Open Joint Stock Company
Novolipetsk Iron and Steel Corporation

Consolidated Financial Statements as of and for the years ended 31 December 2000 and 1999

(with Independent Auditors' Report thereon)

Contents

KPMG

Independent Auditors' Report

Board of Directors
OJSC Novolipetsk Iron and Steel Corporation

We have audited the accompanying consolidated balance sheets of open joint stock company Novolipetsk Iron and Steel Corporation and subsidiaries as of 31 December 2000 and 1999 and the related consolidated statements of income, cash flows and stockholders' equity and other comprehensive income for the years then ended. These consolidated financial statements, as set out on pages 4 to 20, are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our report dated 5 April 2001, we expressed an opinion on the company's 1999 consolidated financial statements qualified for the non-consolidation of all subsidiaries and accounting for investments in associates. As described in note 4 of the accompanying consolidated financial statements, the company has changed its method of consolidation and accounting for investments in associates and has restated its 1999 consolidated financial statements to conform with accounting principles generally accepted in the United States of America. Accordingly, our present opinion on the 1999 consolidated financial statements, as presented herein, is different from that expressed in our previous report, dated 5 April 2001.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of open joint stock company Novolipetsk Iron and Steel Corporation and its subsidiaries as of 31 December 2000 and 1999 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KPMG Limited

29 June 2001
Moscow, Russian Federation

(Thousands of US dollars except for share data)

	2000	1999
ASSETS		
Current assets		
Cash and cash equivalents	159,196	11,970
Trade accounts receivable, less provision	200,120	173,509
Advances paid, less provision	15,635	14,015
Taxes and other receivables	20,412	23,782
Inventories	163,362	118,993
Other current assets	2,166	1,034
Total current assets	**560,891**	**343,303**
Investments	19,326	17,516
Property, plant and equipment, net book value	1,192,992	1,218,443
Other non-current assets	47,191	4,267
Assets held for sale	-	125,964
Total assets	**1,820,400**	**1,709,493**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities	88,655	66,270
Advance payments from customers	16,293	14,102
Taxes and other payables	17,678	26,271
Short-term debt	24,137	36,272
Other current liabilities	11,609	11,413
Total current liabilities	**158,372**	**154,328**
Long-term debt	68,123	105,758
Deferred tax liability	27,957	46,848
Deferred income	2,113	1,751
Minority interest	700	1,714
Total liabilities	**257,265**	**310,399**
Stockholders' equity		
Common stock (one ruble par value; 5,985,241 shares authorized and issued in 2000 and in 1999; including 5,980,853 and 5,979,447 outstanding shares in 2000 and 1999, respectively)	14,435	14,435
Cumulative preferred stock (one ruble par value; 1,999 shares authorized, issued and outstanding in 2000 and 1999)	5	5
Additional paid-in capital	679	679
Accumulated other comprehensive income	1,699	768
Retained earnings	1,546,385	1,383,295
Treasury stock (4,388 and 5,794 ordinary shares at purchase cost in 2000 and 1999, respectively)	(68)	(88)
Total stockholders' equity	**1,563,135**	**1,399,094**
Total liabilities and stockholders' equity	**1,820,400**	**1,709,493**

Commitments and contingencies (note 21)

General Director
Frantsenjuk I.V.

Chief Accountant
Sokolov A.A.

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

(Thousands of US dollars except for share data)

	2000	1999
Net sales	1,374,053	967,315
Cost of sales	(894,540)	(680,819)
Gross margin	**479,513**	**286,496**
Selling, general and administrative expenses	(118,644)	(74,319)
Profit/(loss) from disposals of property, plant and equipment	(462)	1,998
Operating income	**360,407**	**214,175**
Other gain /(loss)		
Profit/(loss) from investment activities	(12,453)	(1,044)
Interest and other finance costs	(7,119)	(19,481)
Foreign exchange loss, net	(11,219)	(78,061)
Other income/(expense), net	(18,694)	9,497
Impairment of property, plant and equipment	-	(8,525)
Minority interest	520	349
Income before income taxes	**311,442**	**116,910**
Income tax expense	(148,352)	(96,806)
Net income	**163,090**	**20,104**
Earnings per share of common stock (US dollars)		
basic	27.27	3.36
diluted	27.26	3.36

