For many decades now we've been working with steel
And know everything about it –
All its types and characteristics,
Properties and capabilities.

But, apart from the professional expertise,
We have our own, special attachment:
You can't help loving something
You've worked with for so long.

Behind the numbers, charts and diagrams
A living, almost soulful nature makes itself felt:
Robustness and reliability
Sturdiness and flexibility
Strength and confidence…

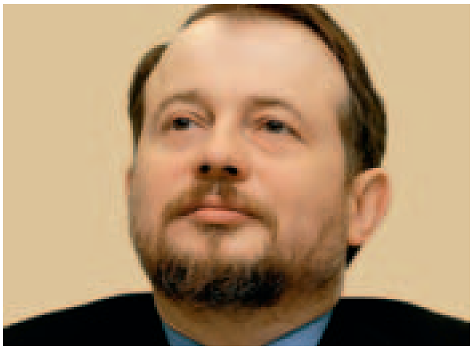
Neither the present, nor future world
Is conceivable without such attributes.

Novolipetsk Iron and Steel Corporation

Annual Report 2003

Contents

Chairman's message



Dear Shareholders,

Not only does NLMK set ambitious goals, but it also achieves them successfully. The year 2003 was not an exception. NLMK has once again proved its reputation of being one of the most efficient iron and steel works in the world. The Company's good results were achieved through the cost optimization and efficient management of both our production and sales in an environment of continuing growth of prices on raw materials, energy and transport services.

Favorable market condition, which had not, in the previous periods, been characteristic of the metals industry for a long period of time, also contributed positively to our results. Starting from the middle of 2003, the growth in prices on NLMK's products facilitated greater returns from the competitive advantages that were created by our strategy and put into practice by the Company's management. Undoubtedly, our achievements became reality thanks to the support provided to us and confidence placed in us by both the shareholders and employees of the Company.

The Company's results clearly demonstrate that the development strategy chosen is the right one. However, our achievements can not be measured only in terms of profits generated. The Company has put in place a clearly defined and efficient management system which enables us to tackle global tasks. And our goal is to further improve the system of corporate governance.

Today the iron and steel industry is one of the growth points in Russia's national economy which is indicated by greater production volumes, margins, salaries/wages and volumes of taxes paid. It is noteworthy that the iron and steel industry has entered into a period of balanced production. The period of extensive growth is generally completed, which is supported by the fact of virtually full utilization of capacity in the initial processing stages.

There is no forgetting the factors posing a threat to the industry. Russian manufacturers are being pushed into a niche of production with low level of added value. Domestic sales are restrained by a low development rate of processing industries.

Now the need for intensive growth has arisen, and the Company is ready for this challenge. We have accumulated considerable financial potential, which enables us, within the framework of our cost control strategy, to make investments in both the production and business infrastructure. Our investment policies pursue a goal of creating an economic environment providing additional opportunities for the intensive growth of the Company. Efforts of the Board of Directors will be aimed at the development of such strategic areas as:

1) using the potential of efficient interindustry ties;
2) production upgrade and products update;
3) increasing labor productivity;
4) tapping new market outlets.

We believe that high standards of social partnership are also an important condition of success. Our social policies enabled the Company to become an attractive place of employment for 42 thousand employees.

It's our intention to take up an active and creative role in matters that are not limited to resolving the Company's own tasks. Today the Company's production activities, business and social stance are built into the system of tasks facing Russia. That means we must not stand aside from the development of Russia's national economic policy. We must decide upon the right strategy in the complex and contradictory environment of the modern world and jointly answer to the nation for its implementation. That constitutes a foundation for future sustained development of NLMK.

Best regards,

Chairman of the Board of Directors
Lisin V.S., Ph.D.

NLMK'S Goals and Strategy

NLMK's vision

NLMK sees itself as a global leader in ferrous metallurgy; a supplier of a wide range of quality finished products with a high level of added value to both domestic and foreign markets.

NLMK's mission

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

NLMK's strategic goals

Financial goals

Our key financial goal is to grow the shareholder value of the Company and achieve a sustainable level of profits. The financial strategy of the Company is based on the search for the optimal combination of profitability, liquidity and financial stability. This implies better control over well-balanced development of revenues, investment in development programs and the effective management of financial flows.

Market goals

The Company's market goal is to consolidate our position in the markets of strategic importance to us, and develop new markets through quality improvements 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 react rapidly 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. As a result, the Company is able to react rapidly to price fluctuations for steel products and increase the volume of NLMK's sales in major industrial centers.

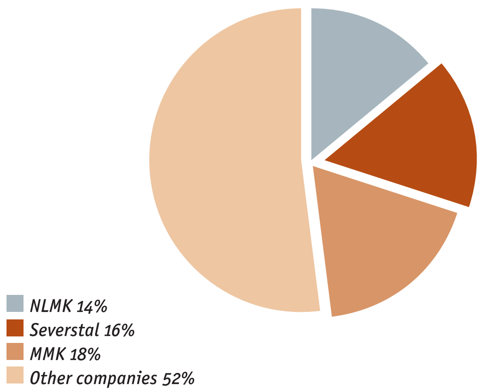
Production goals

NLMK seeks to attain levels of product quality that will make the Company the leader in the Russian steel market and ensure that the Company is competitive in the international market.

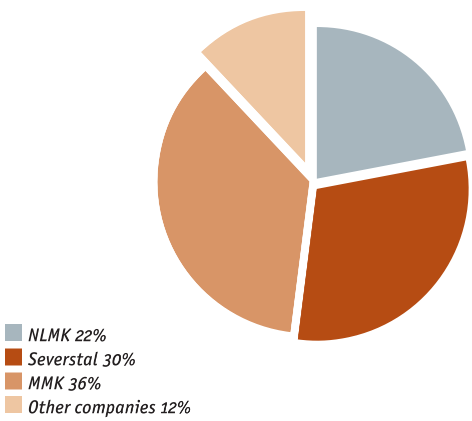
The Company's production strategy involves the upgrading of production equipment and implementation of state-of-the-art technologies in order to improve the quality and range of products, reduce production costs and reduce the environmental impact of the Company's operations.

NLMK'S Profile

Share of NLMK in domestic steel production in 2003



Share of NLMK in domestic flats production in 2003



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 sheet 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 the perspective of both product distribution (proximity to internal and external consumers) and supplies (raw materials and energy). The main domestic consumers of the Company's products are located within 1,550 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, iron-ore deposits are in the Company's immediate vicinity.

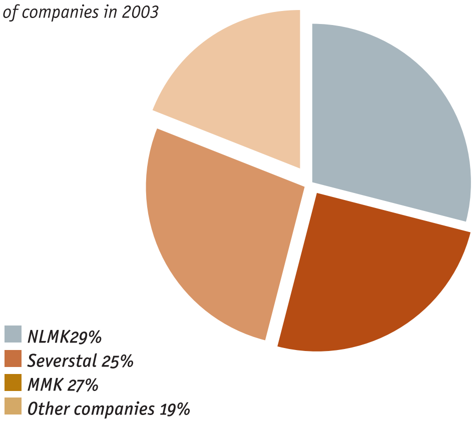
NLMK produces 14% of all Russian steel, 22% of flat rolled steel and more than 60% of prepainted steel. The Company is the largest producer of electrical steel in Europe and the largest producer of cold-rolled steel in Russia. NLMK is the most technically advanced company in the Russian ferrous metals industry. As part of the implementation of its Technical Upgrading Programme, the Company has continued with projects aimed at further improvements in technology and increasing products with high added value.

The Company's products are in steady demand in both domestic and foreign markets. Exports account for more than 70% of NLMK's sales of steel products. In 2003, NLMK shipped its products to more than 70 countries. At present, NLMK's main export sales markets are South-East Asia, Europe and the Middle East.

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. Today NLMK has the lowest unit cost of marketable products of any major Russian steel-making company.

Share of NLMK in consolidated financial results of companies in 2003



In terms of production volumes, the Novolipetsk Plant ranks third in Russia, and over the past several years the Company has consistently generated the highest profit in the industry. In 2003, the Company's pre-tax profit represented 29% of the consolidated financial results for all Russian steel-making enterprises.

In terms of profitability and net income, NLMK is one of the leaders of the global ferrous metallurgy.

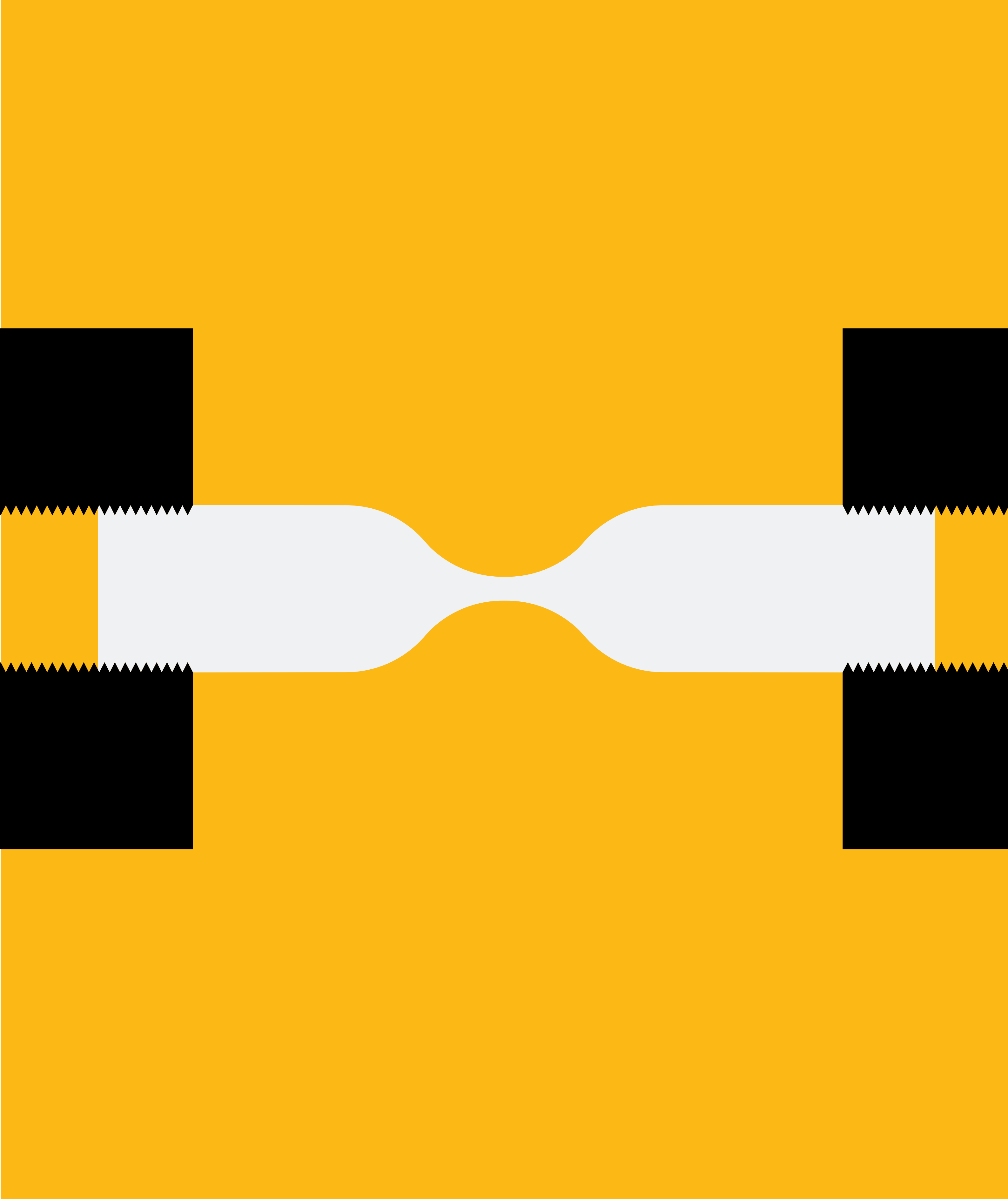
2003 – Key Highlights of the Year

External factors	Internal factors
Favorable trends in the world market	Maximum utilization of main production capacity
Increase in prices for metal products in the domestic market	Closure of two outdated shops
Growth of prices for key raw materials and fuel	Optimization of the Company's day-to-day expenses, reduction in the number of employees
Significant strengthening of the Russian Ruble in relation to the US Dollar	Successful implementation of steps of the Technical Upgrading Program

- The Company has proved that it is a manageable business, able to react promptly to changes in the external environment, and make good use of favorable trends in the market
- Growth of production and sales of key products has been achieved
- Financial results have significantly surpassed prior-year performance and are at an all-time high

Major results in 2002-2003

	2002	2003	Change +, -	Change %
				(thousands of tonnes)
Steel	8,553	8,854	301	3.5%
Finished steel	8,006	8,233	227.3	2.8%
- sheet products	4,764	4,895	131.2	2.8%
- slabs	3,242	3,338	96.1	3.0%
Coated steel	550	543	-7.3	-1.3%
				(US $ mln)
Net sales	1,712	2,468	756	44%
Gross profit	615	1,017	402	65%
- as a % of sales	36%	41%	-	-
Pre-tax profit	467	882	415	89%
- as a % of sales	27%	36%	-	-
Net income	338	656	318	94%
- as a % of sales	20%	27%	-	-
				(US $ mln)
Total assets	2,151	3,085	935	43%
- return on assets	17%	25%	-	-
Equity	1,991	2,610	619	31%
- return on equity	19%	29%	-	-
				(Persons)
Total number of employees	46,289	40,981	-5,308	-11%
Number of production employees	40,402	37,497	-2,905	-7%



Most Important Events of the Year

January

A certification audit of NLMK's steel-making production was completed by the international certification company Bureau Veritas (France). The independent experts have performed a comprehensive examination of the production of cast slabs for shipbuilding steel in the converter shops of the Company for compliance with the standards established by the Rules of vessel classification. The auditors have highly praised the results of the certification tests, documents and other information that was provided to them.

February

An inspection audit of NLMK's steel-making production was completed by the American certification company American Bureau of Shipping (ABS). The certification tests fully confirmed the consistently high quality of slabs produced by the Company.

March

The Company commissioned the new high-yield continuous-casting machine No. 4 designed by Voest-Alpine of Austria. This facility is capable of casting steel into slabs whose gauge is 200-260 mm, width is 800-1850 mm and length is 4500-11500 mm, with a capacity of 2 million tonnes per year.

April

The steel-making production of NLMK underwent an inspection audit by the international certification company RINA (Italy) that specializes in the certification of materials and equipment used in shipbuilding. The Italian experts have confirmed that the production process of shipbuilding steel adopted by NLMK is in full compliance with the standards established by the International Rules of vessel classification.

NLMK completed the construction of the plant for making parts of residential buildings from aerated concrete in line with the techniques designed by Hebel of Germany. The plant's design capacity is 165,000 cubic meters per year. By launching this plant, the Company can meet its own demand for aerated concrete components that will be used in repairs and construction projects, including construction of housing for the Company's employees.

The Company commissioned a plant for the preparation and inspection of cold-rolled strip, a first in Russia, with a capacity of 300,000 tonnes per year. In contrast with existing equipment, the new production line does not only machine the strip, ensuring high-accuracy trimming, but makes it possible to monitor the quality of both sides of the strip as it moves.

May

NLMK began the construction of a new environment-protection facility. The greased slag recycling line is capable of processing approximately 35,000 tonnes wastes of steel-making and rolling divisions per year. This line, which is serviced by 30 workers, helps to significantly reduce production costs of raw materials and energy.

June

Following a full-scope audit performed by TUV CERT, an authoritative German certification agency, compliance of NLMK's quality management system with ISO 9001:2000 was confirmed.

The annual general shareholders' meeting of OJSC NLMK was held. The shareholders approved the Company's annual report, balance sheet, profit and loss statement, earnings distribution, and the new version of OJSC NLMK's charter.

In relation to 2002, the Company's shareholders decided to pay a dividend of RR 312.5 per share. The total amount of dividends was RR 1,871 billion.

The shareholders' meeting elected a new Board of Directors of OJSC NLMK: B.F. Abushakhmin, N.A. Gagarin, A.Yu. Zarapin, A.A. Lapshin, V.S. Lisin, I.A. Sagiryan, V.N. Skorokhodov, V.P. Fedorov and I.P. Fedorov. I.V. Frantsenyuk was elected as general director for another term.

The first meeting of the newly appointed Board of Directors elected V.S. Lisin as chairman of the Board.

July

In the hot-rolling shop, the Company began the construction of a continuous new generation furnace. The new reheating furnace has a nominal capacity of 320 tonnes per hour in terms of heating blanks, and its design allows for uniform heating of metal and high accuracy of preset dimensions of the strip as it is further rolled. An automatic control system produced by Siemens (Germany) allows to monitor the heating of metal and consumption of energy. This ensures savings of natural gas and reduces environmental impact.

August

As part of its technical upgrade program, NLMK began an overhaul of the continuous pickling plant in the Sheet-rolling division. This overhaul is driven by NLMK's plans to increase its production capacity in 2004-2005 in order to be able to make more value-added products, that is, galvanized steel and polymer-coated steel.

A contract between NLMK and the Italian company Danieli was signed; this company won the tender for the supply and installation of a continuous hot-dip galvanizing line with a capacity of 340,000 tonnes per year. With this plant, NLMK will be the first company in Russia, CIS and Eastern Europe to make galvanized steel from the hot-rolled pickled strip that will be used in heavy-duty construction metal structures that are currently supplied from overseas.

September

The Company completed the first stage of a system that monitors groundwater at its site. A surveillance network was created encompassing 32 wells the depth of which ranged between 14 and 94 meters; these wells were drilled at the locations of the core production divisions.

The first supervision audit of the environmental management system of NLMK for compliance with the requirements of international standard ISO-14001:1996 concluded that the Company's production processes are in line with international environmental standards.

October

NLMK successfully completed operational tests of equipment for recycling coke production waste in the Company's production cycle. The method designed by the Company's engineers allows waste water in the production cycle to be revised after biochemical purification.

November

A modern high-pressure steam production facility capable of generating 220 tonnes per hour was commissioned at NLMK's Power Plant. Thanks to this project, the Company's power-generating capacity was increased, its energy security was enhanced and the cost of metal production was reduced.

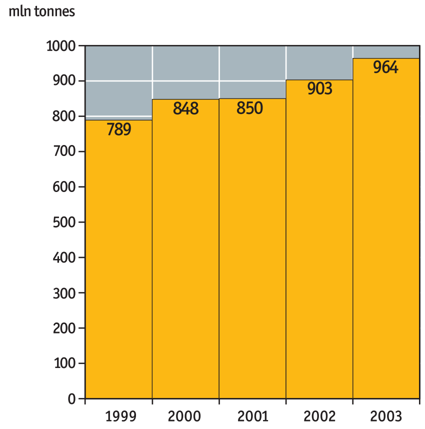
In Basic oxygen furnace (BOF) shop No. 1, the Company completed the modernization of a RH degassing facility that is capable of producing 400,000 tonnes of steel grades with an ultra-low content of carbon (carbon content lower than 0.005%) a year for the electrical engineering industry. The cycle of vacuum treatment at the modernized facility was reduced by an average 12-28%.

December

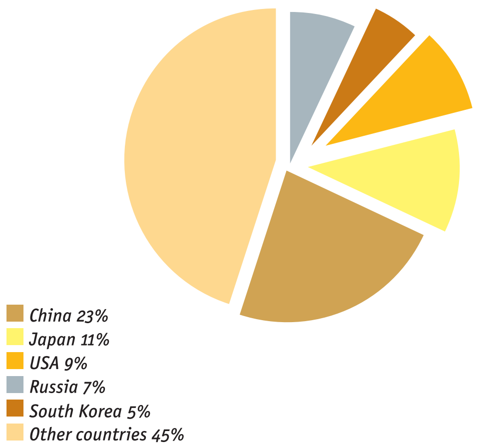
A large number of NLMK employees were given state awards in accordance with the Decree of the President of the Russian Federation for a significant contribution to the development of the metals industry, labor accomplishments and long-term, diligent service. In view of these state awards, Vladimir Lisin, NLMK's Chairman of the Board of Directors, thanked these employees and awarded cash bonuses.

Overview of Metal Markets

World steel production
in 1999-2003



Global steel production
in 2003 by country



Global metal products market

The year 2003 may be viewed as a volatile but otherwise favorable period for the global iron and steel industry. The disproportionate growth of the global market was shaped by the developments in China. Due to the sustainable growth of demand in the Chinese automotive, electronic industries and construction sector, steel consumption has increased substantially that in turn resulted in an uplift of the global metal output and steel prices over most of 2003.

There was a world metal products market slump in April and May 2003 which was caused by the fulfillment of quotas for rolled product import to China. Although this was of a short-term nature, the plunge of steel product prices over these two months was so significant that they could not rise back to the previous level in some regions up to the end of 2003.

