining assets within property, plant and equipment.

Social and Pension Contributions

Defined contributions are made by the Company to the Russian Federation state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force (approximately 34%), based on gross salary payments. The Company has no legal or constructive obligation to pay future benefits. Its only obligation is to pay contributions as they come due. These contributions are expensed as incurred.

Employee Benefits

Defined Contribution Plan

The Company has defined contribution plans designed for providing additional pensions to its employees. Under the terms of these plans, the Company's obligations are limited to the amount that it should contribute to a pension fund.

When an employee has rendered service to the Company during a period, the Company recognises the contribution payable to a defined contribution plan in exchange for that service:

- (a) as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the balance sheet date, this excess is recognised as an asset (prepaid expense) to the extent that the prepayment will lead to a reduction in future payments or a cash refund; and
- (b) as an expense, unless any International Accounting Standard requires or permits the inclusion of the contribution in the cost of an asset.

Mastercraft Limited

Notes to the Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Employee Benefits (continued)

Defined Benefit Plan

The Company operates one defined benefit pension scheme, which requires contributions to be made to a separately administered fund. The cost of providing benefits under the plan is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognised as income or expense when the cumulative unrecognised actuarial gains or losses for each individual plan exceed 10% of the higher of defined benefit obligation and the fair value of plan assets. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plan.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, consisting of cash, short-term and long-term investments, short-term accounts receivable and payable, short-term and long-term loans receivable and payable, and long-term obligations under promissory notes approximate their fair value.

The fair value of long-term obligations under the Settlement Agreements with a carrying amount of \$58,996 is equal to \$67,793 as of December 31, 2003. The fair value of restructured taxes with a carrying amount of \$39,446 is equal to \$43,028 as of December 31, 2003.

The fair value of long-term obligations under the Settlement Agreement, restructured taxes, and long-term obligations under promissory notes as of December 31, 2003 was determined based on the future payments discounted at the annual rates of 13%, 6% and 6% for the financial instruments denominated in roubles, US dollars and euros, respectively.

Concentration of Credit Risk

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of cash, input VAT and trade accounts receivable.

The Company deposits available cash with financial institutions in the Russian Federation. Deposit insurance is not offered to financial institutions operating in Russia. To manage this credit risk, the Company allocates its available cash, mainly in US dollars, to a variety of Russian banks and Russian affiliates of international banks. Management periodically reviews the credit worthiness of the banks in which it deposits cash.

Input value added tax (VAT), representing amounts payable or paid to suppliers, is recoverable from the tax authorities via offset against VAT payable to the tax authorities on the Company's revenue or direct cash receipts from the tax authorities. Management periodically reviews the recoverability of the balance of input value added tax and believes it is fully recoverable within one year.

Mastercroft Limited

Notes to the Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Concentration of Credit Risk (continued)

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

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

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.

The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Rendering of services

Revenue is recognised when services are rendered.

Interest

Revenue is recognised as the interest accrues.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

Rental Income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease term on ongoing leases.

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.

Mastercraft Limited

Notes to the Consolidated Financial Statements (continued)

2. Significant Accounting Policies (continued)

Income Tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised 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 utilised.

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 utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Use of Estimates

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results, therefore, could differ from those estimates. Significant estimates include estimated useful lives of long-lived assets, fair value of property, plant and equipment at the date of transition to IFRS, fair values of assets and liabilities acquired in business combinations, allowances for doubtful accounts receivable, deferred income taxes.

Mastercroft Limited

Notes to the Consolidated Financial Statements (continued)

3. Segment Information

The Company's major business segments are steel production and mining. Steel production segment includes production of steel and related products at the three iron and steel plants. Mining segment includes ore mining and enrichment. Mining segment does not meet the criteria of a reportable segment under IFRS, because the majority of revenues of the mining segment is earned in inter-segment transactions. Despite this fact, management has designated the mining segment as a reportable segment based on the future plans to develop this business segment. The following table presents revenue and profit information and certain asset and liability information regarding business segments for the years ended December 31, 2003 and 2002:

Year ended December 31, 2003

	Steel production	Mining	Other operations	Eliminations	Total
Revenue					
Sales to external customers	\$ 2,064,359	\$ 14,774	\$ 42,071	\$ –	\$ 2,121,204
Inter-segment sales	7,680	83,702	6,866	(98,248)	–
Total revenue	<u>\$ 2,072,039</u>	<u>\$ 98,476</u>	<u>\$ 48,937</u>	<u>\$ (98,248)</u>	<u>\$ 2,121,204</u>
Result					
Segment result	<u>\$ 337,008</u>	<u>\$ 6,702</u>	<u>\$ (2,042)</u>		\$ 341,668
Unallocated expenses					<u>(2,448)</u>
Profit from operations					<u>\$ 339,220</u>
Assets and liabilities					
Segment assets	\$ 1,740,326	\$ 90,014	\$ 40,271		\$ 1,870,611
Investment in associates	13,863		2,210		16,073
Unallocated assets					<u>137,133</u>
Total assets					<u>\$ 2,023,817</u>
Segment liabilities	\$ 392,294	\$ 23,745	\$ 14,536		\$ 430,575
Unallocated liabilities					<u>1,021,722</u>
Total liabilities					<u>\$ 1,452,297</u>
Other segment information					
Additions to property, plant and equipment	\$ 173,837	\$ 11,009	\$ 27,418		\$ 212,264
Depreciation	(158,325)	(4,128)	(3,507)		(165,960)

Mastercraft Limited

Notes to the Consolidated Financial Statements (continued)

3. Segment Information (continued)

Year ended December 31, 2002

	Steel production	Mining	Other operations	Eliminations	Total
Revenue					
Sales to external customers	\$ 1,516,995	\$ 4,980	\$ 14,670	\$ –	\$1,536,645
Inter-segment sales	4,142	16,194		(20,336)	–
Total revenue	<u>\$ 1,521,137</u>	<u>\$ 21,174</u>	<u>\$ 14,670</u>	<u>\$ (20,336)</u>	<u>\$1,536,645</u>
Result					
Segment result	<u>\$ 52,520</u>	<u>\$ (1,357)</u>	<u>\$ 3,411</u>		\$ 4,574
Unallocated expenses					(2,332)
Profit from operations					<u>\$ 52,242</u>
Assets and liabilities					
Segment assets	\$ 982,680	\$ 61,543	\$ 4,279		\$1,048,502
Investment in associates	11,705				11,705
Unallocated assets					76,411
Total assets					<u>\$1,136,618</u>
Segment liabilities	\$ 350,197	\$ 18,797	\$ 11,431		\$ 380,425
Unallocated liabilities					528,050
Total liabilities					<u>\$ 908,475</u>
Other segment information					
Additions to property, plant and equipment	\$ 75,131	\$ 84,124	\$ 1,794		\$ 161,049
Depreciation	(153,079)	(1,543)	(280)		(154,902)

Distribution of the Company's sales by geographical area based on the location of customers for the years ended December 31 was as follows:

	2003	2002
Russia	\$ 1,515,004	\$ 969,568
China	120,647	105,738
Taiwan	95,935	83,536
Philippines	69,957	62,021
Hong Kong	57,709	50,437
Thailand	53,136	50,612
Iran	47,320	–
Korea	45,095	33,889
Vietnam	37,873	84,589
Other countries	78,528	96,255
	<u>\$ 2,121,204</u>	<u>\$ 1,536,645</u>

Mastercraft Limited

Notes to the Consolidated Financial Statements (continued)

3. Segment Information (continued)

Carrying amounts of the Company's assets by geographical area in which the assets are located at December 31 were as follows:

	2003	2002
Russia	\$ 1,566,394	\$ 1,108,461
Other countries	457,423	28,157
	<u>\$ 2,023,817</u>	<u>\$ 1,136,618</u>

In 2003 and 2002, substantially all the additions to the Company's property, plant and equipment related to the Russian operations of the Company.

4. Acquisitions

All acquisitions were accounted for under the purchase method.

NTMK

During the period from 1997 to 2001, the entities under common control with the Company acquired 41.71% interest in NTMK for \$59,280 in transactions with entities which were not under common control with the Company. Negative goodwill in respect of the acquisition of NTMK, representing the excess of the Company's share in the fair value of net assets of NTMK as of December 31, 2001 over the cost of acquisition of common shares, amounted to \$85,053.

The financial position and results of operations of NTMK were included in the Company's consolidated financial statements beginning December 31, 2001 as the Company effectively exercised control over NTMK's operations as of that date.

The table below sets forth the fair values of NTMK's assets and liabilities as of December 31, 2001:

Property, plant and equipment	\$ 575,677
Other non-current assets	16,771
Inventories	50,625
Accounts and notes receivable, net	66,304
Cash	3,528
Total assets	<u>712,905</u>
Non-current liabilities	104,868
Deferred income tax liabilities	80,549
Current liabilities	181,453
Total liabilities	<u>366,870</u>
Net assets	<u>\$ 346,035</u>

During 2002 and 2003, the Company acquired 19.39% and 13.25% of NTMK's shares, respectively, for \$9,030 and \$26,208, respectively. Negative goodwill in respect of the acquisitions amounted to \$94,279.

Mastercraft Limited

Notes to the Consolidated Financial Statements (continued)

4. Acquisitions (continued)

NTMK (continued)

The total purchase consideration comprised of \$73,615 paid in cash and \$20,902 representing non-monetary transactions.

The following is a summary of purchase transactions and the resulting negative goodwill:

Date	Share acquired	Purchase consideration	Fair value of net identifiable assets at the date of acquisition	Negative goodwill arising on acquisition
31.12.2001	41.71%	\$ 59,280	\$ 346,035	\$ (85,053)
31.01.2002	17.32%	6,988	353,085	(54,166)
14.11.2002	2.07%	2,042	389,651	(6,032)
27.02.2003	1.06%	1,902	408,150	(2,403)
13.05.2003	1.91%	2,501	428,262	(5,673)
10.06.2003	1.56%	2,662	440,524	(4,224)
08.10.2003	8.72%	19,142	469,170	(21,781)
	74.35%	\$ 94,517		\$ (179,332)

The amount of negative goodwill is being recognised as income over the remaining average useful life of the identifiable acquired depreciable assets (13.5-15.5 years).

As of December 31, 2003 and 2002, negative goodwill amounted to \$163,187 and \$139,394, respectively, net of accumulated amortisation of \$16,145 and \$5,857, respectively. Amortisation of negative goodwill was included in the accompanying consolidated statements of operations for 2003 and 2002 in the amount of \$10,288 and \$5,857, respectively.

ZapSib

In 2001, the entities under common control with the Company acquired 5.51% interest in ZapSib for \$1,072 in transactions with entities which were not under common control with the Company. By December 31, 2001, the Company's agents acquired a 31.27% share in ZapSib for \$6,999. Negative goodwill in respect of the acquisition of a 36.78% share in ZapSib, representing the excess of the Company's share in the fair value of net assets of ZapSib as of December 31, 2001 over the cost of acquisition of ZapSib's shares, amounted to \$58,131.

As of December 31, 2001, the Company had the power to cast majority votes at shareholders' and board of directors meetings and power to appoint or remove the majority of the members of the board of directors of ZapSib. The financial position and results of operations of ZapSib were included in the Company's consolidated financial statements beginning December 31, 2001 as the Company exercised control over ZapSib's operations as of that date.

Mastercraft Limited

Notes to the Consolidated Financial Statements (continued)

4. Acquisitions (continued)

ZapSib (continued)

The table below sets forth the fair values of ZapSib's assets and liabilities as of December 31, 2001:

Property, plant and equipment	\$	407,069
Other non-current assets		13,792
Inventories		75,371
Accounts and notes receivable, net		57,750
Cash		3,472
Total assets		557,454
Non-current liabilities		109,146
Deferred income tax liabilities		68,968
Current liabilities		199,325
Total liabilities		377,439
Net assets	\$	180,015

During 2002 and 2003, the Company acquired 40.61% and 15.97% of ZapSib's shares, respectively, for \$19,105 and \$61,289, respectively. Negative goodwill in respect of these acquisitions amounted to \$42,242.

The whole amount of purchase consideration was paid in cash.

