Novolipetsk Iron
& Steel Corporation
Annual Report 2002

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Chairman's Statement

Novolipetsk Iron & Steel Corporation (NLMK or the Company) made considerable progress in 2002. Production and product sales grew, and financial indicators improved. Technical upgrading and development continued, and the product line was expanded. Both environmental and social objectives were successfully met.

It must be said that the positive results of 2002 were achieved not so much due to favorable market trends, as due to the business and production decisions adopted previously by the Company. This is a clear indication that the Company has chosen the correct development strategy.

These indisputable successes are to the credit of the entire NLMK team. The support and trust Company shareholders have shown in the managers also played a major role.

However, the positive results of the last few years should not distract our attention from or obscure the potential dangers. Like any Russian enterprise, NLMK does not live in a vacuum. Every hour of every day it faces all the challenges inherent in the national economy and the national steel industry. Sooner or later these challenges could prove to be a serious roadblock on the path towards sustainable development of the corporation.

These challenges include, first and foremost, the slowing economic upturn in Russia. GDP growth in 2002 was 4.3%, compared to 5% in 2001 and 9% in 2000. In addition, industrial output increased by 3.7% in 2002, against 4.9% in 2001 (11.9% in 2000 and 11% in 1999). Some of the most alarming aspects are the low levels of growth in investments (+2.6%) and output of the engineering industry (+2%), since this situation denotes a virtual stagnation in demand for metal products inside the country. Also, in many ways the favorable economic indicators are tied in with the high prices for oil and gas export (according to expert estimates this factor accounted for nearly 50% of GDP growth, while one year ago it only accounted for approximately 30%). This type of growth could easily turn into a recession in the very likely event of a collapse in world oil prices.

Other challenges relate to the fact that energy and transportation costs are rising faster than inflation. Unfortunately, the safety margin of steel-making companies with respect to price increases for the goods and services of natural monopolies is not very large. Calculations made according to inter-sectoral macroeconomic models show that a mere 25% growth in prices for electricity or freight shipments would be capable of bringing the profitability of the steel industry to zero. Raising metal prices as a counter measure aimed at maintaining the rate of return could result in a 2-4% reduction in sales volume on the Russian domestic market.

A third challenge is the rapid growth in the real rouble exchange rate. (According to some estimates, it grew by approximately 7-8 percentage points over the course of 2002, and by year end equaled around 80% of the July 1998 level). To a certain extent this process is also related to the strengthening of the raw materials component of economic growth in Russia, which has entailed a large-scale inflow of foreign currency income. Since the country proved unable to fully "digest" this income under the existing national economic policy, a surplus of money spilled over onto the currency market, thereby forcing the real exchange rate of the rouble upwards. One consequence of this process was a growth in production costs on Russian metal products expressed in US dollars and a reduction in returns on export. Another consequence was the expansion of imports to the prejudice of Russian manufacturers in nearly all market sectors.

One more serious challenge is the excess growth in public earnings over labor productivity. (In 2002 actual earnings increased by 16.6%, while labor productivity increased by a mere 4.7%). In other words, not enough of the additional income available to the Russian economy as a result of economic growth is being spent on development and modernization.

All of these trends, together with the lack of an intelligible industrial policy in the country, create the real threat of economic stagnation or even recession over the next few years. This, in turn, is fraught with a sharp reduction in the domestic market of metal products and a drop in resources for modernization.

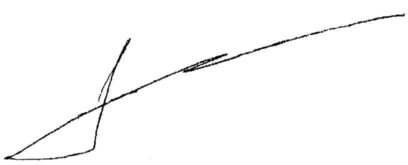
These macroeconomic threats are exacerbated by intersectoral problems such as the depletion of the ore base and the frequent deficit of scrap metal, coking coal and natural gas. Under certain development scenarios, the possibility of interruptions in electrical supply and transportation services in future cannot be ruled out.

In view of the aforementioned challenges, the Company's strategy is aimed at creating the capability to meet potential threats and minimize possible losses. With this in mind, the Board of Directors of NLMK intends to work in the following directions:

- Acceleration of upgrading of production capacity and renewal of the product line.
- Intensification of efforts to increase labor productivity and capital, and to reduce production costs.
- Active search for new sales markets for manufactured products.
- Implementation of measures to reduce the cost of borrowed financial resources.

Participation in the development of a national economic policy must become a priority direction of the Company's activity. A large company like NLMK does not have the luxury of sitting back and passively watching unfavorable developments in the country's economy. NLMK will work together with other Russian companies, the Russian professional community and small businesses to move proposals on various aspects of national economic policy, using for this purpose both the mass media and meetings with the executive and legislative authorities.

It seems to me that such an active stance by NLMK when resolving both internal and external tasks will serve as a foundation for the long-term stable development of the corporation.



Chairman of the Board of Directors,
Vladimir S. Lisin, PhD

NLMK's Strategy and Goals

NLMK's vision

NLMK sees itself as a global leader in ferrous metallurgy and a supplier of a wide range of quality finished products with a high level of added value to both domestic and foreign markets.
The Company's financial stability is based on its highly efficient and integrated production of steel.

NLMK's mission

NLMK's mission is to manufacture quality products which meet all customer requirements, while providing a stable level of profitability for the Company.

Strategic goals

Production goals

NLMK seeks to attain levels of product quality that will enable the Company to become the leader in the Russian steel market and be competitive on the international market.

The Company's production strategy involves the upgrading of technical equipment and installation of state-of-the-art technologies in order to improve the quality and range of products, reduce production costs and decrease their environmental impact.

Market goals

The Company's market goal is to consolidate our position in what we consider to be strategic markets. One of the Company's goal is also to develop new markets through improvement in the quality of our products and the expansion of our product range. To achieve these goals, we thoroughly analyze the needs of our customers as a basis for production planning.

NLMK's strategy for foreign markets is based upon an optimal correlation of price and quality, effective management and extensive geography of sales. This approach enables NLMK to rapidly react to changes and manage the periodic cyclical movements in the global steel market.

To improve its position in the Russian market, NLMK is actively expanding its own distribution network, which covers the most economically developed regions. This approach enables the Company to rapidly react to price fluctuations for steel products and increase the volume of NLMK's sales in major industrial centers.

Financial goals

Our financial goal is to achieve a sustainable level of rising profits. The financial strategy of the Company is based on the search for the best combination of profitability, liquidity and financial stability. This implies better control over increased revenues, appropriate investments in development programs and effective management of financial flows.

Pure Steel

Blue Sky

Description of the Company

NLMK is one of the largest steel-making companies in the world, and the third largest steel producer in Russia. The Company specializes in the production of high-quality hot and cold-rolled flat steel in a variety of grades and sizes.

NLMK is an integrated steel-making company. Its areas of production include sintering, coke production, blast furnace production, steel-making, hot and cold-rolled flat steel production, galvanized and prepainted steel production.

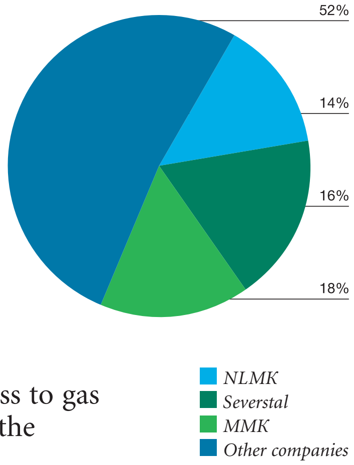
Located in the Central Black-Earth Region of Russia, NLMK is in a strategically advantageous position from both product distribution and raw material and energy supply perspective. The main domestic consumers of the Company's products are located within 1500 kilometers. NLMK also has convenient access to the Baltic and Black Sea ports.

NLMK is located in a region with a well-developed energy infrastructure. It has direct access to gas mainlines. Moreover, the iron-ore deposits are in the Company's immediate vicinity.

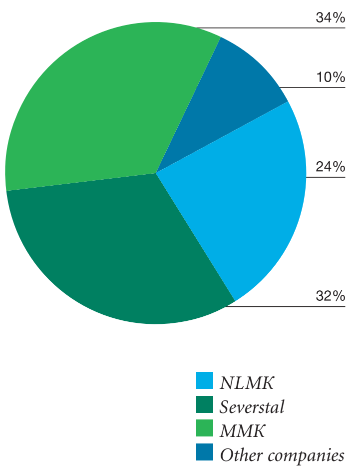
NLMK produces 14% of all Russian steel, 24% of flat rolled steel and more than 70% of prepainted rolled steel. The Company is the largest producer of electrical steel in Europe, and the largest producer of cold-rolled steel in Russia. NLMK is the most technically advanced company in the Russian steel industry. All Novolipetsk steel is produced in converters and electric furnaces and cast on concasters.

The Company's products are in steady demand on both the domestic and foreign markets. Export accounts for more than 70% of NLMK's sales of steel products being shipped to 87 countries. At present, NLMK's main export sales markets are Europe, Asia, North America and the Middle East.

Share of NLMK in domestic steel production in 2002



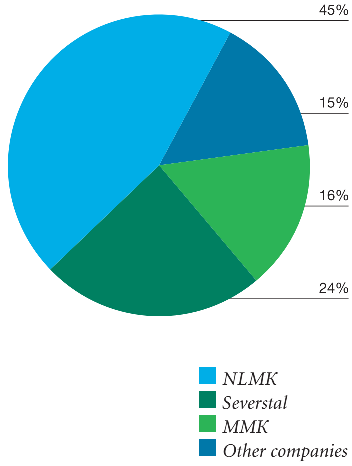
Share of NLMK in domestic flats production in 2002



NLMK's name has long been known throughout Russia and the world. The Company's traditional partners value stability, and therefore they have confidence in NLMK. New clients are attracted by the reliability and high quality of NLMK's products.

NLMK is the most efficient steel-making company in Russia. The steel product yield at NLMK equals 94%, which is the best in the industry. Today NLMK has the lowest unit cost of marketable products of any major Russian steel-making company. In 2002 the Company's pre-tax profit represented 45% of the consolidated financial results for all Russian steel-making enterprises.

Share of NLMK in consolidated financial results of companies in 2002



The Year 2002
Main Results

External factors

Favorable trends on the world market

Increase in prices for the metal products on the domestic market

Growth in key raw material and fuel prices

Internal factors

Implementation of the Technical Upgrading Program

Optimization of expenses on the Company’s everyday activity

Sale of non - core assets

Growth in production and sales of main products

The Company’s financial performance improved significantly over previous years

Considerable growth in the Company’s assets

Major results in 2001-2002

Indicator	Unit of measurement	2002	2001	Change 2002/2001	
				+,–	%
Pig iron	‘000 tonnes	8,047	7,463	+584	+8%
Steel	‘000 tonnes	8,553	7,912	+641	+8%
Finished steel	‘000 tonnes	8,006	7,334	+672	+9%
Flats	‘000 tonnes	4,764	4,634	+130	+3%
Coated steel	‘000 tonnes	550	371	+179	+48%
Net sales	Millions of US dollars	1,712	1,322	+390	+30%
Gross profit	Millions of US dollars	615	274	+341	+125%
Pre-tax profit	Millions of US dollars	467	163	+304	+187%
Net income	Millions of US dollars	338	88	+250	+287%
Total assets	Millions of US dollars	2,210	1,896	+314	+17%
Share of equity in assets	%	90	87	–	–
ROA	%	16	5	–	–
Return on sales	%	30	16	–	–

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America («US GAAP»).

Key Highlights of the Year

January

A new pump-filter water treatment plant of Hot strip mill 2000 was commissioned. The plant has made it possible to reduce the draft from the Voronezh river for the Company's needs by 7% and the emission of inadequately treated effluents by 11%. The commissioning of the new facility is only the latest phase in the implementation of NLMK's ecological program, which foresees the transition to a closed water-supply cycle.

NLMK was granted a quality certificate of compliance with the European standard EN 10 169-1 for its prepainted steel products by the leading international auditor, TÜV Anlagentechnik Rheinland-Berlin-Brandenburg. German laboratories had performed certification tests throughout 2001. The test results confirmed the persistent quality of prepainted steel products and their full compliance with the high level of European standards.

February

NLMK's promissory notes worth USD 89 million were fully retired through their early repurchase.

A new structural division was created – the Industrial Ecology Division. It incorporates the enterprise's environmental protection department, the chemical engineering center, the metallurgical slag processing unit, the water treatment shop, the sludge treatment shop and the rolling mill oil waste recycling units.

The Company commissioned the Russian first electrostatic oil unit in slitting line No. 5 of NLMK's Cold rolling production. Use of this facility has made it possible to resolve the problem of steel corrosion protection during transportation and storage at client warehouses more effectively.

An automatic spark-erosion roll-texturing unit manufactured by the German firm Herkules was commissioned. The new unit made it possible to attain specified uniform parameters lengthwise a roll.

March

Coke battery No. 1 was halted for repair on 1 March. This is one of the oldest units in the coke and by-product division. It is being modernized to raise its technological and environmental safety, improve staff labor conditions and to increase the productivity of the battery.

The shareholders of NLMK have changed. An investment consortium set up by the main participant Renaissance Capital Investment Group, acquired 34% of NLMK's shares.

The acquired shares previously belonged to OAO GMK Norilsk Nickel (9%) and companies controlled by the Interros Holding Company (25%).

April

A special General Shareholder Meeting of NLMK was held on 6 April in connection with the change in the Company's shareholders. This resulted in the early termination of the authorities of members of the Board of Directors and the election of a new Board of Directors.

May

The Company began to set up a system to monitor the environmental state of the ground water on the enterprise's territory. Monitoring the state of the ground water will make it possible to rapidly detect and eliminate the sources of pollution and also use the natural resources more efficiently.

Vladimir S. Lisin was re-elected Chairman of the Board of Directors at the first meeting of NLMK's new Board of Directors. The Board of Directors decided to hold the regular shareholder meeting of the Company on 28 June.

A new collective agreement was signed for 2002–2004 at a meeting with representatives of NLMK's workforce. This collective agreement was signed by the Management on behalf of the employer and the Trade Union on behalf of the employees. This agreement serves as the grounds for the social partnership policy implemented by NLMK, which in turn aims to improve the living standards of workers and to provide social cover for steel-makers and members of their families.

Construction of concaster No. 4 was completed. The new production line was installed at BOF shop No. 1, with the participation of the Novokramatorsk Heavy Engineering Plant (Ukraine) and the repair plant of NLMK. This facility was based on a design of the Austrian firm, Voest-Alpine. It will manufacture a wide range of cast slabs from different steel grades. The new facility has a production capacity of 2 million tonnes a year.

June

On 28 June NLMK's Annual General Meeting was held in the city of Lipetsk. It approved the Company's 2001 operating results. NLMK shareholders appointed nine members to the Board of Directors: Boris F. Abushakhmin, Nikolai A. Gagarin, Alexander Yu. Zarapin, Alexei A. Lapshin, Igor A. Sagiryan, Vladimir N. Skorokhodov, Vyacheslav P. Fyodorov, and Igor P. Fyodorov. Ivan V. Frantsenjuk was once again elected General Director of the Company.

The Annual General Meeting also elected the members of Audit Commission of the Company. The shareholders approved the new version of the Company Charter, the new version of the Regulations on the Board of Directors, Regulations for Holding the Annual General Meeting and the new version of the Company's Management Committee Regulations. Shareholders owning approximately 98 % of the Company's shares took part in the Annual General Meeting.

July

TÜV CERT (Germany) completed the certification audit of the Company's hot-rolled steel production and its compliance with the Directives of the European Parliament and the Council of Europe and technical rules of Germany. The results of all certification tests confirmed the persistent qualities of this type of rolled steel.

At a meeting of the Board of Directors of NLMK, held on 22 July, Vladimir S. Lisin was unanimously elected Chairman of the Board. The Company's Board also decided to increase the charter capital of the following subsidiaries: OOO Lipetsk Insurance Company "Chance", OAO Studenovskaya Joint-Stock Mining Company, OAO Bank of Social Development and Construction, LipetskKombank.

August

NLMK completed the overhaul of stove No. 1 to heat oxygen-enriched air supplied to blast furnace No. 6. The stove was the second of the four furnace stoves to be overhauled using new technology developed by NLMK specialists.

September

NLMK began modernizing one of the oldest units in the coke and by-product division – coke battery No. 1, which was taken out of service in March 2002. The modernization stipulates the construction on the site of the old battery of a modern set of ovens with a production capacity of up to 460,000 tons of coke per year, including the most modern processes for raw materials charging, coke discharge and coke quenching, and also coke-oven gas cooling.

The certification audit for the compliance of NLMK's environmental management system with ISO 14001, performed by the TÜV CERT international certification agency (Germany) was completed. Based on the results of the independent audit, NLMK became one of the first Russian steel-making enterprises to have its environmental management system certified as compliant with international standards.

Following modernization, the steel strip insulation coating line was commissioned in NLMK's Cold rolling production. During the modernization, the strip electrical heating unit was replaced by a natural gas heating unit. This made it possible to improve strip surface quality, reduce expenditure on energy and increase the line's productivity by 20%.

November

Based on the results of the 8th International Specialized Exhibition "Metal-Expo 2002", held on 19–22 November in Moscow, NLMK was awarded two gold medals. The Council, consisting of leading experts from the steel academic circles, named NLMK the prize-winner in this prestigious exhibition for mastering of high quality prepainted rolled steel technology and re-profiling of continuous annealing line into a hot dip galvanizing line and mastering of galvanized steel production for automotive industry. NLMK exhibited state-of-the-art technologies and samples of its products at Metal-Expo 2002, attracting significant interest from business partners, consumers and representatives of other Russian and foreign steel-making enterprises.

December

From 1 December NLMK was included in the list of energy-supply companies entitled to acquire electricity on the federal wholesale energy market. The Federal Energy Commission of Russia approved the Company's request.

NLMK bought the right of landed property with an area of 2,756 hectares in the city of Lipetsk, where the Company's production premises are located. The Russian Federal Property Fund and Ministry of Property Relations of the Russian Federation acted on behalf of the State in the transaction. The lot was purchased for USD 32.8 million.

A new secondary metallurgy plant No. 4 was commissioned at NLMK's BOF shop No. 1. The plant provides for ladle treatment prior continuous slab casting.

The inspection audit of NLMK's steel-making production was completed by the international certification company Det Norske Veritas (Norway). The certification tests performed for different purposes fully confirmed persistent quality of slabs produced by the Company.

NLMK was named winner of the 3rd National Competition "Commitment to improving the social standards of the community in Russia" in the industry category "Metallurgy". The competition was organized by the Government of the Russian Federation, the national associations of employers and trade unions. When selecting the best of over 1,000 enterprises and organizations representing 81 regions in the country, the competition panel appraised the achievements of competitors in implementing different social programs during the current year and in their success in providing social security for their staff. For the third time NLMK was recognized the winner of the National Competition "Commitment to improving the social standards of the community in Russia".

Overview
of the Metal Markets

Global steel products market

The main factor determining the development of the global steel market in 2002 was the introduction of safeguard measures on imported steel products. These were introduced first by the USA and then by the European Union, China, and a number of other countries. These measures led to an increase in speculative demand for pig iron, slabs and rolled steel on the global market and an artificial increase in steel product prices over the greater part of the reporting year.

The improved situation on the global steel products market in 2002 facilitated an increase in the output of pig iron and steel: global pig-iron production rose from 578.5 million tons to 609.6 million tons (a 5.4% increase from the 2001 level), while crude steel production rose from 850.3 million tons to 902.8 million tons (a 6.2% increase).

Increases in crude steel production were seen in all regions of the world: the steel producers of South-East Asia increased output from 353.7 million tons in 2001 to 393.5 million tons in 2002, North America from 119.9 million tons to 123.7 million tons, Africa from 15.0 million tons to 15.8 million tons, Latin America from 37.4 million tons to 40.8, non-EU European countries from 46.1 million tons to 48.2 million tons.