In 2003 world crude steel production reached an all-time high of 964 million tonnes, which is 6.8% higher than in 2002.

Increases in crude steel production took place in all regions worldwide, except for North America, where steel production output remained almost at the same level:

South-East Asia increased crude steel output by 46.4 million tonnes (up 11.8 % against the 2002 level);

- Middle East – by 1.0 million tonnes (up 7.6 %);
- CIS countries – by 6.4 million tonnes (up 6,3 %);
- Non-EU European countries – by 3.7 million tonnes (up 7.6%);
- South America – by 2.2 million tonnes (up 5.4 %); and
- EU – by 1.0 million tonnes (up 0.7 %).

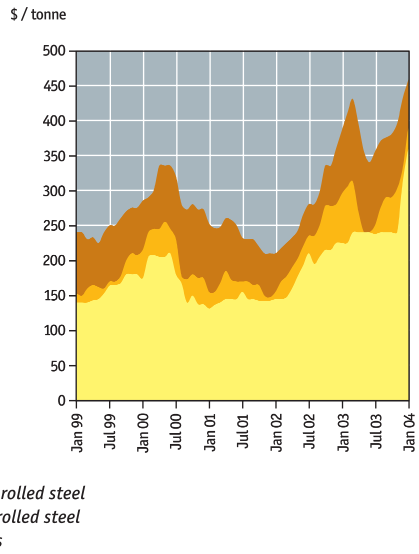
In 2003, China demonstrated a major production growth rate (up 21.2%). China became the first country which exceeded the 200 million tonne level of yearly crude steel production, which accounted for 22.8% of global output.

The five iron and steel leaders comprise:

- China – 220.1 million tonnes;
- Japan – 110.5 million tonnes;
- USA – 90.4 million tonnes;
- Russia – 62.7 million tonnes; and
- South Korea – 46.3 million tonnes.

As we noted above, the world metal product price fluctuation in 2003 was linked primarily to changes in the volume of orders for imported rolled products from Chinese consumers.

Trends in export prices of CIS countries in 1999-2003 (FOB prices)



Apart from this, the price movement was also affected by increasing costs of the steel and rolled stock production. Over the reporting period, the most acute raw materials and metal products shortage was seen in the Chinese market.

From January to April 2003, the highest level of import prices in China were:

- Hot-rolled steel – US$ 365/tonne C&F;
- Cold-rolled steel – US$ 505/tonne C&F; and
- Galvanized steel – US$ 615/tonne C&F.

The falling demand due to the fulfillment of quotas for the import of metal products to China resulted in a decrease in steel import prices in the second quarter of 2003. In May, hot-rolled steel deals were concluded at US$ 240-290/tonne C&F, cold-rolled steel deals at US$ 345-400/tonne C&F and galvanized steel deals at US$ 480-520/tonne C&F.

However, by virtue of China's high economic growth rate, local market prices began to pick up immediately after the introduction of new rate and quota limits on rolled stock imports. At the end of December, the products were imported to China at US$ 390/tonne C&F, US$ 470/tonne C&F and US$ 570/tonne C&F, respectively.

Last year was successful for rolled product exporters from CIS countries who shipped significant volumes of their products to South-East Asia in spite of a decrease in hot-rolled steel prices in April to June from US$ 300-325/tonne FOB Black/Baltic Seas to US$ 220-260 $/tonne FOB and in cold-rolled steel prices from US$ 400-460 $/tonne FOB to US$ 320-360 $/tonne.

In December 2003, transaction prices for shipments of cold-rolled stock to external markets were similar to those in March and for hot-rolled stock were US$ 300-360 $/tonne FOB.

Similar price movement occurred in other regions, the only difference being that producers in those regions, who decreased prices in the second quarter, managed to return to the previous level by the end of 2003.

After a drop in prices in the period from April to June, European producers were unable to bring their export prices for rolled products back to the level of the first quarter. In December, hot-rolled coils produced by EU countries were shipped to external markets at US$ 295-315/tonne FOB against US$ 295-325 $/tonne FOB in February, cold-rolled coils at US$ 385-415/tonne FOB against US$ 385-430/tonne FOB in March. Galvanized steel prices were subject to a more significant reduction: from US$ 445-485/tonne FOB in March to US$ 410-445/tonne FOB in December.

During 2003, there was a decrease in prices for hot-rolled and galvanized steel exported by Latin American countries.

At the beginning of the year, hot-rolled steel of Latin American origin was exported at US$ 295-305/tonne FOB. After the May setback to US$ 280-290/tonne FOB, the general price level rose to only US$ 280-300/tonne FOB by the end of the year. Galvanized steel coils cost US 445-465/tonne FOB in April and, after a fall in May, their price grew to only US$ 440-460/tonne FOB.

Export prices for cold-rolled steel of Latin American origin were an exception as they demonstrated some improvement over the whole reporting period. By the end of the year, they grew up to US$ 390-400/tonne FOB or by US$ 25/tonne on average as compared to January.

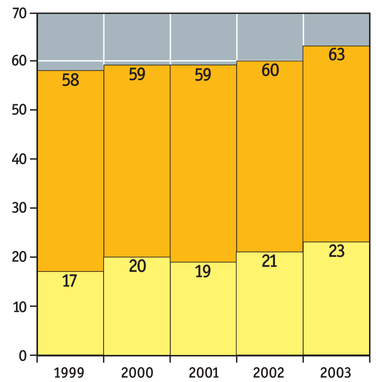
A short-term market slump in the USA in the period from April to May noticeably affected the level of import prices in the country. In December, cold-rolled and galvanized steel coils imported by the USA cost US$ 88/tonne cheaper than in January on average: US$ 386/tonne C&F against US$ 474/tonne C&F and US$ 430/tonne C&F against US$ 518/tonne C&F, respectively.

A price increase of US$ 11/tonne occurred only in hot-rolled steel production (from US$ 342/tonne C&F at the beginning of the year to US$ 353/tonne C&F at the end of the reporting period).

Due to a continuing strong demand in the metal product market in 2003 caused by a rolled steel shortage, virtually no anti-dumping or compensation investigations were initiated in the world steel sector. Moreover, the growing demand for metal products resulted in lifting rate and tariff restrictions on metal product imports initially by the USA and later by the EU and China at the end of the reporting year.

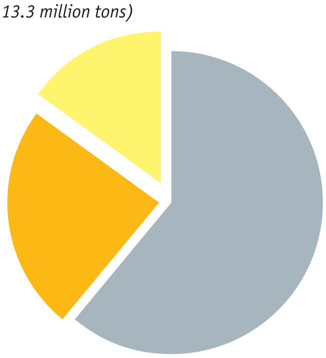
Analysts' forecasts with regard to a change in the market environment in 2004 are divided. The majority believe that a raw material and metal product deficit will persist in the markets and will positively affect steel prices. Other analysts consider that metal product prices will reach their peak in April and then will decrease until the end of the year. The Company's management believes that the structure of NLMK's export sales and its strong position in the world slab trade allows the Company to withstand unfavorable changes in the market.

Production of steel and flats
in Russia in 1999-2003



Production of steel
Production of flats

Consumption of flat-rolled products
in Russia in 2003
(Total consumption 13.3 million tons)



Hot-rolled steel 61%
Cold-rolled steel 24%
Coated steel 15%

Russian metal products market

In 2003, two major trends persisted in the Russian metal products market: firstly, increasing production of pig iron, steel and rolled stock and, secondly, growing consumption of the finished steel through increasing supplies from foreign and domestic producers. In 2003, Russia produced:

- Pig iron – 48.4 million tonnes (up 3.6% against the 2002 level);
- Steel – 62.7 million tonnes (up 4.7%); and
- Finished steel – 51.1 million tonnes (up 5.2%).

The steel production structure also changed for the better: the share of basic oxygen furnace steel went up from 61% to 62%, the share of electrical steel increased from 15% to 16%, and openhearth steel decreased from 24% to 22%.

In 2003, the following changes occurred in the structure of finished steel: the share of bars dropped from 57% to 55% and the sheet steel share increased from 43% to 45%.

In 2003, the sheet steel production growth rate was 6.8 % and the total output reached 22.5 million tonnes, including:

Hot-rolled steel – 15.0 million tonnes (up 5.5%);

Cold-rolled steel – 5.5 million tonnes (up 5.7%); and

Coated steel – 2.0 million tonnes (up 21.0%).

An increase in the production of pig iron, steel and rolled stock took place at the top eight companies in Russia. These companies were actively increasing coated steel production (metal and organic coating) which is in excess demand in the domestic market.

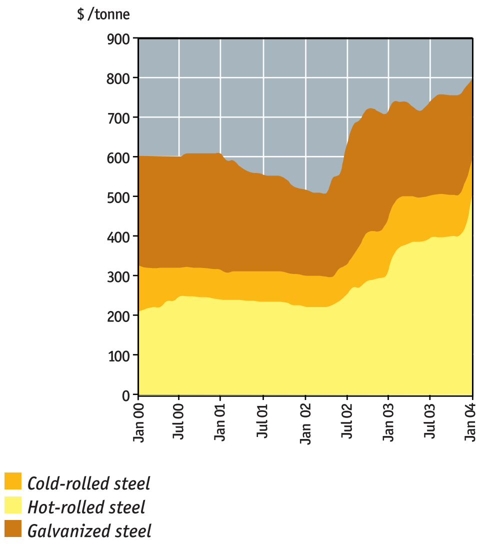
The domestic market is currently able to consume only approximately half of the metal products fabricated by domestic companies. Thus only 11.7 million tonnes out of the total sheet steel output in Russia were supplied to the domestic market. However, further economic recovery is expected to give rise to sustainable growth in steel consumption that ensures future sales growth in Russia.

The growth of demand in the major metal consuming industries – construction, tube production, machine building – was the main reason for increasing sheet steel supplies by Russian metal producers to the domestic market in 2003 (up 14% against 2002).

Considering Russian sheet steel sales in the domestic market in 2003, we can note that hot-rolled steel supply increased most of all, i.e. by 19%, and reached 7.3 million tonnes in 2003. Coated steel also demonstrated a significant growth (+14%), shipments of which reached 1.4 million tonnes. Cold-rolled steel sales in Russia grew at a lower rate, only by 4%, and amounted to 3 million tonnes.

In 2003, the world market was characterized by fluctuation: from January to March, there was a significant growth in prices for

Trends in domestic prices in 1999–2003



metal products whilst from April to June the prices were decreasing. In the second half of the year, prices were rising again. As a result of such swings, domestic producers kept their sheet steel exports at the level of 2002 – 10.8 million tonnes.

In spite of the Russian metal sales growth in the domestic market, there was deficit in certain sheet steel in Russia due to increasing demand which triggered steel price growth and increased imports.

In 2003, sheet steel imports to the Russian market increased by 54%. During the year, overall 1.6 million tonnes of sheet steel were imported, including:

- Hot-rolled steel – 971,000 tonnes;
- Cold-rolled steel – 136,000 tonnes; and
- Coated steel – 480,000 tonnes.

The largest imported steel consuming regions in Russia were Rostov, Belgorod, Moscow and Volgograd. These regions consumed 60% of imported rolled stock.

The Ukraine and Kazakhstan became the major sheet steel suppliers to the Russian market and to which they mostly shipped hot-rolled and coated steel.

In terms of the increased volume of domestic sales and growing imports, the apparent consumption of sheet steel in Russia increased against 2002 by 18% from 11.3 million tonnes to 13.3 million tonnes, including:

- Hot-rolled steel – by 24%;
- Cold-rolled steel – by 5%; and
- Coated steel – by 18%.

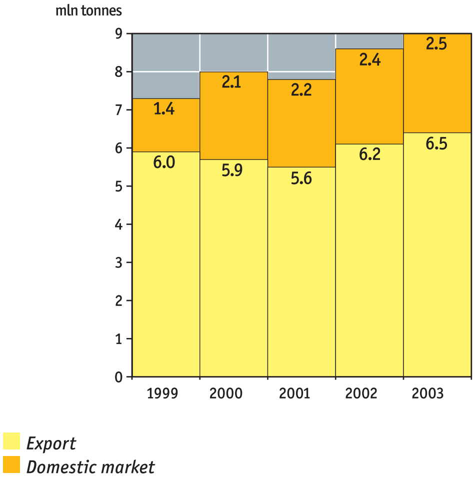
A deficit in the main types of sheet steel influenced the price movement. Thus, prices for hot-rolled steel set by NLMK, MMK and Severstal –major steel producers in Russia – increased by 26-33%, prices for cold-rolled steel by 18-29% and for galvanized steel by 9-26%. As a consequence, Russian secondary market prices grew over the whole year.

Traditionally, the domestic market price movement in Russia is different from the world market price behavior. Whilst price fluctuations in the world market have a clear-cut cyclic nature with rather large variations depending on market conditions, domestic prices demonstrate a sustainable upward trend and all downturns are characterized, depending on intensity, by either an insignificant decrease in prices or by a slowdown or check to prices.

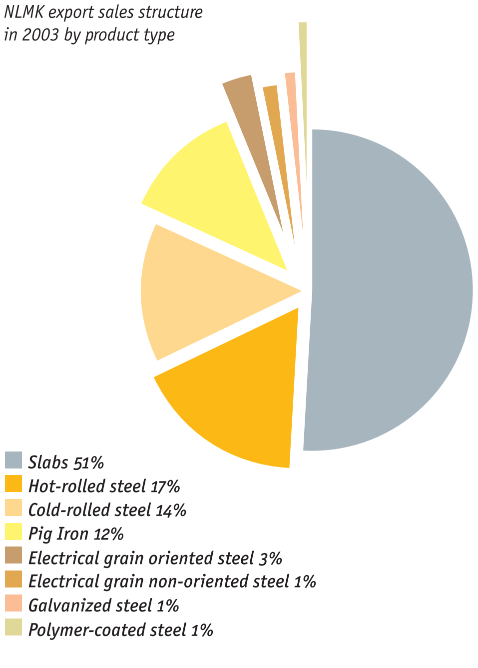
Pricing trends in the domestic market and growing consumption of metal products in the Russian economy allow metal producers to expect the domestic market environment to continue to be favorable in 2004.

Sales of Metal Products

NLMK steel product sales in 1999–2003



NLMK export sales structure in 2003 by product type



Sales structure in terms of in-kind amounts of products

Favorable conditions in the domestic and foreign metal product markets in 2003 facilitated NLMK's sales growth. In physical terms, NLMK's metal products sales increased by 406,000 tonnes (by 5%) in 2003 against the 2002 level and reached 9.0 million tonnes.

However, no significant change occurred in the relative distribution between the Company's markets: exports and domestic sales accounted for 72% and 28% of total sales, respectively.

Export sales

In 2003, NLMK's export shipments increased by 4.2% against 2002 and totaled 6.5 million tonnes. The Company increased sales both to foreign countries and to countries in the CIS. Shipments through the Far East Branch (NLMK-DV) also grew significantly.

Due to the existing deficit in metal raw materials in the world market, the volume of export orders for pig iron increased by 46% in 2003 as compared to the 2002 level. The share of pig iron in exports increased by 3.3 percentage points against 2002.

Traditionally, the major share of the Company's export are slabs which are in great demand in foreign markets and do not sell well in Russia. In certain periods of the reporting year, low costs incurred by NLMK on the production of slabs and market conditions allowed the Company to earn profit on slabs comparable to that earned on hot-rolled steel. In 2003, slabs' share in total shipments to foreign markets was 51.5%.

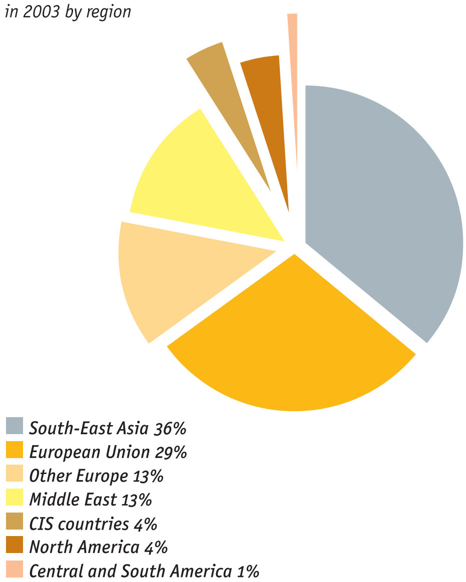
In 2003, slabs shipments to foreign customers in physical terms increased by 3% against 2002.

In view of the commencement of co-operation with the Danish plant Dansteel in 2003, there was a significant change in the structure of export of semi-finished products by NLMK: a share of low-alloy slabs increased and a new product – pre-reduced slabs – emerged.

In spite of a decrease in hot-rolled steel sales to foreign consumers by 7.5% in 2003 against 2002, this type of products continues to be a key export item.

Higher domestic prices for cold-rolled and galvanized steel caused a reduction in exports of these products in 2003 and an increase in sales to domestic consumers.

In 2003, the Company's sales of cold-rolled steel and galvanized steel in the foreign markets decreased by 8.8% and 35.8%, *NLMK export sales structure in 2003 by region*



Sales structure in terms of in-kind amounts of products

respectively, as compared to 2002. The share of these products in total exports decreased by 2.0 percentage points and 6.0 percentage points, respectively.

Lower sales of hot-rolled, cold-rolled and galvanized steel to foreign companies in 2003 were partially compensated for by higher sales of prepainted rolled products and electrical steels.

Exports of prepainted rolled products increased by 43.5% against 2002. In 2003, as previously, the major volume of orders was for galvanized steel with one-sided paint coating.

In 2003, exports of electrical steel increased by 63.4% as compared to 2002.

Lack of restrictions on exports of Russian electrical (non-grain oriented) steel to the European Union (NLMK's major market) facilitated an increase in overseas sales of this product by more than two-times compared to the prior year. The share of grain oriented steel in the total Company's exports increased by 1.7 percentage points.

Sales of grain non-oriented steel increased by 7.8% in 2003 against 2002. In the reporting period, the Company completely changed over to production of wide grain-oriented electrical steel that is in the greatest demand in the market.

In terms of the regional structure of NLMK's sales, South-East Asia and EU countries have become the major segments accounting for 36% and 29% of its shipments, respectively.

China is amongst the largest Asian sales markets of the Company (13% of the total volume of metal products export). In 2003, the Company increased its shipments to China by 55% as compared to 2002. The structure of the Chinese metal products sales for the reporting year was: slabs and pig iron, 46%; and flats, 54%.

In 2003, the Company's trading relations with EU countries were governed by the Agreement between the Russian Federation and European Union on steel trade. The volume of trading was also restricted by quotas which were designed by the EU to protect its markets (these restrictions were cancelled on December 5, 2003). The Company had to take into consideration its obligations to supply grain non-oriented rolled steel above 500 mm wide to the region. The largest shipments were to Italy (10% of the total export) and Denmark (9%) that consumed mostly slabs.

The largest sales market amongst the European non-EU member countries is Turkey. For the reporting period, NLMK's sales to this country increased by 35% against the prior year level.

A market revival facilitated a significant increase in the Company's sales to the Middle East in 2003 (twice more than last year). Iran is the major consumer of NLMK's metal products in this region. The country accounts for 69% of semi-finished and rolled products that was sold to the Middle East.

In 2003, due to retargeting sales to more profitable markets, NLMK reduced its sales to the USA, which resulted in a decrease in North America's share in exports from 14.9% in 2002 to 3.7% in 2003. Slabs and pig iron dominated in the product mix supplied to the US market in 2003: they accounted for 97% of total exports to the USA.

The Company's plans for 2004 provide for an increase in export sales of up to 10%. Overall, it is intended to increase sales of pig iron and slabs that are in strong demand in the world markets. In addition, it is intended to increase sales of electric steel.

Domestic sales

In 2003, as consumer demand continued to grow, Russian iron and steel companies increased supplies of metal products to the domestic market. NLMK's shipments increased by 5.8% as compared to the previous year and reached 2.5 million tonnes.

While there was an insignificant decrease in the hot-rolled steel sales in 2003, the sales of final products increased as follows:

- Cold-rolled steel up 16% against the 2002 level;
- Galvanized steel up 7%; and
- Electrical steel up 31%.

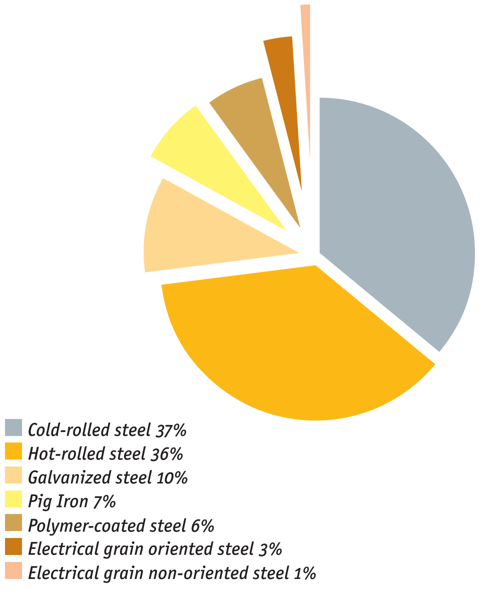
Sheet steel prevails in the domestic sales whilst primary products are represented only by pig iron the share of which does not exceed 7% of domestic sales.

