SEVERSTAL AUTO

annual report 2004

Contents

Financial and operating highlights

Financial highlights

Amounts in millions	2004 RUB	04/03 Change, %	2003 RUB	03/02 Change, %	2002 RUB	2004 US$	2003 US$	2002 US$
Sales	23,029	18.8	19,385	26.2	15,366	799	632	490
Export sales	3,594	48.4	2,422	81.4	1,335	125	79	43
Domestic sales	19,435	14.6	16,963	20.9	14,031	675	553	447
Gross profit	5,583	20.7	4,627	61.8	2,859	194	151	91
Gross profit margin, %	24.2	-	23.9	-	18.6	24.2	23.9	18.6
EBITDA[1]	3,362	34.7	2,495	59.3	1,566	117	82	49
EBITDA margin, %	14.6	-	12.9	-	10.2	14.6	12.9	10.2
Operating income	2,766	43.5	1,927	102.2	953	96	63	30
Operating income margin, %	12.0	-	9.9	-	6.2	12.0	9.9	6.2
Net income	1,342	49.1	900	41.7	635	47	30	20
Net margin, %	5.8	-	4.6	-	4.1	5.8	4.6	4.1
EPS, RUB/US$	54.90	34.7	40.77	41.7	28.77	1.9	1.4	0.9
Dividends declared/proposed	626	66.9	375	-	-	22	13	-
Dividends per share, RUB/US$	21	23.5	17	-	-	0.75	0.58	-
Operating cash flow	1,425	33.9	1,064	(35.6)	1,653	49	36	51
Capital expenditures	1,374	33.8	1,027	85.7	553	48	33	18
ROCE[2], %	21.0	-	17.8	-	10.0	21.0	17.8	10.0
Current liquidity ratio[3]	1.8	-	1.5	-	1.0	1.8	1.5	1.0
Quick liquidity ratio[4]	0.8	-	0.7	-	0.4	0.8	0.7	0.4
Gearing ratio[5], %	13.4	-	17.6	-	16.7	13.4	17.6	16.7
Interest cover[6]	11.7	-	12.1	-	3.3	11.7	12.1	3.3
Net debt position[7]	1,630	(26.2)	2,210	(9.8)	2,449	59	75	77

Operating highlights

	2004 Thousands	04/03 Change, %	2003 Thousands	03/02 Change, %	2002 Thousands
Vehicle sales, including inter-segment sales, units	70.1	(10.7)	78.5	8.3	72.5
Engine sales, including inter-segment sales, units	273.7	(4.6)	286.9	14.5	250.6
Employee number at the year end, persons	37.9	(6.2)	40.4	(1.9)	41.2

1 EBITDA is calculated as income for the year, adjusted for tax, interest, non-operating gains and losses, depreciation and amortisation.
2 ROCE is calculated as EBIT divided by average capital employed; average capital employed is calculated as a sum of average balances between balance sheet dates of total equity, total borrowings, and minority interest. EBIT is calculated as income for the year, adjusted for income taxes, interest and non-operating gains and losses.
3 Current liquidity ratio is calculated as current assets divided by current liabilities.
4 Quick liquidity ratio is calculated as current assets less inventories, divided by current liabilities.
5 Gearing ratio is calculated as long-term borrowings divided by a sum of total equity and long-term borrowings.
6 Interest cover is calculated as operating income divided by interest paid.
7 Net debt position is calculated as all interest-bearing liabilities (short-term and long-term borrowings) minus cash and cash equivalents.

Unless otherwise specified or required by the context, in this annual report, "we", "our", "us", "Severstal-auto", "Company", or "Group" refers to OAO Severstal-auto and its consolidated subsidiaries.

The above table contains historical financial information (other than operational data) derived from the Company's audited consolidated financial statements at dates and for the years ended 31 December 2004, 2003 and 2002, which were prepared in accordance with IFRS. Comparative figures for the year ended 31 December 2003 in the Company's audited IFRS consolidated financial statements for the year ended 31 December 2004 were restated for the effects of changes in accounting policy with respect to capitalisation of interest on borrowings, as discussed in detail in Note 3.2 of the consolidated IFRS financial statements included in this annual report. For periods prior to 1 January 2003, all rouble amounts are expressed in constant roubles based on the purchasing power of the rouble on 31 December 2002, and translated into U.S. Dollars for presentation purposes, except as otherwise noted. Financial information for periods subsequent to 1 January 2003 is stated at nominal value.