Producers in the CIS increased their output of crude steel to 101.2 million tons from 99.6 million tons in the previous year. The EU retained its output at the previous year's level (158.6 million tons).

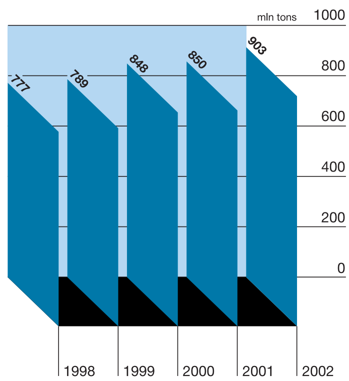
By the end of the year global production of raw steel was outpacing the level of consumption by 18 million tons.

There were certain changes in the lineup of the leading steel producers in 2002. As previously, the top four places were occupied by China (181.6 million tons), Japan (107.7 million tons), the USA (92.2 million tons) and Russia (59.8 million tons). However, the fifth spot was taken by South Korea (45.4 million tons of crude steel), edging Germany into sixth place with an output of 45.0 million tons.

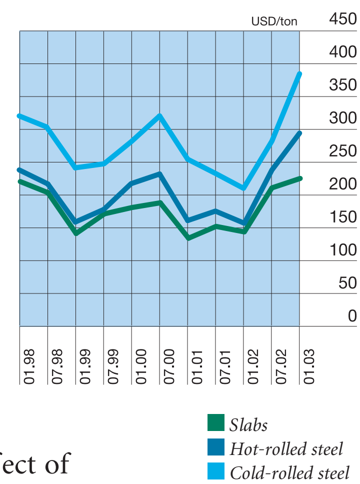
The production capacity of steel works worldwide was utilized at 95% in 2002, versus 92% in 2001.

During the reporting year, in addition to the effect of safeguard measures, the world trade and market situation was also significantly affected by the strong growth in demand for metal products in China.

World steel production 1998-2002



Trends in export prices of CIS countries in 1998-2002 (FOB prices)



China is currently the largest importer of metal products in the world. Thanks to growing Chinese consumption, the volume of world trade remained high. Despite the closure of a number of markets, significant trade was reoriented to China. Throughout 2002, Chinese import prices for slabs rose by USD 88/ton, for hot-rolled steel by USD 123/ton, for cold-rolled steel by USD 168/ton. Import prices for galvanized steel rose from USD 313/ton in January 2002 to USD 440/ton in December.

The year 2002 was also successful for Russian metal exporters. Over the reporting period, the export prices of CIS producers for slabs rose by USD 80/ton, for hot-rolled steel by USD 125/ton and for cold-rolled steel by USD 150/ton.

The prices of Latin American producers for slabs rose in 2002 from USD 153/ton FOB in January to USD 245/ton FOB at the end of the year. Export prices for hot-rolled steel rose from USD 170/ton FOB to USD 288/ton FOB, for cold-rolled steel from USD 250/ton FOB to USD 368/ton FOB and for galvanized steel from USD 350/ton FOB to USD 443/ton FOB, respectively.

As a country not subject to the effect of the American and EU safeguard measures, Turkey increased production and prices on metal products in 2002. During the reporting period, the Turkish producers prices for hot-rolled steel rose by USD 82/ton, for cold-rolled steel by USD 92/ton and for galvanized steel by USD 30/ton.

Due to European producers' successful efforts to restrain in production of steel sheet, prices for hot-rolled steel exported from the EU rose from USD 195/ton FOB at the start of 2002 to USD 305/ton FOB in December, for cold-rolled steel from USD 265/ton FOB to USD 380/ton and for galvanized steel from USD 355/ton FOB to USD 458/ton FOB.

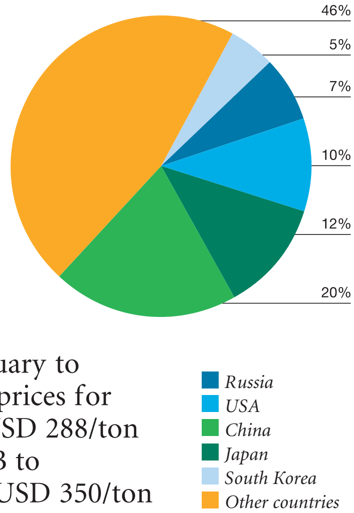
The only region that showed a decreasing price trend in the second half of 2002 was the USA. Besides the overall deterioration of the country's economy, the fall in steel prices at the end of the year was also due to the accumulation of a large stock of steel products in consumers' warehouses.

A number of positive aspects could be seen in 2002 regarding the resolution of Russian foreign-trade issues:

• on 9 July a new three year treaty was signed by Russia and the EU on trade in certain steel products. As a result of this treaty, Russia will retain its presence on the EU market in the near future;

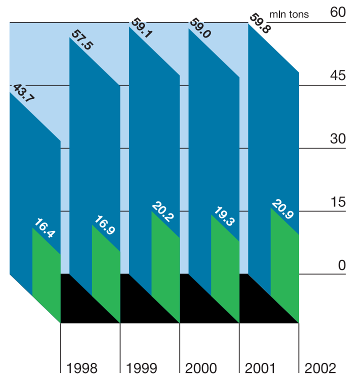
• First the USA and then the EU recognized Russia as a market economy, which in the future will allow Russia to defend its

Global steel production, by country 2002



interests during anti-dumping proceedings on an equal basis with the USA, EU and other countries;
• on 16 October, the anti-dumping investigation on cold-rolled steel, initiated by the USA in 2001 against 20 countries including Russia, was terminated due to the lack of damages;
• on 9 January 2003, for the first time the Eurofer association of European producers withdrew an anti-dumping complaint against imports of narrow NGO steel. The withdrawal of the Eurofer complaint automatically led to the termination of the effect of the anti-dumping investigation initiated by the European Commission on 8 May 2002.

Production of steel and flats in Russia in 1998-2002



Production of steel
Production of flats

Russian steel market

The year 2002 was a more successful year for Russian steel-making companies than 2001. Production increased for all main types of metal products.

In 2002, Russian steel-making companies produced 46.3 million tons of pig iron and 59.8 million tons of steel; these amounts were 2.8% and 1.3% higher, respectively, than the 2001 figures. The production of finished steel in 2002 was 48.7 million tons (an increase of 3.9%), including 20.9 million tons of sheet steel (an increase of 8.2%).

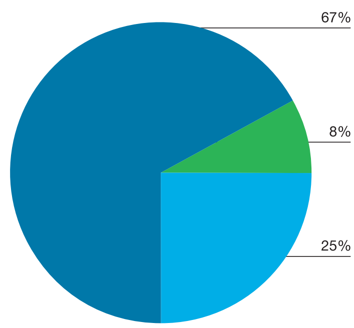
The improvement of the situation on the global market in the first half of the year was the main reason for the increase in shipments of metal products to foreign markets and the decrease in shipments to the domestic market. After stabilization at the beginning of the year, prices on the Russian secondary market showed a rising trend. Starting from the end of the first half of the year until the end of 2002 price for sheet steel rose by 25–45%, depending on the region.

As a result of the favorable conditions on global markets in 2002, Russian exports of sheet steel reached 10.9 million tons, or 25% more than in 2001.

In 2002, the share of foreign steel on the Russian market dropped. Over the year, 1 million tons of sheet steel were imported, which is 28% lower than the figure for the previous year.

As in the previous year, the top three steel consuming regions were: Moscow, Belgorod and Rostov. These regions accounted for more than 46% of all imported rolled stock. The main suppliers of steel to Russia were Ukraine, Kazakhstan, Finland

Production of sheet steel in Russia in 2002 (total production 20.9 million tons)



Hot-rolled steel
Cold-rolled steel
Coated steel

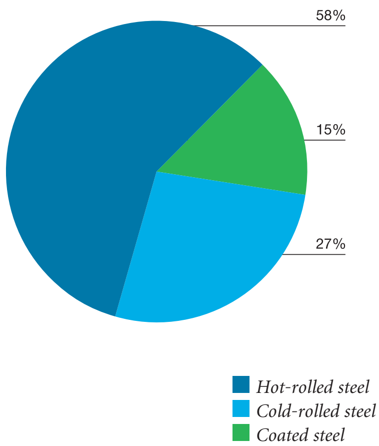
and Germany. These countries accounted for more than 90% of Russian imports.

While Russian producers' exports of sheet steel were increasing, their shipments to the domestic market dropped by 6% in 2002. Total shipments were 10 million tons.

Overall the main steel-consuming industries of the Russian economy showed a slight increase in production in 2002. In the engineering industry, the production increase was 2%, and the increase in construction was 3%, while the pipeline sector dropped by 5%.

Overall, the visible consumption of sheet steel in Russia decreased by 8% from 2001, to 11 million tons. This can be explained by the fact that an imbalance in supply and demand arose on the domestic market in 2002 due to the shortage of metal products created by increasing exports, which in turn led to a significant increase in domestic prices.

Consumption of sheet steel in Russia in 2002 (total consumption 11.0 million tons)



Financial & Business Activities of NLMK

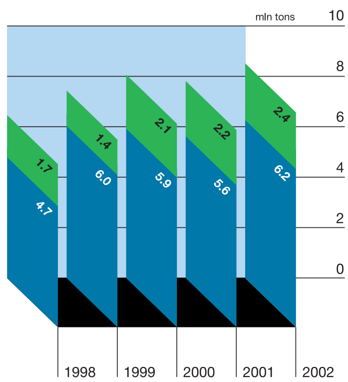
Pure Steel

Green Grass

The favorable situation on both the domestic and foreign markets in 2002 helped the Company to increase its sales. In physical terms, NLMK sales increased by 780 thousand tons (10%) in 2002 as compared to 2001 and amounted to a total of 8.6 million tons.

There was no significant change in the proportions of NLMK's sales market. The share of exports in total sales increased by 1 percent, from 71% in 2001 to 72% in 2002.

NLMK steel product sales 1998-2002



Export
Domestic market

Shipments to CIS countries are shown within exports

Export sales

In 2002, NLMK's export shipments of metal products increased by 11% against 2001 and reached a total of 6.2 million tons.

Due to the difficulties in trade with the USA and the European Union, NLMK increased shipments to South-East Asia and the Middle East during the reporting period.

Of export shipments, 10.5% were exported to Thailand, 5.6% to Taiwan, 3.1% to Iran and 2.9% to Indonesia.

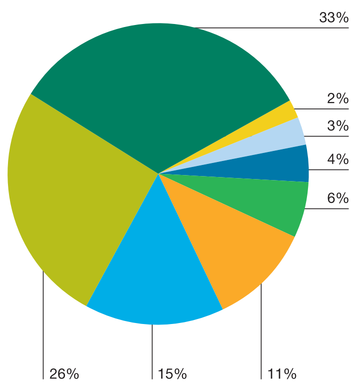
China is one of the most promising Asian markets for NLMK. Despite the fact that in 2002 trade with China was complicated by the start of an anti-dumping investigation in shipments of Russian cold-rolled steel to this country, shipments to China made up 7.6% of NLMK's total export shipments of steel products over the reporting period.

Shipments of NLMK products to the USA in 2002 were made under quotas established in accordance with the Comprehensive Steel Agreement and the agreement on the termination of anti-dumping investigations in hot-rolled steel and thick plate steel. Virtually no shipments of cold-rolled steel were made to United States, due to the anti-dumping proceedings started in 2001 against shipments of this type of product to the USA. However, in connection with the termination of the investigation on 16 October 2002, a renewal of shipments of cold-rolled steel to the USA can be expected in 2003.

Of products shipped to the American market in the reporting period, slabs had the largest share (92% of shipments to the American market). The United States is currently the largest purchaser of slabs from NLMK, with 25% of the total amount of slabs exported by the Company in 2002 sent to the USA.

NLMK's trade with EU countries in January–June 2002 was carried out under quotas established by the European Commission for the first half of the reporting year, and also

NLMK export sales structure by countries in 2002



CIS countries
Middle East
South-East Asia
EU countries
Central and South America
Africa
North America
Other countries of Europe and Turkey

in accordance with the Agreement between Russian and the Federacciai Association. In July a new Agreement was signed retrospectively, for a three-year term. This went into effect from 1 January 2002.

In the reporting year, the largest EU shipments were made to Great Britain (5.6% of export production), Italy (7.0%) and Spain (3.8%). The Danish DanSteel A/S was acquired at the end of 2002 by an entity friendly to the Group. In the near future Denmark should become one of the main targets for shipments of NLMK slabs.

In 2002, 11% of export shipments of steel products were made to non-EU European countries. Turkey is the largest consumer in this region. NLMK shipments to this country in 2002 were 30% higher than in 2001.

The main decrease in the Company's shipments in the reporting period were in low added-value products: pig iron and hot-rolled steel.

As a result of the introduction of quotas on shipments of narrow boron-alloyed hot-rolled steel sheets to the EU, NLMK's export shipments of hot-rolled steel dropped by 26% against the level of the previous year. However, this decrease was virtually wholly compensated by the increase in shipments of cold-rolled steel, prepainted steel and grain-oriented electrical steel.

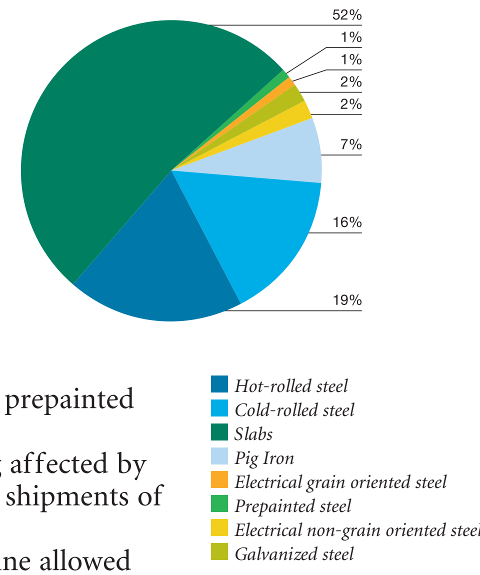
Despite sales of cold-rolled narrow strips, being affected by EU safeguard measures, NLMK increased export shipments of cold-rolled steel by 33% as compared to 2001.

The commissioning of the second galvanizing line allowed the Company to increase shipments of galvanized steel to foreign markets by 130% as compared to the previous year level. Shipments of prepainted steel also increased.

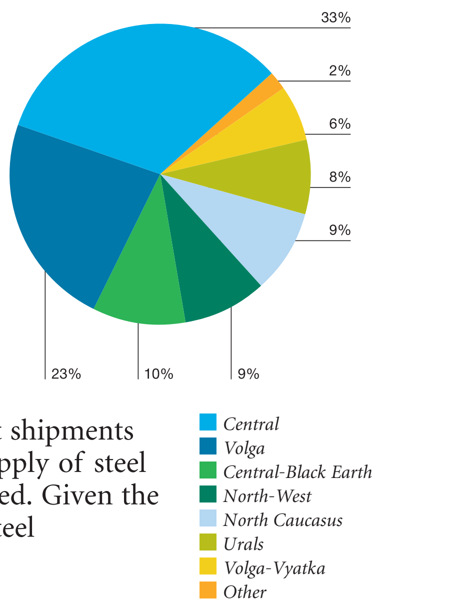
After the introduction of temporary safeguard measures on grain-oriented steel into the EU, NLMK, striving to make shipments within the framework of the allotted quotas, significantly increased shipments of this type of product to the EU in second quarter 2002. On the whole for the year, shipments of NGO electrical steel to foreign markets rose by 36% against 2001.

Due to the excess production capacity for slabs and the available demand for them, the Company increased export shipments of slabs by 20% in 2002 as compared to 2001, without reducing the amount of production and sales of flats.

NLMK export sales structure by types of product in 2002



NLMK sales structure by Russian regions, 2002



Sales on the domestic market

In 2002 Russian steel producers increased export shipments under favorable conditions on global markets. Supply of steel products on the Russian domestic market decreased. Given the shortage of rolled stock in the country, Russian steel producers gradually increased prices for their products starting from the second quarter of 2002.

In 2002, NLMK was able to not only maintain its niche on the domestic market but to increase shipments to Russian consumers. Actual shipments of steel products produced by NLMK for the year rose by 7% in physical terms as compared to the results for 2001, and amounted to 2.4 million tons.

As in the previous year, the majority of the Company's products were shipped to its strategic partners, automobile and pipe factories and factories of steel industry. The shares of the main steel consuming industries in the structure of NLMK's deliveries of steel products in 2002 were:

pipe factories – 16.3% (2001: 17.1%);

automobile industry – 14.9% (2001: 16.5%);

factories of steel industry – 14.5% (2001: 12.7%);

engineering industry – 9.7% (2001: 10.5%).

NLMK is actively developing sales through trading companies, including its dealer network. The share of sales to traders in 2002 was 32.6%.

The share of industries with volume of shipments of steel products by NLMK not exceeding 5% of total shipments for all of 2002 was equal to 11.9%.

In connection with the unfavorable situation in the Russian pipe industry (pipe production in Russia dropped by 5% in 2002), NLMK increased shipments of hot-rolled steel to traders . Their share in shipments of hot-rolled steel to the domestic market in 2002 was 46%.

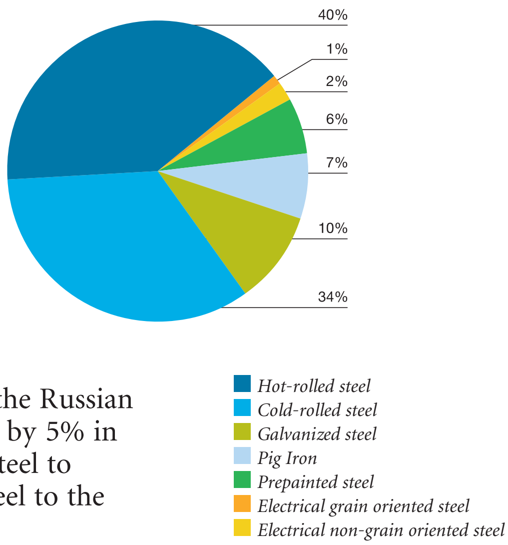
NLMK continued to expand sales of finished steel products in 2002. The commissioning of a new galvanizing line at the end of 2001 made it possible to increase shipments of galvanized steel to the domestic market by 57.1% during 2002.

An increase in demand for prepainted steel in Russia facilitated an increase in sales of this type of products by 1.5%.

In the reporting year, the share of microalloyed and low-alloyed types of cold-rolled steel with improved mechanical properties increased. Shipments of high-ductility IF carbon steel increased by 50% compared to the level of the previous year.

NLMK's sales plan for 2003 forecasts that sales will remain on the level of 2002. No major changes are planned in the structure of sales by sales markets or by types of products.

NLMK sales structure on the domestic market in 2002



Sales structure in terms of in-kind amounts of products

Due to implemented cost management programmes and effective production management 2002 was once more a successful year for the Company. Revenue increased by USD 390 million and amounted to USD 1,7 bln in 2002; whereas net income of the Company increased 3.8 times and reached USD 338 million compared to USD 88 million in 2001.

In 2002 the major drivers for NLMK's financial performance were:

- Favorable world steel markets situation;
- Price growth for major types of products in the domestic market;
- Price increase for raw materials, fuels, railway tariffs were behind the steel products price growth for the period;
- Launch of new production facilities and increase in production volumes.

Revenue grew due to the change in the products sale structure, as sales of high value added products increased. Cold-rolled steel products sales increased by USD 108 million (41%), galvanized steel by USD 47 million (71%), and prepainted steel by USD 30 million (49%).

The major part of the Company's sales (70%) comes from slabs, cold and hot rolled steel. Galvanized steel and prepainted steel takes a significant proportion and amounts to 12% of the overall steel sales.