A high percentage of final rolled products was naturally reflected in the structure of the Company's shipments by industry where a significant portion (26%) is dispatched to the engineering industry, and 18% to iron and steel producers. However, the major portion of products (40%) is supplied to trading companies. Such a distribution policy allows the Company to solve the problem of finding middle-size and small customers through large and middle-size traders.

In 2003, shipments to the engineering sector dropped by 4.4%, which was due to sales problems in the automotive industry that occurred at the end of 2002 and in early 2003. NLMK's sales were re-channeled to the metallurgic industry (up 17.7% against the 2002 level) and, primarily, to metal traders (up 18.5%).

Nevertheless, the Company retained strategic partners amongst its customers. In 2003, the Company supplied 15% of cold-rolled steel to OJSC AVTOVAZ, Russia's largest carmaker. We also dispatched

NLMK domestic sales structure by product type in 2003



Sales structure in terms of in-kind amounts of products

Sales structure by industry in 2003

Sales structure in terms of in-kind amounts of products

NLMK sales structure by Russian regions in 2003

Sales structure in terms of in-kind amounts of products

10% of cold-rolled steel to OJSC Lysvenskiy Iron and Steel Plant. The Company also supplied 6.1% of total domestic metal product shipments to OJSC AVTOVAZ and 3.8% to Lysvenskiy plant.

In terms of regional segments, the major customers of the Company remain the Central Region (up 18.0% against the 2002 level), Volga Region (down 10.9%), Central Black Earth Region (up 16.5%) and the North Caucasus (up 1.1%). In 2003, NLMK dispatched to these traditional areas of its influence 72% of the total volume of metal products sold in the domestic market. In the Central Black Earth region, NLMK's rolled products dominate the market. However, in the Central, Volga and North Caucasus regions the Company faces competition from Severstal, MMK and foreign manufacturers.

Our regional diversification policy ensures that we have influence over a high proportion of Russia's regions. In 2003, NLMK managed to keep a cumulative volume of sales to the North-West, Urals and Volgo-Vyatka regions at the same level in spite of some re-distribution of sales volumes between these regions. By developing distribution channels in remote regions, NLMK increased its shipments to Eastern Siberia by over 1.5 times and raised its sales to Belarus by 33.3%.

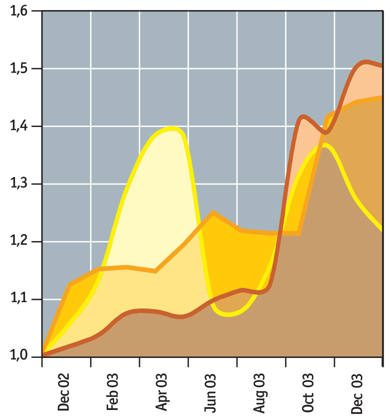
A specific feature of domestic operations is the domination of sales on a prepayment basis – approximately 90% of the total sales. A flexible system of discounts, pricing transparency and predictability of pricing policy are the obvious advantages of the Company which are highly appreciated by our permanent customers.

In 2004, the Company intends to keep the total volume of domestic sales at the same level. When the second color coating line is put into operation in mid 2004, it is planned to increase sales of rolled products with organic coating.

Raw Materials and Procurement

Trend in growth rates of prices of major types of raw materials in Russia

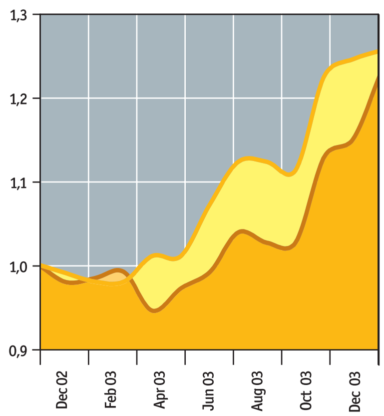
on December 2002



Iron ore
Metal scrap
Coal concentrate

Trend in growth rates of prices of ferrous alloys and zinc in Russia

on December 2002



Ferrous alloys (silicomanganese)
Zinc

The Company believes that manufacturing competitive metal products and meeting production targets depends, to a great extent, on the smoothness of purchasing processes. This is explained by the fact that ferrous metallurgy is an energy-intensive and material-intensive industry. Based on 2003's results, material and energy components of NLMK's product costs accounted for approximately 72% of the total production costs.

Management understands that any disruption of supplies may adversely affect the financial results of the Company and focuses on pursuing a prudent purchasing policy. The main principles of NLMK's purchasing policy are to ensure the relevant quality of raw materials, analysis of pricing trends on the raw material markets and establishment of long-term partnership relations with suppliers.

Key raw materials and utilities required for the manufacturing of metal products are iron ore, coking coal, ferrous scrap, zinc, ferroalloys, energy and natural gas.

NLMK has an advantageous geographical location with regard to the major raw material market, specifically the iron-ore market, which is due to its proximity (about 350 km) to the deposits of the Kursk Magnetic Anomaly. The deposits of the Kursk Magnetic Anomaly are unique as they contain two thirds of all Russia's iron ore reserves.

The Company controls the iron ore producer KMAruda plant and, in February 2004, we decided to acquire a 59.8% equity stake in Stoilensky Mining-and-Processing Works. These two companies meet substantially all iron-ore concentrate needs of NLMK.

Russia's mineral resources allow NLMK to satisfy its raw material needs through supplies by the Russian producers. The Company's needs are met also partially by supplies from Ukraine and Kazakhstan, and an insignificant portion of materials is imported from foreign countries.

To pursue a balanced purchasing policy, NLMK monitors and analyses the domestic and foreign metallurgical raw material markets on an on-going basis. The current domestic raw material market trends are, to a great extent, dependent on the world market's behavior. In 2003, the market demonstrated a significant upward trend in prices for metallurgical raw materials that was caused by the price growth in foreign markets and by an increase in raw material imports.

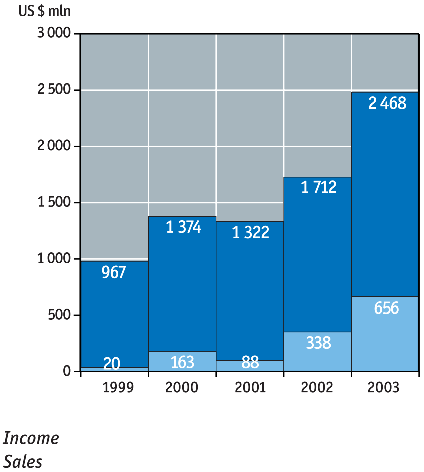
To ensure smooth supplies, NLMK builds long-term partnership relations with major suppliers who represent the substantial part of overall supplies. When selecting a supplier, the Company places emphasis on such criteria as the most favorable terms of delivery and payment. Currently the major part of supply contracts is concluded on a prepayment basis, and raw material suppliers appreciate the strict financial discipline of NLMK.

The Company also implements a balanced policy with regard to its own raw material stocks that is an essential condition of the continuous operation of the plant. NLMK enacted an internal standard which regulates the process of calculation and approval of quantities of stock for main items.

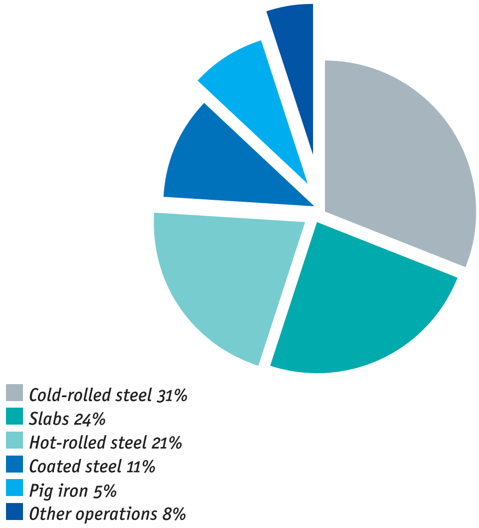
An overall prudent purchasing policy allowed the Company to ensure that all the plant's raw material, energy and equipment needs were fully met at the proper level of quality, and high financial results of operations were achieved in 2003.

Financial Results

Net sales and net income in 1999-2003



NLMK's net sales by product type in 2003



The 2003 financial year has been another successful year for Novolipetsk Iron & Steel. Manageable business, able to react promptly to changes in the external environment, and make good use of favorable trends in the market.

In 2003, net sales of US$ 2,468 million were generated by NLMK, US$ 756 million (44%) higher than in 2002.

NLMK's net income for 2003 was US$ 656 million, US$ 318 higher (by a factor of 1.9) than 2002. This impressive growth was achieved thanks to a significant increase in net sales in combination with cost-cutting initiatives.

In 2003, NLMK's financial results were primarily influenced by the following factors:

- Favourable environment in global metal product markets;
- Increase in prices for main categories of metal products in the domestic market;
- Commissioning of new production assets and increase in the production output; and
- Increase in prices for main categories of raw materials and fuel, compounded by rising railway tariffs and prices charged by natural monopolies.

In 2003, sales of major metal products, compared to 2002, increased as follows: cold-rolled steel, by US$ 265 million (53%); hot-rolled steel, by US$ 137 million (37%); and coated steel, by US$ 57 million (26%).

The bulk of the Company's revenue (over 63%) is represented by products with a high value-added (hot-rolled steel, cold-rolled steel and coated steel). Slabs, which enjoy consistent demand in international markets, account for a significant percentage of sales (24%). High added-value products (cold-rolled steel, hot-rolled steel and coated steel) account for over two thirds of the Company's operating income in 2003. Slabs are responsible for a fifth of operating income.

NLMK exported a significant proportion of its products in 2003; exports account for 58% of net sales.

The largest markets for NLMK's products in 2003 were South East Asia (20%), EU (17%), and Middle East and Turkey (14%).

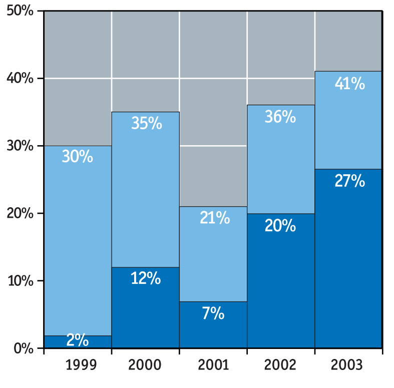
In 2003, thanks to control over costs and efficient production management, growth of NLMK's production costs was kept at 32%, while sales grew 44%. As a result, NLMK has seen its revenue growth outpace the production cost inflation.

NLMK's net sales by market in 2003

Domestic market 42%
South-East Asia 20%
EU 17%
Middle East and Turkey 14%
Other countries 7%

The sales structure is presented with reference to the parent company.

NLMK's gross profit and net income in 1999-2003



Net income
Gross profit

As a result, NLMK has managed to increase its operating margin from 36% in 2002 to 41% in 2003, while its gross profit has risen by US$ 402 million (up 65%) to US$ 1,017 million.

The increase in NLMK's production costs in 2003 was primarily driven by growing raw material and fuel prices. For example, during the year, natural gas prices increased by an average of 44%; coal prices increased by 50%, iron ore prices increased by 39%; and metal scrap prices increased by 83%. Electricity tariffs grew by 20%.

There were no significant changes in the cost structure by major categories in 2003. Reducing unit costs of metal products is one of the key measures aimed at raising the Company's profitability. One of the competitive advantages of NLMK is the high concentration of production in, essentially, a single plant. NLMK's location houses all the main metallurgical operations: sintering, production of coke, pig iron, steel and rolled metal products. NLMK currently has the lowest unit costs in comparison with other major ferrous metallurgy companies in Russia.

The Company does not use loans or borrowings in order to finance its operating and investing activities. This is because the Company has sufficient working capital and follows a balanced investment policy. As a result, the Company does not have to spend money on servicing loans and borrowings.

In 2003 the Company did not make any significant acquisitions, focusing instead on investing in its own production facilities consistent with its focus on its core business – manufacture and sale of metal products.

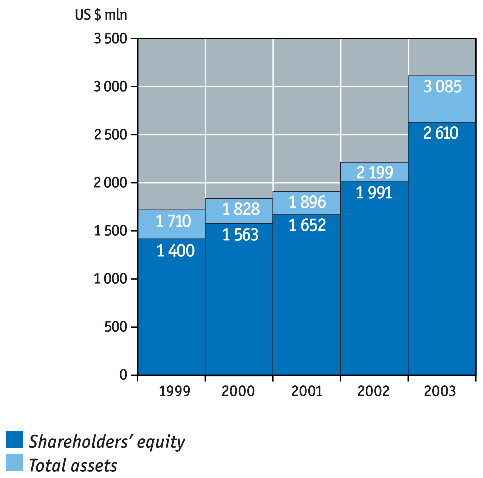
The market environment leads us to expect that NLMK will be as successful in 2004 as in 2003. NLMK will be able to retain its leadership of the industry thanks to the optimal utilization of the Company's resources, efficient management system and the ability to react rapidly to external changes.

Operating results in 2002 and 2003

(US$ mln)

	2002	2003	Change +, -	Change %
Net sales	1,712	2,468	756	44%
Cost of sales	(1,096)	(1,451)	(355)	32%
Gross profit	615	1,017	402	65%
- as a percentage of net sales	36%	41%	-	-
Selling, general and administrative expenses	(103)	(126)	(22)	22%
Operating income	512	891	379	74%
- as a percentage of net sales	30%	36%	-	-
Pre-tax income	467	882	415	89%
- as a percentage of net sales	27%	36%	-	-
Net income	338	656	318	94%
- as a percentage of net sales	20%	27%	-	-
Net income per one share (US$)	56.54	109.64	53.10	94%
EBITDA	613	1,019	398	66%

Management's Analysis of Financial Condition



In 2003, the financial condition of NLMK was stable. There were a number of positive trends in the Company's development, including:

- Growth in total assets;
- Growth in shareholders' equity;
- Improvement of liquidity ratios; and
- Improvement of profitability.

Over the past several years, NLMK's assets have consistently grown. In 2003, total assets grew to US$ 3,085 million. This represents an increase of US$ 886 million (40%) on 2002.

The growth of NLMK's assets watched by an increase in shareholders' equity, driven by net income, a substantial proportion of which is retained within the business. In 2003, it increased by US$ 619 million (31%). In 2003, shareholders' equity accounted for 85% of total assets.

In 2003, current assets increased by US$ 769 million (by a factor of 1.8). This increase took place primarily due to the following reasons:

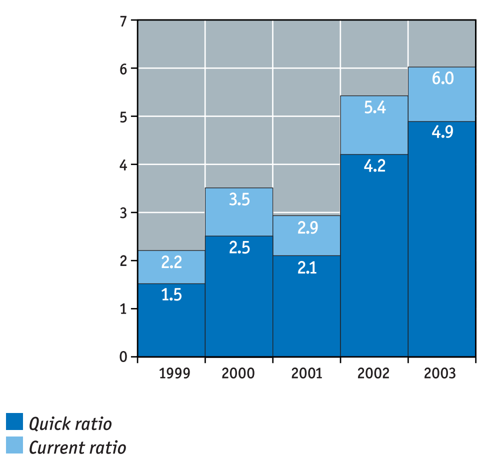
- an increase in cash and short-term investments by US$ 535 million (by a factor of 2.2), which is the result of depositing available funds until they are used for the purposes of investment projects;
- an increase in short-term receivables by US$ 112 million (42%), resulting from the rise in prices for goods sold to foreign customers on credit; and
- an increase in inventories by US$ 91 million (43%) as a result of changes in prices for main types of fuel and raw materials.

In 2003, non-current assets increased by US$ 118 million (9%), as compared with 2002. Non-current assets changed during the year as follows:

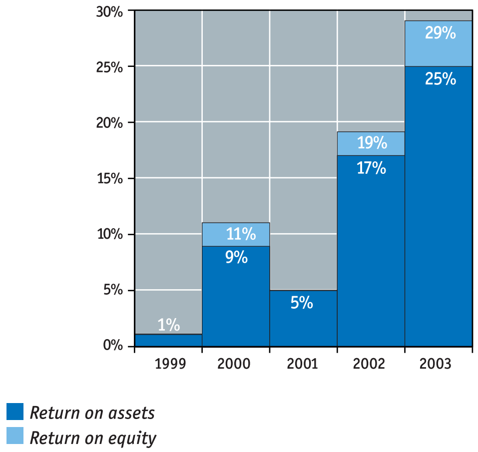
- property, plant and equipment increased by US$ 113 million (10%), which results from the commencement of the construction of new assets pursuant to the technical upgrading programme (less the depreciation effect);
- long-term investments declined by US$ 16 million, mainly resulting from the sale of shares of OAO UK Kuzbassugol and repayment of the long-term loan by ZAO LKB-Invest.

In 2003, NLMK's liabilities increased by US$ 264 million (35%). This is a consequence of the rise in current liabilities by US$ 112 million (64%), arising from the increase in customer advances

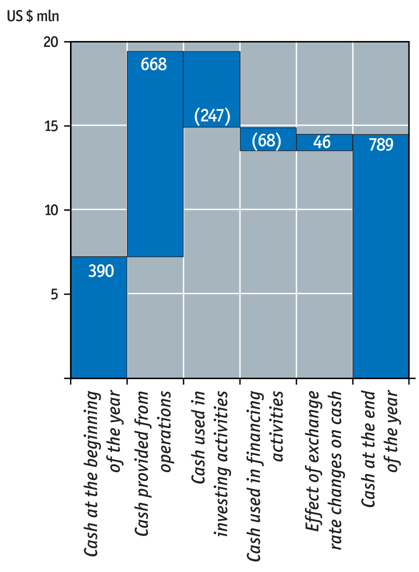
NLMK's liquidity in 1999-2003



NLMK's return on assets in 1999–2003



NLMK's cash flows in 2003



for domestic prepaid sales and the rise in payables to suppliers of raw materials. The increase in non-current liabilities in 2003 was caused by the increase in deferred tax liabilities.

Liquidity indicators have improved as a result of the liquid part of current assets outgrowing NLMK's liabilities. In 2003, the current ratio was 6.0 (+0.6 on the past year) and the quick ratio was equal to 4.9 (+0.7 on the past year). Such levels of liquidity demonstrate that NLMK has sufficient resources to settle promptly and completely its current liabilities.

In 2003, NLMK improved the efficiency of its assets: return on equity improved to 29% on 19% in 2002; and return on assets rose to 25% on 17% in 2002.

NLMK's strong ability to generate cash provided the necessary funds to finance operating and investing activities of the Company. The Company's main source of cash is its core business – the manufacture and sale of metal products. The Company manages its cash flows through rigorous planning of cash inflows and outflows. Net cash from operating activity was US$ 668 million (up 34% on 2002); net cash used in investing activity was US$ 247 million (up 15%); and net cash used in financing activity was US$ 68 million. As a result, there was a net increase in cash of US$ 353 million in the year.

Aggregated balance sheet in 2002 and 2003

(US$ mln)

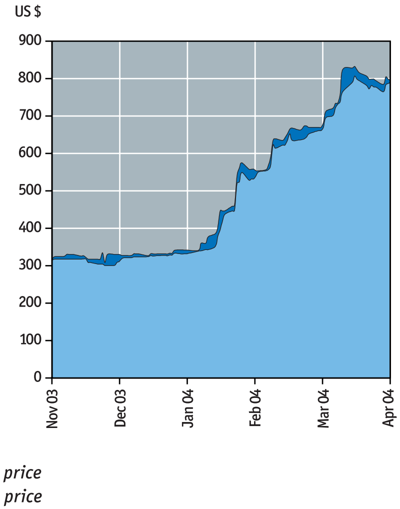
	2002		2003		Change	
Assets	**Amount**	**Percentage**	**Amount**	**Percentage**	**+ , -**	**%**
Current assets	944	43%	1,713	56%	769	83%
- Cash and short-term investments	435	20%	970	31%	535	123%
- Current accounts receivable	266	12%	378	12%	112	42%
- Inventories	211	10%	301	10%	91	43%
Non-current assets	1,255	57%	1,373	44%	118	8%
- Long-term investments	71	3%	55	2%	-16	-23%
- Property, plant and equipment	1,168	53%	1,281	42%	113	10%
Total assets	2,199	100%	3,085	100%	886	40%
Liabilities and shareholders' equity						
Current liabilities	174	8%	286	9%	112	64%
- Accounts payable	152	7%	254	8%	102	67%
Non-current liabilities	21	1%	173	6%	152	725%
Shareholders' equity	1,991	91%	2,610	85%	619	31%
Total liabilities and shareholders' equity	**2,199**	**100%**	**3,085**	**100%**	**886**	**40%**

Key financial ratios in 2002 and 2003

Financial stability	2002	2003	Change +, -
Financial independence (total liabilities to total assets)	0.91	0.85	-0,06
Equity as a percentage of working capital	82%	83%	1 p/p
Liquidity			
Current ratio	5.4	6.0	0.6
Quick ratio	4.2	4.9	0.7
Turnover			
Length of inventory turnover	65	64	-1
Length of receivables turnover	54	48	-6
Sales profitability			
Gross profit margin	36%	41%	5 p/p
Pre-tax income margin	27%	36%	9 p/p
Net income margin	20%	27%	7 p/p
Return on assets			
Return on equity	19%	29%	10 p/p
Return on assets	17%	25%	8 p/p

Value Management

NLMK shares in RTS Board



The most important strategic goal of NLMK is its shareholders' wealth maximization which is measured by market valuation of the Company and its ability to generate cash flows rather than by its production capacities, revenues or earned profit. Therefore, NLMK's management efforts are focused on building shareholder value and managing this process.