The following is a summary of purchase transactions and the resulting goodwill/(negative) goodwill:

Date	Share acquired	Purchase consideration	Fair value of net identifiable assets at the date of acquisition	Goodwill/(negative) goodwill arising on acquisition
31.12.2001	36.78%	\$ 8,071	\$ 179,995	\$ (58,131)
18.04.2002	16.70%	5,014	188,158	(26,401)
01.07.2002	12.17%	6,606	188,480	(16,344)
22.11.2002	11.74%	7,485	192,090	(15,070)
29.05.2003	1.99%	1,270	230,380	(3,315)
19.12.2003	13.98%	60,019	294,235	18,888
	93.36%	\$ 88,465		\$ (100,373)

The amount of negative goodwill is being recognised as income over the remaining average useful life of the identifiable acquired depreciable assets (10-12 years).

Mastercroft Limited

Notes to the Consolidated Financial Statements (continued)

4. Acquisitions (continued)

ZapSib (continued)

As of December 31, 2003 and 2002, negative goodwill amounted to \$83,330 and \$108,857, respectively, net of accumulated amortisation of \$17,043 and \$7,090, respectively, and net of goodwill on the acquisition made on December 19, 2003. Amortisation of negative goodwill was included in the accompanying consolidated statements of operations for 2003 and 2002 in the amount of \$9,953 and \$7,090, respectively.

VGOK

During the period from 1998 to October 3, 2002, the enterprises under common control with the Company acquired 85.71% interest in VGOK (effectively, 79.61%) in transactions with enterprises, which were not under common control with the Company. Negative goodwill in respect of the acquisitions of common shares in VGOK amounted to \$37,377.

The financial position and results of operations of VGOK were included in the Company's consolidated financial statements beginning October 3, 2002 as the Company effectively exercised control over VGOK's operations since that date. In the period from December 31, 2001 to October 2, 2002, the Company accounted for its investment in VGOK under the equity method.

The table below sets forth the fair values of VGOK's assets and liabilities at the date of acquisition:

	October 3, 2002
Property, plant and equipment	\$ 73,949
Other non-current assets	3,058
Inventories	2,622
Accounts and notes receivable, net	8,303
Cash	99
Total assets	88,031
Non-current liabilities	20,215
Current liabilities	17,607
Total liabilities	37,822
Net assets	\$ 50,209

After October 3, 2003, the Company acquired additional interest in VGOK. As of December 31, 2003, the Company's effective interest in VGOK was 80.32%. It was acquired for the total purchase consideration of \$1,672. Negative goodwill which arose on acquisitions of 80.32% effective interest in VGOK amounted to \$37,634.

The whole amount of purchase consideration was paid in cash.

Mastercraft Limited

Notes to the Consolidated Financial Statements (continued)

4. Acquisitions (continued)

VGOK (continued)

The amount of negative goodwill is being recognised as income over the remaining average useful life of the identifiable acquired depreciable assets (16-17 years).

NMTP

In 2001 and 2002, the enterprises under common control with the Company acquired 35.47% interest in NMTP (effectively, 35.37%) for \$6,364 in transactions with enterprises which were not under common control with the Company. During the period from February 11, 2002 to February 15, 2003, the Company's investment in NMTP was accounted for under the equity method.

In February 2003, the enterprises under common control with the Company acquired an additional 24.48% interest in NMTP (effectively, 20.72%) for \$3,815 in transactions with enterprises which were not under common control with the Company.

The financial position and results of operations of NMTP were included in the Company's consolidated financial statements beginning February 15, 2003 as the Company effectively exercised control over NMTP's operations since that date.

The table below sets forth the fair values of NMTP's assets and liabilities at the date of acquisition:

	February 15, 2003
Property, plant and equipment	\$ 22,705
Other non-current assets	3,154
Inventories	1,621
Accounts and notes receivable, net	4,805
Other current assets	3,830
Cash	1,852
Total assets	37,967
Non-current liabilities	710
Deferred income liabilities	414
Current liabilities	3,982
Total liabilities	5,106
Net assets	\$ 32,861

After October 3, 2003, the Company acquired additional interest in NMTP. As of December 31, 2003, the Company's effective interest in NMTP was 84.12%. It was acquired for the total purchase consideration of \$16,553. Negative goodwill which arose on acquisitions of 84.12% effective interest in NMTP amounted to \$10,609.

The whole amount of purchase consideration was paid in cash.

The amount of negative goodwill is being recognised as income over the remaining average useful life of the identifiable acquired depreciable assets (9 years).

Mastercroft Limited

Notes to the Consolidated Financial Statements (continued)

4. Acquisitions (continued)

Negative Goodwill

The table below presents a reconciliation of the carrying amount of negative goodwill at December 31, 2003 and 2002.

	Cost	Accumulated amortisation	Total
December 31, 2001	\$ (143,184)	\$ –	\$ (143,184)
Negative goodwill recognised on acquisitions	(155,547)	–	(155,547)
Amortisation credit	–	14,159	14,159
December 31, 2002	(298,731)	14,159	(284,572)
Negative goodwill previously recognised in investments under the equity method	(5,017)	431	(4,586)
Negative goodwill recognised on acquisitions	(24,631)	–	(24,631)
Amortisation credit	–	23,452	23,452
December 31, 2003	\$ (328,379)	\$ 38,042	\$ (290,337)

5. Transfers of Equity Interests in Subsidiaries in Transactions with Entities under Common Control

The Company obtained equity interests in the following subsidiaries in transactions with entities under common control with the Company: NTMK, ZapSib, VGOK, NMTP.

The excess of the amounts paid by the Company to entities under common control with the Company over the carrying amounts of net assets transferred of \$25,964 was recorded as a distribution of retained earnings in the accompanying consolidated financial statements for the year ended December 31, 2003.

The excess of the carrying amounts of net assets transferred to the Company over the amounts paid by the Company to the entities under common control with the Company for the transfer of ownership interests in subsidiaries of \$47 was included in additional paid-in capital in the accompanying consolidated financial statements for the year ended December 31, 2002.

6. Revenues and Expenses

Revenue from sales of goods and cost of revenues included non-monetary exchanges of dissimilar goods for \$239,165 and \$238,159 for the years ended December 31, 2003 and 2002, respectively.

Mastercraft Limited

Notes to the Consolidated Financial Statements (continued)

6. Revenues and Expenses (continued)

Cost of revenues, distribution costs, administrative expenses and social infrastructure maintenance expenses include the following for the years ended December 31:

	2003	2002
Cost of inventories recognised as expense	\$ 1,007,593	\$ 835,859
Staff costs	324,032	246,027
Depreciation, depletion and amortisation	165,960	154,902

7. Income Taxes

Major components of income tax expense for the years ended December 31 were as follows:

	2003	2002
<i>Current income tax</i>	\$ 107,305	\$ 20,587
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(34,745)	(9,578)
Income tax expense reported in the consolidated statement of operations	\$ 72,560	\$ 11,009

In the years ended December 31, 2003 and 2002, the Company's income was subject to tax at 24% in the Russian Federation, 10% in Cyprus, and 24% and 11.6% (depending on the type of income) in Switzerland. Ferrotrade Limited has a Taxation Exemption Certificate under which it is currently liable to tax at the fixed annual rate of £225. The European Commission has adopted a recommendation for the abolition or reform of the Exempt Company regime in Gibraltar by 2005.

A reconciliation of income tax expense applicable to profit before income tax at the Russian statutory tax rate of 24% to income tax expense at the Company's effective income tax rate for the years ended December 31 was as follows:

	2003	2002
Profit before income tax	\$ 330,178	\$ 11,025
At the Russian statutory income tax rate of 24%	79,243	2,646
Effect of non-deductible expenses and other permanent differences	5,297	8,390
Effect of the difference in tax rates in the countries other than the Russian Federation	(11,980)	(27)
Income tax expense reported in the consolidated statement of operations	\$ 72,560	\$ 11,009

Mastercroft Limited

Notes to the Consolidated Financial Statements (continued)

7. Income Taxes (continued)

Deferred income tax assets and liabilities related to the following at December 31:

	2003	2002
Deferred income tax liabilities:		
Property, plant and equipment	\$ 107,384	\$ 125,973
Liabilities under the Settlement Agreement and restructured taxes	36,244	44,749
Other	2,578	2,979
	146,206	173,701
Deferred income tax assets:		
Tax losses available for offset	–	6,150
Accrued liabilities	4,252	4,736
Accounts receivable	2,868	307
Other	1,273	720
	8,393	11,913
Net deferred income tax liability	\$ 137,813	\$ 161,788

For Russian income tax purposes, ZapSib had unused tax losses incurred in 1997 and 1998. As of December 31, 2002, the unused tax losses carry forward approximated \$25,623. In 2003, tax losses were fully utilised.

Deferred income taxes have not been provided for undistributed earnings of Mastercroft's subsidiaries as management does not intend to dividend the earnings of subsidiaries in the foreseeable future. The current tax rate for dividends income in Russia in respect of Cypriot shareholders varies from 5% to 10% depending on the size of investments in Russian subsidiaries. It is not practicable to estimate the amount of tax that might be payable on the eventual remittance of such earnings, if any.

As of December 31, 2003 and 2002, temporary differences of \$2,341 and \$2,251, respectively, related to the Company's investments in its associates. The Company is in a position to control associates' dividend policies, and, therefore, is able to control the timing of the reversal of the temporary differences. The Company's management believes that it is probable that the temporary differences in respect of the investments in associates will not reverse in the foreseeable future. Consequently, the Company did not recognise any related deferred income tax liability.

Mastercraft Limited

Notes to the Consolidated Financial Statements (continued)

8. Property, Plant and Equipment

Property, plant and equipment consisted of the following as of December 31:

	2003	2002
Cost:		
Land	\$ 26,239	\$ 15,844
Buildings and constructions	250,083	211,566
Machinery and equipment	911,037	789,141
Transport and motor vehicles	15,565	7,114
Mining assets	93,461	76,346
Other assets	23,757	16,455
Assets under construction	167,773	96,824
	1,487,915	1,213,290
Accumulated depreciation, depletion and amortisation:		
Buildings and constructions	(36,402)	(16,780)
Machinery and equipment	(252,116)	(112,559)
Transport and motor vehicles	(4,042)	(2,011)
Mining assets	(3,747)	(616)
Other assets	(8,811)	(3,611)
	(305,118)	(135,577)
Government grants:		
Machinery and equipment, net	(9,628)	(9,658)
	\$ 1,173,169	\$ 1,068,055

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of \$33,542 and \$12,036 as of December 31, 2003 and 2002, respectively.

Mastercraft Limited

Notes to the Consolidated Financial Statements (continued)

8. Property, Plant and Equipment (continued)

The movement in property, plant and equipment for the year ended December 31, 2003 was as follows:

	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Mining assets	Other assets	Assets under construction	Total
At December 31, 2002, cost, net of accumulated depreciation and government grants	\$ 15,844	\$ 194,786	\$ 666,924	\$ 5,103	\$ 75,730	\$ 12,844	\$ 96,824	\$1,068,055
Additions	8,922	15,798	42,150	4,530	10,627	2,730	127,507	212,264
Assets put into operation	34	6,611	30,936	3,067	—	3,411	(44,059)	—
Disposals	—	(553)	(2,715)	(48)	—	(346)	(19,213)	(22,875)
Depreciation & depletion charge	—	(18,366)	(138,816)	(1,835)	(2,957)	(4,747)	—	(166,721)
Amortisation of government grants	—	—	761	—	—	—	—	761
Impairment loss	—	—	—	—	—	—	(4,094)	(4,094)
Translation difference	1,439	15,405	50,053	706	6,314	1,054	10,808	85,779
At December 31, 2003, cost, net of accumulated depreciation and government grants	\$ 26,239	\$ 213,681	\$ 649,293	\$ 11,523	\$ 89,714	\$ 14,946	\$ 167,773	\$1,173,169

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	Mining assets	Other assets	Assets under construction	Total
At December 31, 2001, cost, net of accumulated depreciation and government grants	\$ —	\$ 206,639	\$ 749,897	\$ 5,679	\$ —	\$ 13,804	\$ 104,704	\$1,080,723
Additions	15,844	21	6,054	292	76,346	869	61,623	161,049
Assets put into operation	—	5,630	47,821	1,167	—	2,274	(56,892)	—
Disposals	—	(244)	(5,918)	(4)	—	(38)	(12,611)	(18,815)
Depreciation & depletion charge	—	(17,260)	(131,665)	(2,031)	(616)	(4,065)	—	(155,637)
Amortisation of government grants	—	—	735	—	—	—	—	735
At December 31, 2002, cost, net of accumulated depreciation and government grants	\$ 15,844	\$ 194,786	\$ 666,924	\$ 5,103	\$ 75,730	\$ 12,844	\$ 96,824	\$1,068,055

Mastercraft Limited

Notes to the Consolidated Financial Statements (continued)

8. Property, Plant and Equipment (continued)

As of December 31, 2003 and 2002, certain items of production equipment with an approximate carrying value of \$96,339 and \$431,748, respectively, were pledged to banks as collateral against loans to the Company (Notes 19).