(Thousands of US dollars)

	2000	1999
Cash from operating activities		
Net income	**163,090**	**20,104**
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interest	(520)	(349)
Depreciation and amortization	149,112	132,462
Provision for investments	456	1,049
Interest and other financial cost	7,119	19,481
(Gains)/losses from disposals of property, plant and equipment	462	(1,998)
(Gains)/losses from investment activities	12,453	(6)
Impairment of property, plant and equipment	-	8,525
Deferred tax (income)/expense	(18,891)	18,833
Changes in operating assets and liabilities:		
(Increase)/decrease in trade accounts receivable	(26,611)	(66,645)
(Increase)/decrease in advances paid to suppliers	(1,620)	8,220
(Increase)/decrease in taxes and other receivables	3,370	2,061
(Increase)/decrease in inventories	(44,369)	24,287
(Increase)/decrease in other current assets	(1,132)	(497)
(Decrease)/increase in accounts payable and accrued liabilities	22,385	6,056
(Decrease)/increase in advances received from customers	2,191	8,555
(Decrease)/increase in tax and other accounts payable	(8,593)	2,276
(Decrease)/increase in other accounts payable	196	10,614
Net cash provided by operating activities	**259,098**	**193,028**
Cash from investing activities		
Proceeds from sale of property, plant and equipment	8,628	6,324
Purchases of property, plant and equipment	(172,818)	(57,587)
Proceeds from sales of assets held for resale	125,964	-
Purchases of long-term investments	(18,999)	(1,375)
Dividends received	-	6
Proceeds from sales of investments	5,305	72
Net cash used in investing activities	**(51,920)**	**(52,560)**
Cash from financing activities		
Proceeds from raising debt	6,174	206,577
Repayment of debt (including interest)	(69,519)	(351,371)
Proceeds from raising other debt, net	3,174	-
Payments to acquire treasury stock	(124)	(88)
Proceeds from sale of treasury stock	343	-
Net cash provided used in financing activities	**(59,952)**	**(144,882)**
Net increase/(decrease) in cash and cash equivalents	**147,226**	**(4,414)**
Cash and cash equivalents at beginning of year	11,970	16,384
Cash and cash equivalents at end of year	**159,196**	**11,970**
Supplemental disclosures of cash flow information		
Interest paid	790	10,399
Income tax paid	115,739	51,816

(Thousands of US dollars)

	Cumulative preferred stock	Common stock	Additional capital	Other compre-hensive income	Retained earnings	Treasury stock	Total stockholders' equity
Balances at 31 December 1998	**5**	**14,435**	**-**	**-**	**1,363,191**	**-**	**1,377,631**
Net income					20,104		20,104
Net unrealized change in investment securities				768	-		768
Recapture of unpaid dividends			679		-		679
Acquisition of common stock					-	(88)	(88)
Balances at 31 December 1999	**5**	**14,435**	**679**	**768**	**1,383,295**	**(88)**	**1,399,094**
Net income					163,090		163,090
Net unrealized change in investment securities				931	-		931
Acquisition of common stock					-	(322)	(322)
Sale of treasury stock					-	342	342
Balances at 31 December 2000	**5**	**14,435**	**679**	**1,699**	**1,546,385**	**(68)**	**1,563,135**

1 Background information

(a) Operations

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

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

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

The Company has subsidiaries in other regions of the Russian Federation and abroad. The main subsidiaries are:

- Trade company Stahl Ltd. was established in 1998 as a 100% subsidiary of the Company in Yaroslavhl region, Uglich. The principal activity of this company, which is carried out in Moscow, is the purchase of raw materials for the Group's metallurgical production and sales of metal products.

- Mining company OJSC Dolomite, Lipetsk region, Dankov. The Group acquired a controlling interest in 1997. The principal activity is mining and processing of raw materials for the Group's metallurgical production.

(b) Russian business environment

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

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

2 Basis of preparation

(a) Statement of compliance

The financial statements were prepared by the Company in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

(b) Accounting records

The Company maintains its books and records in accordance with accounting principles and practices mandated by Russian accounting regulations ("RAP").