One of the key elements of the value management system is measurement of the Company's value drivers. This data is used to analyze strategic decisions and to control the value building process. Value management prevents management from taking decisions that may reduce the Company's value in the long term.

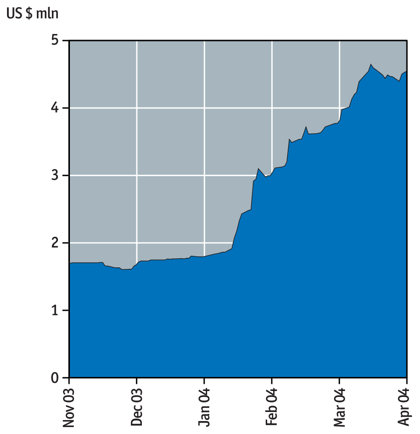
An apparent criterion of the Company's value growth is its increasing market capitalization. NLMK's shares do not trade in an organized stock market. However, since 5 November 2003, they have been included in the RTS Board system of indicative quotations. NLMK's capitalization calculated on the basis of these quotations has significantly increased since November 2003, which was due to a significant undervaluation of the Company's stock. Since February 2004, NLMK has had the highest capitalization amongst Russia's ferrous metal producers.

Share prices are subject to short-term fluctuations and, to a great extent, depend on external factors which are often of a speculative nature and do not reflect efficiency of the Company's operations. Given that NLMK's corporate strategy is aimed at the enhancement of its value in the long term, NLMK considers indicators which drive the creation of fundamental value.

Given its fast developing business and an uncertain environment, the Company's management uses Economic Value Added (EVA) in addition to the traditional accounting profit. EVA incorporates cost of capital and takes into account issues relating to investment risk.

EVA shows how efficiently funds invested in the Company are used as compared to alternative investments. EVA takes into account investors' view that returns should cover not only their current expenses (i.e. net cash flow should be generated) but also the cost of invested capital; this cost of invested capital reflects the cost of capital which is based on the situation in stock and financial markets.

NLMK Capitalization (RTS Board)



Note:

ROCE – return on capital employed in terms of net profit adjusted for interest income (expense).
WACC (Weighted Average Cost of Capital,) which in case of NLMK, is represented by the value of its share capital, was calculated taking into account the inherent ferrous metal industry risk and country risk

EVA is one of the key indicators which is used by management to assess the efficiency of the Company's operations. EVA serves as an indicator of the quality of corporate governance – a permanent positive value or positive movement in this indicator reflect the growing value of the Company, while a negative movement means a decrease in value.

EVA estimated on the basis of the 2003 results confirms efficiency of NLMK's operations and management's ability to enhance the Company's value. They are not looking for investors.

In summary, for NLMK, value management constitutes a primary efficiency enhancement tool as it allows the Company to focus on the strategic objectives and significantly improve the quality of management decisions.

(US$ million)

Indicator	2002	2003
Capital employed	1 596	1 819
ROCE	20,0%	35,8%
WACC	14,8%	14,8%
EVA	114	382

Risk Management

Operating risks

Operating risk represents a risk of direct or indirect losses to be incurred as a result of weak management processes, or errors or insufficient qualification of the Company's employees.

To minimize operating risks, NLMK has implemented clear segregation of powers and responsibilities, ensures economic justification of management decisions and personal responsibility at all levels of management.

Internal Company standards which regulate all basic business processes are approved and are effectively applied.

Environmental risks

Environmental risks are defined as the likelihood of the emergence of a civil liability for environmental damage that may occur in the process of the construction or operation of production facilities.

To ensure strict control over pollution, the Company monitors the chemical composition of air emissions and effluent discharges on an on-going basis. To reduce environmental damage, new environmentally friendly equipment is installed to replace decommissioned obsolete and environmentally hazardous machinery.

Property risks

Property risks are defined as a probability of loss or damage caused to a part of the Company's property.

To minimize the effects of property risks on operating activities, the Company provides an appropriate level of security to safeguard its property. The key facilities and utilities are subject to strict control by the Company's security service to prevent any damage of property or acts of sabotage.

The Company also insures its property and provides regular training sessions for its personnel to teach them what actions should be taken in case of production accidents. All production departments at NLMK are equipped with alarm systems and devices to prevent fire or any other emergencies.

Foreign exchange risks

Substantially all expenses of NLMK are denominated in Rubles. However, approximately 60% of the Company's revenues are derived from export sales, mostly in US dollars. With this structure of expenses and revenues, there is a risk that business profitability may decline if the Ruble gets significantly stronger against the US dollar.

To minimize foreign exchange risks, NLMK concludes export contracts in the same foreign currency that is used for payments due under its import contracts, which eliminates losses on currency conversion or substantial fluctuation of exchange rates in the FOREX market. The Company's deposits are placed in Roubles and US dollars, which minimizes risks in case one currency declines against another and to retain the Company's revenue position.

The Company also ensures a proportionate distribution of payments between long-term import contracts and uses letters of credit for import contract settlements with interest income being earned on the deposited coverage of these transactions.

Risks inherent to purchases and sales markets

To reduce financial losses caused by unexpected turmoil on one of the sales markets, the Company maintains broad geography of its metal sales.

To ensure a sustainable level of its sales, NLMK pursues a policy aimed at industrial and regional diversification. Metal product markets are continuously monitored, current development trends are studied and new sales markets are sought.

To minimize risks related to the purchases market, NLMK created a raw material reserve to rule out any potential loss resulting from any disruption of supplies.

Raw material supply contracts are concluded only with the traditional reliable partners of the Company and on average and technical characteristics of raw materials supplied are monitored on a regular basis.

When entering into contracts, the Company ensures legal basis of transactions, which allows to mitigate the counter-party's default risk.

Liquidity risk

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

In order to minimize this risk, the schedule of cash inflows and outflows 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 a high solvency and a correspondingly low liquidity risk.

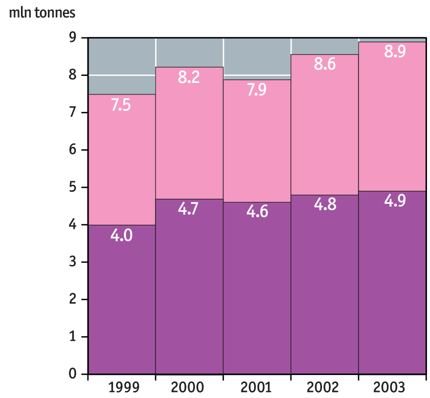
Over this year, the Company did not make use of loans or credit to finance its working capital or to settle its liabilities.

Diagram of Production Activity

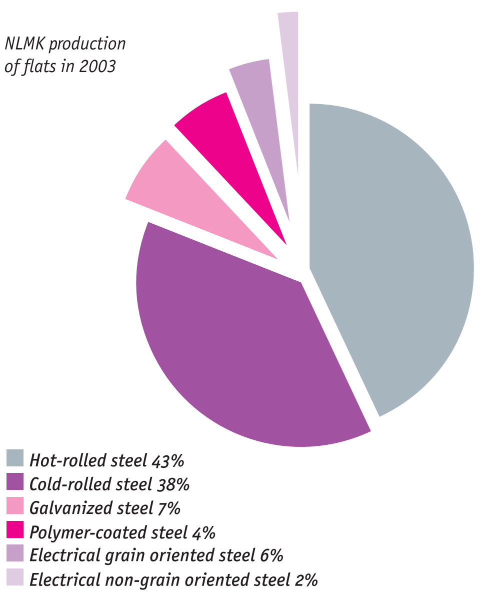
Diagram of main production lines	Marketable products
Production of flat products ■ Color coating line ■ Hot galvanizing lines ■ Cold-rolling mills ■ Hot-rolling mill	■ Corrugated sheet ■ Prepainted sheet ■ Galvanized sheet ■ CR GO steel ■ CR NGO steel ■ Cold-rolled steel ■ Hot-rolled steel
Steel-melting production	■ Slabs
Blast furnace production	■ Pig iron
Sintering production **Coke production**	■ Associated products

Manufacturing of Metal Products

NLMK production of steel and flats in 1999-2003



NLMK production of flats in 2003



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 grain non-oriented steel, strips, coke, pipes, and other products.

The planned production volume of metal products was met in 2003. Taking advantage of favorable world market trends, NLMK increased the output of metal products in 2003.

As a result, production growth was achieved for nearly all main metal products as compared to the last year. The only exception is coke production, where the output of coke declined due to the modernization of Coke furnace battery No. 1; the launch of this battery is planned for 2005.

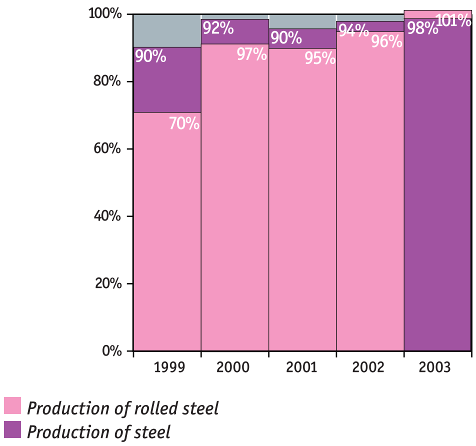
The increase in production volumes in 2003 was facilitated by the successful accomplishment of the Technical Upgrading Program, as well as a number of technical and organizational measures undertaken by the Company in 2003.

Due to the high demand of converter shops and increase in shipments of marketable pig iron, the furnace capacity was increased in the blast furnace division by intensifying blast-furnace processes.

At Basic oxygen furnace shop No. 1, full capacity utilization of new Concaster No. 4, designed by Voest-Alpine, began. In the same shop, Metal conditioning facility No. 6 was launched, which allows the optimization of the production processes in the converter shop and reduce equipment downtime. Thanks to the implementation of these projects, the volume of steel produced at Basic oxygen furnace shop No. 1 was increased from 3.3 million tonnes to 3.8 million tonnes a year.

The Company implemented all planned actions in order to ensure industrial production of electrical grain non-oriented steel at Basic oxygen furnace shop No. 1. This made it possible to accomplish the transfer of the manufacturing of electrical grain non-oriented steel from the electric furnace shop to Basic oxygen furnace shop No. 1, and eliminate the outdated electric furnace shop that had been operating as part of NLMK since 1959. Concurrently with the closure of the electric furnace shop, sheet rolling mill No. 1, which was launched in 1957 and employed in the manufacturing of electrical non-grain oriented steel, was closed.

Capacity utilization in 1999-2003



Despite the closure of the two shops, the Company has managed to increase the manufacture of both steel and rolled stock. The increase in the output of finished steel was achieved due to the increase in the output of both marketable slabs, where the Company has excess capacity, and sheet products.

The increase in the manufacturing of flat-rolled products was achieved as a result of improvements in mill capacity. For example, at the "2000" hot-rolling mill in Sheet rolling division No. 3, accelerated slab heating and low-temperature rolling techniques were implemented. At the "2030" cold-rolling mill in the Sheet rolling division, the Company took steps to increase the rolling speed.

There were favorable changes in the composition of flat-rolled production at NLMK as follows:

Production of cold-rolled steel increased by 60,000 tonnes (or up 3.3% on 2002);

Production of electrical grain oriented steel increased by 130,000 tonnes (or up 83.0%);

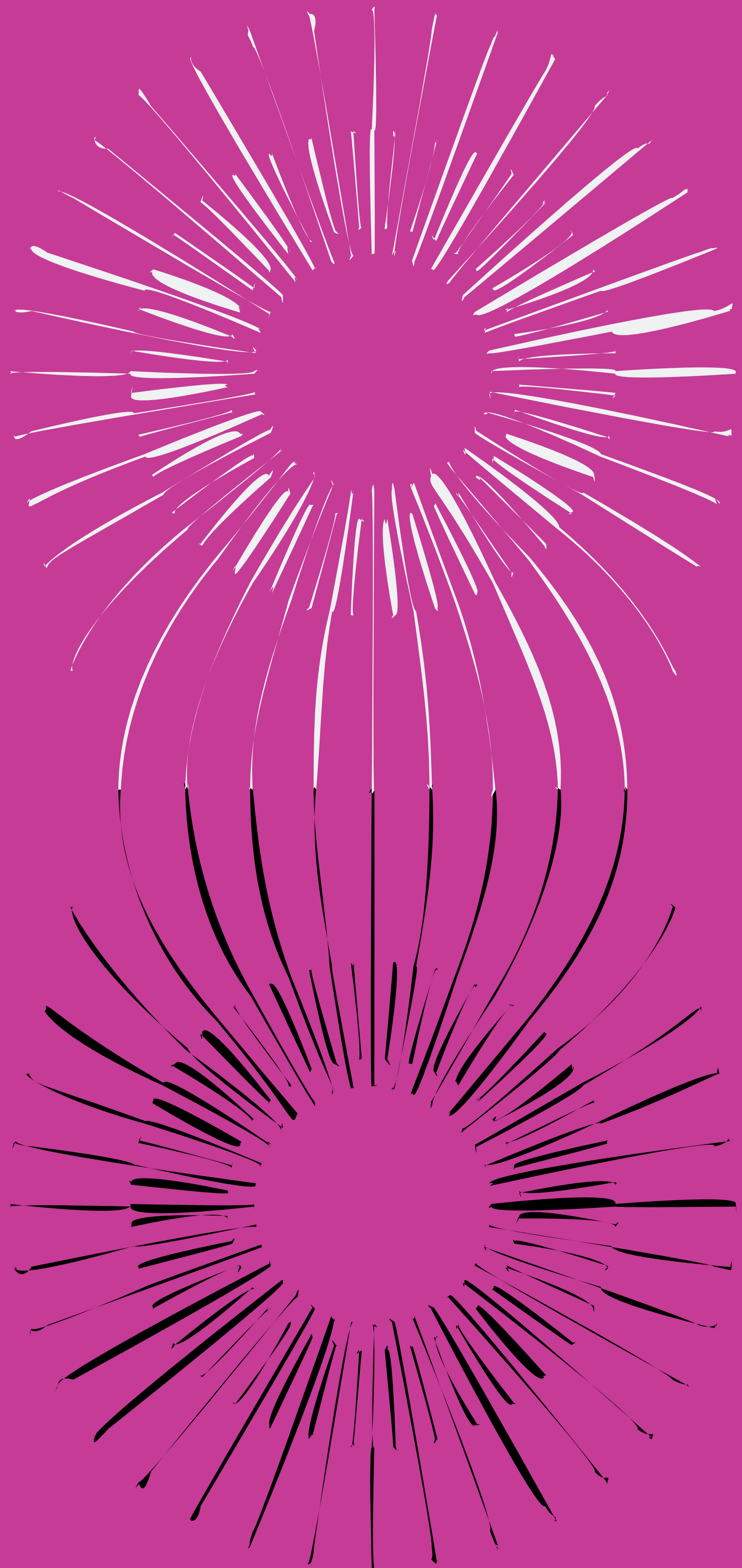
Production of electrical non-grain oriented steel increased by 11,000 tonnes (or up 10.7%);

Production of prepainted steel increased by 11,000 tonnes (or up 6.2%).

Output of main products in 2002-2003

(thousands of tonnes)

			Change	
	2002	2003	+ , –	%
Bin sinter	12,827	13,262	435	3.4%
Coke with 6% humidity	4,393	4,336	-56	-1.3%
Pig iron	8,047	8,623	576	7.2%
Steel	8,553	8,854	301	3.5%
Finished steel	8,006	8,223	217	2.7%
- flats	4,764	4,895	132	2.8%
- slabs	3,242	3,338	96	3.0%
Coated steel	550	543	-7	-1.3%
- galvanized steel	369	351	-19	-5.0%
- prepainted steel	181	192	11	6.2%
Electrical steel	255	395	140	55.0%
- electrical grain oriented steel	156	286	130	83.1%
- electrical non-grain oriented steel	99	109	11	10.7%



The increase in the output of these products was caused by the relative decline in the output of marketable rolled products at earlier process stages. For example, the output of hot-rolled products and galvanized steel declined by 2.8% and 5% respectively.

In order to ensure the stable quality of product surfaces and reduce the consumption of metal, the sheet rolling division installed and commissioned a facility that prepares and inspects cold-rolled strips. This facility includes a laser welding machine, an electrostatic field oiling machine and a special section where the condition of strip surfaces is inspected.

The technical condition of production facilities and professionalism of employees make it possible for the Company to ensure that its main production lines are utilized at maximum capacity. In order to take full advantage of favorable market conditions, separate repairs can be postponed till a later date. This makes it possible for the Company to be flexible in planning repairs and technical upgrading actions.

The utilization of NLMK's steel-making production capacity increased to 98.3%, whereas it surpassed 100% in relation to flat-rolled products.

The Company's production plan for 2004 provides for an increase in the output of marketable metal products by 3% to 5%. This growth will be achieved due to an increase in the output of marketable pig iron and slabs.

The Company's Products

Our 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 of 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 other national standards: ASTM, EN, DIN, JIS, BS, API, SAE. The share of products complying with standards of other countries exceeds 70%.

The technologies used allow NLMK to produce carbon steel with a low sulfur and silicon content. This type of steel contains a maximum 0.015% of sulfur and a maximum 0.03% of silicon. 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), ship hulls, building structures, and high-pressure vessels.

The Company produces hot-rolled steel with a width of up to 1850 mm and thickness ranging from 1.5 to 14 mm. 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 a 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 a 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 the bodies of automobiles, tractors, agricultural harvesters as well as metal structures, stamped goods, casings for household appliances, roofing and facing materials.

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 equivalents are DC05 and DC06 grades under EN10130. This grade of steel differs from conventional low carbon steel in that has a 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 elasticity 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 a 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/m2.

The launching of titanium micro-alloyed steel production of 01YuT grade has made it possible to offer Russian galvanized steel with a higher plasticity to consumers. European equivalents are galvanized steel grades DX53D and DX54D under EN10142; and St05Z and St06Z under the Volkswagen standard VW50111.

NLMK's color-coating line produces steel sheet with organic coatings on cold-rolled and cold-rolled hot dip galvanized substrate of various strength for the fabrication of building structures, casings for instruments, household appliances, roofing tiles and other goods. Due to its advanced technology, the Company is the largest producer of prepainted steel in Russia. The quality of rolled steel is guaranteed by using advanced technologies, available equipment and materials from leading manufacturing firms.

The technical capabilities of our equipment and the high quality of materials 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 an excellent construction material with high atmospheric corrosion resistance, decorative qualities, and a great combination of strength and elasticity.

NLMK has the most modern electrical steel production complex of any company in Russia and the CIS. The production of electrical grain oriented steel a guarantees a level of quality under Russian standards with a 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), 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 electrical equipment. NLMK is the only Russian producer of high-alloy grades of electrical grain oriented steel with low specific losses during the magnetic flux reversal.

NLMK is one of only a few enterprises in the world which specializes in the fabrication 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. This type of steel with a 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 produced in accordance with the Russian and international standards DIN46400.3, ASTM A 876M and others.

The Company has began shipping, on a trail basis, of another promising product – electrical non-grain oriented steel with a width of 0.23 mm under EN10107. The Company's 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.

NLMK's production is aimed at satisfying demands of various consumers 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 in 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 Management Systems

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 verifiers.

NLMK's high technological and organizational level of production and quality have been certified by respectable certification bodies, both Russian and foreign, as follows:

- TUV CERT (Germany);
- U.K. Lloyd's Register of Shipping (United Kingdom);
- Det Norske Veritas (Norway);
- Bureau Veritas (France);
- Germanischer Lloyd;
- American Bureau of Shipping;
- RINA (Italy);
- Russian Maritime Register of Shipping (Russia);
- VNIIS-Materialtest (Russia); and
- Federal Scientific-Technical Center for Certification in Construction (Russia).