Key to some abbreviations used in this annual report:
SUV – Sports utility vehicles,
LCV – Light commercial vehicles,
MPV – Multipurpose vehicles.

The Company's mission

The Company is a diversified engineering and machine manufacturing company producing vehicles and components that offer solutions for the Company's customers' transportation needs in both business and personal applications.

The key to the Company's long-term success is to efficiently produce modern, high-quality and modestly priced products in cooperation with the leading global automotive companies.

Strategic goals

The Company pursues the following strategic goals:

- Ensure stable growth of the Company and its market share by building up a dominant position in the fastest growing segments of the automotive market – SUVs and LCVs – through (a) securing competitiveness of its existing product range through cost leadership and using best practices in production, marketing and distribution, and (b) development of new products jointly with strategic partners.
- Increase the long-term shareholder value of the Company by capitalising on its core competences – production of SUVs, LCVs, engines and components.

Chairman's message

Alexey Mordashov
Chairman of the
Board of Directors,
OAO Severstal-auto

In the past year, OAO Severstal-auto clearly demonstrated its ability to implement the Company's long-term development strategy. The steps that Severstal-auto made in this area have provided ample evidence that the strategic assumptions behind the management team's actions are adequate and realistic. Severstal-auto has shown that it is able to evolve as an independent automaker by combining a strategy of modernising its products and implementing projects in partnership with global automakers.

I believe that the most significant result of the past year is Severstal-auto's concentration on creating a competitive product line-up in its vehicle business. The Company has begun preparation for the launch of a brand-new product at UAZ, the UAZ Patriot sports utility vehicle. The mass production of this model will commence in 2005. In comparison with other products of UAZ, this full-size SUV features a higher level of comfort, technology and quality. The Company has made a focussed effort, striving to launch a genuinely successful and popular product. The UAZ Patriot has passed the technical audit and improvement phase; Prodrive, a leading international engineering company, was involved.

For the long term, we associate the future of UAZ with potential utilisation of platforms of foreign automakers for the models to be produced at the plant. This will not only save the time and investment needed in order to develop our own products, but also, which is more important, achieve a guaranteed level of quality and flexibility in using the resources of the global components industry.

The initial steps in utilisation of foreign platforms by UAZ are already reflected by our agreements with SsangYong Motor Company. Signing the licence and cooperation agreements with SsangYong Motor Company represents the past year's key event that provided new opportunities for enhancing Severstal-auto's competitive position.

By obtaining the right to manufacture the new SsangYong Rexton in Russia, the Company has found an adequate product offering to meet the soaring demand for expensive SUVs. Equally important, Severstal-auto has found a partner ready to provide adequate technical support to the new project and assist in improving UAZ vehicles. This approach completely meets our expectations of a strategic partnership. We hope that it will allow Severstal-auto to make a truly significant breakthrough on the competitive landscape, and achieve a dramatically new level of technical competencies and quality of the product range.

The second, but no less significant, result of the year was the fact that the Company has demonstrated its ability to manage its day-to-day operations and generate internal growth – by improving productivity and exercising strict control over costs. In consequence, Severstal-auto has been able to mitigate the negative trends arising from an unfavourable market environment and achieve impressive growth of financial results in 2004. Going forward, the management's key task will be to sustain the positive momentum achieved in 2004 in implementation of production-optimisation programmes and demonstrate the same commitment to ensuring that all necessary cost-reduction measures are taken.

Severstal-auto's achievements in the past year are all the more important as the window of opportunity for us to prepare to compete with global players in the Russian market closes ever so fast. Severstal-auto's performance in 2004 is testimony to the strength of its commitment to be a successful automotive player for years to come.

General Director's message

Vadim Shvetsov
General Director,
OAO Severstal-auto

The past year has been both difficult and successful for OAO Severstal-auto. The Company's viability has been put to the test. The Company has demonstrated its ability to work efficiently in an unfavourable market environment. Nonetheless, we have made a significant long-awaited step forward by implementing our strategy aimed at strengthening our competitive position through partnerships with global automotive manufacturers. This strategy will keep us on track for future growth and provide us with the capability to respond adequately to the changes sweeping through the Russian automotive marketplace.