(c) Reporting currency

The functional and reporting currency for the Group's financial statements prepared in accordance with US GAAP is the US dollar.

These financial statements are presented in accordance with Statement of Financial Accounting Standards ("SFAS") No. 52 *"Foreign Currency Translation"*. All monetary assets and liabilities have been converted into US dollars using the closing exchange rate as at the respective balance sheet dates of 31 December 2000 and 1999. Historical exchange rates have been used to translate all non-monetary assets and liabilities and income statement items to US dollars.

The Central Bank official exchange rate was 28.16 rubles to the US dollar at 31 December 2000 and 27 rubles to the US dollar at 31 December 1999. The annual weighted average exchange rate was 28.12 and 24.60 rubles to the US dollar for the years ended 31 December 2000 and 1999, respectively.

(d) Convertibility of rubles

The ruble is not a convertible currency outside the Russian Federation and accordingly any conversion of ruble amounts to US dollars should not be construed as a representation that ruble amounts have been, could, or will be converted or convertible into US dollars at the exchange rates used or at any other exchange rates.

(e) Going concern

The accompanying financial statements of the Company have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. The Group's ability to realize its assets and settle its liabilities may have been adversely affected by the current economic environment. The accompanying financial statements do not include any adjustments should the Group ultimately be unable to continue as a going concern.

(f) Consolidation principles

The financial position and results of subsidiaries of which the Company directly or indirectly owns more than 50% and which the Company controls, are included with the financial position and results of the Company in these consolidated financial statements. Other equity investments in companies of which the Company directly or indirectly owns between 20% and 50% and over which the Company exercises significant influence but not control, are accounted for using the equity method of accounting.

(g) Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make certain estimates and assumptions relating to the reporting of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. Eventual actual results could differ from those estimates.

3 Significant accounting policies

(a) Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts and on deposit and other highly liquid short-term investments with original maturities of three months or less.

(b) Trade accounts receivable

Receivables are stated at their transaction amounts net of a provision for doubtful accounts. Management quantifies this provision based on current information and events regarding the customer's ability to repay their obligations. Payments of amounts previously written off are recognized as income thereafter.

(c) Inventories

Inventories are stated at the lower of cost (determined using a monthly weighted average) or market.

(d) Investments

Held to maturity securities

Investments include Government bonds recorded at their fair value determined as average demand price for the last trading day. Unrealized gains and losses determined as the difference at the balance sheet date between purchase price and the fair value of the securities are taken directly to equity included in accumulated other comprehensive income.

Other investments

Other investments are carried at cost less any permanent diminution in value.

(e) Other assets

Other current assets consist of apartments held for sale and short-term investments.

Other non-current assets include spare parts and other materials, acquired for the future repair and reconstruction of property, plant and equipment.

(f) Property, plant and equipment

Owned assets

Property, plant and equipment ("PP&E") are carried at cost less accumulated depreciation and adjustments for impairment. Property, plant and equipment includes assets under construction, i.e. various construction projects and the equipment for installation.

Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in an item of property, plant and equipment. All other expenditures are recognized in the income statement as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of the individual assets. Depreciation commences on the date of PP&E being input into operation. The Company uses the following ranges for useful lives of property, plant and equipment:

Asset class	Useful life
Buildings	20 – 45 years
Machinery and equipment	2 – 40 years
Vehicles	5 – 25 years
Software	6 – 12 years

(g) Goodwill

Goodwill arising on an acquisition of subsidiaries represents the excess of the cost of acquisition over the fair value of the net identifiable assets acquired. Any negative goodwill has initially been applied against non-monetary assets and is then included into deferred income at cost less accumulated amortization. Goodwill is amortized using the straight-line basis from the date of initial recognition for a period of 20 years.

(h) Pension and post retirement benefits other than pensions

The Company follows the Pension and Social Insurance legislation of the Russian Federation, which requires current contributions by the employer calculated as a percentage of current gross salary payments. Such contributions are charged to expense as incurred.

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

The Company also has an agreement with non-government pension fund in accordance with which contributions are made on a monthly basis. Contributions are calculated as a fixed percentage of the employees' salaries. These pension benefits are accumulated in a fund during the employment period and distributed by the fund afterwards.