NLMK's quality management complies with the requirements of international standard ISO 9002. The first certificate confirming the Company's compliance with ISO 9002:1994 was issued by TUV CERT (Germany) in 1999. In 2000-2002, the Company underwent successful supervisory audits of its Quality System.

After a re-certification audit in May 2003, TUV CERT confirmed the compliance of the Company's Quality System with ISO 9001:2000. Registration certificate No. 75 100 8975 was issued.

The certification 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 June 2002, the Company was one of the few companies in Russia to pass for the first time a certification audit by TUV CERT of the quality system employed in the manufacture of hot-rolled products from carbon steels for compliance with the Directive of the Council of Europe 97/23/EG. In August 2002, a certificate of compliance was issued to the Company. In August 2003, the Company successfully passed a supervisory audit of the quality system employed in the manufacture of hot-rolled metal products.

In 2002-2003, such renowned certification bodies as Det Norske Veritas (Norway), Germanischer Lloyd, Bureau Veritas (France) and American Bureau of Shipping and RINA (Italy) performed audits of NLMK's slab production.

Upon the completion of the audits, slab production was issued with Certificates of compliance with the shipbuilding requirements of the International Association of Classification Societies (IACS).

In August 2003, 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 after completing its re-certification audit.

The Company's Environmental Management System successfully complies with ISO 14001, which was confirmed by TUV CERT after a certification audit was completed in September 2002. In September 2003, the Company successfully passed its first supervisory audit of the Environmental Management System.

Technological Development

In 2003, NLMK continued to fine-tune and improve its technological processes, introduce new types of products and equipment, ensure the level of quality required by customers, reduce the output of poor quality products, increase production efficiency and lower material and energy costs.

All divisions of NLMK were involved in this work. In all, 320 separate assignments were performed according to work schedules and programs, which resulted in 205 changes to technological processes and methods in the Company's shops and production facilities.

Coke production:

- In order to determine an optimal composition of coal charge for coking, a SIAMS-620 lithologic plant was purchased and put in operation; and
- The Company designed a methodology for the production of coke with enhanced heat durability from coals with a lower capacity for coking.

Sinter plant:

- Technology of the operation of sintering machines No. 2 and No. 4, with larger sintering areas, has been developed contributing to increased productivity;
- The Company developed a technology for agglomerate sintering which uses converter small rock in the furnace charge in order to ensure its recycling and achieve savings of limestone and dolomite.

Blast furnace production:

- In accordance with a contract with Danieli Corns (The Netherlands), the Company performed a technical study of the implementation of the project for pulverized coal injection into the furnaces operated by NLMK; and
- At Blast Furnace No. 2., we performed trial melting during which we used sludge and coke-ore pellets in order to reduce the level of coke utilization and ensure the recycling of the residue with a content of iron and zinc.

Steel-making:

- We have developed a process for chemical heating of metal in steel-pouring ladles at Metal conditioning facility No. 4 at Basic oxygen furnace shop No.1, which allowed to reduce the level of defects arising due to the low temperature of metal;

- We have purchased and installed the Hidris system produced by Elektro-Nite (this equipment is used for detecting hydrogen in melted steel) and developed a process whereby the hydrogen content in metal can be determined when various grades of steel are produced;
- At Basic oxygen furnace No. 2, we have developed a process for steel making using a metering system of temperature and oxidation of melted metal, Multi-Lab-Cellox, in all production facilities of the shop. This system allows to maintain a preset content of aluminium in steel on the basis of actual oxidation of metal by controlled addition of alumunium rod to metal, avoiding excessive use of the rod;
- We have installed the equipment and developed a process of continuous casting at Concaster No. 7 at Basic oxygen furnace shop No. 2 adopting quick changing of nozzles. Refining the processes of quick changing of nozzles will allow to perform this operation without any significant reduction in the speed of steel teeming and avoid the accompanying defects of the continuously cast slab; and
- We have developed a processes of continuous casting by using tundishes fitted with 'turbo-stops'. Using the 'turbo-stops' improves the flow dynamics of the tundish and creates favorable conditions for the surfacing of non-metal additions with subsequent assimilation with their surface slag.

Rolled steel production:

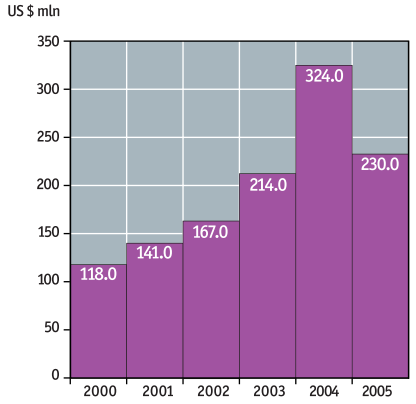
- We have assembled and began start-up work on a system of instrumental control of the quality of the surface of hot-rolled steel in the "2000" line of Sheet rolling mill No. 3;
- We have developed key elements of the production process at the stage "steel to rolled metal" using the technology of "hot charging" of slabs and low-temperature rolling, which allowed to increase the yield of reheating furnaces, and reduce the consumption of equivalent fuel and waste of metal;
- In order to increase the speed of rolling and reduce the output of products with defective surface we have performed production tests of the Quakerol 683 emulsol on the five-stand mill "2030" of the Sheet rolling division. This emulsol was approved for use and is currently used at this mill;
- In order to improve adhesion and resistance to bending of the polymeric protective coating at the back of rolled steel, we have tried using polyether and epoxy-polyether enamels for

the manufacture of the elastic protective coating at the back of rolled steel in accordance with the special requirements included in orders from domestic and foreign customers;

- In order to enhance the range of products, we have held trials of the production of hot-rolled pickled galvanized steel at Continuous hot-dip galvanizing line No. 1; positive results were achieved;
- We have worked on improving the end-to-end technique for the manufacture of non-grain oriented converter smelted steel with a thickness of 0.27 and 0.30 mm accompanied by optimization of the chemical composition of steel, parameters of hot rolling, gas conditions of the final high-temperature annealing; the technique allowed to produce steel grades 3409-3408 per GOST 21427.1 up to 60%;
- We have modernized the cold rolling reversing mill "1200" in Sheet rolling shop No. 2 using work rolls of 300 mm in diameter, which allowed to perform the cold-rolling of transformer steel with a thickness of up to 0.23-0.27 mm;
- We have launched the facility that applies electric insulating coating with gas heating in the heating chamber, and separation of the heating and soaking chamber, which allowed to produce finished transformer steel with a new Class C5 moisture-proof high-ohmic insulating coating (Carlite);
- The Company has switched over to an emulsion based on the Gerolub 5018 emulsol as the coolant to be used at the four-stand mill "1400" of Sheet rolling shop No. 5, which will reduce the average strength of rolling and increase the speed of rolling for the entire range of metal;
- We have developed a technology for the production of highly porous electrical grain oriented steel, both finished and semi-finished, which is micro-alloyed with phosphorus, allowing to manufacture steel meeting additional requirements in respect of enhanced magnetic flux density in accordance with international standards;
- In order to ensure a more even depth of the zinc coating across the width of the strip in the manufacture of hot-dip galvanized steel, we, at Continuous hot-dip galvanizing line No. 2, have started to use main nozzles of the "gas knives" that have variable cross-section gap; and
- At Continuous hot-dip galvanizing line No. 2, we have adopted a technology for the manufacture of hot-dip galvanized steel of all application groups under GOST 14918, and grades DX15D and DX52D under EN 10142.

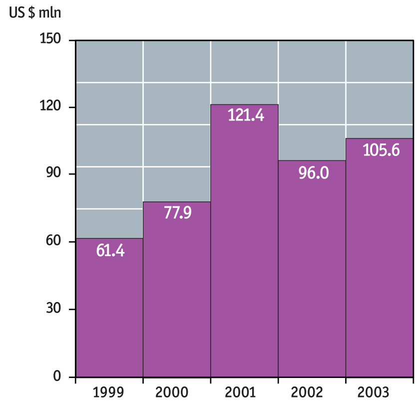
Technical Upgrading and Repairs

Financing of the NLMK Technical Upgrading Programme in 2000-2005



The program provides for major capital repairs. Information for 2005 includes financing of the construction projects which will be continued in 2006 (USD 95 million).

Expenditure on repairs of property, plant and equipment in 1999-2003



NLMK is continuing to implement its program of technical upgrading and development which calls for the reconstruction and capital repair of existing capacities and construction of new manufacturing facilities.

Implementation of the program is aimed primarily at attaining at the Company's strategic objectives.

The total cost of the first stage of the program, from 2000–2005, is estimated to be in the range of US$ 1.1 billion. These funds will be evenly distributed amongst the main production stages of the Company.

In 2003, US$ 214 million was spent on a technical upgrade program and development. The program is implemented in accordance with the original schedule, which confirms the efficiency of technical solutions. It should be noted that when choosing a technical solution from a variety of options the Company selects an option that ensures the best results at a minimum cost.

In 2003, the following large facilities were put in operation:

- A cold-rolled strip preparation and inspection facility at the sheet rolling shop with a productive capacity of 300,000 tonnes a year. Commissioning this facility allowed to prepare coils for shipment to consumers with on-going quality control over the strip surface and removal of defective areas;
- Boiler No. 13 at the heat power plant with a capacity of 220,000 tonnes of steam per hour, which allowed to increase the generation of the Company's own power at the heat power plant; and
- A plant for manufacturing components of residential buildings from gaseous concrete with a capacity of 165,000 cubic meters a year.

In 2003, the Company continued to prepare the facilities which are intended to be put in operation in 2004 and 2005, including:

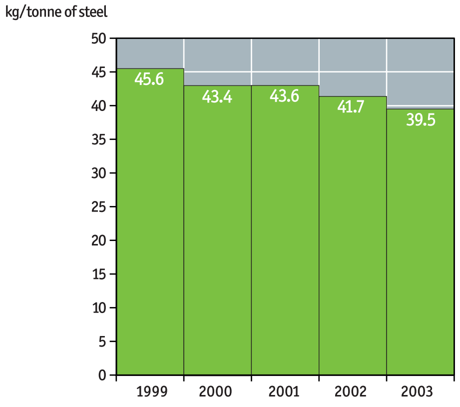
- Upgrade of Coke battery No. 1 (to be put in operation in 2005);
- Construction of hot-metal desulphurization unit at LD plant-2 (to be commissioned in 2004) and construction of a hot-metal desulphurization section at LD plant-1 (to be commissioned in 2005);
- Upgrade of the automatic process control systems at Continuous hot-dip galvanizing line No. 1 and at the "2030" cold-strip mill at the sheet rolling division (to be put in operation in 2004 and 2005, respectively);

- Upgrade of the equipment for pinch-rolling, strip stretching and flattening at continuous hot galvanizing facility No. 1 at the sheet rolling shop (to be commissioned in 2005);
- Construction of Polymeric coating department No. 2 with a capacity of 200,000 tonnes a year at the sheet rolling division (to be commissioned in 2004);
- Construction of a hot-dip galvanizing section with Continuous hot-dip galvanizing facility No. 3 with a capacity of 340,000 tonnes at the sheet rolling shop (to be commissioned in 2005); and
- Construction of Hydrogen station No. 3 for the production of hydrogen by natural gas reforming (to be put into operation in 2004).

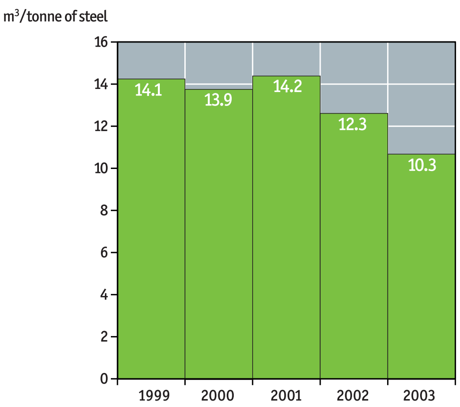
To maintain its fixed assets in operating condition, the Company performed current and capital repairs of manufacturing equipment in accordance with the schedule of repairs. In 2003, RR 3,237 million was spent for these purposes.

Environmental Protection

Trends in atmospheric emissions in 1999-2003



Trends in fresh-water usage 1999-2003



Environmental work at NLMK is carried out in accordance with the environmental legislation of the Russian Federation and the Company's Environmental Management System. One of the fundamental objectives of NLMK's environmental policy is compliance with the requirements of environmental regulations.

NLMK developed and agreed with the state control and oversight authorities the limits on environmental hazards caused by the plant: evidence of the Company's compliance with Russian regulatory requirements. The Company has all necessary licenses to use natural resources. In 2003, NLMK was assessed no penalties for environmental law violations.

The Company has the state environmental seal of approval with regard to all facilities of the plant which are under construction, renovation or liquidation.

In September 2003, the Company's environmental management system successfully passed a certification audit for compliance with ISO 14001. No irregularities were detected during the audit.

In spite of an increase in production output by 3.5% against the 2002 level, adverse environmental impact decreased in terms of key indicators. This was achieved by virtue of implementation of a series of environmental actions.

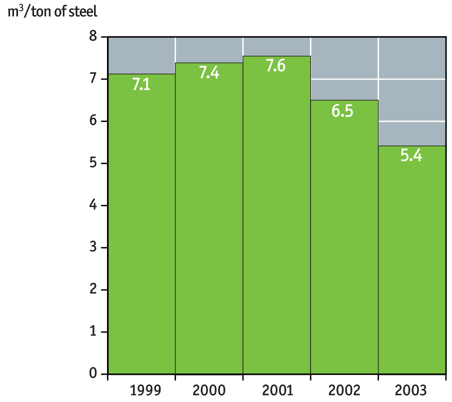
The major actions aimed at the protection of open air were:

- In 2003, a closed cycle of coke gas final cooling was put into operation at Coke batteries No. 5-8 that allowed to reduce emissions of phenol, benzol, sulphurated hydrogen, naphthalene, ammonia and cyanides by 600 tonnes a year;
- As a result of repair and adjustment of the waste treatment plant in the sinter shop, hazardous airborne discharges have decreased by 13.0 tonnes a year; and
- Afterburners of converters at LD plant were repaired, as a result of which carbon oxide emissions were reduced by 1,707 tonnes a year.

The major actions aimed at protection of water basin were:

- as a result of installation of water recycling system at sinter plant, one of four discharge outlets to the Voronezh River was closed that resulted in a reduction of waste discharges into the river by 113 thousand cubic meters (river-derived water consumed from the risk decreased by the same amount);

Discharges of fluid industrial waste in 1999-2003



■ some of the waste discharged after biochemical treatment at the coke production division was rerouted for further use in the dirty' return cycle of BF shop №1, which allowed to reduce industrial waste discharges by 1,395 thousand cubic meters.

NLMK processes and uses approximately 80% of waste produced as secondary raw materials or transfers parts of this waste to external organizations for further utilization. The remaining waste is deposited at special landfills. In 2003, the Company produced 1% less manufacturing waste than in the previous year. As compared to 2002, the volume of waste deposited at special sites also decreased.

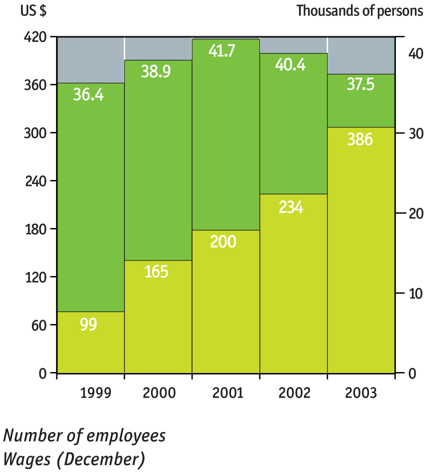
NLMK has been improving its environmental monitoring system for several years. The monitoring system will allow forecasting the environmental impact of production more accurately and will enhance the effectiveness of environmental measures taken by NLMK.

In 2003, the Company completed the first stage of the groundwater monitoring system construction at the industrial site of the plant. Observation wells constituted a basis for subsequent work on the creation of a geological environment monitoring system at the industrial site of NLMK. A network of 32 observation wells from 14 to 94 meters deep is located in the main production areas and waste storage areas that may have an adverse effect on ground water. The ground water monitoring system is intended to be completed in 2004.

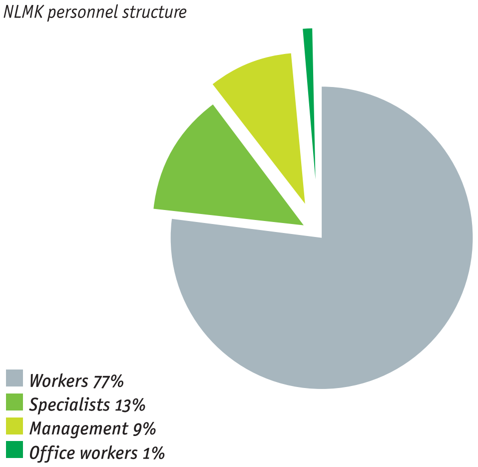
At the end of 2003, the Company set up two modern air observation stations in the residential areas of Lipetsk. Monitoring stations which take samples four times during 24 hours will allow to monitor changes in the content of carbon oxide, nitrogen, sulfur, phenol, ammonia, sulfurated hydrogen and formaldehyde.

Personnel Policy

Number and wages of NLMK production employees in 1999-2003



NLMK personnel structure



NLMK's management considers the Company's people to be one of the most important assets of the organization. Top management, managers of all levels, specialists and support staff are all members of a unified and complicated system of organizational interrelationship all contributing to the Company's success.

Professional staff is one of the key factors of creating the Company's value. In view of the fact that increasing shareholder value is NLMK's strategic objective, management pursues an active personnel policy.

NLMK's top priorities in staff management are as follows:

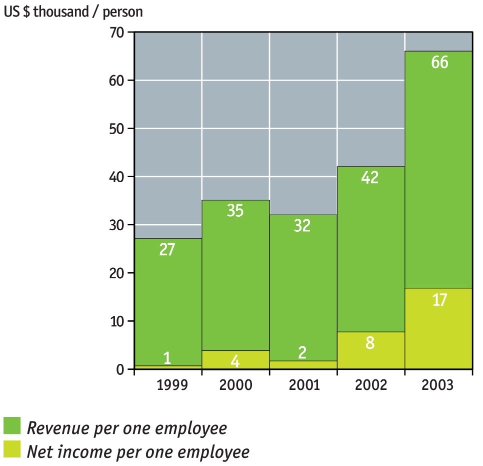
- Maintenance of an atmosphere of mutual respect and confidence between employees and the employer;
- Development of motivation schemes increasing labor productivity and allowing to use the intellectual potential of employees to its full extent;
- Ensuring a high level of industrial safety and appropriate working conditions;
- Optimization of the number of employees and staff reassignment to increase production efficiency; and
- Increasing the level of staff skills and professional team enhancement.

The major objective of NLMK's staff management system is to contribute to the achievement of the Company's goals via staff motivation. Realizing that motivated staff is one of the key factors of the Company's competitiveness, the Company's management puts a lot of emphasis on this matter.

The wage structure at NLMK is aimed at ensuring compensation in proportion to an employee's contribution to achieving the Company's goals, and at attracting and retaining best people. To achieve these goals, the wage structure is based on the concepts of justice, grading and flexibility.

The staff remuneration structure consists of several parts. The base unit is formed based on the rate-pay system and depends on the level of education, qualification and work experience of an employee. To increase the wage motivation effect, the base unit is complemented by a variable unit – bonuses for the achievement of qualitative and quantitative performance indicators. As a result, the wage level in the Company exceeds by more than twice the average wages in the region. The permanent growth of NLMK staff real income is evident.