In addition, the Company pledged property, plant and equipment with an approximate carrying value of \$19,585 and \$1,121 as of December 31, 2003 and 2002, respectively, in respect of loans received by the Company's related parties (Note 29).

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.

9. Long-Term Investments

Long-term investments were as follows as of December 31:

Name	Business activity	Percentage holding	2003	2002
Investments in associates:				
OAo Large-Diameter Pipe Plant	pipe manufacturing	25% plus one share	12,450	11,538
OAo Nakhodka Commercial Sea Port	seaport services	35.47%	—	4,917
OOO Mecona	seaport services	50.00%	1,683	—
OOO Plant of Metallurgical Reagents	production of metallurgical reagents	50.00%	679	—
OAo TagilBank	banking	37.91%	579	536
Other associates			527	167
Investments in other companies:				
OAo Ugolnaya Kompaniya Kuznetskugol	coal mining	20%	—	7,822
Novosibirsk Steel Plant	steel making, pipe manufacturing	0.20%	29	12,443
OAo Ugolnaya Kompaniya Kuzbassugol	coal mining	3.91%	—	8,869
OAo Rossiiskie Kommunalnye Systemy	electricity, heating and other public utilities	10.00%	3,395	—
ZAO Raspadskaya	coal mining	19.09%	1,310	1,214
Other investments			612	422
Held-to-maturity financial assets:				
OGVZ bonds			1,055	—
			\$ 22,319	\$ 47,928

10. Restricted Deposits at Banks

	2003	2002
Amsterdam Trade Bank N.V.	\$ 14,617	\$ —
UBS AG, Lugano	4,500	—
	19,117	—
Less: deposits with current maturities	(4,500)	—
	\$ 14,617	\$ —

Mastercraft Limited

Notes to the Consolidated Financial Statements (continued)

10. Restricted Deposits at Banks (continued)

In 2003, Mastercraft Finance Limited deposited \$14,617 in Amsterdam Trade Bank N.V. (“ATB”). These deposits are used by ATB to secure the obligations of OOO Deltorg (“Deltorg”) under the credit lines provided by ATB to Deltorg. The deposits bear interest in the range from 6.5% to 8.5% per annum. Deposits will become unrestricted upon repayment by Deltorg of the credit lines, which mature in August 2006 and December 2007.

In 2003, Ferrotrade Limited deposited \$4,500 in UBS AG, Lugano (“UBS”). This deposit is used by UBS to secure the obligations of Ferrotrade Limited and East Metals S.A. under the credit lines provided by UBS (Note 19).

11. Other Non-Current Assets

	2003	2002
Prepaid contributions to pension schemes	\$ 8,031	\$ —
Other	917	204
	<u>\$ 8,948</u>	<u>\$ 204</u>

In July 2003, NTMK and Zapsib introduced defined contribution pension schemes, which required contributions to be made to separately administrated fund. These schemes cover substantially all of NTMK’s and ZapSib’s employees. The pension contributions represent a partial matching of employee contributions generally up to a maximum of 6% of the employee’s salary. At December 31, 2003, there were no participants in the schemes.

In 2003, NTMK and ZapSib made prepaid contributions of approximately 370,000,000 roubles (approximately \$12,055 at the exchange rates as at the dates of contributions) to the pension fund, which were initially recognised at cost. At December 31, 2003, prepaid contributions were measured at their present value determined based on expected timing of recognition of the contributions as expenses at a discount rate of 8% per annum. The long-term portion of the present value of the contributions of \$8,031 was included in other non-current assets and the current portion of \$2,513 was included in prepayments in the consolidated balance sheet as of December 31, 2003. The difference of \$1,937 (at the year average exchange rate) between the amount paid and the carrying amount of prepaid employee benefit was included in staff costs in the consolidated statement of operations for the year ended December 31, 2003.

Mastercraft Limited

Notes to the Consolidated Financial Statements (continued)

12. Inventories

Inventories, at cost, consisted of the following as of December 31:

	2003	2002
Raw materials and spare parts	\$ 185,800	\$ 99,243
Work-in-progress	34,537	19,808
Finished goods	265,690	4,255
	486,027	123,306
Allowance for obsolete and slow-moving items	(5,201)	(4,274)
	\$ 480,826	\$ 119,032

As of December 31, 2003 and 2002, certain items of inventory with an approximate carrying amount of \$178,597 and \$30,219, respectively, were pledged to banks as collateral against loans provided to the Company (Note 19).

13. Trade and Other Receivables

Trade and other receivables consisted of the following as of December 31:

	2003	2002
Trade accounts receivable	\$ 61,351	\$ 39,944
Other receivables	19,023	13,622
	80,374	53,566
Allowance for doubtful accounts	(11,405)	(15,943)
	\$ 68,969	\$ 37,623

Mastercroft Limited

Notes to the Consolidated Financial Statements (continued)

14. Related Party Disclosures

Amounts owed by/to related parties at December 31 were as follows:

	Amounts due from related parties		Amounts due to related parties	
	2003	2002	2003	2002
EAM Group	\$ —	\$ 401	\$ 7,709	\$ 23,559
Evraztrans	11,655	—	23	—
Ferrotrade & Co.	62,247	8,850	116,514	74,480
Fletcher Holdings International Corp.	—	—	20,766	20,699
Goroblagodatskoye Ore Mine	8,679	6,975	—	6
Kuzbassuglepostavka	—	—	19,408	—
Marteck International Limited	—	2	4,291	—
Novosibirsk Metallurgical Plant	—	7,908	—	190
Relsy KMK	2,277	4,327	7,629	196
SEAR MF	9,028	21	1,766	5,278
Shareteam Investments Limited	3	—	32,047	—
Sibirskaya Gornaya Company	—	6	11	5,530
Spetsmash-MT	2,414	—	72	—
Steel of Kuznetsk Steel Plant	5,551	2,227	5,574	36
Other entities	23,929	11,458	21,099	13,256
Liabilities to entities under common control for transfers of ownership interests in subsidiaries	—	—	—	47,245
	125,783	42,175	236,909	190,475
Less: allowance for doubtful accounts	(8,226)	(10,853)	—	—
Less: amounts due to related parties under Settlement Agreements (Note 20)	—	—	(13,329)	(30,826)
	\$ 117,557	\$ 31,322	\$ 223,580	\$ 159,649

Transactions with related parties for the years ended December 31 were as follows:

	Sales to related parties		Purchases from related parties	
	2003	2002	2003	2002
D.E.Metals	\$ —	\$ 369	\$ 24,629	\$ —
Duferco S.A.	—	22,317	—	—
EAM Group	—	51,868	377	223
Evraz-Ruda	2,929	70	87,930	11,094
Evraztrans	—	—	14,603	—
Ferrotrade & Co.	484,669	311,829	—	—
Ferrotranstrade	7,377	499	1,745	—
Interural	1,278	9,853	37	99
Kuzbassuglepostavka	6,822	—	229,280	—
Kuznetsk Coal Company	104,471	630	142,738	—
Kuznetskuglesbyt	—	151,880	94	18,251
Metallenergofinance	4,512	4	68,668	—
Relsy KMK	27,668	233	51,451	214
Sibirskaya Gornaya Company	—	472	—	40,274
Starwood Trading Limited	1	16,097	—	—
Steel of Kuznetsk Steel Plant	18,042	25,903	13,368	17,485
UK Kuznetskugol	7,271	5,463	—	—
UK Yuzhkuzbassugol	14,609	—	6,122	—
Upravliayuschaya Company	—	—	—	—
ZapSibStroyHolding	1	342	8,207	10,292
Zapsibmetall-Novosibirsk	—	11,593	—	—
Other entities	\$ 4,032	\$ 11,187	\$ 16,806	\$ 5,890

Mastercrocft Limited

Notes to the Consolidated Financial Statements (continued)

14. Related Party Disclosures (continued)

It is the nature of transactions with related parties that they cannot be presumed to be carried out on an arm's-length basis.

ZAO D.E.Metals became an entity under common control with the Company in 2003. It served as a purchasing agent to NTMK in 2003. D.E.Metals became the Company's related party in 2003.

Duferco S.A. is an entity under control of Duferco Participation Holdings Limited ("Duferco"), a shareholder of NTMK. In 2002, Duferco sold its shares in NTMK and ceased to be a related party. Duferco S.A. is a customer of NTMK.

ZAO EAM Group ("EAM") is an entity under common control with the Company. At 31 December 2003 and 2002, NTMK owed \$7,661 and \$20,963 to EAM under the Settlement Agreement (Note 20). In 2002, NTMK sold its products to EAM.

OAO Evraz-Ruda, an entity under common control with the Company, sold iron ore to and purchased metal products from Zapsib and NKMK.

ZAO Evraztrans, an entity under common control with the Company, provided transportation services to NTMK, ZapSib, NKMK and Ferrotrade Limited in 2003. ZAO Evraztrans became the Company's related party in 2003.

Ferrotrade & Co. is an entity under common control with the Company. NTMK and ZapSib sold their products to Ferrotrade & Co. OAO Nakhodka Commercial Sea Port provided cargo handling services to Ferrotrade & Co. In accordance with the Company's restructuring plans, Ferrotrade & Co. transferred its trading activities to Ferrotrade Limited in October 2003. In 2003, Ferrotrade Limited purchased 521,560 metric tons of steel products from Ferrotrade & Co. for \$109,931 and sold 834,024 metric tons of steel products to Ferrotrade & Co. for \$210,581. Out of these, only sales of 312,464 metric tons for \$76,217 were recognised as revenue in the accompanying consolidated statement of operations. Other transactions, which were not recognised as revenue in the accompanying consolidated statement of operations, resulted in a gain of \$24,433. This gain was recognised in the accompanying consolidated statement of operations.

OAO Ferrotranstrade ("Ferrotranstrade") became an entity under common control with the Company in 2003. Ferrotranstrade acts as a sales agent of NTMK and NKMK. NTMK also sells its products to Ferrotranstrade.

Fletcher Holdings International Corp. ("Fletcher") is an entity under common control with the Company. At December 31, 2003 and 2002, Tradeline owed \$19,267 to Fletcher in relation to the purchase of shares of NTMK. At December 31, 2003 and 2002, Lakemill owed \$1,432 to Fletcher including \$2,492 of accounts payable for 1,618,019 (12.09%) common shares of ZapSib acquired by Lakemill under the share purchase agreement dated September 30, 2002, and \$1,060 of accounts receivable in respect of payments made Lakemill on behalf of Fletcher in 2002.

OAO Goroblagodatskoye Ore Mine ("GBRU"), a wholly owned subsidiary of NTMK, is under bankruptcy proceedings. NTMK sold its products to GBRU and purchased agglomerate from GBRU.

Mastercraft Limited

Notes to the Consolidated Financial Statements (continued)

14. Related Party Disclosures (continued)

ZAO Interural (“Interural”), an entity under control of a shareholder of NTMK, is a customer of NTMK. In 2003, the shareholder sold its shares in NTMK and Interural ceased to be a related party.

OOO Kuzbassuglepostavka became an entity under common control with the Company in 2003. It supplied coal to and purchased tolling services from NTMK in 2003.

OOO Kuznetsk Coal Company, an entity under common control with the Company, sold coal and coke to and purchased products and services from ZapSib.

ZAO Kuznetskuglesbyt, an entity under control of a shareholder of ZapSib, sold spare parts and provided transportation services to ZapSib and purchased metal products from ZapSib.

Marteck International Limited (“Marteck”) is an entity under common control with the Company. At December 31, 2003, amounts due to Marteck represented accounts payable for 169,635,269 common shares of NTMK purchased by Tradeline on July 31, 2003.

OOO Metallenergofinance became an entity under common control with the Company in 2003. It supplied electricity to NTMK, ZapSib and NKMK in 2003.

OAO Novosibirsk Metallurgical Plant (“NMZ”) was an entity under common control with the Company. In 2002, ZapSib sold metal products to NMZ and purchased services from NMZ. In 2003, NMZ ceased to be a related party.

OOO Relsy KMK (“Relsy KMK”) is an entity under common control with the Company. Relsy KMK sold metal products and materials to and purchased metal products from ZapSib and NKMK. In 2003, NKMK acquired property, plant and equipment items for 308,506,799 roubles (\$10,340 at the exchange rate as of the date of acquisitions) from Relsy KMK.