Our ambition to be a competitive automotive player was made into reality by cooperating with the Korean automaker SsangYong Motor Company. OAO Severstal-auto has signed a licence agreement to manufacture the SsangYong Rexton SUV in Russia. Production will begin at the end of 2005. In addition, the Company has been granted exclusive rights to the distribution of the entire SsangYong model range in Russia. We also agreed on the possibility to further launch new models of the Korean partner which will be unveiled internationally during 2005.

Our choice of SsangYong Motor Company as a strategic partner was not accidental: this Korean automaker, like Severstal-auto, specialises in SUVs and enjoys leadership of this segment of the Korean automotive market. Our agreement with SsangYong reflects all the issues of vital importance to Severstal-auto: under the licence, the Company will assemble brand-new, rather than phased-out, models, the Korean auto maker will provide complete technical assistance to Severstal-auto employees, while in the future the companies also intend to discuss a potential for joint R&D work and improvements in the UAZ product range. I have every confidence that the products designed by SsangYong Motor Company, which we will manufacture under licence, will be successful in the Russian market. On the back of our cooperation with SsangYong, Severstal-auto will follow the same path through which the Korean company went, ultimately becoming one of the leaders in their segment through cooperation with DaimlerChrysler and development of their own successful models.

This agreement with SsangYong Motor Company is all the more critical for Severstal-auto as the speed of structural change in the Russian market surpassed all expectations. Global automotive brands increased the vigour with which they expanded in the Russian market. At the same time, the Russian incumbents clearly saw their key competitive strengths decline significantly as a result of the dramatic rise in raw material costs which almost matched the global average. For Severstal-auto, the most significant problem was rooted in the actual halting of government procurement both by the federal centre and regions. This was a result of comprehensive reform of the government in 2004: old agencies were disbanded while new ones were created, with temporary difficulties with distribution of funds. This caused the decline in UAZ sales. A significant portion of UAZ products, especially commercial vehicles, has been historically consumed by state-funded entities and governmental agencies – the absence of state tenders and procurement caused difficulties in sales.

At the same time, the domestic difficulties were partially off-set with proactive selling overseas. In the past year, UAZ exported 20,608 vehicles, an increase of 28%. This was achieved by both further developing assembly operations overseas and agreeing large contracts for exporting vehicles to Iraq and Afghanistan. Consistently focusing on developing distribution networks abroad and entering new markets also contributed to this. In consequence, UAZ was able not only to successfully return to its traditional markets but also found new attractive markets – South and South-East Africa. In order to maximise its export potential, UAZ launched right-drive off-road vehicles – the first batch of such vehicles was exported to Kenya. ZMZ, in its turn, did a great deal in order to enter China and Iran, the most attractive exports markets. In the past year, ZMZ engines successfully passed the majority of certification tests as part of the IVECO DAILY truck produced by NAVECO, a Chinese auto maker, which gives reason to expect that shipments of 406-series engines to the Chinese market will begin in 2005. The reinvigoration of the Company's export activities resulted in a 48% increase in export sales revenue to RUB 3.5 billion, while consolidated sales of Severstal-auto saw an 18.8% increase compared to 2003, to RUB 23 billion.

In perspective, the difficult domestic market environment in the past year provided an impetus for mobilising internally in order to sustain the efficiency of operations. Intense cost-cutting and production optimisation were the foremost items of the past year's agenda. We continued with our initiatives aimed at breaking monopolies in the components market and developing alternative suppliers, at improving management of working capital and optimising headcount. However, our reinvigorated restructuring of entities and reengineering of production processes brought most palpable results through a combination of Severstal-auto's own steps and engagement of leading global advisors. In the summer of 2004, we concluded a one-year contract with the Dutch engineering company Gemco, one of the global leaders in the foundry business, to manage the foundry division of ZMZ. Gemco was set clear targets to improve the efficiency of this division. During the first six months of the engagement, Gemco managed to reduce overall costs of the foundry division by more than 3%. Overall, reorganising certain non-core divisions has helped achieve an average 5-10% cost reduction by spun-off companies.