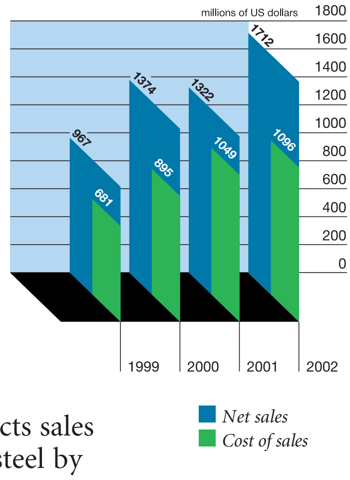
The majority of the NLMK's steel products is for the export market. In 2002, export sales grew to USD 1,024 million (61% of total sales) compared to USD 697 million (55%) in 2001.

In 2002 the largest markets in NLMK's sales structure were South-East Asia (21%), EU countries (16%), North America (8%) and other countries of Europe and Asia (7%).

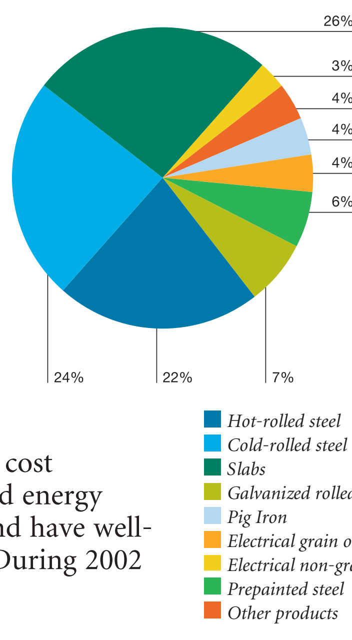
The Company continued to implement a number of cost saving and production efficiency programmes and, as a result, the cost of production grew by only 6.6%, while the production volume of finished goods increased by 10%. The cost of production increase is mostly attributable to growing raw materials prices. During 2002, natural gas prices grew by 43%, coal by 14%, iron ore by 16%, domestic railway tariffs by 22% and electricity prices by 30%.

In 2002 there were no significant changes in the cost structure. All major suppliers of raw materials and energy resources are located in the Russian Federation and have well-established long term relationships with NLMK. During 2002

Dynamics of net sales & cost of sales in 1999-2002



NLMK sales structure by product types in 2002



the Company was provided with all items of raw materials and energy resources in full.

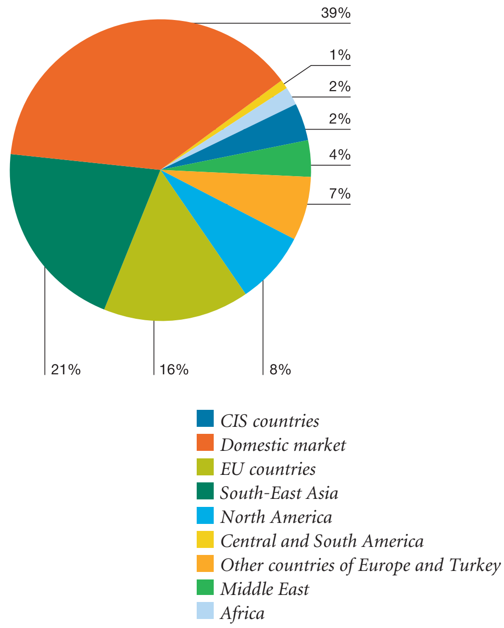
NLMK strives for further cost saving. Decrease of steel production cost remains one of the Company's major priorities to achieve the overall goal of increased profitability. At present, NLMK has the lowest level of costs per ton of steel among the major steel producers in Russia.

Activities performed during 2002 aimed at cost reduction allowed NLMK to increase its sales profitability ratio from 21% in 2001 up to 36% in 2002. As a result, operating income grew by USD 307 million (2.5 times) and reached USD 512 million.

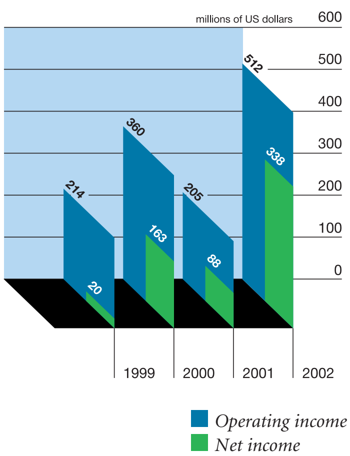
A well-thought investment strategy of the Company allowed the avoidance of unnecessary expenses related to business restructuring. The priority for NLMK's investment is the upgrading of production facilities, and hence the Company's financial and production resources are concentrated in core business areas: production and sales of steel.

NLMK's financial objectives for 2003 are to increase revenues by 15% to USD 1,96 bln. At the same time the planned activities will be aimed at achieving the same profitability levels as were achieved for 2002.

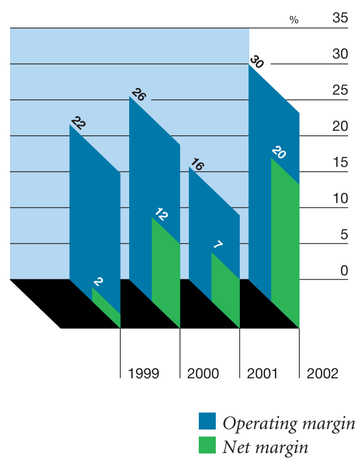
NLMK sales structure by markets in 2002



Dynamics of operating income & net income in 1999-2002



Dynamics of operating margin & net margin in 1999-2002



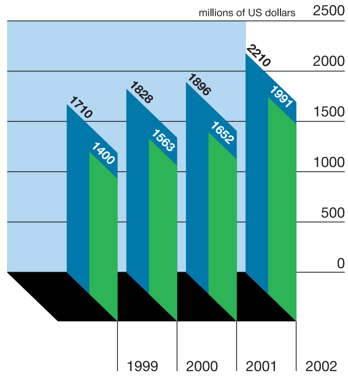
Major operating results in 2001-2002

	Unit of measurement	2002	2001	+/–	Change (%)
Net sales	Millions of US dollars	1,712	1,322	+390	+30%
Cost of sales	Millions of US dollars	1,096	1,049	+47	+5%
Gross profit	Millions of US dollars	615	274	+341	+125%
Operating income	Millions of US dollars	512	205	+307	+149%
EBITDA	Millions of US dollars	604	332	+272	+90%
Pre-tax profit	Millions of US dollars	467	163	+304	+187%
Net income	Millions of US dollars	338	88	+250	+287%
Gross margin	%	36	21	–	
Operating margin	%	30	16	–	
Pre-tax profit margin	%	27	12	–	
Net margin	%	20	7	–	
EBITDA margin	%	35	25	–	

Appraisal of the Company's Financial Position

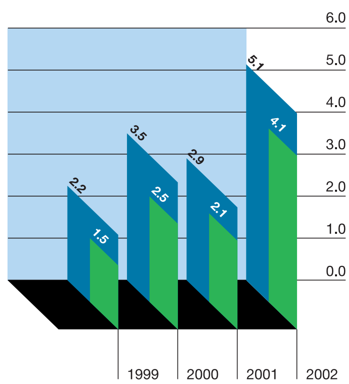
Based on the results of 2002 the following should be highlighted on the Company's financial position:
• Total assets grew by USD 314 million, amounting to USD 2 210 million (a rise of 17% in comparison to 2001);
• NLMK's current assets increased by USD 330 million (54%), whereas non-current assets decreased by USD 17 million (1%) over the previous year. As a result the proportion of current assets in the Company's assets structure reached 43%. The growth in current assets level was attributable to the following factors:
  • Inventories grew by USD 19 million (11%) as a result of an increase in work-in-progress;
  • Accounts receivable increased by USD 64 million (27%) mainly as a result of the increased balance for VAT input tax and receivables from the budget;
  • Cash increased significantly by USD 200 million due to the deposit of the funds in banks and arrangement of funds into trust management with the bank;
• Shareholders' equity increased by USD 339 million or 21% during 2002. The proportion of shareholders' equity in total liabilities increased from 87% in 2001 up to 90% in 2002;
• The high liquidity ratio is attributable to an increase in the Company's current assets and decrease in the current liabilities;
• Current liabilities decreased by USD 26 million (12%) due to cumulative effect in reducing of short-term borrowings but offset by growth in accounts payable:
  • Short-term borrowings reduced by USD 89 million (96%) due to the redemption of 8% promissory notes;
  • Accounts payable increased by USD 56 million (52%). The main reasons for the increase is growth in taxes payable other than income and advances received. Taxes payable relate to turnover taxes in line with growth of sales. Advances received increased due to the fact the parent company changed contracted terms of sales to a prepayment basis that, in turn, resulted in an improvement of accounts receivable position;
• The decrease of long term liabilities by USD 174 thousand is attributable to foreign exchange rate changes. The rouble balance did not change.

Dynamics of assets & shareholders' equity in 1999-2002



Total Assets
Shareholder's equity

Dynamics of liquidity ratios in 1999-2002



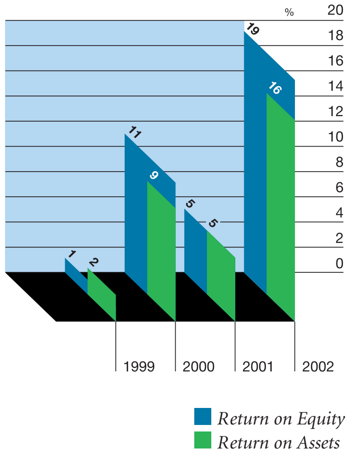
Current ratio
Liquidity ratio

In relation to operating activities the following can be highlighted:

• Due to changes in the product sales structure and an improvement in the overall situation in the world and domestic steel market the return on sales ratio increased from 16% in 2001 to 30% in 2002. Return on shareholders' equity increased significantly by 18% over 2002 in comparison to 5% in 2001. Each US dollar of sales included USD 0.30 of operating profit, USD 0.27 of pre-tax profit and USD 0.20 of net income;

• Accounts receivable turnover decreased by 8 days and reached 58 days. Inventory turnover increased by 3 days due to price growth of raw materials and an increase in tariffs.

Dynamics of return on assets & return on equity in 1999-2002



Financial position of the Company

Indicator	Unit of measurement	2002	2001	Change	
				+/–	%
Activity indicators					
Total assets	Millions of US dollars	2,210	1,896	+314	+17%
Shareholders' equity	Millions of US dollars	1,991	1,652	+339	+21%
Current assets	Millions of US dollars	947	617	+330	+54%
Inventories	Millions of US dollars	199	180	+19	+11%
Accounts receivable	Millions of US dollars	305	241	+64	+27%
Cash	Millions of US dollars	390	190	+200	+105%
Current liabilities	Millions of US dollars	185	211	–26	–12%
Accounts payable	Millions of US dollars	164	108	+56	+52%
Financing and financial position					
Current ratio		5.1	2.9	+2.2	–
Liquidity ratio		4.1	2.1	+2	–
Accounts receivable turnover	Days	58	66	–8	–
Inventory turnover	Days	63	60	+3	–
Proportion of current assets in total assets	%	43	33	–	–
Proportion of the current assets financed from own capital	%	81	66	–	–
Proportion of equity in total liabilities	%	90	87	–	–
Profitability					
Return on sales	%	30	16	–	–
ROE	%	19	5	–	–
ROA	%	16	5	–	–
Earning per share	US dollars	56.54	14.62	+41.92	+187%

Industrial risks

Industrial risks are defined as the danger of a reduction in income and damage to the company or third parties as a result of a disruption of the normal production process.

Every year NLMK adjusts and improves the technologies used to increase the reliability of production facilities. This allows the Company to reduce the output of low-quality products, the expenditure of material resources and to increase production efficiency.

The number of industrial accidents is reduced through timely maintenance and overhaul of equipment. The Company has two special-purpose divisions, the Construction and Maintenance Department and the Repair Plant, which specialize in the repair of production equipment and technical upgrading.

A considerable amount of preventative maintenance is performed in order to preclude industrial accidents and dangerous situations at the workplace. In addition, employees are given regular training on what to do in case of emergencies at the workplace.

Supply of iron-ore and coal from several production companies and the formation of required reserves of raw and other materials are intended to minimize losses in case of an interruption in shipments from one of suppliers. In-house electricity accounts for 40% of the Company's production needs.

In order to ensure the continuity of the production process, a reasonable amount of inventory and auxiliary materials are maintained at each stage of production in case of accidents upstream. Product quality control and real-time accounting of input of raw materials, semi-finished products and energy resources is performed at all stages of production.

Operating risks

Operating risks are defined as the risk of incurring direct or indirect losses as the result of shortcomings in management processes, or due to the mistakes or insufficient qualifications of Company employees.

The clear allocation of authorities and ensuring that decisions are economically justified are fundamental to reducing operating risks. The well-regulated allocation of areas of responsibility ensures personal responsibility at all levels of management.

To reduce operating risks, the Company offers professional and advanced training for employees. Staff members undergo regular certification. Specialized conferences are held between Company employees and the employees of other enterprises in order to share experiences.

Environmental risks

Environmental risks are defined as the likelihood of the appearance of civil liability for environmental damage which may occur during the construction or operation of production facilities.

The following measures are performed at NLMK to reduce environmental risks:

• constant monitoring of the chemical composition of emissions and discharge of effluents, in order to prevent critical concentrations of detrimental compounds;
• reduction of environmental impact through the introduction and use of new environmentally friendly technological equipment;
• withdrawal of obsolete and environmentally hazardous equipment out of operation.

NLMK's expenses on the implementation of environmental programs in 2002 were 42% higher than in 2001.

The Company's expenses on professional indemnity insurance connected with the use of hazardous production facilities in 2002 equaled USD 8 million.

The extent of the Company's environmental activity is corroborated by the successful certification of its environmental management system according to the standard ISO 14001 in 2002.

Property risks

Property risks are defined as the likelihood of the loss or damage of part of the Company's property and lost profits during production and financial operations.

One of the instruments used to lower property risks is property insurance. The insurance premiums paid by NLMK under such contracts with insurance companies in 2002 equaled USD 6.2 million.

A number of preventative maintenance procedures are performed in order to preclude the damage and destruction of property, including the training of personnel, provision of occupational safety and fire fighting equipment and installation of alarm systems and devices.

The Company instituted security measures to impede the theft of material assets or information constituting a trade secret of NLMK. The Company's security service pays special attention to key facilities and utilities, in order to prevent damage of property and acts of sabotage.

Commercial risks

Commercial risks are associated with the possible loss of profits or appearance of losses during the performance of trading operations.

Sales risks

The sales department constantly monitors both domestic and world markets of metal products in the search for new strategic partners and sale channels. This decreases the possible losses from a potential reduction in volumes of product consumption on one particular market. This monitoring of trends on the Company's markets allows it to implement a flexible sales policy and to minimize possible losses due to unfavorable price fluctuations.

Credit risk

The majority of the Company's sales are made on trade credit terms, which involves an inherent risk that funds for shipped products will not be received.

When concluding contracts with new partners, the potential counterparty is always reviewed for reliability and solvency. In order to minimize risks, NLMK is oriented first and foremost on major solvent consumers and dealers.

Shipments with trade credit are generally made against bank guarantees. The legal department performs legal support and expertise of transactions, making it possible to reduce the risk of non-payments under concluded contracts.

Financial risks

Currency risks

Nearly 70% of the Company's annual product sales take place on the export market. As the greater part of settlements with foreign partners are made in US dollars and euro, NLMK has adopted the US dollar as its currency for foreign-trade transactions.

Like other export-oriented companies, NLMK is strongly dependent on the relative strength of the national currency. According to Russian legislation, a company which exports its products is required to sell up to 50% of its hard currency proceeds on the domestic market.

Lately Russia has been moving towards an easing of the currency regulations. As a result, the Company is becoming less dependent on the foreign currency exchange rate policy of the Central Bank of the Russian Federation.

The Company is able to reduce the risk of impairment of assets by placing available funds in deposits, for subsequent use in the Technical Upgrade Program and investment programs. In order to minimize foreign currency risks, deposits are made in both foreign currencies and the Russian rouble.

Interest risk

Interest risks are defined as the likelihood of losses due to unfavorable fluctuations in interest rates on group borrowing. For NLMK, the goal of managing interest risk is to minimize the impact of changes to interest rates on the financial results of the Company.

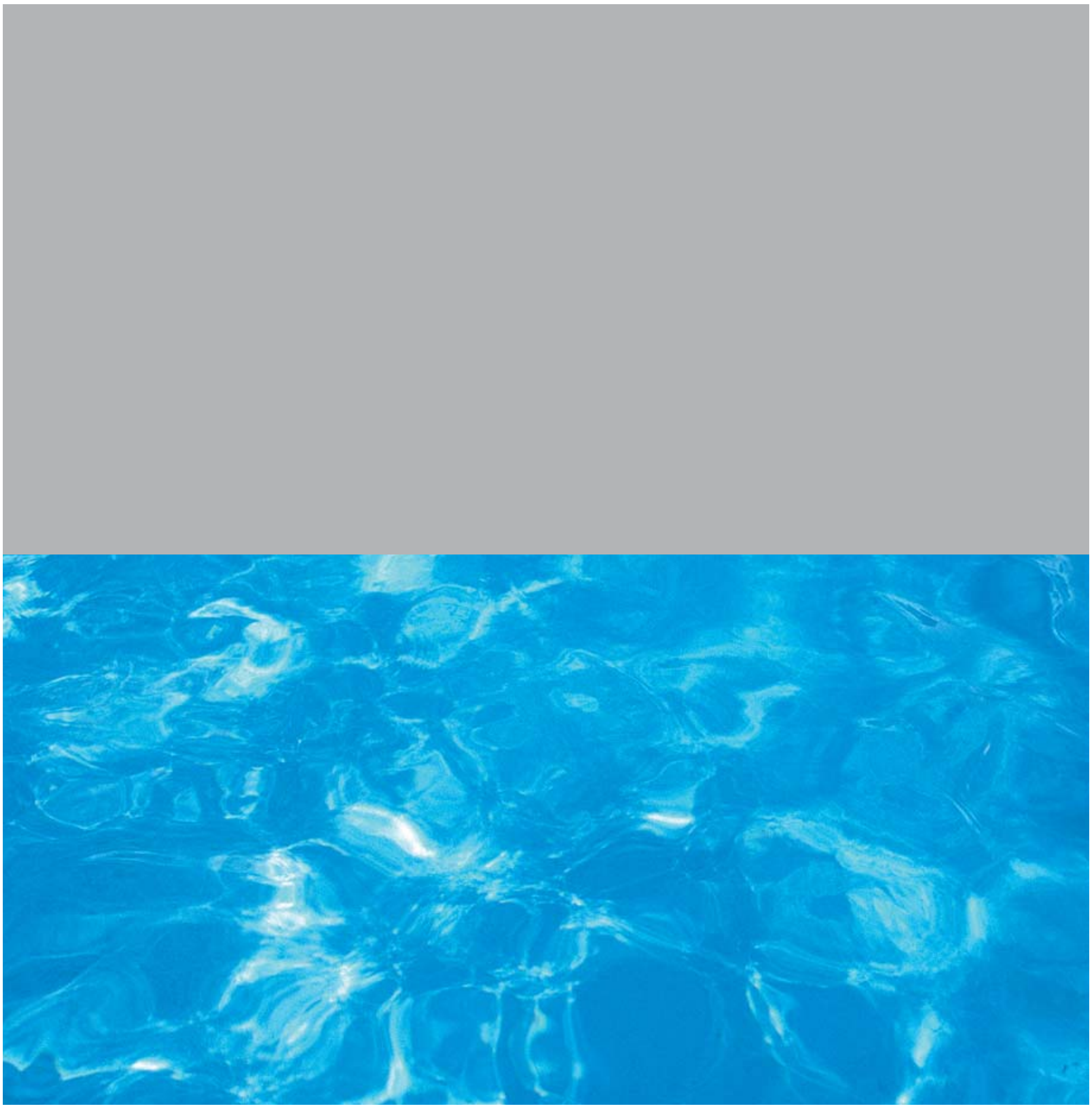
The Company's surplus available funds are placed in rouble and foreign-currency deposits with a fixed interest rate. Since most of the deposits have been made in US dollars, the main currency involved in NLMK's interest-rate risk is the US dollar. At year end, the total amount of funds placed in deposits equaled USD 142 million.