As such, all above mentioned benefits are charged to expense as incurred.

In addition to this the Parent company pays lump sum retirement benefits depending on the employment period and the salary level of the individual employee. Up to 1 January 2000 such benefits were irregular. In 2000 the Company calculated the liability for such payments to the employees based on the data in respect of the lump sum retirement benefits and accrued this liability in the financial statements.

(i) Segment information

All main activities of the Group are located within the Russian Federation and its major operating segment is the production and sales of metals.

(j) Revenue

Sales are recognized when products are shipped to customers and the risks and rewards incident to ownership have passed.

(k) Income tax

The Group does not file income tax returns on a consolidated basis. The statutory income tax rate applicable to the Group was 30% from April 1999. Income tax for the year comprises current and deferred tax. Deferred tax is provided using the balance sheet method according to the SFAS No. 109 "*Accounting for Income Taxes*", providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset should be recognized for all temporary differences to the extent that it is more likely than not that taxable profit will be available against which the deductible temporary differences can be utilized. When uncertainties exist regarding the realization of deferred tax assets, a valuation allowance is established to reduce the assets to their net realizable value.

Under Russian legislation, an operating loss may be used fully or partially in the five subsequent tax years to offset up to 50% of taxable profit in that year including tax concessions.

(l) Dividends

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

(m) Barter transactions

The environment in the Russian Federation gives rise to numerous barter transaction agreements with customers and suppliers. A common element is identified and goods are shipped between the parties at an agreed market value, without physical movement of cash. The related sales and purchases are recorded in the same manner as cash transactions. Management estimates that approximately $48,000 and $105,000 of the Group's 2000 and 1999 revenues, respectively, were received in the form of barter and they receive raw materials and other related production materials as settlement for finished goods shipments. Prices for goods sold and purchased through barter are fixed in the respective contracts and generally reflect current market prices.

(n) Impairment

The Company accounts for long-term lived assets, including goodwill, in accordance with SFAS No. 121 "*Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed of*".

This statement requires recognition of impairment losses whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

(o) Related parties

The following are considered to be related parties:

- the Group's principal owners and their immediate families;
- the enterprise and trusts for the benefits of employees, such as pension and profit sharing trusts that are managed by or under the trusteeship of the enterprise's management.
- directors and officers of the Group and their immediate families;
- enterprises in which principal shareholders, officers or directors and their immediate families have control or significant influence;
- other parties if they can control or significantly influence the Group to the extent that the Group might be prevented from fully pursuing its own separate interest.

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

(p) Land ownership

The Group holds a perpetual right to use land and pays annual land taxes. The Group also pays the municipal government rent payments on properties occupied by certain smaller divisions of the Group. Currently, there are no limitations on the period or usage of the land by the Group.

(q) Comparative information

Certain prior year amounts have been reclassified to conform with current year presentation.

(r) Recent pronouncements

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133 "*Accounting for Derivative Instruments and Hedging Activities*". This statement establishes accounting and reporting standards for derivative instruments and requires recognition of all derivatives as assets or liabilities in the statement of financial position and measurement of those instruments at fair value. In May 2000, the Financial Accounting Standards Board delayed the required implementation date by one year, making it effective for fiscal years beginning after 15 June 2000. The Company does not expect adoption to have a significant effect on its balance sheet and income statement.

4 Restatement of prior year financial statements

2000 is the first year that the Company has properly accounted for its equity investments under US GAAP. As such the financial statements of prior years have been restated to apply this new information retroactively.

The consolidated financial statements as at and for the year ended 31 December 1999 previously included OJSC Novolipetsk Iron and Steel Corporation and its wholly owned subsidiary Refrigerator Plant Stinol. All other investments in subsidiaries and associates were valued at cost less provisions for permanent diminution in value.

(Thousands of US dollars)

Except in certain circumstances, US GAAP require the Company to consolidate all subsidiaries, and investments in associates be accounted for under the equity method. After this treatment was retroactively applied the following restatements were made to net income for 1999 and retained earnings as at 31 December 1999 and 1998.