ZAO SEAR MF (“SEAR MF”) is an entity under common control with the Company. At 31 December 2003 and 2002, ZapSib owed \$1,562 and \$3,681, respectively, to SEAR MF under the Settlement Agreement (Note 20).

Shareteam Investments Limited (“Shareteam”) is an entity under common control with the Company. At December 31, 2003, amounts due to Shareteam represented accounts payable for 41,055,936 common shares of OAO Nakhodka Commercial Sea Port purchased by Sibmetinvest on December 30, 2003. In accordance with the terms of the purchase agreement, the amount is due not later than April 1, 2004.

ZAO Sibirskaya Gornaya Company (“SGC”), an entity under common control with the Company, was liquidated in 2003. In 2002, ZapSib purchased raw materials from and sold metal products to SGC.

OOO Spetsmash-MT (“Spetsmash-MT”) is an entity under common control with the Company. In 2003, NKMK acquired property, plant and equipment items from Spetsmash-MT.

Mastercroft Limited

Notes to the Consolidated Financial Statements (continued)

14. Related Party Disclosures (continued)

Starwood Trading Limited (“Starwood”) is an entity under control of a shareholder of NTMK. NTMK sold its products to Starwood.

OOO Steel of Kuznetsk Steel Plant (“Steel of KMK”) is an entity under common control with the Company. In 2003, NKMK acquired from Steel of KMK items of property, plant and equipment for 6,553,477 roubles (\$219 at the exchange rate as of the dates of acquisitions). In addition, NKMK provided to Steel of KMK raw materials and pig iron, which were used by Steel of KMK for production of blanks and blooms. NKMK purchased substantially all blanks and blooms produced by Steel of KMK from the Company’s raw materials and pig iron. In 2003, NKMK sold raw materials and pig iron to Steel of KMK for \$8,030 and \$27,379, respectively, and purchased blanks and blooms from Steel of KMK for \$46,651. The Company determined that, in accordance with IFRS, the transactions with Steel of KMK for \$35,409, representing supply of raw materials and sale of pig iron, do not meet the criteria for revenue recognition.

OAO UK Kuznetskugol, an entity under common control with the Company, purchased metal products and services from ZapSib.

ZAO UK Yuzhkuzbassugol, an entity under common control with the Company, sold coal and services to and purchased metal products from ZapSib.

ZAO Upravliayuschaya Company ZapSibSroyHolding, a wholly owned subsidiary of ZapSib, provided construction services to and purchased metal products from ZapSib.

ZAO Zapsibmetall-Novosibirsk, an entity under control of a shareholder of ZapSib, purchased metal products from ZapSib.

The balances of amounts due to related parties as of December 31, 2002 include liabilities to entities under common control for transfers of ownership interests in subsidiaries. As described in Note 4 and Note 5, ownership interests in certain subsidiaries were transferred to the Company in transactions with entities under common control with the Company. When the transfer of ownership interest in such subsidiaries actually occurred after December 31, 2002, and the results of operations of such subsidiaries have been included in the accompanying consolidated financial statements from the dates earlier than December 31, 2002, the carrying amounts of net assets of such subsidiaries, net of minority interests, have been included in amounts due to related parties as of December 31, 2002.

In addition to the balances and transactions disclosed in this note, loans due to and from related parties presented in separate items in the accompanying consolidated balance sheets are disclosed in Notes 15, 22 and 27.

Mastercroft Limited

Notes to the Consolidated Financial Statements (continued)

15. Loans Receivable from Related Parties

Loans receivable from related parties as of December 31 were as follows:

	2003	2002
OOO Spetsmash-MT	\$ 13,148	\$ —
Marteck International Limited	2,000	—
OAO Goroblagodatskoye Ore Mine	1,460	—
ZAO SEAR MF	350	10,611
	\$ 16,958	\$ 10,611

As of December 31, 2003 and 2002, loans receivable from related parties include interest bearing promissory notes due on demand.

In 2004, liabilities of Spetsmash-MT to the Company under promissory notes were guaranteed by Crosland, the Company's parent.

16. Taxes Receivable

Taxes receivable consisted of the following as of December 31:

	2003	2002
Input VAT	\$ 106,652	\$ 49,573
Other taxes	22,550	10,635
	\$ 129,202	\$ 60,208

As of December 31, 2003 and 2002, input VAT included the current portion of input VAT related to the restructured liabilities under the Settlement Agreements of \$1,606 and \$2,477, respectively (Note 20).

17. Short-Term Investments and Notes Receivable

Short-term investments and notes receivable as of December 31 were as follows:

	2003	2002
Promissory notes	\$ 35,987	\$ 441
Nomos bank – deposit certificates	9,430	—
Other	958	25
	\$ 46,375	\$ 466

Mastercrocft Limited

Notes to the Consolidated Financial Statements (continued)

17. Short-Term Investments and Notes Receivable (continued)

Deposit Certificates

In August 2003, Lakemill entered into an agreement with Commercial Bank “Souznyi” (“Souznyi”) for the purchase of five deposit certificates of Joint-stock Investment – Commercial Bank Novaya Moskva (“Nomos-Bank”) with the total nominal value of 268,650,000 roubles (\$8,859 at the exchange rate as of the date of acquisition). The certificates bear interest of 9.5% per annum and mature in August 2004.

Promissory Notes

In 2004, promissory notes of certain entities with the book value of \$10,804 were exchanged by the Company to the promissory notes of Spetsmash-MT, a related party, with the same nominal value. Liabilities of Spetsmash-MT to the Company under promissory notes were guaranteed by Crosland, the Company’s parent.

18. Share Capital

Mastercrocft was incorporated on December 31, 2002 with an authorised share capital of 10,000 ordinary shares of 1 Cyprus pound each and an issued share capital of 1,000 ordinary shares of 1 Cyprus pound each.

On February 18, 2003, the Central Bank of Cyprus granted permission for the existing shares of Mastercrocft as at that date to be transferred from Marteck to Crosland Limited.

On May 14, 2003, both authorised and issued share capital were converted into US dollars as follows:

- Authorised share capital into 19,666 ordinary shares of 1 US dollar each,
- Issued share capital into 1,966 ordinary shares of 1 US dollar each.

On May 14, 2003, the Central Bank of Cyprus granted permission for the additional issue of 100,017,700 ordinary shares of 1 US dollar each to Crosland.

On October 31, 2003, the Central Bank of Cyprus granted permission for the additional issue of 200,000,000 shares of 1 US dollar each to Crosland. On the same date, Mastercrocft called for payment of 0.1949 US dollar per share out of 1 US dollar, being the nominal value of the ordinary share. The balance of 0.8051 US dollar has not as yet been called for payment.

In 2003, Mastercrocft received contributions from its parent company of \$139,000, of which \$53,000 was in cash and \$86,000 was in the form of promissory notes of Marteck. The Company offset its liabilities due to Marteck against these promissory notes.

The Company’s capital issuance costs in 2003 were \$65.

In 2004, the Company called up for payment additional \$30,000 of share capital and received the respective amount from its parent company.

Mastercraft Limited

Notes to the Consolidated Financial Statements (continued)

19. Interest-Bearing Loans and Borrowings

Short-term and long-term loans and borrowings were as follows as of December 31:

	2003	2002
<i>Russian banks:</i>		
Vneshtorgbank	\$ 80,509	\$ 944
Alfa bank	26,458	30,571
Sberbank	23,024	17,000
MDM-Bank	9,967	992
Transcreditbank	6,670	20,526
Gazprombank	4,659	1,468
The Russian Bank for Development	3,040	—
Tagilbank	1,134	444
Kedr bank	265	472
	155,726	72,417
<i>International banks:</i>		
Syndicated loans [a]	100,000	—
UBS AG	26,687	—
BNP Paribas	18,418	—
Banca Commerciale Lugano	12,881	—
Banque Brussels Lambert	10,727	—
Banque de Commerce et de Placements	9,953	—
Credit Suisse	1	—
Other banks	415	—
	179,082	—
8.875 per cent notes due 2006 [b]	175,000	—
Bearer coupon debt securities [b]	33,951	31,794
Loans provided by other companies	9,728	17,053
Unamortised debt issue costs [c]	(6,069)	—
Interest payable	4,362	31
	\$ 551,780	\$ 121,295

As of December 31, 2003 and 2002, total interest bearing loans and borrowings consisted of short-term loans and borrowings in the amount of \$216,277 and \$87,038, respectively, and long-term loans and borrowings in the amount of \$341,572 and \$34,257, respectively, including the current portion of long-term liabilities of \$6,003 and \$0, respectively.

In 2003, average annual interest rates were 13.1% and 5.8% for short-term loans denominated in roubles and US dollars, respectively, and 13.6%, 7.5%, 8.0% for long-term loans denominated in roubles, US dollars and euro, respectively.

In 2002, average annual interest rates were 17.4% and 8.8% for short-term loans denominated in roubles and US dollars, respectively, and 17.7% and 9.4% for long-term loans denominated in roubles and euro, respectively.

Mastercrocft Limited

Notes to the Consolidated Financial Statements (continued)

19. Interest-Bearing Loans and Borrowings (continued)

The liabilities are denominated in the following currencies (net of unamortised debt issue costs):

	2003		2002
Roubles	\$ 84,166	\$	52,782
US Dollars	452,988		67,521
Euro	14,626		992
	\$ 551,780	\$	121,295

The liabilities are contractually repayable after the balance sheet date as follows (net of unamortised debt issue costs):

	2003		2002
Less than one year	\$ 220,152	\$	87,038
Between one year and two years	82,899		2,023
Between two years and five years	247,515		32,123
After five years	1,214		111
	\$ 551,780	\$	121,295

At December 31, 2003 and 2002, the Company had equipment with a carrying value of \$96,339 and \$431,748, respectively, pledged as collateral under the loan agreements. In addition, the Company pledged finished goods with a carrying value of \$178,597 and \$30,219 as of December 31, 2003 and 2002, respectively.

[a] Syndicated Loans

On December 18, 2003, NTMK and ZapSib entered into \$50,000 loan agreements each with joint lenders (Société Générale, Commerzbank (Eurasija), Moscow Narodny Bank, BNP Paribas, Ost-West Handelsbank AG, GarantiBank International N.V., Natexis Banques Populaires). The loans are due for repayment from December 18, 2004 to December 18, 2006 by twenty-five equal monthly installments. The loans are to be used to finance working capital needs and investments in connection with the production and export of steel. The liability bears interest at an annual rate of LIBOR plus a margin of 3.7% per annum which may be increased by a maximum of 0.8% per annum in case of deterioration of the company rating of Mastercrocft published by Moody's Investors Service. In December 2003, the interest rate was equal to 4.86% per annum.

The loan agreements provide for certain covenants in respect of Mastercrocft and its subsidiaries. The covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness and profitability.

Mastercrocft, together with Ferrotrade Limited, Ferrotrade & Co. and East Metals S.A. guaranteed, on a joint and several basis, due and punctual payments of all amounts in respect of the loan agreements.

Mastercrocft Limited

Notes to the Consolidated Financial Statements (continued)

19. Interest Bearing Loans and Borrowings (continued)

NTMK and ZapSib pledged their rights under two export contracts with Ferrotrade Limited as collateral under the loan agreements. All proceeds from sales of steel pursuant to these contracts can be used to satisfy the obligations under the loan agreements in the event of a default.

On April 1, 2004, the borrowing facility under the agreement with ZapSib was increased by \$30,000.

[b] Bonds and Notes

In September and December 2003, EvrazSecurities issued notes amounting to \$175,000. The notes bear interest of 8.875% per annum payable semi-annually and mature on September 25, 2006. Mastercrocft, together with NTMK, ZapSib, Ferrotrade Limited, and Ferrotrade & Co. guaranteed, on a joint and several basis, due and punctual payments of all amounts in respect of the notes. The conditions of the notes provide for certain covenants in respect of Mastercrocft Limited and its subsidiaries. The covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness and profitability.

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. NTMK guaranteed all of the liabilities of FC EvrazHolding under the debt securities. The liabilities under the debt securities were accounted for at amortised cost in the accompanying consolidated financial statements.

[c] Unamortised Debt Issue Costs

Unamortised debt issue costs represent agent commission and arrangement costs paid by NTMK, ZapSib and EvrazSecurities in relation to the arrangement of syndicated loans and issue of notes. Unamortised debt issue costs include long-term portion of \$3,941 and short-term portion of \$2,128.