Liquidity risk

Liquidity risk means the possibility of non-performance by a company of its obligations or the failure to secure the required growth in assets. At NLMK, liquidity risk is closely related to the receipt of funds under settlements for products.

In order to minimize this risk, the schedule of incoming and outgoing cashflows is carefully planned in order to identify any possible deficit in financial resources.

The ratio of the Company's highly liquid assets to liabilities attests to high solvency and a correspondingly low liquidity risk. Over the year the Company did not make use of loans or credit to expand its working capital or to settle its liabilities.



Pure Steel

Clear Water

Production of Metal Products

NLMK produces primarily high quality hot-rolled and cold-rolled flat steel products. The Company's complete range of products includes pig iron, slabs, hot-rolled and cold-rolled steel, galvanized steel and prepainted steel, steel for enameling, cold-rolled grain oriented and non grain oriented steel, strips, coke, pipes, and other products.

The planned production volume of metal products was met in 2002. Responding to increased demand for metal products on the domestic market, and taking advantage of favorable world market trends, NLMK increased its production of metal products in 2002.

As a result, production growth was achieved on nearly all main metal products as compared to the last year: production of finished steel increased by 9.2%, steel production by 8.1%, and pig iron production by 7.8%.

The capacity usage of NLMK's steel production facilities was increased in 2002, and reached 97%. The capacity usage of rolled steel production facilities reached 94%. In 2002 the frequency and duration of idle time in rolled steel production were both reduced.

In 2002 there were favorable changes in the structure of flat rolled steel production at NLMK:

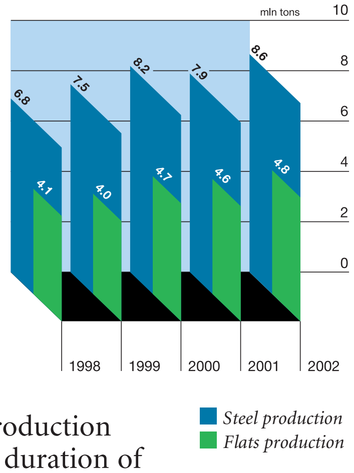
- production of cold-rolled steel increased by 488,000 tons (or by 26%);
- production of galvanized rolled steel increased by 135,000 tons (or by 58%);
- production of prepainted steel increased by 45,000 tons (or by 33%);
- production of grain oriented electrical steel increased by 15,000 tons (or by 10%);
- production of non grain oriented electrical steel increased by 9,000 tons (or by 10%).

The increase in the production volumes of metal products in 2002 was facilitated by the commissioning of a number of large production facilities in 2001 after the completion of the major repairs stipulated by the Technical Upgrading Program:

- the commissioning of blast furnace No. 6 after major repairs of the second class (April 2001);
- the commissioning of converter No. 3 after replacement of the casing (March 2001) and converter No. 2 after replacement of the superstructure (September 2001) in BOF shop No. 2;
- the commissioning of coke battery No. 6 (March 2001);
- the commissioning of the hot dip galvanizing line in cold rolling shop No. 5 (November 2001)

The rate of growth in steel production at the Company in 2002 was higher than the Russian and world average, meaning

Production of steel and flats at NLMK in 1998-2002



Production of main products in 2001-2002 (thousands of tons)

	2002	2001		Change
	tones	tones	tones	%
Bin sinter	12,827	12,385	+442	+4%
Coke with 6% humidity	4,393	4,349	+44	+1%
Pig iron	8,047	7,463	+584	+8%
Steel	8,553	7,912	+641	+8%
converted	8,301	7,652	+649	+8%
electrical	252	260	–8	–3%
Finished steel	8,006	7,334	+672	+9%
flats	4,764	4,634	+130	+3%
slabs	3,242	2,700	+542	+20%
Coated steel	550	371	+179	+48%
galvanized steel	369	235	+134	+58%
prepainted steel	181	136	+45	+33%

that NLMK was very successful in taking advantage of favorable trends on steel market in 2002. Responding to trends on sale markets, NLMK began construction of a second color-coating line with a capacity of 200,000 tons per year in 2002, and expects to commission it in 2004.

Production plans for 2003 stipulate continued production of main metal products at the 2002 level, despite the suspension of operations at two shops. Hot rolling shop No. 1 and EAF shop will be shut down and decommissioned in the first quarter of 2003. These shops are some of the oldest in the Company, and were used in the electrical grain oriented steel technological production chain. Suspension of their operations became possible after mastering of grain oriented steel melting in converters.

Breakdown of steel sheet production at NLMK in 2002

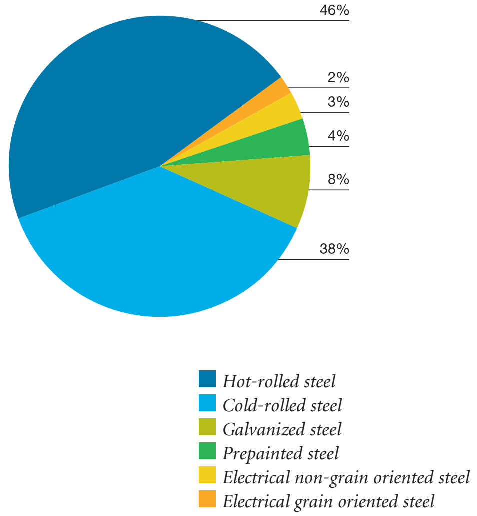
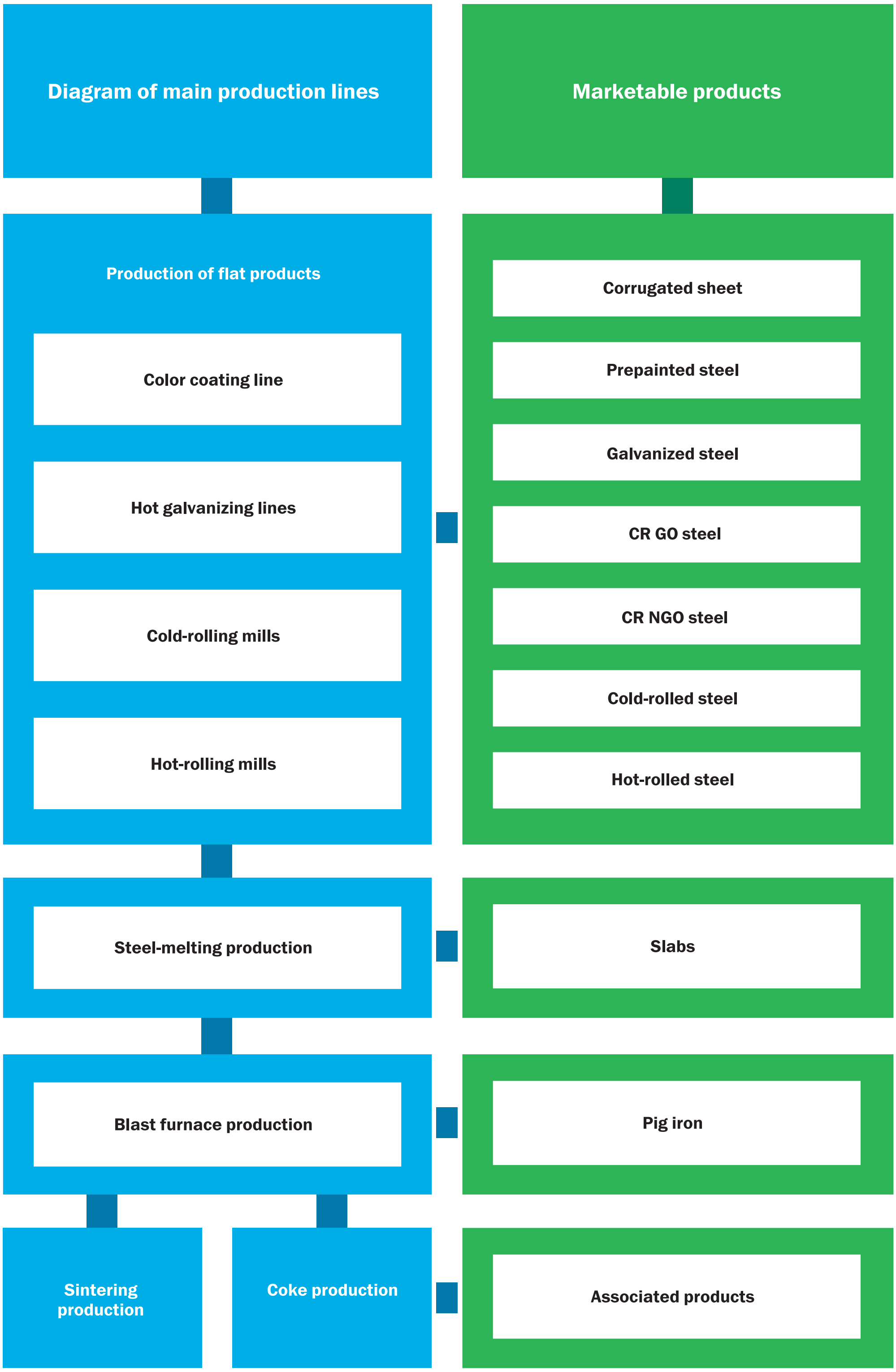


Diagram
of Production Activity



The Company's Products

According to the quality control policy, NLMK's goal is to manufacture quality products which meet customers' expectations and requirements, while providing a stable level of profitability for the Company.

NLMK's product line currently includes a wide range of sheet steel from low carbon, carbon and low alloy grades of steel with various chemical composition, strength and stamping properties.

All types of manufactured products are exported: pig iron, slabs, hot and cold-rolled steel, hot dip galvanized steel, prepainted steel, and cold-rolled electrical steel. Metal products are shipped according to all main Russian and foreign standards: ASTM, EN, DIN, JIS, BS, API, SAE. The share of products complying with foreign standards exceeds 70%.

The technologies used allow NLMK to produce carbon steel with low sulfur and silicon content. This type of steel contains 0.015% sulfur max. and 0.03% silicon max. NLMK uses its own unique technologies for steel-making and ladle metallurgy of this steel grade (these technologies are patented in Russia). This product is sold in the form of slabs and hot and cold-rolled steel. Most of this steel is exported.

NLMK's hot-rolled steel is used in the construction of oil and gas pipelines (including those operating under low temperatures and high pressure), the hulls of ships, building structures, and high-pressure vessels. The Company produces hot-rolled steel with width of up to 1850 mm and thickness ranging from 1.5 to 14 mm. The steel minimum size tolerances equal 2/3 ASTM. The technology used allows the Company to produce both commercial quality hot-rolled steel and hot-rolled steel with strength from 300 to 500 MPa. Hot-rolled steel for the manufacture of pipes according to standards API 5L is also produced.

NLMK produces commercial quality cold-rolled steel for cold drawing, enameling, painting and for film coating, as well as structural rolled steel. The Company's technical equipment allows the production of cold-rolled steel with width of up to 1800 mm and thickness of 0.4–2.5 mm. Depending on the product mix, the minimum size tolerances equal 1/2 or 2/3 ASTM. NLMK's DDQ and EDDQ cold-rolled steel is used in the manufacture of automobiles, tractors, combines bodies as well as metal structures, stamped goods, casings for household appliances, roofing and facing materials.

In 2001 the Company performed trial production of vanadium, aluminum and calcium microalloyed steel of 07GFYu grade. European analogues of this steel grade are ZStE 260 and ZStE 300 under SEW 093. Both higher strength hot-rolled pickled and cold-rolled steel for cold stamping of complex components, such as wheel disks and rims, are currently produced. The high tensile and yield strength, high elongation, low carbon equivalent, and low sulfur and phosphorus content ensure the high consumer qualities of 07GFYu grade rolled steel. All these factors ensure the absence of segregational heterogeneity, high weldability and high processability.

The high quality of 01YuT steel grade produced by NLMK guarantees the persistent mechanical properties of the cold-rolled steel for stamping of complex components (exterior and interior car body components). The European analogues are DC05 and DC06 grades under EN10130. The main difference between this grade of steel and conventional low carbon steel is its significantly lower carbon content (thousandths of a percent) and the absence of interstitial atoms in the crystal lattice, which guarantees that steel will maintain its plasticity over an extended period of time.

NLMK's hot dip galvanized steel is used in the manufacture of roll-formed sections, building structures, car parts, casings and components for household appliances. Galvanized steel with width of up to 1800 mm and thickness of 0.4–2.0 mm is produced at the continuous hot dip galvanizing line. In this regard, the mass of the zinc coating (under EN and ASTM) is from Z100 to Z450 g/m^2.

Mastering of titanium microalloyed steel production of 01YuT grade has made it possible to offer Russian galvanized steel with higher plasticity to consumers. European analogues are DX53D and DX54D steel grade under EN10142; and St05Z and St06Z under Volkwagen standard VW50111. The main consumers of this steel type in Russia are OAO AvtoVAZ and OAO Lysvensky Iron & Steel Works. The production of complex components using NLMK steel has been successfully tested at the Skoda-Auto Factory. Thin zinc coating and zinc coating thickness variation ensure high processability during the welding of components at automated lines. This product type of 01YuT steel grade was awarded the "Russian Brand" Golden Seal of Quality under the national program for the promotion of the best Russian goods, services and technologies.

NLMK's color-coating line produces steel sheet with organic coatings on cold-rolled and cold-rolled hot dip galvanizing substrate of various strength for manufacture of building structures, casings for instruments, household appliances, roofing tiles and other goods. Due to its state-of-the-art technology, the Company is the largest producer of prepainted steel in Russia. The quality of the rolled steel is guaranteed by the high technology used, the equipment available, and the use of materials from the leading manufacturing firms. The technical capabilities of the equipment and the high quality of the materials used allow various types of coatings to be applied to cold-rolled and galvanized steel. The color coatings (paint, plastisol, polyvinylchloride) are applied to one or both sides of the strips. NLMK's prepainted steel is a wonderful construction material with high atmospheric corrosion resistance, decorative qualities, and a great combination of strength and plasticity.

NLMK has the most modern electrical steel production complex of any company in Russia and the CIS. The production of electrical grain oriented steel ensures a guaranteed level of quality under Russian standards with thickness of 0.27–1.0 mm. Moreover, products which meet the foreign standards DIN46400.1, EN10106, ASTM A 677M and others have been introduced. The Company produces both fully processed and semi-processed grain oriented steel. NLMK's semi-processed steel has good stamping characteristics on high speed punches (more than 900 strokes per minute), has high magnetic flux density and permeability. NLMK's cold-rolled electrical grain oriented steel is used in the manufacture of three-phase synchronous general duty generators, AC and DC motors, frequency converters, electromagnets and other electronic equipment. NLMK is the only Russian producer of high-alloy grades of electrical grain oriented steel with low specific losses during magnetic flux reversal.

NLMK is one of only a few enterprises in the world which specializes in the production of non grain oriented steel. The cold-rolled electrical non grain oriented steel produced by the Company is used in the manufacturing of a wide range of transformer cores. The production of this type of steel with thickness of 0.15, 0.27, 0.3, 0.35, 0.5, 0.7, and 0.8 mm and width of up to 914 mm is performed according to Russian and foreign standards DIN46400.3, ASTM A 876M and others. The production of rolled steel with width of up to 1000 mm is being introduced. The Company's technology and equipment guarantees a large share of the highest grades in the structure of non grain oriented steel. The use of the highest grades with low specific losses allows the size of electronic devices to be reduced and energy savings to be increased.

The production of NLMK is aimed at satisfying demands in various consumer spheres of ferrous metals – everything from pig iron and slabs to electrical and prepainted steel. The Company's galvanized steel for the automotive industry, cold-rolled electrical grain oriented steel and prepainted steel have been awarded the "Russian Brand" Golden Seal of Quality. NLMK sees its main goals as upgrading the quality of products, improving their consumer qualities and diversification of the product mix. The quality of NLMK's products is confirmed by certificates from both Russian and foreign certification bodies.

Certification of Products and the Management System

To be able to function effectively in a market economy, the Company must win over consumer confidence. The high quality of the Company's goods is confirmed by certificates of compliance issued by independent audit companies.

NLMK's high technological and organizational level of production and products quality have been certified by both authoritative Russian and foreign certification bodies:

- U.K. Lloyd's Register of Shipping (United Kingdom);
- TÜV CERT (Germany);
- Russian Maritime Register of Shipping (Russia);
- Federal Scientific-Technical Center for Certification in Construction (Russia);
- VNIIS-Materialtest (Russia).

On 28 April 1999, the German firm TÜV CERT Rheinland-Berlin-Brandenburg issued certificate of compliance No. 09 10095068 to the Company confirming that NLMK's Quality Management System met the requirements of ISO 9002.

The certificate covers the following areas: marketable pig iron, slabs, carbon and low-alloy hot-rolled and cold-rolled steel in sheets and coils, including prepainted and galvanized steel, and CR GO and CR NGO steel in coils and sheets.

In 2000 and 2001 TÜV CERT performed audits of the quality management system operating at NLMK, during the course of which it was confirmed that all elements of the quality management system comply with the requirements of international standard ISO 9002:1994.

NLMK's activity in the area of quality management was confirmed by a certificate of compliance of the Quality System with the requirements of international standard IS09002. The certificate was issued by the firm TÜV CERT (Germany) on the completion of a re-certification audit of the Quality System performed in March 2002.

In September 2002 the Company's Environmental Management System successfully passed a certification audit of the firm TÜV CERT for compliance with the requirements of international standard ISO 14001.

As expected, the Company's efforts to improve the quality of products resulted in the receipt of certificates from authoritative certification bodies on certain types of products.

On the completion of certification tests performed in Germany by the firm TÜV CERT in January 2002, issued a certificate of compliance with European standard EN 10169-1 for NLMK prepainted steel.

In June 2002 the Company successfully passed a certification audit by the firm TÜV CERT of the DIN EN 10 025 grade hot-rolled steel production line for compliance with the requirements of Directive of the European Parliament and the Council of Europe 97/23/EG, as well as German technical regulations AD 2000W. The Company was the first in Russia to pass this certification.

In July 2002 the Russian Maritime Register of Shipping confirmed the validity of the Certificate of recognition of the Company as a producer of hot-rolled steel for shipbuilding on the completion of its annual supervisory examination.

In December 2002 the shipbuilding steel slab production successfully passed the certification audits performed by the firms Det Norske Veritas (Norway) and Germanischer Lloyd.

Applications for certification audits were also sent to Bureau Veritas (France) and the American Bureau of Shipping. The audits were performed in January and February 2003.

On the completion of a supervisory audit in December 2002, the Federal Scientific-Technical Center for Certification in Construction of the State Construction and Housing Committee of the Russian Federation issued new Technical Certificates on the suitability of the following for use in construction in the Russian Federation:

- Cold-rolled and hot dip galvanized prepainted sheet steel;
- Roll-formed steel sections with trapezoidal corrugation of cold-rolled sheet steel.

R&D and Technological Development

In 2002 NLMK met its goals on mastering and improving its technological processes, introducing new types of products and equipment, ensuring the level of quality required by customers, reducing the output of poor quality products, increasing production efficiency and lowering material and energy costs.