Statement of income	1999
Net income for 1999 as reported in prior year	31,508
Adjustment due to change in accounting treatment for equity investments	(11,404)
Net income as adjusted	**20,104**

Statement of retained earnings	1999
Balance as at 31 December 1998, as reported in prior year	1,362,528
Adjustment due to change in accounting treatment for equity investments	663
Balance as at 31 December 1998, as adjusted	1,363,191
Net income for 1999, as adjusted	20,104
Balance as at 31 December 1999	**1,383,295**

5 Cash and cash equivalents

	2000	1999
Cash – rubles	11,721	5,698
Cash - foreign currency	2,413	907
Deposits – rubles	3,965	-
Deposits - foreign currency	137,270	-
Other cash equivalents	3,827	5,365
Total	**159,196**	**11,970**

6 Trade accounts receivable

	2000	1999
Trade accounts receivable	197,091	175,061
Other receivables	15,042	17,920
Allowance for doubtful debts	(12,013)	(19,472)
Total	**200,120**	**173,509**

7 Inventories

	2000	1999
Raw materials	101,057	68,871
Work in process	36,322	23,296
Finished goods	25,983	12,865
Supplies	-	13,961
Total	**163,362**	**118,993**

(Thousands of US dollars)

8 Investments

	2000	1999
Investments accounted for using the equity method	3,158	402
Other investments accounted at cost less permanent diminution in value	13,929	15,806
Government bonds	2,239	1,308
Total	**19,326**	**17,516**

9 Property, plant and equipment

	2000	1999
Buildings	496,732	487,563
Machinery and equipment	3,913,250	3,850,778
Transport equipment	92,021	90,198
Construction in progress	56,501	29,505
Land improvements	198,340	198,340
Other	5,739	5,330
Subtotal	4,762,583	4,661,714
Accumulated depreciation	(3,569,591)	(3,443,271)
Total	**1,192,992**	**1,218,443**

10 Discontinued operations

In June 2000, the Parent company concluded a conditional agreement to sell its fully owned subsidiary Stinol which produces refrigeration units for the Russian market.

Within the consolidated financial statements the subsidiary's net assets have been segregated. As at 31 December 1999 the financial position of the discontinued operation was reported as an asset held for sale. This asset was valued at $125,964, which consisted of the agreed selling price of $119,300 and intercompany balances payable to the Parent company of $6,664 as at 31 December 1999.

During 2000, the parties have concluded the legal execution and payments for that operation.

11 Accounts payable and accrued liabilities

	2000	1999
Trade payables	73,075	60,405
Obligations under defined benefit pension scheme	2,418	-
Accrued liabilities to employees	10,566	4,046
Other accrued liabilities	2,596	1,819
Total	**88,655**	**66,270**

(Thousands of US dollars)

12 Short-term debt

	2000	1999
Principal balance	-	28,748
Interest accrued	-	387
Current portion of long-term debt	24,137	7,137
Total	**24,137**	**36,272**

In 2000 the Company paid off the balance of the credit line that had been opened in 1999.

13 Long-term debt

	2000	1999
Long-term loan from related party:		
Principal balance	72,137	103,137
Amount maturing within one year	(24,137)	(7,137)
Interest accrued	16,091	8,887
Promissory notes issued	3,197	-
Other long-term debt	835	871
Total	**68,123**	**105,758**

The Company borrowed funds from a Russian lender to finance the construction of the Refrigerator Plant Stinol. Later, the original Russian lender took legal action against the Company to recover the principal and outstanding interest. During 1999 an Amicable Agreement was concluded, according to which the loan, including interest capitalized, was transferred to a related party (one of the Company's shareholders). The loan is to be paid off in equal installments from March 1999 to December 2002. The amount of interest accrued since 1999 will be paid after the principal repayment.

Subsequently, the Amicable Agreement was questioned by the third party and is currently under the consideration of the Supreme Arbitrage Court of the Russian Federation.

In 2000 the Group purchased a long-term investment from a financial institution, with payment being made in the form of the Company's promissory notes redeemable not earlier than 15 May 2008. This long-term debt does not bear any interest. In addition, Government bonds (refer note 9) are pledged with the bank.

14 Share capital

(a) Shares

The Company has 5,987,240 shares issued with a par value of 1 ruble. Of these shares, 1,999 are preferred B shares. The holder of the preferred B shares is the Russian Federal Property Fund. When the fund disposes of the preferred shares, the shares automatically convert to common shares.