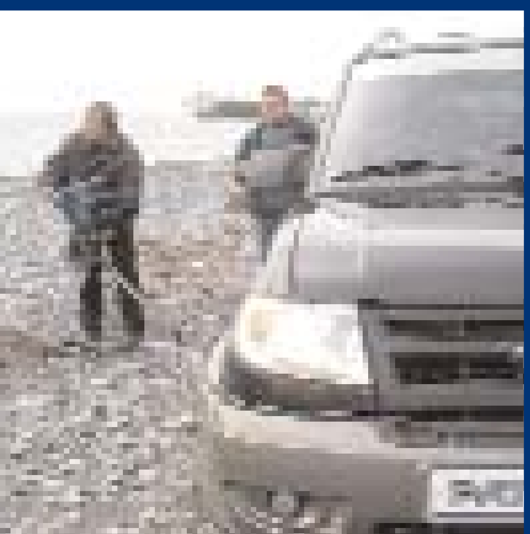
Introducing production systems based on the principles of Just-in-time and Lean Manufacturing at production sites has generated a 3.5% increase in productivity and a 9.5% decrease in costs related to production defects.

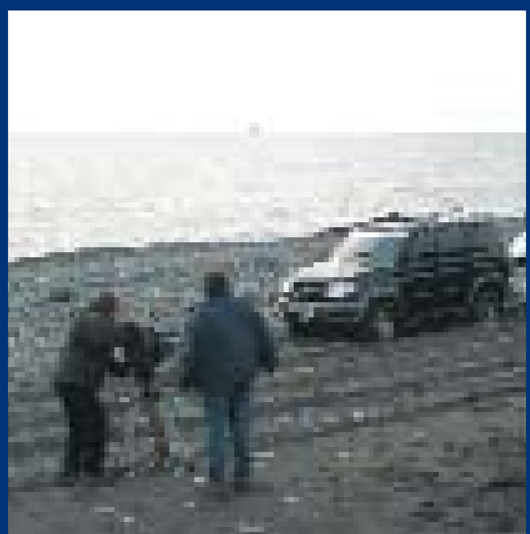
The cost-cutting initiatives have generated annual savings of approximately RUB 650 million for Severstal-auto. The increase in sales revenue and our cost-cutting initiatives have allowed Severstal-auto to achieve the most successful results in its entire history. Consolidated net income of Severstal-auto increased by 49% to RUB 1.3 billion for 2004. In terms of key profitability ratios, Severstal-auto is ahead of not only Russian but also many global automotive producers.

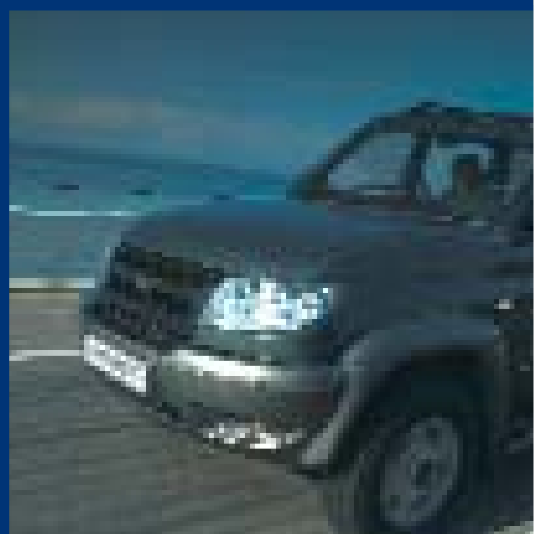
The positive trend in financial performance of the holding company allowed Severstal-auto's management team and Board of Directors to propose the Company's shareholders payment of an interim dividend of RUB 10 per ordinary share in respect of the results for the nine months of 2004 with a total dividend of RUB 21 per share in relation to the results of the entire year 2004. As a result, dividends in respect of 2004 will total RUB 625.8 million. Severstal-auto's future dividend policy will be based on the Company's investment requirements and financial results achieved.

The principles of a dividend policy will be pronounced in the Corporate Governance Code of Severstal-auto. We began drafting this code in the past year. This process will be completed by obtaining approval of this code by the 2004 Annual General Meeting of Shareholders in June 2005. The Code's development, however, is not the only major event in the corporate governance area last year. Severstal-auto made a number of important steps towards greater openness and transparency. We increased the number of independent members of the Board of Directors by electing David Herman, a former Vice-president of General Motors, to chair the Strategy Committee and Seppo Remes to chair the Audit Committee. In February 2005, the Board of Directors established a Personnel and Remuneration Committee. We trust that these steps, combined with the experience and reputation of the new members of the Board of Directors, will help Severstal-auto become a truly public company.