Unutilised Borrowing Facilities

Citibank

On May 23, 2003, NTMK signed an agreement with Citibank for a revolving multi-currency credit line for a total borrowing facility of \$10,000. The agreement will remain in effect until October 8, 2004. The maximum term of any loan granted under the agreement is limited to 364 days. The interest rate is to be fixed for each loan individually prior to disbursement. As of December 31, 2003, NTMK had no liabilities under the credit line.

Mastercroft Limited

Notes to the Consolidated Financial Statements (continued)

19. Interest Bearing Loans and Borrowings (continued)

Commerzbank AG

On October 23, 2003, NTMK entered into an agreement with Commerzbank AG for a credit line of EUR 18,887,500 (\$23,613 at the exchange rate as of December 31, 2003). The liability under the credit line bears interest at a semi-annual rate of EURIBOR plus 1% and is due for repayment from January 15, 2005 to December 31, 2013 by seventeen equal semi-annual installments. As of December 31, 2003, NTMK had no liabilities under the credit line.

International Moscow Bank ("IMB")

On December 30, 2003, ZapSib entered into a loan agreement with IMB for \$10,000. The loan bears interest at an annual rate of LIBOR plus a margin which varies from 4.5% to 8.0% per annum depending on the amount of proceeds from export sales received on ZapSib's accounts in IMB.

The receipts under the loan are intended for working capital needs. In accordance with the agreement, ZapSib pledged certain items of property, plant and equipment with a carrying value of \$4,712. As of December 31, 2003, ZapSib had no liabilities under the loan agreement.

Other Unutilised Borrowing Facilities

As of December 31, 2003, NTMK had unutilised borrowing facilities in the amount of \$12,742.

As of December 31, 2003, Ferrotrade Limited, East Metals S.A. and Ferrotrade & Co. had unutilised borrowing facilities in the amount of \$70,033.

20. Liabilities under the Settlement Agreements

Liabilities under the Settlement Agreements, at carrying amounts, consisted of the following as of December 31:

	2003	2002
Related parties (Note 14)	\$ 13,329	\$ 30,826
Others	45,667	56,969
	58,996	87,795
Less current portion:		
Related parties	(1,680)	(6,360)
Others	(17,903)	(23,337)
	(19,583)	(29,697)
	\$ 39,413	\$ 58,098

Mastercroft Limited

Notes to the Consolidated Financial Statements (continued)

20. Liabilities under the Settlement Agreements (continued)

In 1997, under the decision of the Arbitration Court of the Kemerovo Region, ZapSib was placed under external management in connection with the bankruptcy proceedings against ZapSib. On November 14, 2001, ZapSib 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 ZapSib. Under the Settlement Agreement, ZapSib's liabilities to the creditors were rescheduled for repayment during the period from 2002 to 2026.

In 1999, creditors of NTMK initiated bankruptcy proceedings against NTMK and filed a suit with the Sverdlovsk region Arbitration court. On November 26, 1999, the NTMK entered into a restructuring agreement with its creditors, which was approved by the court in December 1999 (the "Settlement Agreement"). Under the Settlement Agreement, NTMK's liabilities to the creditors were rescheduled for repayment during the period from 2001 to 2008.

The restructuring of the liabilities under the Settlement Agreements was accounted for as extinguishments of the old financial liabilities and recognition of the new financial liabilities with substantially different terms.

The liabilities under the Settlement Agreements were measured at amortised cost in the accompanying consolidated 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 liabilities under the Settlement Agreements as of December 31, 2003 and 2002 was \$134,280 and \$182,409, respectively, including the amount of \$71,785 and \$99,566, respectively, denominated in roubles, \$46,423 and \$67,048, respectively, denominated in US dollars and \$16,072 and \$15,795, respectively, denominated in euros.

Liabilities under the Settlement Agreements include other long-term obligations which are repaid in accordance with terms of the Settlement Agreement. The fair value of other long-term obligations was determined based on the future cash payments discounted at the annual rate of 20%.

As of December 31, 2003, the carrying amount of NTMK's liabilities under the Settlement agreement comprised of \$11,698 payable to related parties and \$26,310 payable to other companies, including the current portion of \$1,455 and \$9,240, respectively.

As of December 31, 2002, the carrying amount of NTMK's liabilities under the Settlement agreement comprised of \$26,904 payable to related parties and \$38,427 payable to other companies, including the current portion of \$3,725 and \$11,337, respectively.

As of December 31, 2003, the carrying amount of ZapSib's liabilities under the Settlement agreement comprised of \$1,631 payable to related parties and \$19,357 payable to other companies, including the current portion of \$225 and \$8,663, respectively.

Mastercroft Limited

Notes to the Consolidated Financial Statements (continued)

20. Liabilities under the Settlement Agreements (continued)

As of December 31, 2002, the carrying amount of ZapSib's liabilities under the Settlement agreement comprised of \$3,922 payable to related parties and \$18,542 payable to other companies, including the current portion of \$2,635 and \$12,000, respectively.

As of December 31, 2003, the liabilities under the Settlement agreements are due for repayment as follows:

Year	Annual payments
2004	\$ 20,469
2005	5,963
2006	12,546
2007	12,688
2008	12,785
2009-2021	953
2022-2025	10,857
2026	14,012
	\$ 134,280

Input VAT relating to the liabilities under the Settlement Agreements with the nominal value of \$13,562 and \$15,257 as of December 31, 2003 and 2002, respectively, can be recovered from the tax authorities only after the repayment of respective liabilities. Input VAT relating to the Settlement Agreements was measured at the fair value in the accompanying consolidated balance sheets. The fair value was determined based on the future cash receipts discounted at the annual rate of 20% and amounted to \$5,584 and \$6,797 at December 31, 2003 and 2002, respectively, including the current portion of \$1,606 and \$2,477, respectively, and non-current portion of \$3,978 and \$4,320, respectively.

21. Restructured Taxes Payable

Restructured taxes payable as of December 31 were as follows:

	2003	2002
Social insurance taxes	\$ 21,714	\$ 29,274
Road users tax	13,301	12,546
Tax-related fines and penalties	3,029	2,226
Other taxes	1,402	1,735
	39,446	45,781
Less current portion (Note 28):		
Social insurance taxes	(9,646)	(12,884)
Road users tax	(2,744)	(2,290)
Tax-related fines and penalties	(303)	(814)
Other taxes	(753)	(729)
	(13,446)	(16,717)
	\$ 26,000	\$ 29,064

Mastercraft Limited

Notes to the Consolidated Financial Statements (continued)

21. Restructured Taxes Payable (continued)

Social Insurance Taxes

In December 2001, in accordance with the Government Decree on the Restructuring of Liabilities under Social Insurance Taxes, NTMK, ZapSib and VGOK agreed with the tax authorities to restructure its liabilities under social insurance taxes and related fines and penalties. Under the terms of the agreements, social insurance taxes and related fines and penalties with the nominal value of \$121,372 were rescheduled for payment as follows. The amount of \$48,739 should be paid in quarterly installments through December 31, 2006 as follows:

2002	\$	10,275
2003		11,587
2004		8,959
2005		8,959
2006		8,959

The amount of \$72,634 will be forgiven if all the other payments under the restructuring agreements and current social insurance taxes obligations are made on a timely basis.

On August 19, 2002, \$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 30 June 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 amortised cost in the consolidated balance sheets as of December 31, 2003 and 2002. 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%. \$67,825 to be forgiven if all the other payments are made on a timely basis was not included in the liabilities as of December 31, 2003 and 2002 based on the management's estimate that it is probable that the Company will comply with the payment terms of the restructuring agreements and will make timely payments under the current social insurance taxes obligations.

Road Users Tax

In 2002, in accordance with the Government Decree on the Restructuring of Liabilities under Road Users Tax, NTMK and VGOK agreed with the tax authorities to restructure its liabilities under road users tax and related fines and penalties. Under the terms of the agreements, road users tax and related fines and penalties with the nominal value of \$27,262 were rescheduled for payment as follows. The tax principal amount of \$11,430 should be paid in equal quarterly installments through March 31, 2006. The tax-related fines and penalties of \$15,832 should be paid in equal quarterly installments from April 1, 2006 through March 31, 2010.

Mastercroft Limited

Notes to the Consolidated Financial Statements (continued)

21. Restructured Taxes Payable (continued)

Road Users Tax (continued)

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 amortised cost in the consolidated balance sheets as of December 31, 2003 and 2002. The cost of the liability as of the date of restructuring was \$14,458 determined based on the future cash payments discounted at the annual rate of 20%.

The gain on the restructuring of the liabilities of \$12,804 was included in the consolidated statement of operations for the year ended December 31, 2002.

Tax-Related Fines and Penalties

In December 2001, in accordance with the Government Decree on the Restructuring of Liabilities under Tax-Related Fines and Penalties, NTMK and ZapSib 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 \$38,414 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 \$1,566 was rescheduled for payment in equal quarterly installments through December 31, 2011. The amount of \$33,674 will be 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 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 amortised cost in the accompanying consolidated balance sheets as of December 31, 2003. 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%. \$33,674 to be forgiven if all the other payments are made on a timely basis was not included in the liabilities at December 31, 2003 and 2002 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.

On September 1, 2003, \$3,884 representing penalties related to road users tax was included in the restructuring agreement. The amount should be paid in equal quarterly installments through June 2012. 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 amortised cost in the consolidated balance sheet as of December 31, 2003. 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 13%.

Mastercraft Limited

Notes to the Consolidated Financial Statements (continued)

21. Restructured Taxes Payable (continued)

Tax-Related Fines and Penalties (continued)

In 2004, in accordance with the Government Decree dated April 24, 2002, the tax authorities decided to forgive 50% of the nominal value of NTMK's restructured tax-related fines and penalties outstanding at December 31, 2003.

The gain on the restructuring of the liabilities of \$2,259 was included in the consolidated statement of operations for the year ended December 31, 2003.

22. Long-Term Loans due to Related Parties

Long-term loans due to related parties as of December 31 were as follows:

	2003	2002
Ferrotrade & Co.	\$ 91,887	\$ —
Marteck	313	40,014
	<u>\$ 92,200</u>	<u>\$ 40,014</u>

Ferrotrade & Co.

In June 2003, Ferrotrade & Co. granted a \$120,000 loan facility to MFL. The loan bears no interest and is repayable on June 1, 2006. The liability under the loan was measured at amortised cost in the accompanying consolidated balance sheet as of December 31, 2003. The gain of \$9,753 on the initial recognition of the loan was included in the accompanying consolidated statement of operations for the year ended December 31, 2003. In the year ended December 31, 2003, the Company recognised interest expense of \$1,058 in respect of this loan.

Marteck

In April 2001, Marteck granted a \$50,000 loan facility to Lakemill. The loan bears no interest and is repayable on December 31, 2007. In 2003, the Company made additional borrowings of \$9,552 and repaid \$8,253 under this agreement. In addition, on June 30, 2003, the Company repaid this loan by promissory notes of Marteck with the total nominal value of \$41,000.

23. Finance Lease Liabilities

In 2000-2003, NTMK, ZapSib and NKMK entered into lease agreements under which they have an option to acquire the leased assets at the end of lease term ranging from 2 to 10 years. The estimated average remaining useful life of leased assets varies from 5 to 11 years.

The leases were accounted for as finance leases in the consolidated financial statements. At December 31, 2003 and 2002, the aggregate carrying value of the leased assets amounted to \$18,537 and \$13,251, net of accumulated depreciation of \$7,041 and \$3,986, respectively. The leased assets are included in other assets in property, plant and equipment in the accompanying consolidated balance sheets (Note 8).

Mastercrocft Limited

Notes to the Consolidated Financial Statements (continued)

23. Finance Lease Liabilities (continued)

Future minimum lease payments were as follows at December 31, 2003:

	Principal	Interest	Total
2004	\$ 5,251	\$ 2,909	\$ 8,160
2005 – 2008	12,504	4,814	17,318
2009	1,930	290	2,220
	19,685	8,013	27,698
Less: current portion	(5,251)	(2,909)	(8,160)
	\$ 14,434	\$ 5,104	\$ 19,538

Future minimum lease payments were as follows at December 31, 2002:

	Principal	Interest	Total
2003	\$ 2,000	\$ 1,347	\$ 3,347
2004 – 2007	9,348	4,585	13,933
2008 – 2011	2,141	557	2,698
	13,489	6,489	19,978
Less: current portion	(2,000)	(1,347)	(3,347)
	\$ 11,489	\$ 5,142	\$ 16,631

24. Provisions

Long-Term Provisions

Under the Russian legislation, mining companies have obligations to restore mining sites. As of December 31, 2003 and 2002, VGOK accrued a provision for site restoration in the amount of \$12,216 and \$9,880, respectively. The liabilities were measured based on estimates of restoration costs which are expected to be incurred in 2019 (\$38,108 at the exchange rate as of December 31, 2003) discounted at a 19.00% annual rate.