(b) Voting rights, privileges and liquidation

All common shares have voting rights. The preferred shares do not have voting rights, except in situations concerned with the re-organization and liquidation of the Company, changes and amendments to the Charter Documents that restrict their rights and in other cases stipulated by the effective Russian legislation.

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

(Thousands of US dollars)

(c) Dividends

Dividends may be paid on common shares 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 common stockholders in respect of any reporting period are determined by reference to the statutory financial statements of the Parent company. At 31 December 2000 and 1999 the reserves available for distribution amount to $481,780 and $133,188, respectively, converted into US dollars using the year-end exchange rate. No dividends on common shares were declared in 2000 or 1999.

In accordance with the Charter document the dividend on each preferred share is 20% of its nominal value, but not less than the dividend on one common share. Dividends on preferred stock have not been accrued nor paid since 1998.

(d) Treasury stock

As at 31 December 2000 and 1999, the Company held treasury stock of 4,388 common shares for a total consideration of $68 and 5,794 common shares for a total consideration of $88, respectively. These shares were purchased from individual stockholders including some employees. Treasury stock is sold within the year following the reporting period.

15 Cost of sales

	2000	1999
Production cost	745,428	548,357
Depreciation and amortization	149,112	132,462
Total	**894,540**	**680,819**

16 Income tax

Income tax expense is comprised of the following:

	2000	1999
Current tax expense	167,243	77,973
Deferred tax expense/(income)	(18,891)	18,833
Total	**148,352**	**96,806**

The Company's applicable tax rate as at 31 December 2000 and 1999 is the corporate income tax rate of 30%. Deferred tax was calculated based on a tax rate of 35%, as this rate is applicable from 1 January 2001.

A reconciliation of the effective tax rate is presented below:

	2000	1999
Profit before tax	311,442	116,910
Expected tax expense computed based on the current corporate tax rate in Russia of 30%	93,432	35,073
Increase/(decrease) in income tax resulting from:		
Non-deductible expenses and non taxable income	49,026	66,657
Exchange differences	1,900	(3,827)
Change in tax rate	3,994	(1,097)
Income tax expense	**148,352**	**96,806**

(Thousands of US dollars)

The significant components of deferred tax expense (income) are as follows:

	2000	1999
Deferred tax (income)/expense, excluding of the effect of the components below:	(25,687)	16,722
Increase/(reduction) in income tax resulting from:		
Increase/(decrease) in corporate income tax rate	3,994	(1,097)
Change in tax loss carry forwards	2,802	3,208
Total	**(18,891)**	**18,833**

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

	2000	1999
Deferred tax assets		
Investments	1,581	710
Inventories	48,268	23,772
Tax loss carry forwards	11,683	14,485
Accounts payables and accrued liabilities	849	1,070
Total	**62,381**	**40,037**
Deferred tax liabilities		
Property, plant and equipment	(49,637)	(38,436)
Assets held for sale	-	(22,696)
Account receivable	(40,701)	(25,753)
Total	**(90,338)**	**(86,885)**
Net deferred tax liabilities	**(27,957)**	**(46,848)**

Based upon the level of historical taxable income and projections for the future taxable income over the period which the deferred income tax assets are deductible, management believes it is more likely than not that Group companies will realize the benefit of the deductible differences.

At 31 December 2000 the Company has net operating tax loss carry forwards of $33,380, which expire in 2003.

17 Earnings per share

Basic earnings per share for common stock is calculated by dividing the income attributable to common stocks by the average number of common stocks outstanding during the applicable period. The calculation of diluted income per share for common stock takes into account the effect of obligations, such as convertible preferred stock, considered to be potentially dilutive.

The Company's preferred stock should be converted into common stock upon its sale.

Earnings per share of common stock is as follows (number of shares is calculated as total issued and authorized less treasury stock).