In summing up the results of 2004, I would like to highlight its most important outcome – new experience and skills in efficient management of resources and consistent progress towards our targets. This gives us reason to believe that Severstal-auto is an automotive company with a bright future.







Corporate governance

Company profile

Founded in 2002, OAO Severstal-auto (the "Company") is a Russian automotive holding company that owns controlling shareholdings in UAZ and ZMZ. UAZ and ZMZ are well-known Russian automotive brands and are among the leaders in their respective market segments:

- UAZ was founded in 1941, privatised in 1992 and is now the second largest manufacturer of SUVs and LCVs in Russia, exporting approximately 29% of its total vehicle sales.

- ZMZ was founded in 1958, privatised in 1992 and is now the largest Russian producer of engines with displacement of over 2.2 litres satisfying the Euro 2 environmental standard for Class E automobiles, LCVs and SUVs.

UAZ's principal automobile products are light commercial vehicles (including trucks, minibuses and multi-purpose commercial vehicles with off-road capabilities) and sport utility vehicles for cross-country and urban use. UAZ has always focused on economy LCVs and SUVs, but following the market trends, it has recently entered the mid-priced SUV market segment.

ZMZ manufactures a range of four cylinder petrol engines for cars, SUVs, micro- and mini- buses and light commercial vehicles. ZMZ also manufactures eight cylinder petrol engines used in mid-size trucks and buses.

In December 2004, the Company signed a licence agreement with SsangYong to manufacture the SsangYong Rexton model in Russia. This agreement also granted the Company exclusive distribution rights for the Rexton manufactured by the Company. The parties are planning to discuss extending their partnership, including the assembly of other SsangYong models in Russia, joint export and research and development initiatives. The Company is also in the process of negotiating with another strategic partner over the joint production of LCVs.

Shareholders

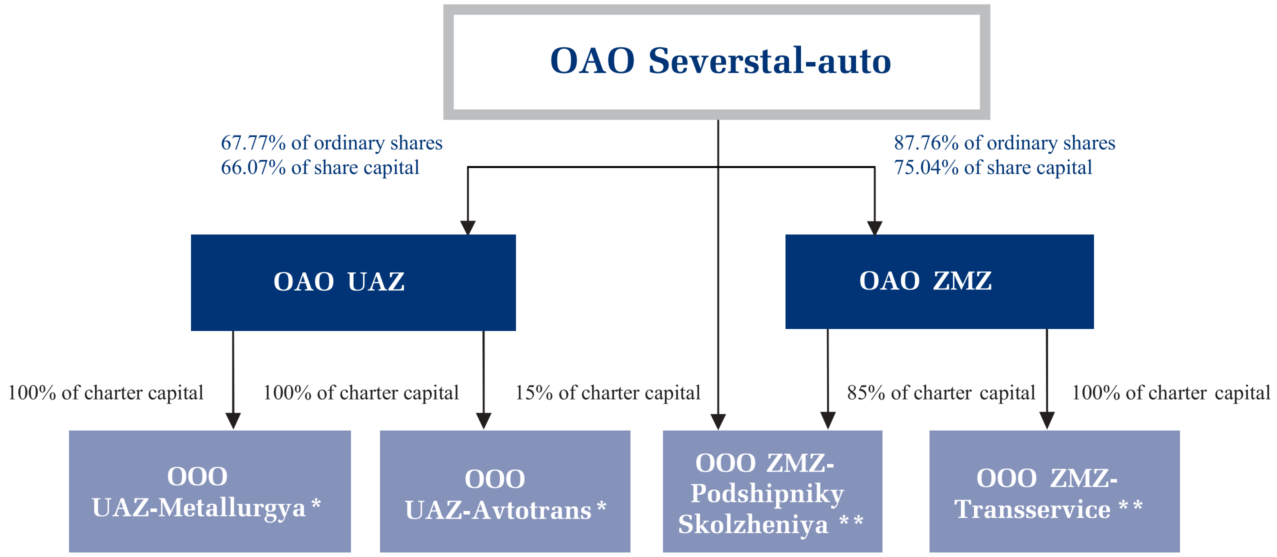
As at 31 December 2004, the Company's share capital consisted of 29,800,159 issued and outstanding registered ordinary shares. According to the Company's Charter, the Company has 52,274,033 additional authorised shares. Of this amount, the issuance of additional 4,470,000 ordinary shares was registered with the Federal Service for Financial Markets of the Russian Federation (FSFM) on 13 January 2005.