In all, 372 separate assignments were performed according to work schedules and programs, which resulted in 154 changes to technological processes and methods in the Company's shops and production facilities. In 2002 64 invention applications and 21 applications for effective models were made to the Federal Institute of Industrial property.

The following important work was performed in the shops and production facilities of NLMK in 2002:

Coke production

• technology of coke production with optimal CRI and CSR has been developed.

Sinter production

• technology of sintering machine No. 3 operation, with larger sintering area, has been developed contributing to increased productivity;
• technology for agglomerate sintering in sintering machines No. 1 and No. 2, with an increased bulk flow of return sludge, has been developed. This resulted in a decrease of iron-ore materials consumption.

Blast furnace production

• melting of zinc ferruginous agglomerate was introduced which resulted in a decrease in the amounts of iron-ore purchased;
• technology of blast furnace melting with charging of crushed schungite was developed. This decreases coke consumption.

Steel-making

• technology of continuous casting of steel at concaster No. 4, construction of which was completed in 2002, was developed and resulted in production of slabs with high surface quality and macrostructure;
• technology of cost-effective killing of low carbon steel according to GOST 9045-93 and its analogues was developed and allowed a decrease of aluminium and ferroalloy consumption and improved the quality of steel;

• technology for melting and casting of low carbon boron microalloyed steel was improved (including with boron content of up to 0.004%);
• the technical specifications have been developed and a contract concluded for the construction of a HM de-sulf station in order to increase the quality of steel;
• the technical quotations have been considered and a contract concluded with the firm Interstop for the supply of equipment and technology for quick change of the submerged nozzles of the concaster No. 7 at BOF shop No. 2. This resulted in the increase of slabs yields.

Rolled steel production

• a contract has been concluded and construction began of on-line hot-rolled steel surface quality control system at hot strip mill 2000;
• in order to improve hot-dip galvanized and cold-rolled steel surface quality, an EDT unit has been installed and technology of spark erosion roll-texturing has been developed;
• technology of production of rolled steel with thickness of 0.7 mm and higher, with subsequent annealing in bell type furnaces without edge trimming at the continuous pickling line, in order to reduce steel losses has been implemented;
• technology for applying polyester enamels at speed of up to 120 m/min has been mastered and implemented, in order to increase the output of the color-coating line;
• technology of production of hot dip galvanized steel of 01YuT grade has been developed, and the product mix for the automotive industry has been expanded;
• in order to improve the stamping properties when manufacturing magnetic cores, the use of phosphorus microalloying of steel during the production of non-silicon electrical grain oriented semi-processed steel has been introduced, which allows the hardness of steel HVs to be increased by 5–10 units;
• rolling technology of steel grade M700 and M800 production under EN 10106 has been mastered with microalloying by phosphor during melting (with silicon content of around 1%), ensuring $\sigma t/\sigma b$ ratio of not less than 0.68;
• a new rolling oil cleaning unit has been commissioned at four-stand mill 1400, which will allow the Company to improve the quality of cold-rolled strip surface and reduce its contamination.

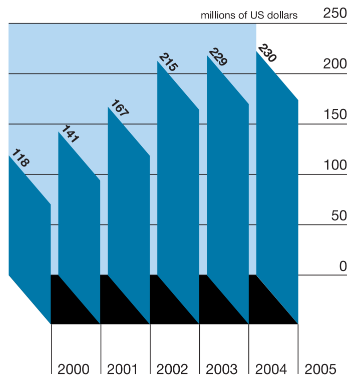
Technical Upgrading and Capital Investments

NLMK is continuing to implement the program of technical upgrading and development. The first stage of the program began in 2000 and will be completed in 2005.

The program stipulates the reconstruction of existing and construction of new technological facilities and the completion of major renovations. The overhaul of production units will allow the Company to strengthen its position in the sales market by offering a broader range of products, quality improvements and reduced production costs.

The total cost of the first stage of the program, from 2000–2005, is estimated to be USD 1.1 billion. These funds will be evenly distributed amongst the main production stages of the Company, as well as among the support divisions (power division, repairs plant, etc.).

Financing of NLMK technical upgrading program in 2000-2005



As the first order of business, renovations have been made to the basic production division with the greatest need to upgrade: the coke and by-product plant and the blast furnace. During 1999–2000 and at the start of 2001, repairs of I and II class of blast furnaces No. 3, 4, 5 and 6 were performed. Coke batteries No. 5 and 6, which are among the highest capacity batteries in the Company, were reconstructed. In 2002 coke battery No. 1 was shut down for reconstruction.

Measures were taken during the repairs to modernize the equipment. In particular, process control systems have been upgraded. Environmental protection measures were also performed.

In 2002 USD 167 million were invested into the Technical Upgrading Program, which is 18% higher than in 2001.

The total cost of fixed assets repairs performed in 2002 at NLMK equaled USD 96 million. Repair costs were 21% lower than in 2001, due to the fact that the most large-scale repairs were performed in the prior year.

The following major facilities were commissioned in 2002:

• the new concaster No. 4 with a production capacity of two million tons of slabs per year, and two additional ladle treatment plants at BOF shop No. 1. After the commissioning of the new concaster, the obsolete units No. 1, No. 2 and No. 3 were taken out of operation and the production capacity of the shop was increased by 500,000 slabs per year (to 3.8 million tons/year);

• the unit for spark erosion roll-texturing of the five-stand cold-rolling mill 2030 and tempering line, which increases the ability to control cold-rolled steel surface roughness;

• closed cycle cooling of coke-oven gas of coke batteries No. 5, No. 6, No. 7, and No. 8, which make it possible to reduce hazardous emissions by 600 tons per year.

Work on the following facilities to be commissioned in 2003–2004 was performed according to schedule during the reporting year:
• reconstruction of the RH-degasser at BOF shop No. 1 (to be commissioned in July 2003);
• construction of HM ladle de-sulf station at BOF shop No. 2 (commissioning – September 2003);
• reconstruction of reheating furnace No. 5 at Hot Strip Mill 2000 (commissioning – May 2003);
• installation of hot-rolled steel surface quality control at Hot Strip Mill 2000 (commissioning – August 2003);
• construction of the cold-rolled strip preparation and inspection line at Cold Rolling Production (commissioning – March 2003);
• construction of color-coating line No. 2 at Cold Rolling Production (commissioning – February 2004);
• replacement of process control system of hot dip galvanizing line at Cold Rolling Production (commissioning – March 2003);
• expansion of the thermal power station with installation of boiler No. 13 (commissioning – October 2003);
• construction of hydrogen station No. 3 to produce hydrogen by natural gas reforming (commissioning – May 2004);
• construction of a plant producing aerated concrete components for residential housing.

NLMK's capital investment program for 2003 anticipated investment financing for the Technical Upgrading Program of USD 215 million.

Pure Steel

Blooming Orchard

Environmental Protection

Environmental work at NLMK is carried out in accordance with the environmental legislation of the Russian Federation and the Company's Environmental Management System.

NLMK's environmental policy is based on principles of continuous development and is closely tied to the technology and materials used in the production process. The priority area of environmental policy is to reduce the effect of metal production on the environment. NLMK is working along these lines in all production stages.

Providing a special section of environmental projects "NLMK Technical Upgrading and Development Program for 2000–2005" proves gravity of NLMK's approach to environmental problems.

Under this Program, a whole range of projects were carried out at the Company during the year on overhauling basic production assets, implementing environmentally-friendly technologies, and replacing worn-out equipment. In the first quarter of 2002 coke battery No. 1, which was environmentally harmful and worn out, was decommissioned. This resulted in a reduction of 900 tons per year in emissions.

By the end of 2002, one of the most important environmental protection measures had been completed – completion of coke gas final cooling in the coke and by-product division of NLMK. This will enable the Company, starting from 2003, to reduce emissions of specific pollutants as phenols, naphthalene, benzol, ammonia, cyanide, and hydrogen sulfide by almost 600 tons.

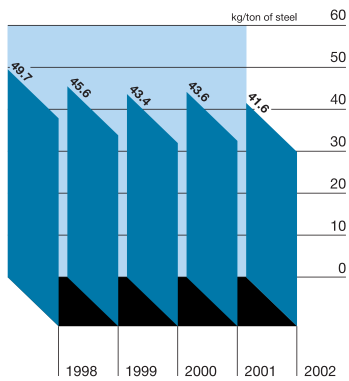
In Hot strip mill 2000, work is underway on renovation of the obsolete and inefficient reheating furnace No. 5. When the renovated furnace is recommissioned, a significant reduction in emissions of sulfur oxides and carbon monoxide is expected.

During the year, startup work was conducted on the new pump-filter water treatment plant of hot strip mill 2000, with a designed capacity of 1,300 m3/hour. The plant enables a reduction in draft by 7% and the emission of inadequately treated effluents by 11%. Two similar plants for industrial water treatment are already in use at the Company.

In the foundry of the Repairs Plant, measures have been taken to transfer the effluents of the foundry to the water supply system makeup of the BOF shop, and as a result the discharge of effluents into the plant's storm-sewer system has been terminated.

In order to stabilize the functioning of the Company's water supply system, in 2002 the Company began to use a new in-house chemical equal in quality to foreign-made equivalents.

Trends in atmospheric emissions 1998-2002



The Company's specialists hold the rights to the development of this chemical.

The implementation of these measures is only the latest phase in the implementation of the NLMK's ecological program, which foresees the transition to a closed water-supply cycle, with the level of water recycling brought to 98%.

A system has been introduced in the sintering division for the control and automated accounting of nitrogen, carbon, and sulfur oxides emissions from sintering machines; in the blast-furnace divisions to control and account for nitrogen and carbon oxides from stoves. These measures are only the first stage in the unified environmental monitoring system being introduced at NLMK.

At NLMK, 80% of wastes are treated, used as secondary materials, or transferred for use by outside organizations. The remaining wastes are disposed of at specialized grounds.

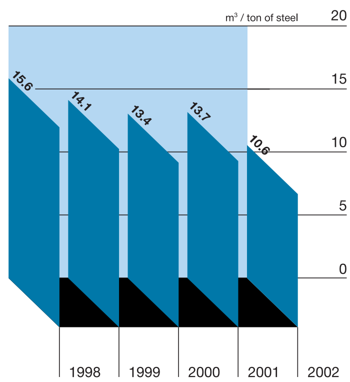
As a result of the implementation of a range of environmental measures, the level of pollution has been noticeably reduced over the past few years. According to the data of the Lipetsk Regional Climate and Environmental Monitoring Center, the annual average concentration of dust, carbon monoxide, and sulfur dioxide in the city's air is currently within permitted health levels. According to the data of NLMK laboratories, there has been significant decreases in the atmospheric levels of ammonia, hydrogen sulfide, phenol, and aromatic hydrocarbons.

All of this attests to the high level of effectiveness of the measures taken by NLMK to reduce its environmental impact. In September 2002, the company's environmental management system successfully passed a certification audit for compliance with ISO 14001. The respected German firm TÜV CERT acted as the certifying body. Although the certificate has been obtained, environmental work at NLMK continues.

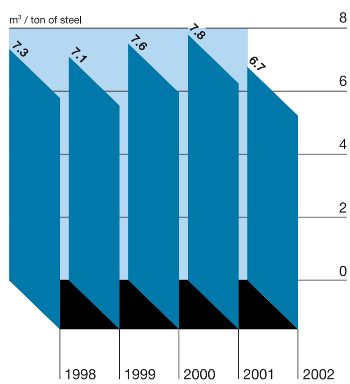
NLMK spent USD 13 million on environmental protection in 2002, a 32% increase from the previous year.

In 2003, the Company will spend more than USD 19.4 million on capital construction of environmental protection facilities, and approximately USD 3.2 million on repairing and renovating of environmental protection equipment. The total planned expenditures on approximately 30 environmental protection measures at NLMK are USD 23.1 million.

Trends in fresh-water usage 1998-2002



Discharges into water basin, 1998-2002



The main provisions of NLMK's social partnership is covered in the Collective Agreement. This document sets forth the basic principle of labor relations at the enterprise – mutual trust between employer and employee.

On 17 May 2002, the meeting of NLMK's workforce approved the Collective Agreement for 2002–2004. The Collective Agreement was revised to comply with the new Labor Code of the Russian Federation, and was supplemented with additional provisions expanding the social benefits enjoyed by Company employees. An attentive and solicitous attitude towards personnel is a tradition that dates back to the establishment of the enterprise.

One of the main areas in 2002 was optimization of NLMK's staff number. During the reorganization of the non-industrial divisions at the end of the year, personnel of the agricultural divisions and pre-schools were taken off the staffing list. In addition, substantial restrictions on new hires were in place in 2002: only 1,527 new employees were hired, a mere 25% of the 2001 level. This limited hiring was due to the use of the Company's own staff reserves and management's commitment to maximum job placement of personnel laid off as a result of divisions restructuring.

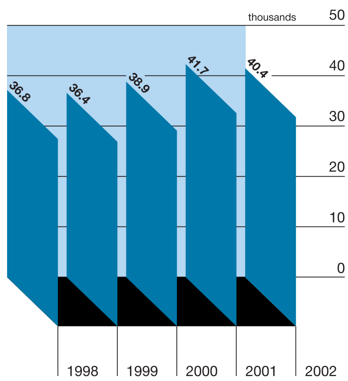
The average monthly staff number of NLMK in 2002 was 46,289, which is 6% less than in 2001. As of 1 January 2003, the Company had 43,236 employees. At the end of 2002, the proportion of industrial employees in the total staff of NLMK was brought to 91%. The average age of employees was 40, while their average term of service with the Company was 12.5 years.

The qualifications of employees are essential for the successful operation of NLMK. The professional development of personnel at all levels is recognized as one of the key areas of human resources policy at the Company.

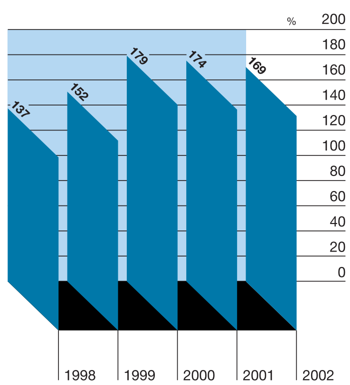
NLMK has its own training facilities and a qualified staff of teachers, allowing it to maintain high standards of training in nearly 780 professions. Training is conducted directly at the worksite, at the NLMK Industrial Research Institute, in the Labor and Personnel Division, and at state educational institutions.

In 2002, 13,722 NLMK employees underwent retraining, additional skills training or professional development in specialized courses. In accordance with NLMK's Regulations on Personnel Training and Retraining, the decision was taken to pay for the full education of 30 employees. These

Number of production personnel in 1998-2002



Average wage at NLMK compared to the average wage in Lipetsk region in 1998-2002



employees were selected on a competitive basis by a special commission.

Every year, engineers and other specialists are trained for NLMK under special agreements with the Lipetsk State Technical University (LSTU). In order to maintain and develop the intellectual resources of the Russian steel industry and to support gifted students at LSTU, 30 stipends of the NLMK Chairman of the Board have been endowed.

In order to single out talented young specialists and create personnel reserves, the staff undergo active counseling and evaluation. The results of the evaluations are used to identify the most qualified employees to be promoted.

Ensuring the appropriate level of industrial safety and decent working conditions is one of the essential responsibilities of an industrial enterprise. All work on preventing on-the-job accidents is performed in accordance with the Company's Labor Protection and Industrial Safety Regulations and the regulatory acts of the Russian Federation.

Evaluations of the workplaces are regularly conducted at Company divisions to determine the level of hazards and toxicity in the production environment, and the difficulty and stress of work. Analysis of data obtained during the evaluations led to improvements of the working conditions of NLMK employees in 2002.

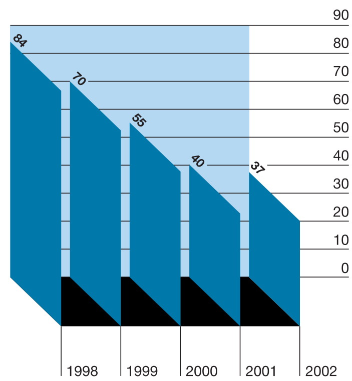
Increased industrial safety requirements and the comprehensive investigation of Company divisions have obtained positive results: over the past few years the number of on-the-job accidents has dropped sharply. In 2002 there were 37 accidents at NLMK, including two fatal accidents, to the profound regret of Company management.

All accidents were investigated in detail at meetings of the Job Safety Committee, which is chaired by the Technical Director–First Deputy General Director. The reasons for all serious and fatal accidents originated in the failure to implement the organizational and technical conditions for safe operations and violations of labor safety instructions. As a result of accident investigations, a number of measures were taken aimed at preventing such accidents in the future.

Corporate wage policy is directed at giving incentives for highly productive and efficient work and ensuring a quality standard of living for workers.

The wage structure at NLMK includes a substantial proportion of variable remuneration, bonuses for achieving high performance indicators. This wage structure gives

Industrial accidents at NLMK in 1998-2002



Company management a flexible instrument to provide incentives to their employees.

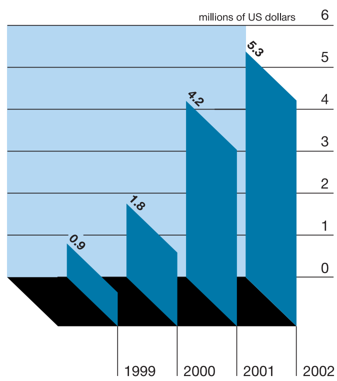
Bonuses are awarded to personnel according to the following established indicators: achievement of planned targets and good quality indicators and equipment maintenance. Certain employees of the Company are awarded personal salary premiums for professional skill.

Based on the Collective Agreement and the positive results of the Company's activity, the management of NLMK believes it is possible to offer annual, systematic increases in wages. Compared to December 2001, wages rose by 24%, which is significantly higher than the inflation rate in Russia and is evidence of a perceptible increase in the real incomes of the Company's workers.

The continuing process of optimizing staff levels in 2003 will entail a 5% reduction in the average number of staff at NLMK, while the Company's budget stipulates a 21% increase in wages.

During the period of economic destabilization in Russia, the majority of industrial enterprises were either concerned with simple survival, or were interested mainly in deriving short-term profits. NLMK has not only withstood the difficult conditions of this transitional period but has significantly strengthened its position in both the Russian domestic market and foreign markets. This has enabled the Company to meet its current targets for economic development, and furthermore to successfully resolve social problems and stand as a guarantor of social stability in the region. NLMK has proven to be one of the few Russian companies able to not only sustain the main achievements of its social policy, but also to add new elements to this policy, in step with the times.

Miloserdiye Fund: charitable spending in 1999-2002



Adhering to the principles of social responsibility, the Company implements a number of programs aimed at creating additional social guarantees for the local population. NLMK spent USD 17 million on social programs in 2002. The majority of these payments were related to maintaining pre-schools, providing medical services, and pension support.

One of the main areas of the Company's social policy is charity. The Company's charitable activities include the provision of assistance to public schools and traditional religious organizations, sporting and physical education institutions, and charitable funds. In 1999 NLMK founded the Miloserdiye [Mercy] Charitable Social Welfare Fund. The funds and donations received on the Fund's account are used to implement eleven charitable programs. These programs cover all social areas. Under the "Novolipetsk Veteran" program, more than 12,500 retired Company employees receive monthly financial aid. In 2002 alone, the Miloserdiye Fund spent more than USD 5.3 million on charitable programs, which is 26% more than in 2001.