NTMK utilises a parcel of land to store sillage materials generated from the output of steel-mill production. NTMK utilises in its production process the sillage accumulated during the past years, and plans to utilise all the sillage stored by 2029. NTMK has publicly announced that the parcel of land will be recreated to comply with related environmental law. At 31 December 2001, NTMK determined that the estimated cost of recreation of the land in 2029 is \$17,406. The related provision was measured at the present value of expenditures expected to be incurred in 2029 discounted at a 15.54% annual rate and amounted to \$330 and \$265 as of December 31, 2003 and 2002, respectively.

Short-Term Provisions

On January 23, 2003, Noble Resources Ltd. served a request for arbitration against ZapSib at the International Court of Arbitration in London. Noble Resources' total claim for damage was approximately \$48,000. A provision of \$5,000 was recorded in the accompanying consolidated financial statements as at December 31, 2002.

Mastercraft Limited

Notes to the Consolidated Financial Statements (continued)

24. Provisions (continued)

Short-Term Provisions (continued)

On December 16, 2003, Noble Resources Ltd. and ZapSib reached an out of court settlement agreement. The claim was settled for the amount of \$4,300 paid by Lakemill, a shareholder of ZapSib.

25. Other Long-Term Liabilities

Other long-term liabilities comprised of the following as of December 31:

	2003	2002
Ocstar Holding, Inc.	\$ 35,866	\$ —
City Capital, Inc.	15,965	49,918
Other liabilities	3,574	2,074
	55,405	51,992
Less: current portion	(19,908)	(17,901)
	\$ 35,497	\$ 34,091

Amounts payable to City Capital, Inc. ("City Capital") represent Lakemill's long-term obligations under the agreements to acquire certain long-term debts of ZapSib and NTMK maturing in the period from 2004 to 2026 (Note 20). Lakemill's payments to City Capital in 2003 were \$16,236 (in 2002 - \$17,090).

On 1 July 2003, in accordance with an assignment agreement between City Capital and Ocstar Holding, Inc. ("Ocstar") Lakemill's long-term accounts payable to City Capital became payable to Ocstar. Lakemill's payments to Ocstar in 2003 were \$57,807.

Long-term accounts payable to City Capital and Ocstar and related assets due from ZapSib and NTMK were recognised at cost which was determined as of the dates of acquisition of the debts by Lakemill based on the expected amounts to be received from ZapSib and NTMK, their expected timing and applicable discount rates. As of December 31, 2003, the long-term liabilities payable to City Capital and Ocstar were carried at amortised cost of \$15,965 and \$35,866, respectively, including current portion of \$15,816 and \$4,092, respectively. At December 31, 2002, the long-term liabilities payable to City Capital were carried at amortised cost of \$49,918, including current portion of \$17,899. Interest expense related to the long-term liabilities to City Capital and Ocstar of \$3,407 for the year ended December 31, 2003 (for 2002 - \$2,893) is included in interest expense in the accompanying consolidated statement of operations.

Other liabilities include amounts due from ZapSib's employees under agreements on financing of social construction (\$2,917 and \$2,072 as of December 31, 2003 and 2002, respectively) and non-current portion of NMTP's pension obligations under a defined benefit plan (\$657 as of December 31, 2003).

Mastercraft Limited

Notes to the Consolidated Financial Statements (continued)

26. Trade and Other Payables

Trade and other payables as of December 31 were as follows:

	2003	2002
Trade accounts payable	\$ 117,486	\$ 55,054
Long-term promissory notes with current maturities	7,986	–
Promissory notes payable on demand	4,428	7,738
Accrued payroll	19,736	12,489
Other payables	10,427	26,391
	<u>\$ 160,063</u>	<u>\$ 101,672</u>

27. Short-Term Loans due to Related Parties

Short-term loans due to related parties as of December 31 were as follows:

	2003	2002
Ferrotrade & Co.	\$ 7,623	\$ –
Marteck	3,291	16,958
Crosland	122	–
	<u>\$ 11,036</u>	<u>\$ 16,958</u>

Ferrotrade & Co.

In October 2003, Ferrotrade & Co. granted a \$50,000 loan facility to Mastercraft. The loan bears no interest and is repayable on December 31, 2004.

Marteck

In October 2002, Marteck granted a \$25,000 loan facility to Tradeline. The loan bears no interest and is repayable on December 31, 2004. At December 31, 2003, Tradeline owed \$3,245 under this loan facility.

In October 2002, Marteck granted a \$25,000 loan facility to Logicmind. The loan bears no interest and is repayable on December 31, 2004. At December 31, 2003, Logicmind owed \$46 under this loan facility.

Crosland

In 2003, Mastercraft received a short-term loan from Crosland. The loan bears interest of 3% per annum and is repayable on December 31, 2004.

Mastercraft Limited

Notes to the Consolidated Financial Statements (continued)

28. Taxes Payable

Taxes payable consisted of the following as of December 31:

	2003	2002
Income tax	\$ 22,082	\$ 10,041
Social insurance taxes	10,479	7,126
VAT and related fines and penalties	10,251	6,077
Road users tax	1,721	30,701
Current portion of restructured taxes (Note 21)	13,446	16,717
Property tax	2,559	1,303
Land tax	4,092	3,771
Personal income tax	3,668	2,097
Other taxes, fines and penalties	10,006	4,693
	\$ 78,304	\$ 82,526

29. Commitments and Contingencies

Economic Environment

In 2003, the Russian Federation has continued economic growth. However, the Russian economy continues to display certain traits consistent with that of a market in transition. These characteristics in the past included higher than normal inflation, lack of liquidity in the capital markets, dependence on oil and gas prices, widespread of tax evasion, and the existence of currency controls which caused 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 actions with regard to supervisory, legal, and economic reforms. No assurance can be given that reform policies will be successful and the Russian economy will improve.

The Russian government has initiated reforms of the tax system that have resulted in some improvement in the tax climate. Many tax laws and related regulations were introduced in 2003 and previous years which were not always clearly written, subject to varying interpretation and inconsistent enforcement. 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 \$33,500. Management believes that it is not probable that the ultimate outcome of such matters would result in a liability.

Government authorities have a high degree of discretion in Russia and exercise their discretion arbitrarily, sometimes in a manner that may be contrary to the law. Unlawful government actions include withdrawal of licences, prejudiced tax audits, criminal prosecutions and civil actions.

Mastercraft Limited

Notes to the Consolidated Financial Statements (continued)

29. Commitments and Contingencies (continued)

Economic Environment (continued)

As of December 31, 2003, 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 21) 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.

Commitments

Agreements with Dufin Caster Project S.A.

On December 27, 2002, NTMK entered into a number of agreements with Dufin Caster Project S.A. ("Dufin"), an entity under control of Marteck. Under the agreements, NTMK 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 NTMK entered into an 8-year operating lease agreement, under which NTMK 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, including VAT (\$6 at the exchange rate as of December 31, 2003).

Mastercroft Limited

Notes to the Consolidated Financial Statements (continued)

29. Commitments and Contingencies (continued)

Commitments (continued)

Agreements with Dufin Caster Project S.A. (continued)

Dufin and CCM contracted with Voest-Alpine Industrieanlagenbau GmbH & Co. of Austria ("VAI") for EUR 74,500,000 for the purchase and installation of equipment for CCM-4. The construction is expected to be completed in 2004. Approximately 85% of the contracts value will be financed by the borrowing facilities provided by Bayerische Landesbank Girozentrale ("BLB"). Dufin plans to contribute the equipment acquired for CCM-4 to the charter capital of CCM.

NTMK 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 EUR 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 EUR 64,580,000 bearing interest at rates ranging from 5.4% to 9% per annum. Under the agreement between NTMK 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 NTMK 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

In connection with the loan agreements signed by Dufin and CCM, NTMK issued a guarantee of the obligations of Dufin and CCM to BLB in the amount of approximately EUR 83,000,000. In addition, NTMK pledged equipment with a carrying value of \$304 as collateral and issued a guarantee of CCM obligations in the amount of EUR 4,000,000 under agreements between CCM and MDM-Bank. In 2004, NTMK increased the collateral amount by \$232.

On October 17, 2003, MDM-Bank provided a payment guarantee of EUR 13,400,000 on part of a loan facility (EUR 49,580,000 out of EUR 64,580,000) provided to Dufin by BLB. In connection with the guarantee, NTMK granted a pledge to MDM-Bank of certain items of property, plant and equipment with a carrying value of \$6,529 and provided to MDM-Bank a guarantee on obligations of Dufin in the amount of EUR 13,400,000.

In 2003, Mastercroft and Ferrotrade & Co., an entity under common control with NTMK, provided payment guarantees under the loan agreements with BLB in the amount of EUR 64,580,000.

Mastercrocft Limited

Notes to the Consolidated Financial Statements (continued)

29. Commitments and Contingencies (continued)

Commitments (continued)

Agreements with Dufin Caster Project S.A. (continued)

On December 27, 2002, Dufin and NTMK signed an agreement, under which Dufin undertakes to purchase and NTMK undertakes to sell metal products over a period of at least 8 years. Dufin and NTMK 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.

The accounts of Dufin have not been included in the accompanying consolidated financial statements. Management believes that as of December 31, 2003, the Company did not control Dufin as defined in IAS 27, Consolidated Financial Statements and Accounting for Investments in Subsidiaries, and related interpretations.

Arrangements for the Purchase of a 2-strand Continuous Slab Casting Machine

On December 1, 2003, Mastercrocft and Voest-Alpine Industrieranlagenbau GmbH & Co. ("VAI") entered into an agreement for the construction of a 2-strand continuous slab casting machine ("CCM") at the premises of ZapSib. The construction is expected to be completed by the end of 2005.

The value of the contract is EUR 38,700,000. On December 30, 2003, Mastercrocft made a down payment of EUR 5,804,890 to VAI.

It is intended that in June 2004 Mastercrocft will terminate the agreement with a subsequent reimbursement of the down payment by VAI, and a new agreement will be signed between VAI and Caplink Ltd. ("Caplink"), a company incorporated under laws of Cyprus, which is 100% owned by a third party, Barion Investment Trust (BVI). Caplink will establish a 100% owned subsidiary in Russia ("NewCo.") and contribute the purchased equipment into the share capital of NewCo. NewCo will provide tolling services to ZapSib for processing of liquid steel into slabs.

It is intended that Caplink will act as a borrower under the loan, which will be provided by Bank Austria Creditanstalt with Export Credit Agency support (OeKB, Austria).

ZapSib intends to sign a long-term share purchase agreement with Caplink under which it will have an obligation to purchase Caplink's shares in NewCo in accordance with a pre-determined price (fixed in Euro) and time schedule. The purchase price and time schedule will mirror Caplink's obligations under the loan agreement with Bank Austria Creditanstalt.

In addition, in March 2004, Mastercrocft signed a contract for three billet continuous casting machines with Danieli & Co. Officine Meccaniche S.p.A ("Danieli") in the amount of EUR 28,100,00.

Mastercrocft Limited

Notes to the Consolidated Financial Statements (continued)

29. Commitments and Contingencies (continued)

Other Capital Expenditures

The Company signed contracts for the purchase of production equipment and construction works for an approximate amount of \$155,000.

Guarantees of Debts of Group Companies and Related Parties

Mastercrocft

On November 18, 2003, Mastercrocft provided a guarantee for Ferrotrade Limited, in respect of the loan facilities provided to Ferrotrade Limited by BNP Paribas, Geneva, up to but not exceeding \$90,000.

On November 18, 2003, Mastercrocft provided a guarantee for Ferreotrade Limited, East Metals S.A. and Ferrotrade & Co. in respect of the loan facilities provided by Banque Du Commerce at De Placement, Geneva, up to but not exceeding \$10,000.

On November 21, 2003, Mastercrocft provided a guarantee for Ferrotrade Limited and Ferrotrade & Co., in respect of the revolving credit lines provided to Ferrotrade Limited and Ferrotrade & Co. by ING Bank, Geneva, up to but not exceeding \$40,000 each.

On November 21, 2003, Mastercrocft provided a guarantee in respect of the revolving credit lines provided to Ferrotrade Limited, East Metals S.A. and Ferrotrade & Co. by Credit Lyonnais, Geneva, up to but not exceeding \$20,000 each.