Trend in revenue and net income per one employee of NLMK in 1999-2003



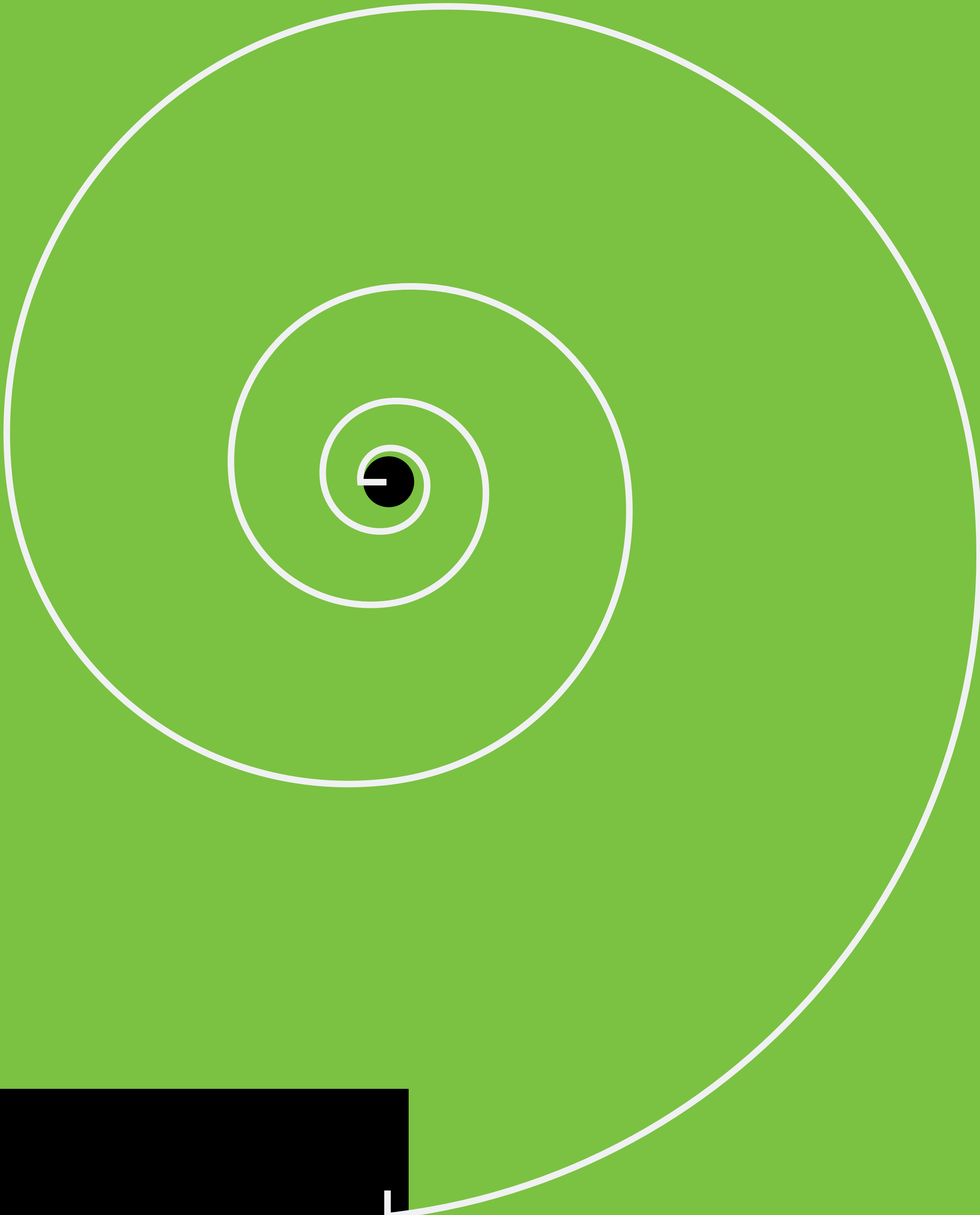
NLMK also practices unconventional incentive schemes: bonuses and valuable presents timed to special dates and holidays: New Year, International Women Day, Metallurgist's Day and NLMK's Anniversary.

NLMK's remuneration package in addition to the base wage and bonuses also includes mandatory and voluntary medical insurance of employees, dental care and a non-state pension fund scheme.

In 2003, about 18,000 employees participated in various training programs – they underwent retraining, got a second profession and had professional training in specialized courses. NLMK has its own training facilities and a qualified team of instructors, allowing it to maintain high standards of training. Training is conducted directly at the worksite, at the NLMK scientific-research institute, in the Labor and Personnel Division and at state educational institutions.

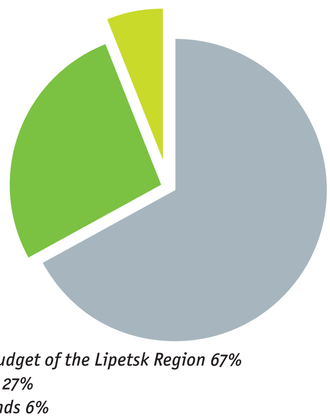
Lipetsk State Technical University annually trains engineers and specialists for NLMK based on special-purpose agreements. Scholarships by NLMK's Board Chairman were set up for the most talented students.

Ensuring a high level of industrial safety is one of the essential responsibilities of an industrial enterprise. Increased attention to industrial safety on behalf of NLMK labor safety have obtained positive results: over the past several years, the number of on-the-job accidents has sharply decreased. As a result, the level of on-the job injuries at NLMK is one of the lowest in the industry.



Social Responsibility

Structure of tax payments in 2003
(US $ 329 mln. of total taxes paid)



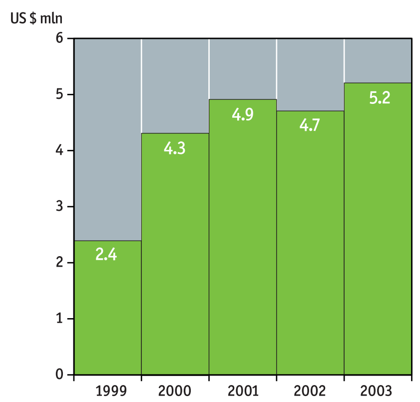
Being the largest entity in the region, for the past several years NLMK has operated with a positive financial result that significantly exceeds the operating results of all other entities in the region. NLMK's share in the consolidated financial result of all entities in the Lipetsk Region amounts to 84%. Thereby, NLMK's tax payments constitute a considerable part both in the tax income of the municipal budget, 60%; and in the consolidated budget of the Lipetsk Region, 52%.

The presence of a large taxpayer allows the region to be a stable region-donor and finance social programs independently. As to the standard of living and the level of social and economic development, the Lipetsk Region is one of the leaders in the Russian Federation.

The social focus of NLMK's operations is not limited by tax payments paid in full and on a timely basis to the budgets of all levels and non-budget funds in accordance with Russian legislation. Adhering to the principles of social responsibility, NLMK maintains at a high level the financing of social programs aimed at creating additional social guarantees for the Company's employees and local population.

The key trend of the Company's social programs is the maintenance and development of its non-production divisions rendering medical and health recreational services to the community. In 2003, NLMK's health care costs amounted to RR 297 million.

Expenditure on construction of housing for employees
in 1999-2003

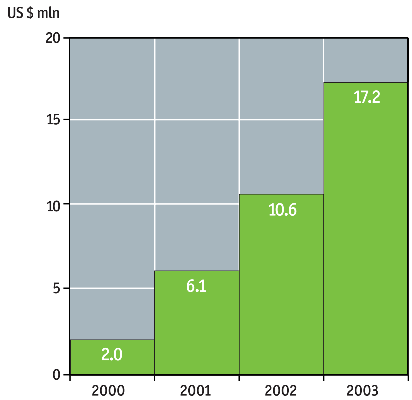


NLMK's medical complex is one of the largest and well-equipped in the region – it includes a clinical health establishment, two health resorts with 175 places each, and children's resort "Prometei". Novolipetsk health resorts are located in the forest area in the Lipetsk Region and can accept patients and those needing a rest all year round.

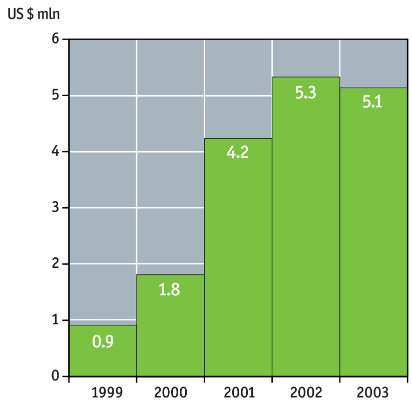
NLMK's medical complex is primarily intended for the high quality service provision to the town and region residents: the share of NLMK's employees and their children is about 30%.

An important trend of the Company's social policy is the construction of apartments for its employees. Approximately 20,000 square meters of apartments are built annually. NLMK's construction and repair complex partially solves the housing problem faced by the municipal administration.

Pension reserves of NPF "Sotsialnoye Razvitiye" in 2000-2003



"Miloserdiye" Fund: charitable spending in 1999-2003



The Company actively implements its own non-state pension fund program. The Sotsialnoye Razvitiye NPF (Social Development), where NLMK is one of the founders, takes the sixteenth place in Russia as to the number of participants and the twenty-second place by the size of pension reserves. The Fund signed non-state pension agreements not only with NLMK but with other organizations and enterprises, including ZAO "STINOL refrigerator plant".

NLMK's payment to the Sotsialnoye Razvitiye NPF in favor of its employees in 2003 amounted to RR 68.3 million. The pension contributions paid to the Fund are invested in accordance with the selected investment portfolio that guarantees the safety and growth of pension reserves with a minimum level of risk. The investment income received by the Fund and distributed among contributors amounted to 12.23% per annum in the reporting year. As of January 1, 2004, the Fund's pension reserves reached RR 528.4 million.

The Novolipetsk plant exercises permanent control over the Fund's operations ensuring absolute transparency of its financial operations and acts as a guarantor of the Fund's fulfillment of the assumed obligations.

The Miloserdie Charitable Social Welfare Fund has been in operation since 1999, and the Novolipetsk Iron and Steel plant is one of its founders. The Company participates in the fund's operations via its representatives on the Fund's Board. The received funds and donations are used to implement charitable programs covering all major social areas.

The Miloserdie Fund renders charitable assistance to educational institutions, religious societies of traditional concessions, sports and physical education societies. The Fund renders support to myriads of people annually.

Being the guarantor of social stability in the region, NLMK feels responsibility for the situation in the regional center. The reason for this is that thousands of metallurgists and their families live in Lipetsk, and they should live in a comfortable social environment. The creation of such an environment is one of the Company's objectives.

Principles of Corporate Governance

Economic feasibility

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

Protecting the rights of shareholders and investors

Corporate governance of the Company is carried out in accordance with the Law of the Russian Federation "On Joint Stock Companies", other regulatory acts governing operations of joint stock companies in the Russian Federation, the Charter and other NLMK's internal documents. The Company follows international practices of good corporate governance to ensure the rights of its shareholders and investors are protected.

Information transparency

The confidence in the Company depends on the transparency of its financial and business operations, and provision of reliable data by management on a regular basis. NLMK observes the disclosure standards established by Russian legislation and the requirements of (Federal Commission for Securities Market (FCSM). The Company endeavors to ensure timely and precise disclosure of data on all significant issues, including operating results, financial position, ownership and corporate governance. NLMK prepares US GAAP financial statements. The Company works with leading information agencies, and uses advanced telecom facilities for the efficient distribution of information on its operations.

Corporate Governance Bodies

The supreme management body of the Company is the General Meeting of Shareholders. The Board of Directors performs the general management of the Company. The General Director and Management Board are the executive bodies carrying out day-to-day operations.

General Meeting of Shareholders

The major issues relating to the competence of the General Meeting of Shareholders are:

- Introducing amendments and additions to the Company's Charter or approval of a new version of the Charter. Performing a reorganization or liquidation of the Company;
- Increasing the charter capital of the Company through an increase in the par value of shares or by issuing additional shares. Decreasing 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. Decreasing 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.
- Determining the number of the members of the Board of Directors. Electing the Board of Directors and the Audit Committee, the General Director, and terminating their authority early. Approving the External Auditor of the Company.
- Approving 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 convened not earlier than in two months and not later than in six months after the end of the financial year. For some extraordinary or important matters, a special General Meeting of Shareholders can be held.

The Board may decide to convene Extraordinary General Meetings of Shareholders. The Board may decide to do so for its own reasons; alternatively the Audit Committee, the Company's auditor and shareholders holding more than 10% of voting shares may require to convene an extraordinary meeting.

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

The voting procedure at the General Meetings of Shareholders is compliant with the principle "one share – one vote", except for the election of the Board's members that is conducted by cumulative voting.

Board of Directors

The Board of Directors of NLMK determines the strategic areas of the 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 Charter and the decisions of the General Meeting.

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 members of the Board of Directors select the Chairman of the Board of Directors by a majority of votes of all members of the Board. The Board of Directors has access to all information needed to effectively perform its duties.

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

- Determination of priority areas of the Company's activities;
- Convening 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;
- Participation of the Company in other organizations, creation of branches, and opening of representation offices of the Company;
- Approval of major transactions related to acquisitions and divestments; and
- 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 day-to-day operations.

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 the 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 its Chairman.

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 Charter 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 of January 1, 2004:

Vladimir S. Lisin
(Chairman of the Board of Directors)

Vladimir N. Skorokhodov
(Deputy Chairman of the Board of Directors)

Boris F. Abushakhmin

Nikolai A. Gagarin

Alexander Y. Zarapin

Alexei A. Lapshin

Igor A. Sagiryan

Vyacheslav P. Fyodorov

Igor P. Fyodorov

Management Board as of January 1, 2004

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 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

Audit Committee as of January 1, 2004

Valery S. Kulikov
Chairman of the Audit Committee

Natalia V. Kuracevich

Igor A. Matsak

Dmitri V. Melnov

Olga N. Savushkina

Management Structure

General Meeting of Shareholders

Board of Directors

General Director

Chairman of the Management Board

Management Board

Chief Engineer, First Deputy General Director	Deputy General Director for Strategic Research of Foreign Markets

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

Corporate Events

General Meeting of Shareholders

The Annual General Meeting of Shareholders of NLMK was held on 27 June 2003. The shareholders approved the annual report, balance sheet, P&L account, profit allocation, as well as the new edition of the Company's Charter. The shareholders also approved a new international name of the Company: NLMK.

In 2003, there was a change in NLMK's Charter capital: 1,999 preferred shares, type "B", acquired the status of ordinary shares in accordance with the Federal Law "On Privatization of State and Municipal Property".

According to the Company's 2002 results, the shareholders took a decision to pay a dividends of RR 312.5 per share. The total amount of dividends was RR 1,871 million.

The General Meeting of Shareholders re-elected NLMK's Board of Directors. As a result of the vote, the following members were elected to the Board of Directors: B.F. Abushakhmin, N.A.Gagarin, A.Y.Zarapin, A.A.Lapshin, V.S.Lisin, I.A. Sagiryan, V.N. Skorokhodov, V.P.Fedorov and I.P. Federov. Mr. I.V. Frantsenuik was appointed as the General Director of NLMK.

The shareholders appointed the auditing firm "FinExport" (Moscow) the Company's statutory auditor for 2003, and PricewaterhouseCoopers Audit US GAAP auditor.

Board of Directors

At the first meeting of NLMK's Board of Directors newly elected by the General Meeting of Shareholders on 27 June 2003, Mr. V. S. Lisin was unanimously elected the Board Chairman and Mr. V. N. Skorokhodov his Deputy.

There were 12 meetings of the Board of Directors in 2003, where the following issues were considered:

- Approval of OJSC NLMK's budget for 2003;
- Approval of NLMK's Board structure and its members individually;
- Approval of the quarterly report of the issuer of securities;
- Approval of changes in the "Program of NLMK's Technical Upgrading and Development", Stage I (2000-2005).

Mr. S. V. Chelyadin, Director for real estate and securities management, was approved as the Secretary of the Board of Directors.

Subsidiaries and Associates

Information on OAO NLMK subsidiaries and associates of at 31 December, 2003

Name	Legal address	NLMK equity holding, %	Main area of activity
Subsidiaries			
OOO Lipetsk Insurance Company "Chance"	398059, Lipetsk, Nedelina Str., 30	100.0%	Insurance
OOO "Steel"	152620, Yaroslavl Region, Uglich, Lenina Str., 1	100.0%	Supply, trade and procurement
OOO "Novolipetskoe"	398052, Lipetsk Region, Tyushevka village	100.0%	Production and processing of agricultural products
OOO "Karamyshevskoe"	399077, Lipetsk region, Karamyshevo village	100.0%	Production and processing of agricultural products
Subsidiary Rest house "Novolipetsky metallurg"	334886, Ukraine, Sudak, Chekhov lane, 25	100.0%	Social and cultural services
OOO "Larmet"	121165, Moscow, Studencheskaya Str., 44/28	99.98%	Wholesale trade in metal products
OOO "Vimet"	398005, Lipetsk, Mira prospect, 35A	99.97%	Wholesale deliveries of raw materials for metal production
OOO "Dolomit"	399854, Lipetsk Region, Dankov, Sverdlova Str., 1	74.84%	Mining
OAO "Studenovskaya Joint Stock Mining Company"	398008, Lipetsk, Gaidara Str., 4	54.67%	Mining
OAO "Lipetskcombank"	398600, Lipetsk, Internatsionalnaya Str., 8	50.07%	Banking
Associates			
OAO "Lipetsky Gipromez"		43.4%	Project and exploration works
ZAO "Stalconverst"		36.8%	Fish farming, fishing, processing of seafood
OAO "Avron"		26.7%	Development of automobile assembly and repair production

In 2003, 17.71% of shares of OAO "Coal Company "Kuzbassugol" was sold. OJSC NLMK has no equity holding in the Charter capital of OAO "Coal Company "Kuzbassugol" after the sale of shares.

Major Shareholders

By virtue of the fact that NLMK's 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 12 of May 2003. The nominee shareholder of 95.59% of OJSC NLMK's shares is the closed joint-stock company Stinol-Invest.

Information on the Company's shareholders is provided as of 12 May 2003:

Name	Equity holding in NLMK, %
Silener Management Limited	18.98%
Veft Enterprises Limited	12.31%
Castella Investments Limited	10.05%
Limtan Investments Limited	10.00%
Ultimex Trading Limited	8.29%
Radley Enterprises Limited	8.23%
Omnilax Holdings Limited	7.59%
Aheron Investments Limited	7.59%
ZAO "LBK-Invest"	7.52%
Prosun Co. Limited	5.03%

Information is provided in respect of the shareholders whose equity holding in OJSC NLMK of more than 5%.

Proposal on Dividend Payments in 2004

NLMK's Board of Directors recommended to the General Meeting of Shareholders to pay dividends for 2003 in the amount of RR 3,622,905,867.

Number of OJSC NLMK's issued shares	5,993,227,240
Dividends per 1 ordinary share with a par value of RR 1	0.6045
Total amount of dividends for 2003, RR	3,622,905,867

The Board of Directors recommended that the profit retained after the allocation of dividends should be used for technical upgrading and implementation of investment programs in 2004.

Open Joint Stock Company
Novolipetsk Iron and Steel Corporation

US GAAP Consolidated Financial Statements as at and for the Years Ended December 31, 2003 and 2002

(With Management's Opinion and Report of Independent Auditors Thereon)

The OJSC 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 open joint stock company Novolipetsk Iron and Steel Corporation (further – OJSC NLMK) prepared in accordance with the accounting principles generally accepted in the United States of America.

The OJSC NLMK management confirms its responsibility for the preparation of the consolidated financial statements of the Group for the year 2003 and 2002 consisting of balance sheets, statements of income, statements of cash flows, statements of shareholder's equity and comprehensive income and notes to consolidated financial statements.

The OJSC 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 PricewaterhouseCoopers. 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 OJSC NLMK management, confirming fair presentation of the financial position, results of operations and cash flows of the Parent company and its subsidiaries and affiliated companies in the consolidated financial statements and its conformity with the accounting principles generally accepted in the United States of America.

General Director
Frantsenjuk I.V.

Chief Accountant
Sokolov A.A.

Report of Independent Auditors

PRICEWATERHOUSECOOPERS

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

We have audited the accompanying consolidated balance sheet of open joint stock company Novolipetsk Iron and Steel Corporation and its subsidiaries (the "Group") as of December 31, 2003, and the related consolidated statements of income, cash flows and stockholders' equity and comprehensive income for the year then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of the Group as of December 31, 2002 and for the year then ended were audited by other independent auditors whose report dated June 9, 2003 expressed an unqualified opinion on those financial statements.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

As discussed in Note 9 to the consolidated financial statements, the cost of certain property, plant and equipment was determined with the assistance of an independent appraiser, who provided US dollar estimates of historical cost and depreciated historical cost of the Group's property, plant and equipment.

In our opinion, except for the effects of using the valuation to determine the historical cost and depreciated historical cost for certain property, plant and equipment as discussed in the preceding paragraph, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2003 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers

Moscow, Russian Federation
May 1, 2004

Consolidated balance sheets as at December 31, 2003 and 2002

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

	Note	As at December 31, 2003	As at December 31, 2002
ASSETS			
Current assets			
Cash and cash equivalents	4	789,492	390,472
Short-term investments	5	180,797	44,487
Accounts receivable, net	6	377,746	266,199
Inventories, net	7	301,303	210,628
Other current assets, net	8	63,336	32,242
		1,712,674	944,028
Non-current assets			
Long-term investments	5	54,925	71,164
Property, plant and equipment, net	9	1,280,832	1,167,714
Other non-current assets		36,834	16,080
		1,372,591	1,254,958
Total assets		3,085,265	2,198,986
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings		2,803	3,346
Accounts payable and other liabilities	10	253,739	151,759
Current income tax liability		23,032	17,106
Short-term capital lease liability	18	6,114	1,727
		285,688	173,938
Non-current liabilities			
Long-term borrowings		1,738	2,988
Long-term capital lease liability	18	11,563	2,468
Deferred income tax liability	14	159,716	15,523
		173,017	**20,979**
Total liabilities		458,705	194,917
Commitments and contingencies	21	-	-
Minority interest		16,652	12,891
Stockholders' equity			
Common stock, 1 RUB par value – 5,987,240 shares issued and outstanding at December 31, 2003 and 2002		14,440	14,440
Additional paid-in capital		680	680
Other comprehensive income		27,672	3,723
Retained earnings		2,567,116	1,972,335
		2,609,908	**1,991,178**
Total liabilities and stockholders' equity		3,085,265	2,198,986

The consolidated financial statements as set out on pages 78 to 106 were approved on May 1, 2004.