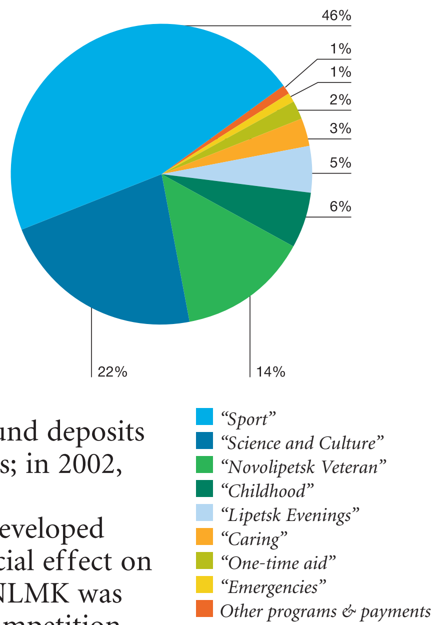
Childcare has traditionally been a concern of NLMK's social policy. In 2002, the Company maintained more than 26 kindergartens in Lipetsk, attended by approximately 5,700 children. In accordance with a Russian Government resolution, issued with the aim of releasing enterprises from non-core function of maintaining social amenities, the property of all kindergartens was transferred to municipal ownership from 1 January 2003.

A modern medical complex, one of the non-production divisions of NLMK, operates in Lipetsk. The complex includes a hospital, adult and children's outpatient clinics, a consulting and dental care center, shop clinics and health centers. In terms of its technical equipment, NLMK's medical facilities are some of the best in Russia. In 2002, the hospital opened a colo–proctologic inpatient clinic and acquired new modern equipment for its treatment and diagnostic services, such as for selective method of coronary angiography , cava-filter implantation in the x-ray surgery unit, and others.

The Social Development Private Pension Fund, of which NLMK was a founder, has entered its third year of operation. The goal of the Fund, and the reason for the Company's participation therein, is to ensure quality living standards for retired employees. According to the terms of the contract between the depositor and the Fund, for 3-5% of base pay employees invest as monthly pension contributions to the Fund the Company matches it with the same amount on the employee's behalf at the same time. The pension contributions made to the Fund are invested, under the control of its participants, in only the most reliable and profitable investment targets. Every quarter the Fund deposits accrued investment income in employees' accounts; in 2002, this income equaled 12% per annum.

Thus, in recent years NLMK's social policy has developed into a well-established system, which has a beneficial effect on its production and economic indicators. In 2002 NLMK was named the winner of the 3rd Russian National Competition "Commitment to improving the social standards of the community in Russia" in the category of "Metallurgy". This award was given in recognition of the Company's impressive achievements in social protection, not only of its employees but in carrying out social programs in the Lipetsk region.

Expense structure, Miloserdiye Fund, 2002



Principles of Corporate Governance

Economic feasibility

NLMK's model of corporate governance ensures a clear distribution of functions on strategic and operational management of the Company between the Board of Directors and the team of managers. The distribution of authorities and separation of activities enables the assignment of responsibilities for the decision-making process at all levels of management. The actions of the General Meeting of Shareholders, the Board of Directors, and management are based on the principle of economic feasibility and are aimed at maintaining manageability and ensuring the stable growth of the Company.

Ensuring shareholders' and investors' rights

Corporate governance is carried out in accordance with the Russian Law On Joint-Stock Companies, other regulatory acts governing the operations of joint-stock companies in the Russian Federation, and the Statute and internal documents of NLMK. The Company follows international practices of corporate governance, with the aim of ensuring the rights of its shareholders and investors.

Transparency of information

Transparency of financial and business operations and regularity and reliability of the information provided by management are important to ensure the Company's attractiveness to potential investors. NLMK observes the standards of information disclosure established by the Russian legislation and the requirements of the Federal Commission for the Securities Market. The Company strives to ensure timely and precise disclosure of information on all significant questions, including operating results, financial standing, property, and also corporate governance. NLMK prepares US GAAP financial statements on a quarterly basis.
The company works with the leading information agencies and uses modern means of communications to distribute information on its operations.

Corporate Management Bodies

The highest body of management of the Company is the General Meeting of Shareholders. General management of operations is performed by the Board of Directors. The General Director and the Management Board are executive bodies that have responsibility for operational management of the Group.

General Meeting of Shareholders

The main issues within the competence of the General Meeting are:

• Introduction of amendments to the Company Statute or approval of a new version of the Statute. Reorganization or liquidation of the Company;

• Increase in the charter capital of the Company through an increase in the par value of shares or by issuing additional shares. Decrease in the charter capital of the Company through a reduction in the par value of shares, the cancellation of shares acquired by the Company and not sold within one year from their acquisition, the cancellation of shares bought back by the Company, and also the cancellation of shares, title to which has reverted to the Company due to non-payment. Decrease in the charter capital of the Company through the acquisition by the Company of shares in order to reduce their total number. Share splits and consolidations.

• Determination of the number of members of the Board of Directors. Election of the Board of Directors and the Audit Committee, the General Director, and early termination of their authority. Approval of the External Auditor of the Company.

• Approval of annual reports and annual financial statements, including income statements (profit and loss accounts) of the Company, and also distribution of profits, including through the payment (declaration) of dividends, and losses of the Company on the basis of annual results.

• Approval of major transactions, participation in holding companies, financial– industrial groups, and other associations of commercial organizations.

The General Meeting of Shareholders is held at least six months after the end of financial year. For some extraordinary or important matters a special General Meeting of Shareholders can be held.

Special General Meetings of Shareholders are arranged by the Board. The Board's decision is based on its initiative and requirements of the Audit Committee, company's auditor and shareholders holding more then 10% of voting shares.

The Board of Directors determines the agenda of General Meetings of Shareholders.

The voting procedure during General Meetings of Shareholders is compliant to the principle "one share – one voice", except for the election of the Board members which is conducted by cumulative voting.

Board of Directors

The Board of Directors of NLMK determines the strategic areas of development of the Company, and has responsibility for general management of its operations. The Board of Directors has the right to resolve any issues except for those assigned to the exclusive competence of the General Meeting of Shareholders. The Board of Directors guarantees that operations are carried out in accordance with the Statute and the decisions of the General Meeting. The Board of Directors has access to all the information needed to affectively perform its duties.

The Board of Directors of NLMK consists of nine members. Board members are elected at the General Meeting of Shareholders for a one-year term. The Chairman of the Board of Directors is elected by the members of the Board of Directors from among their number, by a majority of votes of all members of the Board.

The main issues within the competence of the Board of Directors are:

- Determination of priority areas of activity;
- Convocation of the General Meeting of Shareholders and approval of its agenda;
- Formation of the Management Board of the Company and the early termination of its authority;
- Recommendations on the size of dividends on shares and the procedure for their payment;
- Use of the reserve fund;
- Participation in other organizations, creation of branches, and opening of representation offices of the Company;
- Approval of major transactions related to acquisitions and divestments;
- Approval of documents determining the working procedures for management bodies.

General Director and Management Board

The General Director and the Management Board, the collective executive body, oversee NLMK's operational management.

The General Director ensures the execution of decisions of the General Meeting of Shareholders and the Board of Directors. The competence of the General Director includes issues of the management of current activity, except for issues assigned to the exclusive competence of the General Meeting of Shareholders and the Board of Directors. The General Director submits the list of members of the Management Board for the approval of the Board of Directors, organizes the Management Board's work, and performs the functions of Chairman of the Management Board.

The Management Board operates in accordance with the goals and objectives set by the General Meeting of Shareholders. The main goal of the Management Board is to professionally manage the current operations, ensuring the stable profitability of the Company.

Audit Committee

The Audit Committee supervises the financial and economic activity of the Company. The General Meeting of Shareholders elects its members for one year. Persons participating in management of the Company may not be members of the Audit Committee.

The Audit Committee acts on the basis of the Company's Statute and coordinates audits of the financial and economic activity of the Company. The objective of the Committee is to obtain sufficient assurance that the activity of the Company complies with effective legislation and does not infringe upon shareholders' rights and that the Company's accounting and reporting do not contain any material misstatements.

Board of Directors as at January 1, 2003

Vladimir S. Lisin
(Chairman of the Board of Directors)
Boris F. Abushakhmin
Nikolai A. Gagarin
Alexander Y. Zarapin
Alexei A. Lapshin
Igor A. Sagiryan
Vladimir N. Skorokhodov
Vyacheslav P. Fyodorov
Igor P. Fyodorov

Audit Committee as at January 1, 2003

Valery S. Kulikov
Chairman of the Audit Committee
Igor A. Matsak
Deputy Director for Audit
Olga N. Savushkina
Senior Auditor
Galina I. Shipilova
Senior Auditor
Larisa B. Shulchenko
Head of Fixed Assets
and InvestmentAccounting Department

Management Board as at February 4, 2003

Ivan V. Frantsenjuk
General Director – Chairman of the Management Board
Vladimir P. Nastich
Technical Director – First Deputy General Director
Galina A. Aglyamova
Director for Economics and Finance
Igor N. Anisimov
Director for Purchasing
Pavel V. Gorodilov
Director for Sales
Anatoly N. Koryshev
Director of the Repairs Plant
Alexander I. Kravchenko
Director for Legal Issues
Valery A. Mamyshev
Director for Production
Gennady I. Markin
Director for Personnel and General Issues
Vladislav A. Smirnov
Director for Power Division
Alexander A. Sokolov
Director for Accounting – Chief Accountant
Valery F. Sukhanov
Deputy General Director for Analysis, Forecasting, and Economic Coordination
Vladimir A. Tretyakov
Director for Information Technologies
Sergey V. Chelyadin
Director for Real Estate and Securities Management
Pavel P. Chernov
Director for Technology and Quality

During 2002 certain changes occurred in NLMK's management structure. Two new divisions were formed, the Division of Industrial Ecology and the Division for Real Estate and Securities Management. In addition, from 1 January 2003 the Divisions of Economics and Finance were merged.

A new Management Board was approved at the Board of Directors meeting on 4 February 2003 in connection with the changes to the management structure of the Company.

Management Structure

General Meeting of Shareholders

Board of Directors

General Director
Chairman of the Management Board

Management Board

Technical Director, First Deputy General Director	Deputy General Director for Strategic Research into Foreign Markets

Deputy General Director for Technical Upgrades and Development	Deputy General Director of Strategic Asset Management	Deputy General Director for Analysis, Forecasting and Economic Coordination
Director of the Repairs Plant	Director for Personnel and General Issues	Director for Technology and Quality
Director for Information Technologies	Director for Public Relations	Director for Economics and Finance
Director for Production	Director for Medical and Social Issues	Director for Real Estate and Securities Management
Director of Construction and Repair Facilities	Director for Audit	Director for Accounting
Director of Power Division	Director for Security	Director for Purchasing
Director for Industrial Ecology	Director for Legal Issues	Director for Sales

Information on NLMK subsidiaries and associates as at 1st of January, 2003

Name	Legal address	NLMK equity holding, %	Main area of activity
Subsidiaries			
OOO Lipetsk Insurance Company "Chance"	ul. Nedelina 30, Lipetsk, 398059	100.0%	Insurance
NLMK Subsidiary "Novolipetsk Steel-maker" Guesthouse	Morskoe village, Sudak, Crimea, Ukraine	100.0%	Social and cultural services
OOO Stal	ul. Lenina 1, Uglich, Yaroslavl region, 152620	100.0%	Supply, trade and procurement
OOO Novolipetskoe	Tyushevka village, Lipetsky district, Lipetsk region, 398052	100.0%	Production and processing of agricultural products, wholesale trade
OOO Karamyshevskoe	Karamyshevo village, Gryazinsky district, Lipetsk region, 399077	100.0%	Production and processing of agricultural products
OOO Larmet	ul. Studencheskaya 44/28, Moscow, 121165	99.98%	Wholesale trade in metal products
OOO Vimet	pr. Mira 35a, Lipetsk, 398005	99.97%	Wholesale trade in metal products
OAO Dolomit	ul. Sverdlova 1, Dankov, Lipetsk region, 399854	74.84%	Mining
OAO Studenovskaya Aktsionernaya Gornodobyvayushaya Kompaniya [Studenovskaya Joint-Stock Mining Company]	ul. Gaidara 4, Lipetsk, 399854	54.67%	Mining
OAO Bank Sotsialnaya Razvitiya i Stroitelstva "Lipetskkombank" [Lipetskkombank of Social Development and Construction]	ul. Internatsionalnaya, Lipetsk, 398600	50.07%	Banking
Associates			
OAO Lipetsky Gipromez	ul. Kalinina 1, Lipetsk, 398600	43.4%	Project and exploration work
ZAO Stalkonverst	ul. Gritsevetskaya 8/12, building 4, Moscow, 121019	36.8%	Fish farming, fishing, processing and sale of seafood
OAO Avron	ul. Dubininskaya 11/17, Moscow, 113054	26.7%	Development of automobile assembly and repair manufacturing

In 2002 NLMK made the following material corporate transactions.

Equity holdings in the following companies were sold:

• 51% in Limited-liability company Tsentr Raschyotov Energetiki [Energy Settlements Center] (ul. Marshal Rybalko 10, building 1, Moscow, 123060 Russia);
• 100% in Limited-liability company Myasopererabatyvayushchy Kompleks Karamyshevo [Karamyshevo Meat-Processing Plant] (Karamyshevo village, Gryazinsky district, Lipetsk region, 399077 Russia).

Shares in the following joint-stock companies were sold:

• Closed joint-stock company Korpus (ul. Volodarskogo 34, Tver, 170000 Russia). After the disposal of shares, NLMK no longer has a shareholding in ZAO Korpus;
• Open joint-stock company Vtormet (ul. Vtorchermeta 1, K-15, Nizhny Novgorod, 603600 Russia). After the disposal of shares, NLMK no longer has a shareholding in OAO Vtormet;
• ZENIT Bank (open joint-stock company) (Banny pereulok 9, Moscow, 129110 Russia). After the disposal of shares, NLMK no longer has a shareholding in ZENIT Bank;
• Open joint-stock company Bryanskmetallresursy (ul. Staleliteynaya 14, Bryansk, 241035 Russia). After the disposal of shares, NLMK no longer has a shareholding in OAO Bryanskmetallresursy.

Equity holdings in the following companies were acquired:

• Limited-liability company Larmet (ul. Studencheskaya 44/28, Moscow, 121165 Russia). NLMK's equity holdings in OOO Larmet are 99.98%;
• Limited-liability company Vimet (pr. Mira 35a, Lipetsk, 398005 Russia). NLMK's equity holdings in OOO Vimet are 99.97%;
• Limited-liability company Novolipetskoe (Tyushevka village, Lipetsky district, Lipetsk region, 398052 Russia). NLMK's equity holdings in OOO Novolipetskoe are 100%;
• Limited-liability company Karamyshevskoe (Karamyshevo village, Gryazinsky district, Lipetsk region, 399077 Russia). NLMK's equity holdings in OOO Karamyshevskoe are 100%.

Pure Steel

Refreshing Breeze

Major Shareholders

By virtue of the fact that NLMK shares are not traded on the secondary securities market, information on shareholdings is disclosed only before the General Meeting of Shareholders.

Information on the structure of shareholdings was last disclosed on the 13th of May, 2002. The next disclosure of this information is planned for May 2003.

The nominee shareholder of NLMK shares is the closed joint-stock company Stinol-Invest.

Information on Company shareholders is given as at the 13th of May, 2002

Name	Equity holding in NLMK, %
Silener Management Limited	18.98%
Veft Enterprises Limited	10.81%
Castella Investments Limited	10.05%
Limtan Investments Limited	10.0%
ZAO LKB-invest	9.01%
Ultimex Trading Limited	8.29%
Radley Enterprises Limited	8.23%
Omnilax Holdings Limited	7.59%
Aheron Investments Limited	7.59%
Prosun Co. Limited	5.03%

Information is given on shareholders with an equity holding in NLMK of more than 5%

The Board of Directors of NLMK recommended to the General Meeting of Shareholders in 2002 to approve 9.83 dollars of dividend payments for 1 ordinary share with face-value of 0,03 USD. The total amount of dividend payments is 58,865.76 thousand dollars.

Recommendations for the dividend payments for 2002	
Number of issued NLMK shares	5,987,240
Dividends for 1 share (USD)	9.83
Total dividend payments ('000 USD)	58,865.76

Note: The advisable dividends amount was evaluated in the US Dollars upon the foreign exchange rate quoted by the Central Bank of the Russian Federation on 31.12.2002.

Consolidated Financial Statements

The NLMK Management's Opinion on the Group Financial Statements

The Management's Opinion stated below should be considered as an integral part of these consolidated financial statements of the Group "Novolipetsk Iron & Steel Corporation" (further – "NLMK") prepared in accordance with the accounting principles generally accepted in the United States of America.

NLMK management confirms its responsibility for the preparation of the financial statements of the Group for the year 2002 and 2001 consisting of balance sheets, statements of income, statements of shareholder's equity and comprehensive income, statements of cash flows and notes to consolidated financial statements.

NLMK financial statements, its subsidiaries and affiliated companies underwent an independent audit which confirms its compliance with the accounting principles generally accepted in the United States of America. Independent audit is held by the international company KPMG Limited. While conducting their audits, independent auditors have access to the financial and other documents and also implement other tests needed to achieve sufficient confidence for expressing an opinion that the consolidated financial statements comply with the current legislation requirements and free of material misstatement.

Companies of the NLMK Group have an operating system of internal financial control,
which major goal is to provide:
- the most effective organization of accounting;
- compliance with current legislation requirements;
- safety of property and other assets.

On the completion of the internal and external control procedures, the appropriate reports were given to the NLMK management, confirming fair presentation of the financial position of the Parent company and its subsidiaries and affiliated companies in the financial statements and its conformity with the accounting principles generally accepted in the United States of America.