On November 25, 2003, Mastercrocft provided a guarantee for East Metals SA, in respect of the loan facilities provided to East Metals SA by Banque Cantonale Vaudoise, Lausanne up to but not exceeding the amount of \$2,750. On the same date Mastercrocft issued a guarantee in the amount of \$16,500 covering the obligations of Ferrotrade Limited due to Banque Cantonale Vaudoise.

On December 18, 2003, Mastercrocft guaranteed all liabilities of Ferrotrade Limited and East Metals SA under CTF Master Credit Agreement dated December 3, 2003 between Ferrotrade Limited and East Metals S.A. as borrowers and UBS AG, Lugano as lender up to \$60,000.

On December 11, 2003, Mastercrocft guaranteed all liabilities of Ferrotrade Limited and East Metals S.A. up to \$35,000 under a credit facility agreement of the same date between Ferrotrade Limited and East Metals SA as borrowers and Credit Suisse, Zurich as a lender.

ZapSib

On May 30, 2003, ZapSib issued a guarantee to Alfa-Bank in respect of liabilities of ZAO UK Yuzhkuzbassugol, a related party, under the credit line agreement between ZAO UK Yuzhkuzbassugol and Alfa-Bank. The borrowing facility in the amount of \$15,000 bears interest of 11.25% per annum and matures on May 27, 2005. ZapSib pledged certain items of property, plant and equipment with a carrying value of \$12,752 as collateral under the credit line agreement.

Mastercrocft Limited

Notes to the Consolidated Financial Statements (continued)

29. Commitments and Contingencies (continued)

Guarantees of Debts of Group Companies and Related Parties (continued)

ZapSib (continued)

On November 24, 2003, ZapSib issued a guarantee to MDM-Bank in respect of liabilities of OOO EvrazInvest, a related party, under the loan agreement between OOO EvrazInvest and MDM-Bank. The loan, amounting to \$8,600, bears interest of 8.5% per annum and matures on February 20, 2004. In 2004, the loan was repaid and refinanced with another loan maturing on August 16, 2004. ZapSib guaranteed the repayment of liabilities of OOO EvrazInvest under the new loan agreement.

NTMK

On October 9, 2003, NTMK issued a guarantee to Alfa Bank of all obligations of Trade House EvrazHolding under the loan agreements between Trade House EvrazHolding and Alfa Bank amounting to 336,000,000 roubles and 384,000,000 roubles (\$11,407 and \$13,037 at the exchange rate as of December 31, 2003). The liabilities under the loan agreements bear interest of 15% per annum and mature on October 9, 2004 and November 15, 2004, respectively.

30. Subsequent Events

Joint Venture Agreements

Corber Enterprises Limited

On January 20, 2004, Mastercrocft Mining Limited acquired 50% ownership interest in Corber Enterprises Limited ("Corber"), a joint venture created for the purpose of exercising joint control over economic activities of Raskpaskaya Mining group and other Corber subsidiaries. The consideration paid by Mastercrocft Mining Limited comprised of \$61,800 in cash, promissory notes of Mastercrocft Mining Limited in the amount of \$19,200 and 88,016 shares (19.15%) in ZAO Raskpaskaya. Currently, Corber owns 81.16% in ZAO Raskpaskaya.

Maxhold Limited

On 11 June 2003, Severstal and the Company entered into a General Agreement under which they agreed to establish Maxhold Ltd. ("JVC") and operate JVC with the purpose of jointly managing ZAO Izhorsky Pipe Plant.

On May 27, 2004, JVC's shareholder, Leadvale Ltd. (Severstal), and Mastercrocft entered into an agreement for the acquisition by Mastercrocft Pipe Projects Limited of 50% of JVC's share capital. In connection with the agreement, Mastercrocft will make a payment of \$15,000 to JVC for the newly issued JVC's shares.

Mastercroft Limited

Notes to the Consolidated Financial Statements (continued)

30. Subsequent Events (continued)

Acquisitions

In March 2004, the Company purchased from Wannol Group Ltd. 75,029,262 ordinary shares of NTMK (5.73%) for \$43,532. The ownership rights were transferred to the Company in May 2004.

In April 2004, the Company acquired 100% of shares in OAO UK Neryungriugol for 100,000 roubles (\$3 at the exchange rate as of December 31, 2003).

In May-June 2004, the Company acquired 83.59% of shares in Kachkanarsky Mining-and-Processing Integrated Works ("KGOK"), the Company's supplier of agglomerate. This acquisition was financed by borrowing facilities. The consideration for the shares amounted to \$199,507, which was paid in cash. In addition, the Company acquired the debts of KGOK in the amount of 1,426,335,105 roubles (\$48,425 at the exchange rate as of December 31, 2003) for \$43,559. The debts are due for repayment in the period from 2006 to 2014.

In 2004, the Company purchased from Marteck 309 out of 310 shares in Pamplune S.A. for EUR 30,900 (\$39 at exchange rate as of December 31, 2003). Pamplune S.A. owns 100% interest in Dufin.

It is impracticable to disclose other information in respect of the above mentioned acquisitions, including joint venture agreements, as required by IAS 22, Business Combinations.

Option Agreements

On May 17, 2004, the Company entered into an agreement with OOO PromoReserve under which it purchased an option to acquire all the ownership interest in OOO Deltorg, the leasing company, for \$968. The option can be exercised within three years from the date of the option agreement.

On June 9, 2004, the Company entered into an agreement with OOO EvrazInvest, a related party, under which it purchased an option to acquire all the ownership interest in OOO Metallenergofinance (Note 14) for \$500. The option can be exercised within three years from the date of the option agreement.

Borrowings

On February 10, 2004, Ferrotrade Limited, East Metals S.A. and Ferrotrade & Co. entered into an agreement with Natexis Banques Populaires under which the bank provided a revolving uncommitted credit facility in the total amount of up to \$17,000. Mastercroft guaranteed the repayment of all liabilities under the agreement with Natexis Banques Populaires.

Notes to the Consolidated Financial Statements (continued)

30. Subsequent Events (continued)

Borrowings (continued)

On February 17, 2004, NKMK entered into an agreement with Alfa-bank for a credit line of EUR 1,150,730 (\$1,439 at the exchange rate as of December 31, 2003). The liability under the credit line bears interest at an annual rate of EURIBOR plus 3.4% and is due for repayment from November 30, 2004 to November 30, 2008 by nine equal semi-annual installments. NKMK pledged certain items of property, plant and equipment as collateral under the credit line agreement. Relsy KMK and Steel of KMK, the related parties, guaranteed the repayment of liabilities of NKMK under the credit line agreement.

On February 18, 2004, NTMK entered into an agreement with Commerzbank (Eurasija) for a credit line of EUR 9,158,000. The liability under the credit line bears interest at a rate of EURIBOR plus a margin of 2.3% per annum and matures on August 18, 2004. Under the agreement, the credit line will be used for working capital needs in respect of payments under a letter of credit in the amount of EUR 17,637,500 opened by Commerzbank (Eurasija) in favour of SMS Eumuco GmbH, which supplies equipment to NTMK.

On February 25, 2004, Ferrotrade Limited as a borrower and East Metals S.A. as an agent entered into an agreement with Donau-Bank Aktiengesellschaft for a loan in the amount of up to \$16,500. Mastercrocft guaranteed all liabilities under the loan agreement.

On March 23, 2004, ZapSib entered into a loan agreement with Kazkommertsbank and Moskommertsbank amounting to \$30,000. The loan is intended for financing the production and installation of steel casting equipment. The liability bears interest at an annual rate of 8% and is due for repayment from March 23, 2006 to March 23, 2010 by seventeen equal quarterly installments. ZapSib pledged certain items of property, plant and equipment with a carrying value of \$17,901 as collateral under the loan agreement. Mastercrocft and Ferrotrade Limited guaranteed the repayment of ZapSib's obligations.

On March 31, 2004, Ferrotrade Limited entered into an agreement with Fortis Bank S.A., Geneva ("Fortis Bank") for a credit line in the amount of \$25,000. Mastercrocft guaranteed all liabilities of Ferrotrade Limited under the agreement with Fortis Bank. East Metals S.A. assigned all its rights and interest in receivables from sales financed by Fortis Bank as security for the repayment of liabilities of Ferrotrade Limited.

On April 20, 2004, Ferrotrade Limited entered into a loan agreement with ING Bank N.V. (Netherlands) for a \$150,000 loan facility for financing of acquisitions of mining and steel production assets. The loan matures on October 20, 2004 and bears interest at an annual rate of LIBOR plus a margin of 1.9% (up to July, 20, 2004) and 2% (after July 20, 2004). ZapSib secured the repayment of liabilities of Ferrotrade Limited by assignment of its rights in respect of an export contract with Ferrotrade Limited dated April 15, 2004.

On April 20, 2004, Trade House EvrazHolding entered into an overdraft facility agreement with Transcreditbank with a total borrowing limit of 400,000,000 roubles (\$13,580 at the exchange rate as of December 31, 2003). The facility expires on January 20, 2005. Borrowings under the facility bear interest at 10% per annum.

Mastercroft Limited

Notes to the Consolidated Financial Statements (continued)

30. Subsequent Events (continued)

Borrowings (continued)

On April 27, 2004, NKMK entered into an agreement with Transcreditbank for a credit line of 400,000,000 roubles (\$13,580 at the exchange rate as of December 31, 2003). The liability under the credit line bears interest at a 9% per annum and matures on April 27, 2005.

On June 3, 2004, Trade House EvrazHolding entered into a short-term loan agreement with MDM-bank for the total amount of \$40,000 bearing interest at 5.7% per annum and maturing on July 15, 2004. Trade House EvrazHolding fully repaid the loan on June 22, 2004.

On June 22, 2004, NKMK entered into an agreement with Sberbank for a credit line of 200,000,000 roubles (\$6,790 at the exchange rate as of December 31, 2003). The liability under this credit line bears interest at a 9.5% per annum and matures on December 17, 2004.

Loans Received from Related Parties

In February 2004, Ferrotrade Limited entered into a loan agreement with Ferrotrade & Co. under which a loan facility of \$36,000 was provided to Ferrotrade Limited. The loan is interest-free and repayable by December 31, 2004.

In April 2004, Lakemill, as a borrower, entered into a loan agreement with Ferrotrade & Co. for an interest-free borrowing facility in the amount of \$200,000 repayable on December 31, 2008.

Guarantees of Debts of Group Companies and Related Parties

On February 2, 2004, Mastercroft guaranteed the promissory notes of Mastercroft Mining Limited in the amount of \$19,200. The promissory notes are payable on demand, but not earlier than two years from the issue date. The issue date was March 10, 2004. Promissory notes bear interest from the date of their issue at the rate of 6% per annum.

On February 4, 2004, Mastercroft guaranteed all liabilities of Ferrotrade Limited under the agreement concluded with Banca Commerciale Lugano in 2003 for a revolving uncommitted credit facility in the amount of up to \$18,000.

On February 18, 2004, Ferrotrade Limited guaranteed obligations of NKMK under the contract with Techint Compagnia Tecnica Internazionale S.p.A. (Italy) for the purchase of equipment in the amount of EUR 9,233,000 (\$11,543 at the exchange rate as of December 31, 2003). Maximum amount of the guarantee is EUR 6,000,000 (\$7,501 at the exchange rate as of September 30, 2004).

Mastercroft Limited

Notes to the Consolidated Financial Statements (continued)

30. Subsequent Events (continued)

Guarantees of Debts of Group Companies and Related Parties (continued)

On February 19, 2004, ZapSib issued a guarantee to Alfa-Bank of liabilities of OAO OUK Yuzhkuzbassugol, a related party, under the credit line agreement between OAO OUK Yuzhkuzbassugol and Alfa-Bank. The borrowing facility, amounting to \$10,000, bears interest of 10% per annum and matures on February 18, 2005. ZapSib pledged certain items of property, plant and equipment with a carrying value of \$5,170 as collateral under the credit line agreement.

On March 19, 2004, EvrazHolding guaranteed all the liabilities of ZAO EvrazTrans, an entity under common control with the Company, in favour of OAO Transcreditbank under an overdraft facility with a maximum borrowing limit of 450,000,000 roubles (\$15,278 at the exchange rate as of December 31, 2003). Borrowings under the facility bear interest at 8% per annum. The facility expires on September 6, 2004.