General Director
Frantsenjuk I.V.

Chief Accountant
Sokolov A.A.

Consolidated statements of income for the years ended December 31, 2003 and 2002

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

	Note	For the year ended December 31, 2003	For the year ended December 31, 2002
Sales revenue		2,468,022	1,711,657
Cost of sales	12	(1,451,139)	(1,096,385)
Gross profit		1,016,883	615,272
Selling, general and administrative expenses	13	(125,708)	(103,359)
Operating income		891,175	511,913
Loss on disposals of property, plant and equipment and impairment		(7,949)	(8,895)
Gain / (loss) on investments		12,136	(2,675)
Net interest income		26,289	10,832
Gain / (loss) on long-term loan given	5(e)	20,984	(20,544)
Foreign currency exchange loss, net		(42,999)	(18,247)
Other expense		(17,902)	(5,510)
Operating income before income tax and minority interest		881,734	466,874
Income tax	14	(223,035)	(129,699)
Operating income before minority interest		658,699	337,175
Minority interest		(2,243)	1,243
Net income		656,456	338,418
Income from continuing operations per share (US dollars) basic and diluted		109.64	56.54
Net income per share (US dollars) basic and diluted	15	109.64	56.54

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

Consolidated statements of cash flows for the years ended December 31, 2003 and 2002

(thousands of US dollars)

	Note	For the year ended December 31, 2003	For the year ended December 31, 2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income		656,456	338,418
Adjustments to reconcile net income to net cash provided by operating activities:			
Minority interest		2,243	(1,243)
Depreciation		157,809	146,327
Loss on disposals of property, plant and equipment and impairment		7,949	8,895
(Gain) / loss on investments		(12,136)	2,675
Deferred income tax benefit		(13,498)	(4,257)
(Gain) / loss on long-term loan given	5(e)	(20,984)	20,544
Other movements		1,642	(1,428)
Changes in operating assets and liabilities			
Increase in accounts receivables		(86,853)	(25,098)
Increase in inventories		(71,038)	(5,646)
Increase in other current and non-current assets		(44,029)	(32,137)
Increase in accounts payable and other liabilities		86,360	43,524
Increase in current income tax payable		4,390	6,840
Net cash provided by operating activities		668,311	497,414
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		15,677	846
Purchase and construction of property, plant and equipment		(187,532)	(153,632)
Loans given	5(e)	-	(85,000)
Proceeds from loans given	5(e)	71,415	13,987
Proceeds from sale of investments		55,754	15,121
Purchase of long-term investments		(37,419)	-
Purchase of short-term investments		(165,171)	(7,106)
Net cash used in investing activities		(247,276)	(215,784)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		470	3,576
Repayment of borrowings		(930)	(87,925)
Proceeds from issuance of additional stock by subsidiaries to minority stockholders		388	3,727
Payments under capital lease		(6,648)	(565)
Dividends to the stockholders	11(b)	(61,675)	-
Net cash used in financing activities		(68,395)	(81,187)
Net increase in cash and cash equivalents		352,640	200,443
Effect of exchange rate changes on cash		46,380	-
Cash and cash equivalents at beginning of the year	4	390,472	190,029
Cash and cash equivalents at end of the year	4	789,492	390,472
Supplemental disclosures of cash flow information:			
Income taxes paid		232,142	126,482
Interest paid		3,934	2,475

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

Consolidated statements of stockholders' equity and comprehensive income for the years ended December 31, 2003 and 2002

(thousands of US dollars)

	Note	Common stock	Preferred stock	Additional paid-in capital	Other comprehensive income	Retained earnings	Total stockholders' equity
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 a change in valuation of investments		-	-	-	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
Deferred income tax liability effect	2(b)	-	-	-	(145,133)	-	(145,133)
Net income		-	-	-	-	656,456	656,456
Net unrealized loss on a change in valuation of investments		-	-	-	(2,390)	-	(2,390)
Cumulative translation adjustment	2(b)	-	-	-	171,472	-	171,472
Dividends to the stockholders	11(b)	-	-	-	-	(61,675)	(61,675)
Balance at December 31, 2003		14,440	-	680	27,672	2,567,116	2,609,908

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

1. BACKGROUND

Open joint stock company Novolipetsk Iron and Steel Corporation (the "Parent Company") and its subsidiaries (together – the "Group") is one of largest iron and steel holdings in the Russian Federation with facilities that allow the Group to operate an integrated steel production cycle. The Parent 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 in the form of an open joint stock company on January 28, 1993. On August 12, 1998 the Parent 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 Group'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 Lipetsk regional authorities.

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

- The commercial bank OJSC Lipetskcombank. The bank possesses a general banking license of the Central Bank of the Russian Federation, a license for foreign currency operations and a license for brokerage activity. The bank provides banking services to commercial and retail customers.
- Trading companies LLC Stahl, LLC Vimet and LLC Larmet. The principal activity of these companies is the purchase of raw materials for the Group's metallurgical production and the sale of metal products.
- Mining companies OJSC Combinat KMAruda, OJSC StAGDoK and OJSC Dolomite. The principal activity of these companies is mining, processing and the sale of iron-ore raw concentrate, fluxing limestone and metallurgical dolomite respectively.
- The insurance company LLC LIS Chance. The principal business activities of the company is corporate property insurance, voluntary medical insurance, vehicle insurance and public liability insurance.

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 Parent Company prepares its statutory financial statements and reports in that currency to its stockholders in accordance with the laws of the Russian Federation.

(b) Functional and reporting currency (continued)

The Group's functional currency is considered to be Russian ruble. The accompanying consolidated financial statements have been prepared using the US dollar as the Group's reporting currency. The translation into US dollars has been performed in accordance with the provisions of SFAS No. 52, *Foreign currency translation*.

Prior to January 1, 2003, the Russian economy was considered hyperinflationary. In accordance with SFAS No. 52 requirements applicable to hyperinflationary market economics, monetary assets and liabilities originally denominated in US dollars were stated at their original US dollars amounts. Monetary assets and liabilities denominated in other currencies were translated into US dollars using the exchange rate ruling at the balance sheet date. Non-monetary assets and liabilities, which were denominated in currencies other than US dollars, were translated into US dollars at the exchange rates in effect as at the date of the transaction. Income and expenses, which were earned or incurred in currencies other than US dollars, were translated into US dollars using a basis that approximates the rate of exchange ruling at the date of the transaction. Gains and losses arising from the translation of assets and liabilities into US dollars were reflected in the consolidated statement of income as foreign currency exchange gains and losses.

The Russian economy ceased to be considered hyperinflationary as of January 1, 2003. At January 1, 2003, the monetary and non-monetary assets and liabilities of the Group as well as the related equity balance were translated into Russian rubles at the current exchange rate prevailing at January 1, 2003. This translation established a new functional currency basis for the Group. For periods subsequent to January 1, 2003, the functional currency consolidated financial statements (Russian rubles) are translated into the reporting currency (US dollars) utilizing period-end exchange rates for assets and liabilities, period average exchange rates for consolidated income statement accounts and historic rates for equity accounts in accordance with the relevant provisions of SFAS No. 52. As a result of these translation procedures, a cumulative translation adjustment of $171,472 which accounts for such translation gains and losses was recorded directly in stockholders' equity. The deferred income tax effect of $145,133 of the change in functional currency was also recorded directly in stockholders' equity.
No cumulative translation adjustment was made for the period during which the Russian economy was considered hyperinflationary.

The Central Bank of the Russian Federation closing rates of exchange ruling at December 31, 2003 and 2002 were 1 US dollar to 29.4545 Russian rubles and 1 US dollar to 31.7844 Russian rubles, respectively. The annual weighted average exchange rates were 30.6877 and 31.3474 Russian rubles to 1 US dollar for the years ended December 31, 2003 and 2002, respectively.

(c) Consolidation principles

Consolidated financial statements include all majority-owned and controlled subsidiaries of the Group.
All significant intercompany accounts and transactions have been eliminated.

The following significant accounting policies have been applied in the preparation of the consolidated financial statements. These accounting policies have been consistently applied by the Group year-on-year.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Use of estimates

The preparation of financial statements in accordance with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the periods reported. Estimates are used when accounting for certain items such as allowances for doubtful accounts; employee compensation programs; depreciation and amortization lives; property, plant, and equipment valuation allowances; asset retirement obligations; legal and tax contingencies; inventory values; valuations of investments and determining when investment impairments are other than temporary; intangible assets, including fair value determinations; and deferred tax assets, including tax valuation allowances. Estimates are based on historical experience, where applicable, and other assumptions that management believes are reasonable under the circumstances. Actual results may differ from those estimates under different assumptions or conditions. Additionally, estimates are used when recording the fair values of assets and liabilities assumed in a purchase business combination.

(b) Cash and cash equivalents

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

(c) Accounts receivable

Receivables are stated at cost less an allowance for doubtful debts. Management quantifies this allowance 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) Value added tax

Value added taxes related to sales and services rendered are payable to tax authorities upon collection of receivables from customers. Input VAT is reclaimable against sales VAT upon payment for purchases. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales / purchases and services rendered / used which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as a current asset and liability. Where allowance has been made for doubtful debts, loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

(e) Inventories

Inventories are stated at the lower of acquisition cost inclusive of completion expenses or market value. Inventories are released to production or written off otherwise at average cost. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads.

Provision for obsolescence is calculated on the basis of slow-moving and obsolete inventories analysis. Such items are provided for in full.

(f) 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 using 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.

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.

Held-to-maturity securities
Held-to-maturity securities are those securities 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 and recorded in 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.

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 in the stockholders' equity 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.

(g) Investments in associates and non-marketable securities

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

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 provisions for any permanent diminution in value. Provisions are calculated for the investments in companies which are experiencing significant financial difficulties for which recovery is not expected within a reasonable period in the future or under bankruptcy proceedings.

(h) Property, plant and equipment

Owned assets
Items of property, plant and equipment are stated at acquisition cost less accumulated depreciation and impairment losses (Note 3(j)). 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 plant and 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.

Leased assets
Leases that meet the definition of capital leases under the requirements of SFAS No. 13, *Accounting for Leases*, are classified accordingly. Plant and equipment acquired by way of capitallease are stated at 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 (Note 3(j)).

Payments for operating leases are expensed as incurred.

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 as expenses in the consolidated statement of income as incurred.

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 depreciated over the asset's useful life.

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 subsequent capitalized expenses are depreciated on a straight-line basis over the estimated useful life of the individual assets. Depreciation commences from the time an asset is put into operation. Depreciation is not charged on assets to be disposed of or land. The range of estimated useful lives is as follows:

Buildings and land and buildings improvements	20 – 45 years
Machinery and equipment	2 – 40 years
Vehicles	5 – 25 years

(i) Goodwill and intangible assets

Goodwill represents the excess of purchase price over the fair value of net assets acquired. The Group adopted 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 subject to impairment test 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.

The Group does not have goodwill balances in its consolidated balance sheets as at December 31, 2003 and 2002.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) 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 selling costs.

(k) 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 Parent Company also sponsors other post retirement benefits for its employees which are not provided for in law. 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 subsequently. As such, all abovementioned benefits are considered as made under a defined contribution plan and are charged to expense as incurred. Accordingly, the Group has no long-term commitments to provide funding, guarantees, or other support to the Fund.

In addition, lump sum benefits are paid to employees 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 Group's management and accrued in the consolidated financial statements. The scheme is considered as a defined benefit plan.

(l) Asset retirement obligations

In July 2001, the FASB issued SFAS No. 143, *Accounting for Asset Retirement Obligations*. This statement provides accounting and reporting standards for costs associated with the retirement of long-lived assets. This statement requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred. When the liability is initially recorded, the entity capitalizes a cost by increasing the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the estimated useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement.

The Group's land, buildings and equipment are subject to the provisions of this statement. Based on the current requirements under the laws of the Russian Federation and various contractual agreements associated with these assets, the Group has no commitments related to the retirement of its long-lived assets.

(m) 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 received and the carrying amount is recognized immediately in the consolidated statement of income.

(n) Commitments and contingencies

Contingent liabilities, including environmental remediation costs, arising from claims, assessments, litigation, fines, penalties and other sources are recorded when it is probable that a liability can be assessed 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 expenses associated with environmental remediation obligations when such expenses 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.

(o) 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 be applied 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 when a different tax rate is enacted.

Pursuant to the provisions of SFAS No. 109, *Accounting For Income Taxes*, the Group provides valuation allowances for deferred tax assets for which it does not consider realization of such assets to be more likely than not.

(p) Stockholders' equity

Treasury stock
When shares are repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a change in the stockholders' equity in the consolidated balance sheet. Repurchased shares are presented as a deduction from the stockholders' equity.

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

(q) Revenue recognition

Goods sold
Revenue from the sale of goods is recognized in the consolidated statement of income when there is a firm arrangement, the price is fixed and determinable, delivery has occurred, and collectibility is reasonably assured.

Interest income
Interest income is recognized in the consolidated statement of income as it is earned.

(r) Expenses

Operating lease payments
Operating leases are recognized as an expense in the consolidated statement of income as incurred.

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 capitalized (Note 3(h)).

(s) Non-cash transactions

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

The related sales and purchases are recorded in the same manner as cash transactions. The fair market value for such transactions is based on the value of similar transactions in which monetary consideration is exchanged with a third party.

Purchases of property, plant and equipment under capital lease arrangements are also recognized as non-cash transactions.

(t) Related party transactions

The following are considered to be related parties:
- Associates of the Group;
- The Group's major stockholders and their immediate relatives;
- Enterprises and trusts created for the benefit of the employees, including pension funds, charity organizations, profit sharing trusts and investment funds that are managed by or under the trusteeship of the Group's management;
- Directors and officers of the Group and their immediate relatives;
- Enterprises in which principal stockholders, officers and directors and their immediate relatives 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 nature and substance of the relationship and not merely to the legal form.

(u) Recent accounting pronouncements

On December 31, 2002, the Financial Accounting Standards Board issued SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*. This Statement amends SFAS No. 123, *Accounting for Stock-Based Compensation – Transition and Disclosure Compensation*, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Group does not use stock-based compensations and believes that the adoption of the standard has no material impact on its consolidated financial statements.

In January 2003, the Financial Accounting Standards Board issued Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities*. In December 2003, the Financial Accounting Standards Board revised FIN 46 (FIN 46R). FIN 46R addresses consolidation and disclosure by business enterprises of variable interest entities. Application of FIN 46R is required in financial statements of nonpublic entities that have interests in the entities that are subject to this interpretation

(u) Recent accounting pronouncements (continued)

and those are created after December 31, 2003. Nonpublic entities should apply FIN 46R to all entities that are subject to this interpretation by the beginning of the first annual period beginning after December 15, 2004. The Group does not expect the adoption of FIN 46R to have a material impact on its consolidated financial statements.

In April 2003, the Financial Accounting Standards Board issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. The Group does not use derivatives and believes that the adoption of the standard has no material impact on its consolidated financial statements.

In May 2003, the Financial Accounting Standards Board issued SFAS No. 150, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*. This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. The Group believes that the adoption of the standard has no material impact on its consolidated financial statements.

In December 2003, the Financial Accounting Standards Board issued a revision to SFAS No. 132, *Employers' Disclosures about Pension and Other Postretirement Benefits*. The revised SFAS No. 132 included additional disclosures for employers concerning pension plans and other postretirement benefit plans, however, it did not change the measurement or recognition of those plans required by SFAS No. 87, E*mployers' Accounting for Pensions*, No. 88, *Employers' Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits*, and No. 106, *Employers' Accounting for Postretirement Benefits Other Than Pensions*. The revised SFAS No. 132 retains the disclosure requirements under the original SFAS No. 132, however, it also requires expanded disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. The required information should be provided separately for pension plans and for other postretirement benefit plans. The Group believes that the adoption of the standard has no significant impact on the disclosures in the Group's consolidated financial statements.

(v) Reclassifications

Certain amounts in previously issued consolidated financial statements have been reclassified to conform to the current period presentation.

4. CASH AND CASH EQUIVALENTS

	As at December 31, 2003	As at December 31, 2002
Cash – Russian rubles	26,927	38,056
Cash – foreign currency	164,659	841
Deposits – Russian rubles	98,457	13,552
Deposits – US dollars	435,601	128,500
Deposits – Euro	3,000	-
Cash in trust – foreign currency	-	197,900
Other cash equivalents	52,744	4,108
Restrictive cash	8,104	7,515
	789,492	390,472

Restricted cash as at December 31, 2003 and 2002 includes the amounts of obligatory reserve, placed with the Central Bank of the Russian Federation by the subsidiary bank in accordance with statutory requirements applicable to credit institutions of $8,104 and $7,515, respectively.

Other cash equivalents as at December 31, 2003 and 2002 include letters of credit amounting to $51,747 and $3,352, respectively.

Cash in trust as at December 31, 2002 represents surplus cash transferred by the Group into a cash management account with a Russian bank with international share in equity in 2002. This cash was available at the Group's call.

December 31, 2003 and 2002 (Thousands of US Dollars)

5. INVESTMENTS

(a) Trading securities

	As at December 31, 2003	As at December 31, 2002
Shares of Russian listed companies	158,280	-
Corporate bonds	3,378	-
Eurobonds	9,630	-
Other	1,146	1,232
	172,434	1,232

Group's return on such investments is affected by the operating environment of the Group (Note 19(a)).

(b) Available-for-sale securities

	As at December 31, 2003	As at December 31, 2002
Russian government bonds with annual coupon rate 3% of the face value		
Acquisition cost	905	921
Gross unrealized gains	1,718	3,723
Deposit certificates with interest rates ranging from 10% p.a. to 20% p.a.	29,304	6,844
Fair value	31,927	11,488

Maturities of debt securities classified as available-for-sale as at December 31, 2003 and 2002 are presented below.

	As at December 31, 2003	As at December 31, 2002
Due within one year	8,363	5,151
Due in one to five years	20,898	4,018
Due after five years	2,666	2,319
	31,927	11,488

Russian Government bonds with a face value of $2,908 as at December 31, 2003, and $3,180 as at December 31, 2002, are pledged to secure the redemption of the Parent Company's promissory notes issued in 2000 for the purchase of shares in CJSC Korpus. These promissory notes are denominated in Russian rubles and mature in 2008.

5. INVESTMENTS (continued)

(c) Investments in associates

	As at December 31, 2003 Ownership	As at December 31, 2002 Ownership	As at December 31, 2003	As at December 31, 2002
CJSC Korpus	40.00%	40.00%	3,232	3,042
CJSC Stalconverst	36.80%	36.80%	2,130	1,974
OJSC AKB Lipetskcredit	22.19%	22.19%	1,116	1,034
OJSC Avron	26.70%	26.70%	406	376
OJSC Lipetsky Gipromez	43.44%	43.44%	8	7
			6,892	6,433
Provision for permanent diminution in value			(3,652)	(3,384)
			3,240	3,049

(d) Non-marketable securities

	As at December 31, 2003 Ownership	As at December 31, 2002 Ownership	As at December 31, 2003	As at December 31, 2002
Non-marketable securities, net of current portion:				
OJSC Lebedinsky GOK	11.96%	11.96%	9,240	8,546
OJSC Yakovlevsky rudnik	9.48%	9.48%	5,797	5,372
OJSC Lipetskenergo	12.21%	12.21%	2,268	2,102
OJSC Lipetskoblgaz	19.40%	19.40%	695	644
OJSC Almetievsky pipe plant	14.53%	14.53%	557	516
OJSC Moscow pipe plant Filit	12.00%	12.00%	423	392
Other			708	1,659
			19,688	19,231
Provision for permanent diminution in value			(6,567)	(6,144)
			13,121	13,087
Current portion of non-marketable securities:				
OJSC Coal Mining Company Kuzbassugol	-	17.70%	-	39,787
Provision for permanent diminution in value			-	(1,683)
			-	38,104
Total non-marketable securities			13,121	51,191

(e) Loans given

	As at December 31, 2003	As at December 31, 2002
Long-term loan	-	48,691
	-	48,691

December 31, 2003 and 2002 (Thousands of US Dollars)

5. INVESTMENTS (continued)

(e) Loans given (continued)

The balance of the long-term loan as at December 31, 2002 represents the 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 fair value of the loan was 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.