Director General
Ivan V. Frantsenjuk

Chief Accountant
Alexander A. Sokolov

June 9, 2003

Independent Auditors' Report

To the Board of Directors
Open joint stock company Novolipetsk Iron and Steel Corporation

We have audited the accompanying consolidated balance sheets of open joint stock company Novolipetsk Iron and Steel Corporation and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 open joint stock company Novolipetsk Iron and Steel Corporation and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG Limited

KPMG Limited
Moscow, Russian Federation
June 9, 2003

Consolidated balance sheets at December 31, 2002 and 2001

(All amounts in thousands of US dollars, except for share data)

	As at December 31, 2002	As at December 31, 2001
ASSETS		
Current assets		
Cash and cash equivalents	390,472	190,029
Short term investments	43,255	–
Accounts receivable, net of allowance for doubtful debts	305,004	241,102
Inventories, net	198,978	180,030
Other current assets	9,618	5,529
	947,327	**616,690**
Non-current assets		
Investments, net of current portion	71,164	74,212
Property, plant and equipment, net book value	1,167,714	1,174,682
Other non-current assets	23,537	29,659
Intangible assets	–	997
	1,262,415	**1,279,550**
Total assets	**2,209,742**	**1,896,240**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short term borrowings	3,346	92,367
Accounts payable and accrued expenses	164,242	108,235
Income tax	17,106	10,266
	184,694	**210,868**
Non-current liabilities		
Long term borrowings	2,988	3,162
Obligation under capital lease, net of current portion	2,468	–
Deferred income tax	15,523	19,780
	20,979	**22,942**
Total liabilities	**205,673**	**233,810**
Minority interest	**12,891**	**10,407**
Stockholders' equity		
Common stock, 1 RUB par value – 5,987,240 and 5,985,241 shares authorized, issued and outstanding at December 31, 2002 and 2001, respectively	14,440	14,435
Preferred stock, 1 RUB par value – 1,999 shares authorized, issued and outstanding at December 31, 2001	–	5
Additional paid-in capital	680	680
Accumulated other comprehensive income	3,723	2,986
Retained earnings	1,972,335	1,633,917
	1,991,178	**1,652,023**
Total liabilities and stockholders' equity	**2,209,742**	**1,896,240**

Commitments and contingencies (refer note 21)

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

Consolidated statements of income for the years ended December 31, 2002 and 2001

(All amounts in thousands of US dollars, except for earnings per share amounts)

	For the year ended December 31, 2002	For the year ended December 31, 2001
Net sales	1,711,657	1,322,431
Cost of sales	(1,096,385)	(1,048,635)
Gross profit	**615,272**	**273,796**
Selling, general and administrative expenses	(103,359)	(68,432)
Operating income	**511,913**	**205,364**
Loss on disposals of property, plant and equipment and impairment	(8,895)	(15,600)
(Loss) / gain from sale and permanent diminution in value of investments	(31,327)	651
Net interest income	18,940	6,315
Foreign currency exchange loss, net	(18,247)	(21,428)
Other expense	(5,510)	(12,710)
Income before income tax and minority interest	**466,874**	**162,592**
Income tax expense	(129,699)	(75,515)
Income before minority interest	**337,175**	**87,077**
Minority interest	1,243	455
Net income	**338,418**	**87,532**
Earnings per share of common stock (US dollars)		
Basic and diluted	56.54	14.62

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

Consolidated statements of stockholders' equity and comprehensive income

for the years ended December 31, 2002 and 2001 (thousands of US dollars)

	Common stock	Preferred stock	Additional paidn capital	Other comprehensive income	Retained earnings	Treasury stock	Total
Balance at December 31, 2000	**14,435**	**5**	**680**	**1,699**	**1,546,385**	**(68)**	**1,563,136**
Net income	–	–	–	–	87,532	–	87,532
Net unrealized gain on available for sale securities	–	–	–	1,287	–	–	1,287
Sale of treasury stock	–	–	–	–	–	68	68
Balance at December 31, 2001	**14,435**	**5**	**680**	**2,986**	**1,633,917**	**–**	**1,652,023**
Net income	–	–	–	–	338,418	–	338,418
Net unrealized gain on available for sale securities	–	–	–	737	–	–	737
Converting preferred shares into ordinary shares	5	(5)	–	–	–	–	–
Balance at December 31, 2002	**14,440**	**–**	**680**	**3,723**	**1,972,335**	**–**	**1,991,178**

Consolidated statements of cash flows for the years ended December 31, 2002 and 2001

(thousands of US dollars)

	For the year ended December 31, 2002	For the year ended December 31, 2001
OPERATING ACTIVITIES		
Net income	**338,418**	**87,532**
Adjustments to reconcile net income to net cash provided by operating activities		
Minority interest	(1,243)	(455)
Depreciation and amortization	146,327	159,688
Loss on disposals of property, plant and equipment and impairment	8,895	15,600
Loss / (gain) from sale and permanent diminution in the value of investments	31,327	(651)
Deferred income tax benefit	(4,257)	(8,177)
Other movements, net	(9,536)	946
Changes in operating assets and liabilities		
Increase in accounts receivables	(63,902)	(3,860)
Increase in inventories	(5,646)	(16,048)
Increase in other current assets	(4,089)	(2,453)
Increase / (decrease) in accounts payable and accrued expenses	54,280	(21,833)
Increase in income tax payable	6,840	4,468
Net cash provided by operating activities	**497,414**	**214,757**
INVESTING ACTIVITIES		
Proceeds from sales of property, plant and equipment	846	3,284
Purchase of property, plant and equipment and other non-current assets	(153,632)	(140,579)
Proceeds from sale of investments	29,108	1,494
Purchase of investments	(85,051)	(54,071)
Purchase of short-term investments	(7,055)	(427)
Net cash used in investing activities	**(215,784)**	**(190,299)**
FINANCING ACTIVITIES		
Proceeds from issuance of debt	3,576	4,645
Repayment of borrowings	(87,925)	(1,666)
Proceeds from issuance of stock in subsidiaries to minority holders	3,727	3,316
Payments under capital lease	(565)	–
Proceeds from sale of treasury stock	–	80
Net cash (used in) / provided by financing activities	**(81,187)**	**6,375**
Net increase in cash and cash equivalents	**200,443**	**30,833**
Cash and cash equivalents at beginning of year	190,029	159,196
Cash and cash equivalents at end of year	**390,472**	**190,029**
Supplemental disclosures of cash flow information:		
Income taxes paid	126,482	99,756
Interest paid	790	901

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

Notes to the consolidated financial statements as at and for the years ended December 31, 2002 and 2001 (thousands of US dollars)

1. Background

(a) Organization and operations

Open joint stock company Novolipetsk Iron and Steel Corporation (the "Company" or the "Parent company") and its subsidiaries (together the "Group") is one of the largest iron and steel holdings in the Russian Federation with an entire steel production cycle. The Company is a Russian Federation open joint stock company in accordance with the Civil Code of the Russian Federation. The Parent company was originally established as a State owned enterprise in 1934 and was privatized on January 28, 1993. On August 12, 1998 the Company's name was reregistered as an open joint stock company in accordance with the Law on Joint Stock Companies of the Russian Federation.

The Company's principal activity is the production and sale of ferrous metals, primarily consisting of pig iron, steel slabs, hot rolled steel, cold rolled steel, galvanized cold rolled sheet and cold rolled sheet with polymeric coatings. These products are sold both in the Russian Federation and abroad.

The Group's main operations are in the Lipetsk region of the Russian Federation and are subject to the legislative requirements of both the Russian Federation and the Lipetsk regional authorities.

The Company's primary subsidiaries, located in Lipetsk and other regions of the Russian Federation, are:

- Commercial bank OJSC Lipetskcombank, Lipetsk. A controlling interest was acquired by the Group in 2000. The bank possesses a general license from the Central Bank of the Russian Federation, a license for foreign currency operations and a license for brokerage activity. The bank provides general banking services for commercial and retail customers.
- Trading company Stahl Ltd., Uglich, Yaroslavhl region, was established in 1998 as a 100% subsidiary of the Company. The principal activity of this company is the purchase of raw materials for the Group's metallurgical production and sales of metal products.
- Trading company Vimet Ltd., Lipetsk. A controlling interest was acquired by the Group in 2002. The principal activity of this company is the purchase of raw materials for the Group's metallurgical production and sales of metal products.
- Mining company OJSC Combinat KMAruda, Gubkin, Belgorod region, was purchased by the Group in 2000. The principal activity of the company is mining, processing of iron-ore raw concentrate for the metallurgical production.
- Insurance company LIS Chance Ltd., Lipetsk. A controlling interest was acquired by the Group in 1994. The principal business activities of the Company are property and casualty, life, medical insurance, vehicle insurance, civil liability insurance.
- Trading company Larmet Ltd., Moscow. A controlling interest was acquired by the Group in 2002. The principal activity of this company is the purchase of raw materials for the Group's metallurgical production and sales of metal products.
- Mining company OJSC Studenovskaya joint stock mining company, Lipetsk. A controlling interest was acquired by the Group in 1999. The principal activity is mining and processing of fluxing limestone.
- Mining company OJSC Dolomite, Dankov, Lipetsk region. A controlling interest by the Group was acquired in 1997. The principal activity is mining and processing of metallurgical dolomite.

(b) Russian business environment

The Russian Federation has been experiencing political and economic change which has affected, and may continue to affect, the activities of enterprises operating in this environment. Consequently, operations in the Russian Federation involve risks, which do not typically exist in other markets.

The accompanying consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2. Basis of preparation

(a) Statement of compliance

The Group maintains its accounting records in accordance with the legislative requirements of the Russian Federation. The accompanying consolidated financial statements have been prepared from those accounting records and adjusted as necessary to comply, in all material respects, with the requirements of accounting principles generally accepted in the United States of America ("US GAAP").

(b) Functional and reporting currency

The accounting records of the Group are maintained in Russian rubles and the Company prepares its statutory financial statements and reports in that currency to its shareholders in accordance with the laws of the Russian Federation.

As the Russian economy was considered to be hyperinflationary, the US dollar is the functional and reporting currency of the Group in accordance with Statement of Financial Accounting Standards ("SFAS") No. 52, *Foreign Currency Translation*.

Monetary assets and liabilities have been measured into US dollars at the exchange rates prevailing at each balance sheet date. Non-monetary assets including fixed assets and liabilities have been measured into US dollars at historical rates. Revenues, expenses and cash flows have been translated into US dollars at weighted average rates for the periods of the transactions. Foreign currency gains and losses are included in the consolidated income statement.

The Central Bank of the Russian Federation closing rates of exchange ruling at December 31, 2002 and 2001 were 1 US dollar to 31.78 Russian rubles and 1 US dollar to 30.14 Russian rubles, respectively. The annual weighted average exchange rates were 31.35 and 29.16 Russian rubles to the US dollar for the years ended December 31, 2002 and 2001, respectively.

(c) Convertibility of the Russian ruble

The Russian ruble is not a convertible currency outside the Commonwealth of Independent States. Accordingly, any conversion of Russian ruble amounts to US dollars should not be construed as a representation that Russian ruble amounts have been, could be, or will be in the future, convertible into US dollars at the exchange rate shown or at any other exchange rate.

(d) Going concern

The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The recoverability of the Group's assets, as well as the future operation of the Group, may be significantly affected by the current and future economic environment (refer note 1(b)). The accompanying consolidated financial statements do not include any adjustments should the Group be unable to continue as a going concern.

(e) Consolidation

The financial position and results of subsidiaries of which the Company directly or indirectly owns more than 50% of the voting interest and which the Company controls, are included with the financial position and results of the Company in these consolidated financial statements. All significant intercompany transactions have been eliminated upon consolidation.

3. Significant accounting policies

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. These accounting policies have been consistently applied.

(a) Use of estimates

Management of the Group has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements in conformity with US GAAP. Actual results could differ from those estimates.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash on deposit and other highly liquid short-term investments with original maturities of less than three months.

(c) Accounts receivable

Receivables are stated at cost less allowance for doubtful debts. Management quantifies this provision based on current information regarding the customers' ability to repay their obligations. Amounts previously written off which are subsequently collected are recognized as income.

(d) Inventories

Inventories are stated at the lower of cost or market value. The cost of inventories is based on the weighted average principle and includes expenditures incurred in acquiring inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads.

(e) Investments in marketable debt and equity securities

Marketable debt and equity securities consist of investments in corporate debt and equity securities where the Group does not exert control or significant influence over the investee. The Group classifies marketable debt and equity securities in one of three categories: trading, held to maturity and available for sale. The specific identification method is used for determining the cost basis of all such securities.

(i) Trading securities

Trading securities are bought and held principally for the purpose of selling them in the near term. Trading securities are carried in the consolidated balance sheet at their fair value. Unrealized holding gains and losses on trading securities are included in the consolidated statement of income.

(ii) Held to maturity securities

Held to maturity securities are those securities in which the Group has the ability and intent to hold until maturity. Held to maturity securities are recorded at amortized cost.

Premiums and discounts are amortized to the consolidated statement of income over the life of the related security held to maturity, as an adjustment to yield using the effective interest method.

(iii) Available for sale securities

All marketable securities not included in trading or held to maturity are classified as available for sale.

Available for sale securities are recorded at their fair value. Unrealized holding gains and losses, net of the related tax effect, are excluded from earnings and reported as a separate component of accumulated other comprehensive income until realized. Realized gains and losses from the sale of available for sale securities, less tax, are determined on a specific identification basis.

Premiums and discounts on available for sale securities are amortized to the consolidated statement of income over the life of the related available for sale security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned.

(f) Investments in affiliates and non-marketable securities

(i) Investments in affiliates

Affiliates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. Investments in affiliates are accounted for using the equity method of accounting and the consolidated financial statements include the Group's share of the total recognized gains and losses of affiliates from the date that significant influence effectively commences until the date that significant influence effectively ceases.

(ii) Investments in non-marketable securities

Investments in non-marketable securities where the Group does not exercise control or significant influence over the investee are carried at cost less provision for any permanent diminution in value.

(g) Property, plant and equipment

(i) Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (refer note 3(i)). The cost of self-constructed assets includes the cost of materials, direct labor and an appropriate proportion of production overheads.

Property, plant and equipment also includes assets under construction and the equipment for installation.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment.

(ii) Leased assets

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as capital leases. Plant and equipment acquired by way of capital lease is stated at an amount equal to the lower of its fair value or the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (refer below) and impairment losses (refer note 3(i)).

Payments for operating leases, under which the Group does not assume substantially all the risks and rewards of ownership, are expensed in the period they are incurred.

(iii) Subsequent expenditures

Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, are capitalized with the carrying amount of the component subject to depreciation. Other subsequent expenditures are capitalized only when they increase the future economic benefits embodied in an item of property, plant and equipment. All other expenditures are recognized in the consolidated statement of income as incurred.

(iv) Capitalized interest

Interest is capitalized in connection with the construction of major facilities. The capitalized interest is recorded as part of the asset to which it relates, and is amortized over the asset's useful life.

(v) Depreciation

Depreciation is charged on a straight-line basis over the estimated useful lives of the individual assets. Plant and equipment under capital leases and leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or the estimated useful life of the individual assets. Depreciation commences from the time an asset is put into operation. Land is not depreciated. Depreciation is not charged on assets to be disposed of. The range of estimated useful lives are as follows:

Buildings	20-45 years
Machinery and equipment	2-40 years
Vehicles	5-25 years
Software	6-12 years

(h) Goodwill and intangible assets

Goodwill represents the excess of purchase price over the fair value of net assets acquired. The Group adopted the provisions of SFAS No. 142, *Goodwill and Other Intangible Assets* as of January 1, 2002. Under SFAS No. 142 goodwill and intangible assets with indefinite useful lives are no longer amortized as they were prior to 2002, but are instead tested for impairment at least annually.

Intangible assets that have limited useful lives are amortized on a straight-line basis over the shorter of their useful or legal lives.

(i) Impairment

Long-lived assets, such as property, plant and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset, generally determined by reference to the discounted future cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

(j) Pension and post retirement benefits other than pensions

The Group follows the Pension and Social Insurance legislation of the Russian Federation, which requires contributions to the Russian Federation Pension Fund by the employer calculated as a percentage of current gross salaries. Such contributions are expensed as incurred.

The Company also sponsors other post retirement benefits for its employees. All of these benefits are part of an annually negotiated Trade Union agreement. These benefits do not vest and may be cancelled when the Trade Union agreement is negotiated annually.

The Parent company and some other Group companies have an agreement with a non-Government pension fund (the "Fund") in accordance with which contributions are made on a monthly basis. Contributions are calculated as a certain fixed percentage of the employees' salaries. These pension benefits are accumulated in the Fund during the employment period and distributed by the Fund afterwards. As such, all abovementioned benefits are considered as made under a defined contribution plan and are charged to expense as incurred.

In addition, lump sum benefits are paid on retirement depending on the employment period and the salary level of the individual employee. The expected future obligations to the employees are assessed by the Company's management and accrued in the consolidated financial statements. The scheme is considered as a defined benefit plan.

(k) Long-term borrowings

Long-term borrowings are recognized initially at cost, net of any transaction costs incurred. Subsequent to initial recognition, long-term borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in the consolidated statement of income over the period of the borrowings.

When borrowings are repurchased or settled before maturity, any difference between the amount repaid and the carrying amount is recognized immediately in the consolidated statement of income.

(l) Commitments and contingencies

Liabilities for loss contingencies, including environmental remediation costs, arising from claims, assessments, litigation, fines, penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment and / or remediation can be reasonably estimated.

Estimated losses from environmental remediation obligations are generally recognized no later than completion of remedial feasibility studies. Group companies accrue for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Such accruals are adjusted as further information becomes available or circumstances change. Costs of expected future expenditures for environmental remediation obligations are not discounted to their present value.

(m) Income tax

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences, unused tax losses and credits can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(n) Stockholders' equity

(i) Treasury stock

When shares are repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a change in equity. Repurchased shares are presented as a deduction from total equity.

(ii) Dividends

Dividends are recognized as a liability in the period in which they are declared.

(o) Revenue recognition

(i) Goods sold

Revenue from the sale of goods is recognized in the consolidated statement of income when the significant risks and rewards of ownership have been transferred to the buyer.

(ii) Interest income

Interest income is recognized in the consolidated statement of income on an accrual basis.

(p) Expenses

(i) Operating lease payments

Payments made under operating leases are recognized in the consolidated statement of income as expenses as incurred.

(ii) Interest expense

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of interest expense, except for interest which is incurred on construction projects and is capitalized (refer note 3(g)).

(q) Non-cash settlement arrangements

Non-cash settlements represent offset transactions between customers and suppliers, when exchange equivalent is defined and goods are shipped between the parties without physical movement of cash.

The related sales and purchases are recorded in the same manner as cash transactions.

(r) Related parties

The following are considered to be related parties:

- affiliates of the Group;
- the Group's principal owners and their immediate families;
- enterprises and trusts for the benefit of the employees, including pension and profit sharing trusts that are managed by or under the trusteeship of the Group's management;
- directors and officers of the Group and their immediate families;
- enterprises in which principal shareholders, officers and directors and their immediate families have control or significant influence;
- other parties with which the Group deals if one party controls or can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.

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

4.Cash and cash equivalents

	As at December 31, 2002	As at December 31, 2001
Cash – Russian rubles	45,571	10,164
Cash – foreign currency	841	32,741
Deposits – Russian rubles	13,552	–
Deposits – foreign currency	128,500	145,397
Cash in trust – foreign currency	197,900	–
Other cash equivalents	4,108	1,727
	390,472	**190,029**

Cash in Russian rubles as at December 31, 2002 and 2001 includes the amounts of obligatory reserve, placed with the Central Bank of the Russian Federation by a subsidiary bank in accordance with statutory requirements for credit institutions of $7,515 and $1,500, respectively.

Other cash equivalents as at December 31, 2002 and 2001 include the amounts of letters of credit amounting to $3,352 and $1,517, respectively.

In 2002 the Company transferred surplus cash into a cash management account with a Russian bank with international share in equity. This cash is available at the Company's call.

5. Investments

(a) Available for sale securities

Available for sale securities as at December 31, 2002 and 2001 consist of Russian Government bonds: OVGVZ and OFZ securities, and deposit certificates.

	As at December 31, 2002	As at December 31, 2001
Government bonds		
Cost	921	1,200
Gross unrealized holding gains	3,723	2,986
Deposit certificates	6,844	–
Fair value	**11,488**	**4,186**

Maturities of debt securities classified as available for sale as at December 31, 2002 are presented below.

	Fair value
Due within one year	5,151
Due in one to five years	4,018
Due after five years	2,319
	11,488

Russian Government OVGVZ securities with a face value of $3,180 are pledged to secure the redemption of the Company's promissory notes issued in 2000 for the purchase of shares in CJSC Korpus (refer note 9). These promissory notes are denominated in Russian rubles and mature in 2008.

Unrealized gains and losses, determined as a difference at the balance sheet date between purchase price and fair value of the securities, are taken directly to equity and included in accumulated other comprehensive income.