On March 19, 2004, Alfa-Bank provided a loan for EUR 2,364,190 to OAO UK Neryungrugol ("Neryungrugol"). The loan bears interest at an annual rate of EURIBOR plus a margin of 3.4% per annum and is due for repayment from May 3, 2005 to November 3, 2008 by eight equal semi-annual installments. In connection with the agreement, ZapSib granted a pledge to Alfa-Bank of certain items of property, plant and equipment with a carrying value of \$862 as of December 31, 2003 and provided a guarantee on all obligations of Neryungrugol under the loan agreement with Alfa-Bank.

On April 6, 2004, Mastercroft Finance Limited pledged a promissory note of Commerzbank (Eurasija) with a face value of \$10,000 maturing on April 6, 2007 and bearing interest at 4% per annum as collateral under a loan facility of \$10,000 granted by Commerzbank (Eurasija) to Neryungrugol. The facility bears interest at 5% per annum and matures on April 6, 2007.

On April 21, 2004, NTMK signed an agreement with Alfa-Bank under which it guaranteed the repayment of all liabilities under a loan agreement between Trade House EvrazResurs, an entity under common control, and Alfa-Bank. The loan, in the amount of 336,000,000 roubles, bears interest of 12.5% per annum and matures on October 21, 2004. Certain items of NTMK's production equipment with a carrying value of \$7,389 as of December 31, 2003 were pledged as collateral under the credit line agreement.

On April 29, 2004, ZapSib pledged certain items of property, plant and equipment with a carrying value of \$1,287 and provided a guarantee on obligations of Neryungrugol in respect of a letter of credit in the amount of \$2,457 opened by Alfa-Bank in favour of Voest Alpine Mining and Tunneling Pty Limited, Tomago, NSW, Australia.

Mastercroft Limited

Notes to the Consolidated Financial Statements (continued)

30. Subsequent Events (continued)

Development of Shipping Business

In February-March 2004, Steeltrade registered the following subsidiaries: Kita Daki Maritime Ltd (Malta), Korten Corp. (Panama), Aino Daki Maritime Ltd. (Malta) and Sinano Shipmanagement Ltd. (Cyprus).

In January and March 2004, Steeltrade purchased two vessels for the total amount of \$20,850 and sold the vessels to its subsidiaries, Kita Daki Maritime Ltd. and Korten Corp.

Contracts for Capital Expenditures

The Company signed contracts for the purchase of production equipment and construction works for an approximate amount of \$92,000.

31. Subsequent Events – Compliance with Debt Covenants

Under the Conditions of the 8.875 per cent notes due 2006 (Note 19), the Company is subject to certain financial and non-financial covenants. In 2004, the Company was not in compliance with certain non-financial covenants. On July 16, 2004, the Company obtained a waiver from the trustee of the noteholders for existing violations for the period from September 25, 2003 to January 1, 2005.

APPENDIX

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

The worldwide steel industry is comprised of hundreds of steelmaking facilities divided into two major categories, integrated steelworks (including NTMK, ZapSib and NKMK) 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 an 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, ZapSib and NKMK Production

The main production areas of NTMK, ZapSib and NKMK 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 1,100°-1,200°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 1,070°-1,200°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 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. NKMK's steel making facilities are a Siemens-Martin furnace and electric arc furnaces.

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 Making using the Electric Arc Process

This process is used to produce steel by converting electric power into heat using electric arc. The main components of the electric arc furnace are a furnace shell with tapping device and work opening and a removable roof with electrodes and tilting device. The electric arc furnace process generally follows the following pattern: charging, melting, oxidising or purifying, deoxidising or refining. The charge includes

scrap, iron ore, fluxes (lime, fluorspar), reducing agents (carbon) and ferroalloys. These can be added through the work opening before or after oxidising. After the ignition of the electric arc and melting, further scrap can be added. Temperatures reach as high as 3,500° C. Such high temperatures are necessary to melt the alloying components that are otherwise difficult to melt. During the refining stage, iron oxides contained in the slag react with the carbon of the bath, which has the effect of rinsing away impurities. The metallurgical process of the oxidation and reduction phases can be replaced by a downstream phase of secondary metallurgical treatment.

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. NTMK, ZapSib and NKMK use only hot rolling in their operations.

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 global steel production annually exceeded consumption by approximately 50-100 million tonnes. In 2002 steel production amounted to 887 million tonnes with an overproduction gap amounting to 20 per cent. of the steel market (approximately 220 million tonnes). In 2003, according to the International Iron and Steel Institute, steel production rose by 6.6 per cent. amounting to 962 million tonnes with world consumption of more than 880 million tonnes. The increasing consumption of steel contributed to the favourable development of international steel trade with exports representing some 26 per cent. of total steel sales, despite the wide spread use of trade defence instruments by some countries. As a result of growing steel consumption with levels exceeding the modest capacity growth, in 2003 the overcapacity gap has reduced and steel prices have gone up.

Recent developments and outlook

The main trend in the world steel industry in 2004-2005 will remain the increase of steel production and consumption. The positive development of the world steel industry is due to the gradual recovery of the global economy starting late 2003 and its strengthening every quarter since. While the economies of the USA, Japan and Europe continue on course toward economic recovery, it is the growth in China that is one of the major factors currently driving the world economy and the global steel industry, as China has a huge and still expanding steel industry and an even larger steel market. Considerable steel output expansion is also occurring in Eastern Europe, South Africa, India and several Middle East countries.

According to projections of the Economic Committee of the International Steel and Iron Institute, world steel production in 2004-2005 would go beyond the 1 billion tonnes level with global consumption increasing by 53 million tonnes in 2004 and 41 million tonnes in 2005. However, the shortage of raw materials like iron ore and scrap and congestion at sea ports may affect the continuing improvement of the global steel industry in late 2004 and 2005.

Overview of Russian Steel Industry

General

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 U.S. 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 demonstrated robust recovery in terms of both prices and volumes. In 2003, the production of steel grew by approximately 4.7 per cent. as compared to 2002 and amounted to 61.3 million tonnes, according to the International Steel and Iron Institute. In the first quarter of 2004, Russia has produced 20.8 million tonnes of steel which shows a 4.6 per cent. increase in steel output, as compared to the first quarter of 2003.

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 Roskommetalurgya (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.

As of 2004 several entities remain in government ownerships including 17.8 per cent. stake in MMK and smaller enterprises servicing the steel industry or insignificant entities. After privatisation of shares of MMK, Russia’s steel industry would be substantially transferred into private ownership and management. The 2004 privatisation plan lists either smaller enterprises servicing the steel industry or insignificant entities.

Steel Production

In 2003, Russia ranked as the world’s fourth largest producer of steel, producing 61.3 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 2003, 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

Despite the large number of companies operating in steel industry, the six largest steel groups accounted for approximately 83.7 per cent. of the country's total steel production in 2003.

These six largest Russian steel producers are Evraz Group, which combines the NTMK, ZapSib and NKMK plants, with approximately 22 per cent. of total steel production, followed by MMK, which controls the largest single-site capacity mill in the country, Severstal, NLMK, Chelyabinsk Metallurgical Combine (“**Mechel**”) and Ural Steel.

Steel Producers in Russia (2003)

	million tonnes	per cent.
Russia, total	62.7	100.0%
Evraz (Zapsib, NTMK, NKMK)	13.9	22.2%
MMK	11.5	18.3%
Severstal	9.9	15.8%
Novolipetsk	8.9	14.2%
Mechel	4.9	7.8%
Ural Steel	3.4	5.4%
Other	10.2	16.3%

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 2003, MMK exported approximately 53 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.

Severstal

Severstal is one of the leading steel producers in Russia with more than 50 per cent. of its sales on the domestic market.

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 54 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.

NLMK

NLMK produces primarily hot-rolled and cold-rolled flat steel, galvanised steel and colour coated-steel, coke, pipes and other products. The company's production facilities are located in Lipetsk in the European part of Russia, south-east of Moscow.

In 2003, NLMK exported 58 per cent. of its production. Its main export markets are South-East Asia, the EU, North America and other European countries (incl. Turkey). NLMK's products include high quality and special steels.

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.

Ural Steel

The production facilities of OOO Ural Steel ("**Ural Steel**") are located in Orsk, Urals, near to iron ore deposits. These facilities were acquired by OOO "Ural Steel" in 2003 by a tender in connection with bankruptcy proceedings of OAO "NOSTA".

In February 2004 Ural Steel announced its plans to modernise the plant. The amount of investment into this project totals U.S.\$ 110 million during three years. The net profits for 2004 are expected to be U.S.\$ 40-60 million. Ural Steel's main products include pig iron and rolled products. Its rolled products are certified by Lloyds Register, England, and TUV, Germany.

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 2002 figures by 31.4 per cent. and amounted to U.S.\$8.4 billion. Export of steel was supported by the Government through abolishment of steel export duties in 2002.

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 armoured 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	2003
			U.S.\$/tonne		
Concentrate	8-9	11-12	12-13	13-14	18-19
Pellets	13-15	15-17	16-18	17-19	24-26
Sinter	10-13	12-15	13-16	14-17	19-22

Note: Estimates of average ex-works prices for iron ore producers in Russia

Electricity

The Russian electricity sector is currently managed by the 52 per cent. state-owned power monopoly RAO UES. 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. The pricing policy is determined by the Federal Tariff Service, a governmental agency authorised to regulate prices for the power generated by regional electricity companies, power transmission, dispatch services 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 ("FOREM"). Participants of the FOREM are regional generating companies selling their power surplus to regional generating companies with supply deficits and industrial companies granted special access to the FOREM. From October 2003, participants of the FOREM may also acquire/sell limited volume of electric energy on the competitive sector of the wholesale market operating on test basis, where prices for energy are formed on "offer-demand" basis.

Pricing policy is 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 2003 the Federal Energy Commission managed to obtain approval for a 38 per cent. increase for internal power prices, which resulted in increase of production costs for steel.

In 2003 the Government proceeded with the reform of the electricity sector. The assets of RAO UES and regional electricity market relating to dispatch and transmission services were consolidated in part by special entities, wholly owned by RAO UES. By 1 January 2005 transmission of electricity will be unbundled from generation and sales activities and a free wholesale power market ("WPM") should act on a permanent basis. 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. The production, sale and distribution of steel in the Russian Federation is regulated by general civil legislation and special legislation relating to quality standards, industrial safety rules, environmental and other issues.

At the federal level, the Ministry of Industry and Energy of the Russian Federation (to which powers were transferred from 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 Programme for Development of the Russian Steel Industry until 2010. The Programme 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 Ministry also sets and oversees compliance with obligatory general and industrial standards.

The Federal Technology Supervision Service oversees compliance with mandatory safety rules for the steel industry elaborated by the Ministry of Industry and Energy. 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.

The Ministry of Natural Resources of the Russian Federation is the federal licencing authority for the use of natural resources.

The Federal Environmental and Natural Resources Supervisions Service oversees compliance with the terms and conditions of licences issued by the Ministry of Natural Resources and environmental legislation.

The Ministry of Economic Development and Trade of the Russian Federation regulates Russian export and imports of steel products and coordinates intergovernmental negotiations relating to export/import activity.

Aside from the above federal executive bodies, which are directly involved in the regulation of and supervisions over the Russian steel industry, there is a number of other governmental bodies and agencies which have authority over general issues connected with the steel industry such as defence, rail transport and tax enforcement.

Licencing

The Federal Law “On Licencing of Certain Types of Activities” dated 8 August 2001, which came into force in January 2002 (the “**Licencing Law**”) established a list of activities which can only be performed on the basis of licences issued by the relevant Russian authorities. The Licencing Law removed certain licensing requirements which existed earlier and amended the previous list of licencing activities. The list of activities relating to the steel industry now includes, among other things, collection, processing and sale of scrap iron and base metals, activities connected with hazardous waste, operation of explosive and chemically hazardous production facilities, construction of building and other structures connected with steel production.

Under the Licencing 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 licencing 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 licencing authority may cancel a licence without a court order if the licensee does not pay a licencing 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 use of subsoil.

Exports

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 U.S., 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 Union, 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 have increased by 2.5 per cent. as compared to each preceding year. The quota amounted to 1,230 million tonnes in 2003 and 1,380 million tonnes in 2004. Additionally, the treaty envisages the possibility of increasing Russia's steel export quota to the European Union by a further 12 per cent. in the event that Russia abolishes its 15 per cent. export duties on scrap metals. Due to the accession of 10 new members to the European Union in May 2004, the European Union has agreed to increase the Russian steel import quota although the amount of which is currently being negotiated.

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 use 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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