A difference between the face value and fair value of $56,348 in the amount of $28,652 (representing interest income to be recognized in future periods) and current period interest income of $8,108 were recognized in the consolidated statement of income for the year ended December 31, 2002. In 2002, a portion of the loan $13,987 was repaid.

In 2003, the loan was fully repaid by the borrower. A gain on the early retirement of the loan in the amount of $20,984 was recognized in the consolidated statement of income for the year ended December 31, 2003.

(f) Long-term bank deposits

	As at December 31, 2003	As at December 31, 2002
Long-term bank deposit	15,000	-
	15,000	-

The balance represents a US dollar denominated long-term 6.5% bank deposit with a maturity date of October 2006. The Group pledged this deposit as a guarantee for a third party obligation to another third party (Note 21(h)).

Balance sheet classification of investments:

	As at December 31, 2003	As at December 31, 2002
Long-term investments	54,925	71,164
Short-term investments and current portion of long-term investments	180,797	44,487
Total investments	235,722	115,651

6. ACCOUNTS RECEIVABLE

	As at December 31, 2003	As at December 31, 2002
Trade accounts receivable	245,404	165,293
Advances given to suppliers	23,834	15,225
Taxes receivable	95,634	74,825
Accounts receivable from employees	896	968
Other accounts receivable	18,556	16,377
	384,324	272,688
Allowance for doubtful debts	(6,578)	(6,489)
	377,746	266,199

As at December 31, 2003 and 2002, the Group had accounts receivable from Steelco Mediterranian Trading Ltd., Cyprus, and Tuscany Intertrade, UK, each of which exceeded 10% of the gross accounts receivable balances. The outstanding balances owed by these debtors totaled $121,658 and $87,272 at December 31, 2003 and $47,093 and $54,290 at December 31, 2002, respectively.

In addition, current receivables from Moorfield Commodities Company, UK at December 31, 2002 exceeded 10% of the gross accounts receivable balances and totaled $28,590. At December 31, 2003, accounts receivable from this company do not exceed 10%.

7. INVENTORIES

	As at December 31, 2003	As at December 31, 2002
Finished goods and goods for resale	37,813	26,564
Work in process	64,326	54,475
Raw materials	201,610	130,735
	303,749	211,774
Provision for obsolescence	(2,446)	(1,146)
	301,303	210,628

December 31, 2003 and 2002 (Thousands of US Dollars)

8. OTHER CURRENT ASSETS

	As at December 31, 2003	As at December 31, 2002
Short-term loans provided by OJSC Lipetskcombank	53,904	25,707
Other current assets	12,781	8,386
	66,685	34,093
Allowance for doubtful loans	(3,349)	(1,851)
	63,336	32,242

Short-term loans represent loans provided to customers and other banks by the subsidiary bank of the Group. The interest rates on such loans range from 12% p.a. to 28% p.a. for loans denominated in Russian rubles and from 8% p.a. to 18% p.a. for foreign currency loans.

9. PROPERTY, PLANT AND EQUIPMENT

	As at December 31, 2003	As at December 31, 2002
Land	35,442	32,844
Buildings	550,005	507,486
Land and buildings improvements	686,332	633,344
Machinery and equipment	3,831,976	3,485,774
Vehicles	105,027	99,531
Construction in progress	218,827	168,717
Leased assets	21,819	4,760
Other	7,011	6,099
	5,456,439	4,938,555
Accumulated depreciation	(4,175,607)	(3,770,841)
	1,280,832	1,167,714

According to US GAAP, the Group's property, plant and equipment should be reported at their actual historical depreciated cost. However, due to the absence of reliable US GAAP accounting records and impairment calculations, the book value of certain property, plant and equipment was determined with the assistance of an independent appraiser, which management considers provided the best basis for initial recognition and depreciation of such items. The appraiser provided US dollar estimates of historical cost and depreciated historical cost which the Group has applied to its property, plant and equipment balance as of January 1, 2000. As of December 31, 2003 and 2002, the net book value of this property, plant and equipment was $649,000 and $760,000, respectively.

10. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	As at December 31, 2003	As at December 31, 2002
Trade accounts payable	65,606	36,727
Advances received	81,447	52,917
Customers' deposits in the subsidiary bank	60,559	17,912
Taxes payable other than income tax	6,166	15,933
Accrued liabilities	7,339	2,492
Accounts payable to employees	26,017	18,441
Other accounts payable	6,605	7,337
	253,739	151,759

11. STOCKHOLDERS' EQUITY

(a) Stock

As of December 31, 2003 and 2002, the Parent Company's share capital consisted of 5,987,240 issued common shares with par value of 1 Russian ruble. For each common share held, the stockholder has the right to one vote at the annual stockholders' meeting.

(b) 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 by reference to the statutory financial statements of the Parent Company. At December 31, 2003 and 2002 the retained earnings, in accordance with the legislative requirements of the Russian Federation, available for distribution amounted to $1,855,959 and $1,078,193, respectively, converted into US dollars using exchange rate at December 31, 2003 and 2002, respectively.
The Parent Company paid dividends of 312.5 Russian rubles per share based on the results for 2002 for a total of $61,675. No dividends on common stock were declared or paid in 2002.

December 31, 2003 and 2002 (Thousands of US Dollars)

12. COST OF SALES

	For the year ended December 31, 2003	For the year ended December 31, 2002
Production cost	1,293,330	950,058
Depreciation and amortization	157,809	146,327
	1,451,139	1,096,385

13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended December 31, 2003	For the year ended December 31, 2002
Taxes other than income tax	24,325	33,632
Selling expenses	40,760	32,072
Employee costs	23,611	13,638
Net movement in the allowance for doubtful debts and loans	3,134	(1,747)
Other expenses	33,878	25,764
	125,708	103,359

14. INCOME TAX

	For the year ended December 31, 2003	For the year ended December 31, 2002
Current tax expense	236,533	133,956
Deferred tax benefit:		
origination and reversal of temporary differences	(13,498)	(8,271)
foreign exchange differences	-	(976)
change in tax loss carryforwards	-	4,990
	(13,498)	(4,257)
Total income tax expense	223,035	129,699

The corporate income tax rate in Russia applicable to the Group was 24% in 2003 and 2002.

14. INCOME TAX (continued)

Operating income before tax is reconciled to income tax expense as follows:

	For the year ended December 31, 2003	For the year ended December 31, 2002
Profit before tax	881,734	466,874
Income tax at applicable tax rate	211,616	112,050
Increase in income tax resulting from:		
non-deductible expenses and non-taxable income	11,419	17,649
Total income tax expense	223,035	129,699

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

	As at December 31, 2003	As at December 31, 2002
Deferred tax assets		
Accounts payable and other liabilities	8,659	3,158
Non-current liabilities	2,455	541
Accounts receivable	1,572	2,573
Investments	-	5,332
Other	-	3
Allowance	-	(1 830)
	12,686	9,777
Deferred tax liabilities		
Property, plant and equipment	(160,021)	(18,602)
Inventories	(11,145)	(6,696)
Investments	(385)	-
Other	(851)	(2)
	(172,402)	(25,300)
Total deferred tax liability	(159,716)	(15,523)

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 and therefore realization of these tax assets is doubtful.

The deferred tax effect of establishing a new functional currency basis (Note 2(b)) is recorded within the cumulative translation adjustment directly in other comprehensive income.

Notes to the consolidated financial statements as at and for the years ended December 31, 2003 and 2002 (Thousands of US Dollars)

15. EARNINGS PER SHARE

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

Calculation of diluted net income per share of common stock takes into account the effect of additional liabilities, such as convertible preferred stock, considered to be potentially dilutive.

	Income for the year ended December 31, 2003	Shares in 2003	Income for the year ended December 31, 2002	Shares in 2002
Net income	656,456	5,987,240	338,418	5,985,657
Preferred stock dividends	-		-	
Net income and shares	656,456	5,987,240	338,418	5,985,657
Basic and diluted net income per share ($)	109.64		56.54	

16. NON-CASH TRANSACTIONS

Approximately $3,000 and $2,000 of the Group's 2003 and 2002 revenues, respectively, were settled in the form of mutual offset, i.e. amounts receivable for goods dispatched were offset against the liability to pay for raw materials supplied.

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

In 2003 and 2002, the Group acquired equipment and vehicles under capital lease arrangements with the right to buy out leased assets upon completion of the underlying agreements. The cost of property, plant and equipment obtained during the years ended December 31, 2003 and 2002, was $17,059 and $4,760, respectively (Note 18).

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.

Management believes, that the carrying amounts of financial assets and liabilities approximate to a reasonable estimate of their fair value.

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

18. LIABILITIES UNDER CAPITAL AND OPERATIONAL LEASES

	Capital leases
Future minimum lease payments	
2004	9,111
2005	6,470
2006	4,011
2007	2,652
2008	1,723
Remainder	1,128
Total minimum lease payments	25,095
Less: amount representing estimated executory costs (including taxed payable by the lessor) and profit thereon, included in total minimum lease payments	(931)
Net lease payments	24,164
Less: amount representing interest	(6,487)
Present value of minimum lease payments	17,677
Less: short-term capital lease liability	(6,114)
Long-term capital lease liability	11,563

The discount rate used for calculation of the present value of net minimum lease payments was 14% for assets received in 2003 and 19% for the assets received in 2002.

Capital lease charges of $3,405 and $909 were recorded in the consolidated statement of income for the years ended December 31, 2003 and 2002, respectively.

At December 31, 2003 and 2002, net book value of the machinery, equipment and vehicles obtained under the capital lease arrangements was:

	As at December 31, 2003	As at December 31, 2002
Machinery and equipment	4,620	1,858
Vehicles	17,199	2,902
	21,819	4,760
Accumulated depreciation	(1,067)	(160)
Net value of property, plant and equipment obtained under capital lease arrangements	20,752	4,600

The Group has also incurred expenses in respect of operational leases of $6,701 and $6,626 in 2003 and 2002, respectively.

Notes to the consolidated financial statements as at and for the years ended December 31, 2003 and 2002 (Thousands of US Dollars)

19. RISKS AND UNCERTAINTIES

(a) Operating environment of the Group

The Russian Federation economy continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

Whilst there have been improvements in the economic trends, the future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

(b) Convertibility of Russian ruble

Exchange restrictions and controls exist relating to converting Russian rubles into other currencies. At present, the Russian ruble is not a convertible currency outside of the Russian Federation and, further, the Group is required to convert 25% of its hard currency earnings into Russian rubles. Future movements in the exchange rate between the Russian ruble and the US dollar will affect the carrying value of the Group's Russian ruble denominated monetary assets and liabilities. Such movements may also affect the Group's ability to realize non-monetary assets presented in US dollars in these consolidated financial statements. Accordingly, any translation of ruble amounts to US dollars should not be construed as a representation that such ruble amounts have been, could be, or will in the future be converted into US dollars at the exchange rate shown or at any other exchange rate.

(c) Commercial 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 on one or more sales markets. The Group uses executive analysis of the existing and prospective markets.

The Group's exports in monetary terms in 2003 were 58% (2002: 61%) of the total metal products sales.

The Group's major export markets are Asia and Oceania – 35% (2002: 32%), the European Union – 28% (2002: 26%), Middle East countries including Turkey – 25% (2002: 17%) and North America – 3% (2002: 14%). The Group relies on export sales to generate foreign currency earnings. As the Group exports the significant portion of its production, it is exposed to foreign currency risk as well as global economic and political risks.

The Group has three international traders that account for the majority of its export sales. In 2003, Steelco Mediterranean Ltd., Tuscany Intertrade (UK), and Moorfield Commodities Company purchased 45%, 33% and 9% of the Group's export sales, respectively (in 2002, these companies purchased 25%, 55% and 11% of the Group's export sales, respectively). These companies were indirect shareholders of the Parent Company during the reporting period. The maximum shareholdings during 2003 were 7.59%, 9.99% and 7.59%, and at the year end were 4.16%, 4.11% and 4.16%, respectively. Price fluctuations of sales to these companies are in line with global prices fluctuations. The Group's export prices are comparable to the prices of Russian competitors.

19. RISKS AND UNCERTAINTIES **(continued)**

(c) Commercial risks (continued)

LLC Insaur-Stal accounted for in excess of 10% of the Group's 2003 and 2002 domestic sales (in monetary terms). No other individual customer accounted for in excess of 10% of the Group's export or domestic sales during 2003 or 2002.

The price at which the Group can sell metal products is one of the primary drivers of the Group's revenue. The Group's prices are largely determined by prices set in the international metal trading market.

International prices for products which the Group sells have been increasing during the two years ended December 31, 2003. The Group's future profitability and overall performance is strongly effected by the prices of metal products that are set in the international metal trading market.

20. RELATED PARTY TRANSACTIONS

Balances as at December 31, 2003 and 2002 and transactions for the years ended December 31, 2003 and 2002 with related parties of the Group consist of the following:

(a) Sales to and purchases from related parties

Sales

Sales to a related party controlled by the Group's management were $25,303 and $12,821 for the years ended December 31, 2003 and 2002, respectively. Related accounts receivable equaled $527 and $898 as at December 31, 2003 and 2002, respectively.

Purchases

Purchases of raw materials, energy and transport services from the related parties controlled by the Group's management were $140,729 and $46,003 for the years ended December 31, 2003 and 2002, respectively. Accounts payable to the related parties were $7,689 and $5,362 as at December 31, 2003 and 2002, respectively.

(b) Financial transactions

The subsidiary bank of the Group had short-term loans receivable from a related party controlled by the Group's management of $1,008 and $1,311 as at December 31, 2003 and 2002, respectively.

(c) Contributions to non-governmental pension fund

Total contributions to a non-governmental pension fund amounted to $2,216 and $1,876 in 2003 and 2002, respectively. The Group has the right to appoint and dismiss a top manager of the fund as the major contributor to its charter capital. The Group has nolong-term commitments to provide funding, guarantees, or other support to the fund.

21. COMMITMENTS AND CONTINGENCIES

(a) Anti-dumping investigations

The Group's export trading activities are subject to from time to time compliance reviews of importers' regulatory authorities. The Group's export sales were considered within several anti-dumping investigation frameworks. The Group takes steps to address negative effects of the current and potential anti-dumping investigations and participates in the settlement efforts 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 ultimateliability resulting from theselegal actions 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

The enforcement of environmental regulation in Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potentialliabilities, which might arise as a result of changes in existing regulations, civil litigation orlegislation, cannot be estimated but could be material. In the current enforcement climate under existinglegislation, management believes that the Group has met the Government's federal and regional requirements concerning environmental matters, therefore there are no significantliabilities for environmental damage or remediation.

The Parent Company was subject to an environmental audit performed by the Natural Resource Committee of Lipetsk Region in 2001. As a result, the Parent Company has committed itself to carrying out certain environmental activities in the period from 2002 to 2005. The Parent Company also acquires assets to decrease environmental pollution within the Technical Re-equipment and Development Program (Note 21(e)).

(d) Insurance

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

The Group has entered into insurance contracts to insure property, plant and equipment,land transport; an aircraft and purchased accident and health insurance, inter-city motor vehicle passenger insurance and medical insurance for employees. Furthermore, the Group has purchased operating entities civil liability coverage for dangerous production units.

Management believes that the Group is insured against adverse effect that unfavorable developments may have on the Group's operating activities.

(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.

(e) Capital, sale and purchase commitments (continued)

To minimize financiallosses resulting from disruption of supplies, the Group creates stocks of inventories and maintains relations with reliable suppliers only that ensures sustainability of shipments and proper quality of raw material purchases.

The Parent Company has been carrying out a Technical upgraging and Development Program since 2000. According to this Program, the projected investments from 2004 to 2005 in assets for the main production and environmental programs amount to approximately $460,000.

Management estimates the outstanding agreements in connection with equipment supply and construction works amounted to $6,000 and in connection with purchase of materials amounted to $26,000 at December 31, 2003.

(f) Social commitments

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

(g) Tax contingencies

Russian tax, currency and customslegislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of thelegislation and assessments. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may coverlonger periods.

As at December 31, 2003 and 2002 management believes that its interpretation of the relevantlegislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes it is probable that a position cannot be sustained, an appropriate amount has been accrued for in these financial statements.

(h) Financial guarantees

As of December 31, 2003 and 2002, the Group had issued guarantees to third parties amounting to $38,980 and $7,649, respectively, in respect of borrowings from non-group companies. No amount has been accrued in the consolidated financial statements for the Group's obligation under these guarantees as the projected outflows from such guarantees will be immaterial.

22. SUBSEQUENT EVENTS

In February 2004, the Parent Company reached the decision to increase its share capital by cumulative retained earnings through an additional issue of 5,987,240,000 common stock with a par value of one Russian ruble each. These shares will be distributed to all existing shareholders of the Parent Company in proportion to their interest held at the date of additional shares distribution. One share held makes the shareholder eligible to 1,000 additional shares. At the date of these consolidated financial statements, the aforementioned decision was registered with the relevant governmental authorities, the distribution was pending. Share capital and earnings per share data for 2003 and 2002 has not been restated to reflect this share distribution (Note 15).

In March 2004 the Group acquired 59.8% of OJSC Stoilensky GOK for a consideration of $510,000. The transaction was carried out through three companies which were shareholders of the Parent Company at the date of the transaction. Management believes that the transaction was at a price close to a fair value. The agreement contains no future contingent payments or commitments.

This transaction was consummated to acquire one of thelargest iron-ore concentrate and agglomerated ore producers in Russia in order to securelong-term supplies of raw materials for the Group. This entity will be consolidated for the first time as of the effective date of obtaining control which management considers to be March 2004.

The Board of Directors of the Parent Company proposed dividends for the year ended December 31, 2003 in the total amount of Russian rubles 3,622,906 thousand ($123,000 at the exchange rate as of December 31, 2003). The final amount of dividends is subject to the approval by the annual General Shareholders' Meeting.

Major Results for Five years
(Does not constitute a part of US GAAP consolidated financial statements)

Indicators	1999	2000	2001	2002	2003
(thousands of tonnes)					
Production results					
Pig iron	7,106	7,699	7,463	8,047	8,623
Steel	7,530	8,221	7,912	8,553	8,854
Finished steel	7,004	7,524	7,334	8,006	8,233
Flats	3,971	4,687	4,634	4,764	4,895
Coated steel	308	376	371	550	543
(US $ mln)					
Financial results					
Net sales	967	1,374	1,322	1,712	2,468
Gross profit	286	480	274	615	1,017
Operating income	214	360	205	512	891
Pre-tax profit	117	311	163	467	882
Net income	20	163	88	337	656
EBITDA	277	468	332	613	1,019
Total assets	1,710	1,828	1,896	2,199	3,085
Equity	1,400	1,563	1,652	1,991	2,610
Equity as a percentage of assets	82%	85%	87%	91%	85%
Current ratio	2.2	3.5	2.9	5.5	6.1
Liquidity ratio	1.5	2.5	2.1	4.2	5.0
Accounts receivable turnover	53	55	66	54	48
Inventory turnover	70	58	60	65	64
Profitability					
Operating profit margin	22%	26%	16%	30%	36%
Net income margin	2%	12%	7%	20%	27%
EBITDA margin	29%	34%	25%	36%	41%
Return on assets	1%	9%	5%	17%	25%
Return on equity	1%	11%	5%	19%	29%
EBITDA to Assets	16%	26%	18%	30%	39%
Earning per share (US $)	3.36	27.26	14.62	56.54	109.64

Novolipetsk Iron and Steel Corporation

Address: 2, pl. Metallurgov, Lipetsk, 398040 Russia

Telex: 101180 NLMK RU, 101264 NLMK RU, 101103 NLMK RU
Fax: (0742) 43-25-41
E-mail: info@nlmk.ru
Internet: http://www.nlmk.ru

Telephone numbers:
General Director ....+7 (0742) 445-010
Technical Director – First Deputy General Director ....+7 (0742) 440-806
Division of Technology and Quality ....+7 (0742) 442-636
Division of Economics and Finance ....+7 (0742) 444-572
Division of Sales ....+7 (0742) 444-688
Division of Purchasing ....+7 (0742) 444-448
Division of Accounting ....+7 (0742) 444-046
Division of Audit ....+7 (0742) 444-930
Division of Legal Issues ....+7 (0742) 444-824
Division of Security ....+7 (0742) 442-396
Division of Personnel and General Issues ....+7 (0742) 444-571
Division of Medical and Social Issues ....+7 (0742) 250-167
Division of Public Relations ....+7 (0742) 440-041

design Agey Tomesh