(b) Investments in affiliates

	For the year 2002 Ownership	For the year 2001 Ownership	As at December 31, 2002	As at December 31, 2001
CJSC Korpus	40.00%	40.00%	3,042	3,042
CJSC Stalconverst	36.80%	36.80%	1,974	1,974
OJSC AKB Lipetskcredit	22.19%	22.19%	1,034	1,034
OJSC Avron	26.70%	26.70%	376	376
OJSC Lipetsky Gipromez	43.44%	43.44%	7	7
OJSC Bank ZENIT	–	20.00%	–	13,714
OJSC Bryanskmetallresources	–	28.30%	–	21
			6,433	20,168
Provision for permanent diminution in value			(3,384)	(3,405)
			3,049	**16,763**

(c) Non-marketable securities

	For the year 2002 Ownership	For the year 2001 Ownership	As at December 31, 2002	As at December 31, 2001
OJSC Coal Mining Company Kuzbassugol	17.70%	17.70%	39,787	39,787
OJSC Lebedinsky GOK	11.96%	11.96%	8,546	8,546
OJSC Yakovlevsky rudnik	9.48%	9.48%	5,372	5,372
OJSC Lipetskenergo	12.21%	12.21%	2,102	2,102
OJSC Lipetskoblgaz	19.40%	19.40%	644	644
OJSC Almetievsky pipe plant	14.53%	14.53%	516	516
OJSC Moscow pipe plant Filit	12.00%	12.00%	392	392
Other	–	–	1,659	1,497
			59,018	58,856
Provision for permanent diminution in value			(7,827)	(5,593)
			51,191	**53,263**

(d) Loans given

	As at December 31, 2002	As at December 31, 2001
Long-term loan	48,691	–
	48,691	–

The balance of the long-term loan represents an amortized cost of a Russian ruble denominated interest free loan payable before December 31, 2004. At the date of issue the long term loan of $85,000 was accounted for at its fair value. The difference between face and fair value of $28,652 was accounted for as a loss from investments in the consolidated statement of income. Interest income of $8,108 was recognized in the consolidated statement of income. In 2002 an amount of $13,987 was repaid by the borrower.

The fair value of the loan is calculated based on an annual commercial interest rate of 19% at the date of issue and an assumption that the loan will be repaid at the end of 2004.

	As at December 31, 2002	As at December 31, 2001
Total investments	**114,419**	**74,212**
Less current portion	43,255	–
Long term investments, net	**71,164**	**74,212**

6. Accounts receivable and advances given

	As at December 31, 2002	As at December 31, 2001
Trade accounts receivable	165,293	153,093
Advances given to suppliers	15,225	20,738
Taxes receivable other than income tax	85,581	51,021
Accounts receivable from employees	968	902
Other accounts receivable	46,277	27,053
	313,344	252,807
Allowance for doubtful debts	(8,340)	(11,705)
	305,004	**241,102**

As at December 31, 2002 and 2001 the Group had receivables from Tuscany Intertrade, Great Britain, which exceeded 10% of the gross accounts receivable balances. The outstanding balances owed by this debtor totaled $54,290 and $107,100 at December 31, 2002 and 2001, respectively.

As at December 31, 2002 receivables from Steelco Mediterranean Trading Ltd., Cyprus, and Moorfield Commodities Company, Great Britain, also exceeded 10% of the gross accounts receivable balances and totaled $47,093 and $28,590, respectively.

7. Inventories

	As at December 31, 2002	As at December 31, 2001
Finished goods and goods for resale	26,564	31,152
Work in process	54,475	42,908
Raw materials	119,085	119,735
	200,124	193,795
Provision for obsolescence	(1,146)	(13,765)
	198,978	**180,030**

8. Property, plant and equipment

	As at December 31, 2002	As at December 31, 2001
Land	32,844	–
Buildings	507,486	508,777
Machinery and equipment	3,485,774	3,508,192
Vehicles	99,531	97,761
Construction in progress	168,717	89,952
Land improvement	633,344	621,089
Leased assets	4,760	–
Other	6,099	12,442
	4,938,555	4,838,213
Accumulated depreciation	(3,770,841)	(3,663,531)
	1,167,714	**1,174,682**

In 2002 the Parent company has reclassified the cost of certain property, plant and equipment previously included in machinery and equipment into other groups. This reclassification has no depreciation effect.

A reclassification table of property, plant and equipment at cost is shown below:

	As at December 31, 2001	Reclassification	As at December 31, 2001 adjusted
Buildings	506,579	2,198	508,777
Machinery and equipment	3,936,362	(428,170)	3,508,192
Vehicles	96,166	1,595	97,761
Land improvement	198,480	422,609	621,089
Other	10,674	1,768	12,442
	4,748,261		**4,748,261**

The cost of property, plant and equipment purchased or constructed prior to 1992 was determined with the assistance of an independent appraiser. The valuer provided US dollar estimates of historical cost and depreciated historical cost of the Company's property, plant and equipment. These historical cost estimates were necessary due to the absence of reliable US GAAP accounting records and impairment calculations.

During 2002 the Parent company has bought property rights on land under its production units.

Starting from second quarter 2002 until the moment of acquisition the Parent company had been renting land and paid rental payments, including land tax. After acquisition the Company pays land tax.

The Company also pays rental payments and land tax for other estate property beyond its production units.

9. Borrowings

	As at December 31, 2002	As at December 31, 2001
Short-term borrowings		
8% US dollar promissory notes at nominal cost	–	76,966
Promissory notes	3,008	–
US dollar denominated loan	–	12,207
Other short-term debts	338	3,194
	3,346	**92,367**
Long-term borrowings		
Interest free own promissory notes	2,832	2,986
Other long-term debts	156	176
	2,988	**3,162**

As of December 31, 2001 the 8% interest bearing promissory notes of $76,966 (at nominal cost) represented ordinary promissory notes, issued by the Company under a loan novation agreement with related party, signed in 2001. During 2002 these promissory notes were completely settled with a discount of $4,535 that was recorded in net interest income.

10. Accounts payable and accrued expenses

	As at December 31, 2002	As at December 31, 2001
Accounts payable	36,727	44,053
Advances received	63,673	22,300
Taxes payable other than income tax	15,933	7,207
Accrued expenses	2,492	3,060
Accounts payable to employees	18,441	15,962
Current portion of lease obligation	1,727	–
Short term loans	–	2,186
Other payables	25,249	13,467
	164,242	**108,235**

11. Stockholders' equity

(a) Stock

The Company has 5,987,240 issued shares with a par value of 1 Russian ruble. As of December 31, 2001 the Company had 5,985,241 common stock and 1,999 preferred stock. The holder of the preferred stock was the Russian Federal Property Fund.

According to the Federal Law *On Privatization of Federal and Municipal Property* of December 21, 2001 #178-FZ, these preferred stock were converted into common stock. The Russian Federal Property Fund's preferred stock were converted into common stock on October 16, 2002.

(b) Voting rights, privileges and liquidation

All common stock have voting rights. Upon liquidation of the Company all creditors' requests are to be satisfied, property is to be sold through auction and any remaining proceeds should be distributed proportionally between stockholders.

(c) Dividends

Dividends are paid on common stock at the recommendation of the Board of Directors and approval at the annual stockholders' meeting, subject to certain limitations as determined by Russian legislation. Profits available for distribution to stockholders in respect of any reporting period are determined to by reference to the statutory financial statements of the Parent company. At December 31, 2002 and 2001 the retained earnings, in accordance with the legislative requirements of the Russian Federation, available for distribution amounted to $1,078,193 (unaudited) and $633,063 (unaudited) respectively, converted into US dollars using the year-end exchange rate. No dividends on common stock were declared in either 2002 or 2001.

12. Cost of sales

	For the year ended December 31, 2002	For the year ended December 31, 2001
Production cost	950,058	888,947
Depreciation and amortization	146,327	159,688
	1,096,385	**1,048,635**

13. Selling, general and administrative expenses

	For the year ended December 31, 2002	For the year ended December 31, 2001
Taxes other than income tax	33,632	25,297
Selling expenses	32,072	21,999
Employee costs	13,638	11,194
Penalties and fines	96	1,666
Net movement in the allowance for doubtful debts	(1,747)	(15,261)
Other	25,668	23,537
	103,359	**68,432**

14. Income tax expense

	For the year ended December 31, 2002	For the year ended December 31, 2001
Current tax expense	133,956	83,692
Deferred tax benefit		
Origination and reversal of temporary differences	(8,271)	(936)
Foreign exchange differences	(976)	(2,581)
Change in tax rate	–	(11,353)
Change in tax loss carry forwards	4,990	6,693
	(4,257)	(8,177)
Total income tax expense	**129,699**	**75,515**

The corporate income tax rate was 24% and 35% in 2002 and 2001, respectively. The rate used for measuring deferred tax as at December 31, 2002 and 2001 was 24% (the rate effective from January 1, 2002).

Reconciliation of effective tax rate:

	For the year ended December 31, 2002	For the year ended December 31, 2001
Profit before tax	466,874	163,047
Income tax at applicable tax rate	112,050	57,067
Increase / (decrease) in income tax resulting from:		
Non-deductible expenses and non taxable income	17,649	29,801
Change in tax rate	–	(11,353)
	129,699	**75,515**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

	As at December 31, 2002	As at December 31, 2001
Deferred tax assets		
Investments	5,332	555
Accounts payables and accrued liabilities	2,812	2,085
Accounts receivable	2,573	–
Other current liabilities	346	–
Other non-current liabilities	541	–
Other current assets	3	999
Inventories	–	30,147
Valuation allowance	(1,830)	(480)
	9,777	**33,306**

	As at December 31, 2002	As at December 31, 2001
Deferred tax liabilities		
Property, plant and equipment	(18,602)	(38,617)
Inventories	(6,696)	–
Short term loans	(2)	–
Accounts receivable	–	(19,459)
	(25,300)	(58,076)
Net deferred tax liability on temporary differences	(15,523)	(24,770)
Tax loss carry forwards	–	4,990
Total deferred tax	**(15,523)**	**(19,780)**

Deferred tax assets have not been recognized in respect of the temporary differences, where it is not probable that future taxable profit will be available against which the Group can utilize the benefit there from.

As at December 31, 2001 the Group had tax loss carry forwards of $20,791, which were due to expire in 2003. In 2002 the Group fully utilized this tax loss carried forward.

15. Earnings per share

Basic income per share of common stock is calculated by dividing net income by the average number of shares of common stock outstanding during the applicable period.

The calculation of diluted income per share of common stock takes into account the effect of obligations, such as convertible preferred stock, considered to be potentially dilutive.

	Income for the year ended December 31, 2002	Shares 2002	Income for the year ended December 31, 2001	Shares 2001
Net income and shares	338,418	5,985,657	87,532	5,985,241
Preferred stock dividend requirements	–		–	
Income and shares	**338,418**	**5,985,657**	**87,532**	**5,985,241**
Basic and diluted earnings per share (US dollars)	**56.54**		**14.62**	

16. Non-cash transactions

Management estimates that approximately $5,000 and $10,000 of the Group's 2002 and 2001 revenues, respectively, were settled in the form of mutual offset with the Group receiving raw materials and other related production materials for finished goods shipments.

Prices for goods sold and purchased through non-cash settlement arrangements are fixed in the respective contracts and generally reflect current market prices.

17. Fair value of financial instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties.

The carrying amount of cash and cash equivalents, loans given, accounts receivable, amounts due to / from employees, affiliated companies and other related parties, accounts payable and accrued expenses, short term debts approximate fair value.

The fair values of available for sale securities are based on quoted market prices for these or similar instruments.

18. Obligations under capital and operational leases

	Capital leases
Future minimum lease payments:	
2003	3,153
2004	2,043
2005	1,111
2006	594
2007	305
Remainder	156
Total minimum lease payments	**7,362**
Less: amount representing estimated executory costs, including profit thereon, included in total minimum lease payments	(1,455)
Net minimum lease payments	**5,907**
Less: amount representing interest (at 19%)	(1,712)
Present value of net minimum lease payments	**4,195**
Less: current portion	(1,727)
Long-term capital lease obligations	**2,468**

In 2002 the Group acquired machinery, equipment and vehicles under capital leases with right of acquisition on the expiry of the lease term.

In 2002 $909 was recognized as interest expense in the consolidated statement of income in respect of these capital leases.

Machinery, equipment and vehicles at year end includes the following amounts in respect of capital leases:

	As at December 31, 2002
Machinery and equipment	1,858
Vehicles	2,902
	4,760
Accumulated depreciation	(160)
Net property, plant and equipment under capital leases	**4,600**

The Company has incurred expenses in respect of operational leases of $6,626 and $3,135 in 2002 and 2001, respectively. The contract expires in 2003.

19. Concentration of significant risks

The Group minimizes its sales risks by having a wide range of geographical zones for sales, which allows the Group to respond quickly to unexpected changes in the situation of one or more sales markets. The Group uses executive analysis of the existing and prospective markets.

The Group's exports in monetary terms in 2002 were around 61% (2001: 56%) of the total metal production sales.

The Group has three international traders that account for the majority of its export sales in 2002 in 2001. In 2002, the major dealers Tuscany Intertrade (UK), Steelco Mediterranean Ltd. and Moorfield Commodities Company purchased 55%, 27% and 10% of the Group's export sales, respectively. In 2001, these companies purchased 84%, 6% and 7% of the Group's export sales, respectively.

The Group's major export markets are Asia – 32% (2001: 29%), the European Union – 26% (2001: 27%), North America – 14% (2001: 18%) and other Middle East countries including Turkey – 17% (2001: 13%). The Group relies on export sales to generate foreign currency earnings. As the Group exports the majority of its production, it is exposed to global economic and political events.

Insaur-Slal Ltd. accounted for in excess of 10% of the Group's 2002 domestic sales, Metraznotorg Ltd., Procatpostavka Ltd., OJSC AVTOVAZ accounted for in excess of 10% of the Group's domestic sales in 2001. No other individual customer accounted for in excess of 10% of the Group's export or domestic sales during 2002 or 2001.

The majority of the Group's workers are covered by a Trade Union agreement, which is negotiated annually. Significant disagreements with the Trade Union and industrial action have been historically rare and management does not consider disruption caused by labor disputes to be a significant risk to the Group.

20. Related party transactions

(a) Sales to and purchases from related parties

During 2002 and 2001 the Group had the following transactions with related parties:

(i) Sales and accounts receivable

Sales to a related party controlled by the Group's management were $12,821 and $19,710 for the years ended December 31, 2002 and 2001, respectively. Related accounts receivable equaled $898 and $180 as at December 31, 2002 and 2001, respectively.

(ii) Purchases and accounts payable

Purchases of raw materials and services from a related party controlled by Company's management were $46,003 and $27,014 for the years ended December 31, 2002 and 2001, respectively. Accounts payable to the related party were $5,362 and $362 as at December 31, 2002 and 2001, respectively.

(b) Financing activities

As at December 31, 2001 the Company had an outstanding US dollar loan of $89,173 to a stockholder, which was settled in 2002 (refer note 9).

In 2001 the Group obtained short-term finance from a related party that is controlled by the Group's management, amounting to $1,001 of which $345 was repaid before December 31, 2001. The remaining debt was repaid in 2002.

(c) Transactions with funds under Group control

Total contributions to the pension fund, controlled by the Company's management amounted to $1,876 and $1,571 in 2002 and 2001, respectively.

Contributions to the charity fund under trusteeship of the Company were $5,999 in 2001. There were no such contributions in 2002.

21. Commitments and contingencies

(a) Anti-dumping actions against the Group

The Group's export trading activities are subject to compliance reviews of importers' regulatory authorities. The Company's exports of rolled steel were considered within several anti-dumping investigation frameworks. The Company has taken steps to address anti-dumping investigations and participates in the settlement of such trade disputes as coordinated through the Russian authorities.

No provision arising from any possible agreements as a result of anti-dumping investigations has been made in the accompanying consolidated financial statements.

(b) Litigation

The Group, in the ordinary course of business, is the subject of, or party to, various pending or threatened legal actions. The management of the Group believes that any ultimate liability resulting from legal action will not significantly affect its financial position or results of operations, and no amount has been accrued in the consolidated financial statements.

(c) Environmental matters

Management is of the opinion that the Group has met the Government's federal and regional requirements concerning environmental matters, and therefore believes that the Group does not have any current material environmental liabilities.

Currently, there is no material legislation in Russia regarding environmental damages or restrictions on the Group's activities as a result of environmental concerns.

The Company was subject to an environmental audit in 2001. As a result, the Company has committed itself to carrying out certain environmental activities and to acquire assets of $101,000 to decrease environmental pollution. These investments are part of the Company's Technical Re-equipment Program from 2002 to 2005 (refer note 21(e)).

(d) Insurance matters

The Russian insurance industry is in a developing stage and many forms of insurance protection common in other parts of the world are not yet generally available in the Russian Federation.

The Group has purchased coverage for buildings, property, plant and equipment, environmental pollution as a result of accidents in workshops and medical insurance for employees. Furthermore, the Group has purchased operating entities civil liability coverage for dangerous production units.

Until the Group obtains adequate insurance coverage, there is a risk that uninsured losses could have a certain adverse effect on the Group's operations.

(e) Capital, sale and purchase commitments

In the normal course of business the Group enters into long-term purchase contracts for raw materials and long-term sale contracts. These contracts allow for variations in the quantities and types of goods, as well as for periodic adjustments in prices dependent on prevalent market conditions.

To minimize financial losses resulting from disruption of supplies, the Group, first, creates stocks of inventories and, second, maintains relations with reliable suppliers only.

The Company has been carrying out a Technical Re-equipment Program since 2000. According to this Program, the projected investments from 2003 to 2005 in assets for the main production and environmental programs amount to approximately $674,000.

(f) Social commitments

The Company makes contributions to mandatory and voluntary social programs. The Company's social assets, as well as local social programs, benefit the community at large and are not normally restricted to the Company's employees. The Company has transferred certain social operations and assets to local authorities, however, management expects that the Company will continue to fund certain social programs through the foreseeable future. These costs are recorded in the year they are incurred.

(g) Taxation

The taxation system in the Russian Federation is relatively new and is characterized by numerous taxes and frequently changing legislation, which is often unclear, contradictory and subject to interpretation. Often, differing interpretations exist among numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, which are enabled by law to impose severe fines, penalties and interest charges.

These facts may create tax risks in the Russian Federation substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation.

(h) Guarantees granted

As of December 31, 2002 and 2001, the Group had issued guarantees to third parties amounting to $7,649 and $138, respectively, in respect of borrowings of non-group companies. No amount has been accrued in the consolidated financial statements for the Group's obligation under these guarantees.

Major results

Indicator	Unit of measurement	2002	2001	2000	1999
Production results					
Pig iron	‘000 tons	8,047	7,463	7,699	7,106
Steel	‘000 tons	8,553	7,912	8,221	7,530
Finished steel	‘000 tons	8,006	7,334	7,524	7,004
Flats	‘000 tons	4,764	4,634	4,687	3,971
Coated steel	‘000 tons	550	371	376	308
Operating results					
Net sales	Millions of US dollars	1,712	1,322	1,374	967
Cost of sales	Millions of US dollars	1,096	1,049	895	681
Gross profit	Millions of US dollars	615	274	480	286
Operating income	Millions of US dollars	512	205	360	214
Pre-tax profit	Millions of US dollars	467	163	311	117
Net income	Millions of US dollars	338	88	163	20
EBITDA	Millions of US dollars	604	332	468	277
Profitability					
Operating margin	%	30	16	26	22
Net margin	%	20	7	12	2
EBITDA margin	%	35	25	34	29
ROE	%	19	5	11	1.4
ROA	%	16	5	9	1.2
EBITDA to Assets	%	29	18	26	16
Earning per share	US dollars	56.54	14.62	27.26	3.36
Financing and financial position					
Current ratio		5.1	2.9	3.5	2.2
Liquidity ratio		4.1	2.1	2.5	1.5
Accounts receivable turnover	Days	58	66	55	53
Inventory turnover	Days	63	60	58	70
Proportion of current assets in total assets	%	43	33	31	20
Proportion of the current assets financed from own capital	%	81	66	72	55
Proportion of equity in total liabilities	%	90	87	85	82
Activity indicators					
Total assets	Millions of US dollars	2,210	1,896	1,828	1,710
Shareholders’ equity	Millions of US dollars	1,991	1,652	1,563	1,400
Current assets	Millions of US dollars	947	617	563	343
Inventories	Millions of US dollars	199	180	164	119
Accounts receivable	Millions of US dollars	305	241	237	174
Accounts payable	Millions of US dollars	164	108	118	80

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