	2000 income	2000 shares	1999 income	1999 shares
Net income ('000 USD)	**163,090**	**5,980,853**	**20,104**	**5,979,447**
Preferred stock dividend requirement	-		-	
Basic income ('000 USD) and shares	163,090	5,980,853	20,104	5,979,447
Basic income per share (USD)	**27.27**		**3.36**	
Convertible preferred shares		1,999		1,999
Diluted income ('000 USD) and shares	163,090	5,982,852	20,104	5,981,446
Diluted income per share (USD)	**27.26**		**3.36**	

18 Concentration of significant risks

The Company's exports in money terms in 2000 were around 63% (1999: 66%) of the total sales of its metal production. The Company's major export markets are Asia - 30% (1999: 33%), the European Union - 27% (1999: 19%), other European countries including Turkey – 20% (1999 24%) and North America - 15% (1999: 16%). The Company relies on export sales to generate foreign currency earnings. As the Company exports the majority of its production, it is exposed to global economic and political events.

The Company minimizes its sales risks by having a wide range of geographical zones for sales and a well-developed distribution network. All these allow the Company to respond quickly to unexpected changes in the situation of one or more sales markets. The Company uses executive analysis of existing and prospective markets. The Company has diversified its product range to mitigate these risks.

The Company has two international customers that account for the majority of its export sales. Taskeny Intertrade and Mildmay S.A. each accounted for in excess of 10% of the Company's exports during 2000. Paragale Trading Limited and Mildmay S.A. each purchased over 10% of the Company's 1999 export sales. Kastans Ltd., Baumet Ltd., OJSC Autovaz accounted for in excess of 10% of the Company's 2000 domestic sales. CJSC Vimet accounted for in excess of 10% of the Company's 1999 domestic sales. No other individual customer accounted for in excess of 10% of the Company's export or domestic sales during 2000 or 1999.

The majority of the Company's workers (approximately 96%) are covered by a Trade Union agreement which is negotiated annually. Significant disagreements with the Trade Union and industrial action have been historically rare and management do not consider disruption caused by labor disputes to be a significant risk to the Company.

19 Financial instruments

The carrying amount of cash and cash equivalents approximates fair value because of the short-term nature of these instruments.

The carrying amounts for trade accounts receivable, taxes receivable, advances, accounts payable and taxes payable are reasonable estimates of fair value due to the short-term nature of the associated transactions.

20 Related party transaction

During 2000 and 1999 the Group had the following transactions with related parties:

(a) Transaction with the pension fund

The Company sponsors a defined contribution plan which is considered to be a related party. Total contributions paid to the pension fund were $2,404 and $909 in 2000 and 1999, respectively.

(b) Loans and borrowings

Short-term finance was granted to a related party by the Group in amount of $124, which was outstanding as at 31 December 2000.

There was also a long-term loan received from a related party (refer note 13).

(c) Other transactions with related parties

Purchases from related parties of raw materials amounted to $41,635 and $21,107 in 2000 and 1999, respectively. The Group's sales to related parties were $11,920 and $32,389 in 2000 and 1999, respectively.

In 2000 the Group sold a share of its holding in long-term investment for $1,600 to a related party.

21 Commitments and contingencies

(a) Anti-dumping actions against the Group

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

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

(b) Litigation

The Company, in the ordinary course of business, is the subject of, or party to, various pending or threatened legal actions. The management of the Company believes that any ultimate liability resulting from legal action will not have a material effect on its financial position or results of operations.

(c) Environmental matters

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

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

(d) Insurance matters

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

The Company has purchased coverage for buildings, property, plant and equipment, as well as employees in case of accidents and sickness. The Company also has purchased limited coverage for environmental pollution as a result of accidents in workshops. Management strives to insure the Group's assets and operations with financially reliable and reputable insurance companies within the industry.

However, this insurance does not cover business interruption. Until the Company obtains adequate insurance coverage, there is a risk that uninsured losses could have a certain adverse effect on the Company's operations.

(e) Taxation contingencies

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

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

(f) Capital, sales and purchase commitments

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

To avoid force-majeure circumstances in the relationships with suppliers and to minimize financial losses resulting from disruption of supplies, the Company, first, creates stocks of inventories and, second, maintains relations only with reliable suppliers.

The Company has developed a Technical Reequipment Program. According to this Program, the projected investments from 2001 till 2005 in assets for the main production and environmental assets amount approximately to 1 billion US dollars.

(g) Social commitments

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

22 Subsequent events

No material subsequent events were noted.

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