As at 31 March 2005, 87.69% of ordinary shares of OAO Severstal-auto was owned by Newdeal Investments Ltd., Cyprus. Alexey Mordashov, Chairman of the Board of Directors of the Company, beneficially owns 85% of ordinary shares of Newdeal Investments Ltd. and Vadim Shvetsov, the Company's General Director and a member of its Board of Directors, beneficially owns the other 15% of ordinary shares of Newdeal Investments Ltd. Thus, currently, Alexey Mordashov beneficially owns approximately 74.54% of ordinary shares of the Company and Vadim Shvetsov beneficially owns approximately 13.15% of ordinary shares of the Company. Approximately 7% of ordinary shares of the Company is owned by institutional investors. The remaining 5% of ordinary shares of OAO Severstal-auto is owned by former and existing employees of OAO Severstal, who received these shares as in-kind dividends from OAO Severstal. None of these minority shareholders have a holding higher than 1% of ordinary shares of the Company.

The Company is in the process of completing its initial public offering. As part of this offering, Newdeal Investments Ltd. provided 8,940,047 ordinary registered shares (amounting to approximately 30% of the Company's share capital) for the initial public offering at a price of US$ 15.10 per share. The principal shareholder intends to invest into the Company approximately 50% of the proceeds from the sale of its shares by purchasing newly-issued shares of the Company. The total number of the newly-issued shares of the Company that will be available for subscription will be 4,470,000 (which is approximately 15% of the Company's share capital). Newdeal Investments' equity stake in the Company's post-offering share capital is not expected to exceed 64%.

Simplified corporate structure

(1 March 2005)



* The subsidiaries were established as a result of the optimisation of UAZ assets to reduce costs and make business more efficient. No significant assets of UAZ were transferred to the subsidiaries.

** OAO Severstal-auto owns 15% directly and 64% indirectly via its subsidiary ZMZ in OOO ZMZ-Podshipniky Skolzheniya. OOO ZMZ-Transservice is 100% owned by ZMZ.

The Company owns 67.76% of the ordinary shares and 66.06% of the total share capital of UAZ. The main minority shareholders of UAZ are the Federal Agency for Property Relations (13.19% of total equity), Non-state Pension Fund Leader (12.11% of total equity). The remaining shares are owned by a number of individuals and institutional investors.

The Company owns 87.76% of the ordinary shares and 75.04% of the total share capital of ZMZ. The remaining shares of ZMZ are owned by individuals and institutional investors, none of whom owns more than 2% of the share capital of ZMZ.

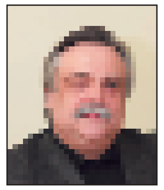
severstal-auto | annual report 2004

Board of Directors

The Company has a nine-member Board of Directors. The Board is elected by shareholders by cumulative vote and generally manages the Company's corporate affairs, such as convening the general shareholders meeting, making decisions on the issuance of bonds, validating annual financial reports, and approves major and interested-party transactions, unless such transactions require shareholders' approval. The following persons are members of the Board of Directors: Alexey Mordashov, Vadim Shvetsov, Viktor Klochai, Sergey Gorelik, Alexander Makarov, Seppo Remes, David Herman, Vladimir Kozlov and Pavel Chelnokov.

Alexey Mordashov (1965) is the chairman of the board of directors of the Company, OAO Severstal, ZAO Severstal-trans and other companies. He is general director of ZAO Severstal Group. Mr Mordashov graduated from Leningrad Institute of Engineering and Economics, and has an MBA degree from the Business School of the University of Northumbria (UK).

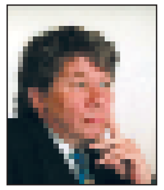
Vadim Shvetsov (1967) is the general director of the Company, chairman of the board of directors of UAZ and ZMZ and first deputy general director of ZAO Severstal-group. Mr Shvetsov holds seats on the boards of directors of the Company, ZAO Severstal-trans, OAO Sveza and OAO Severstal-metiz. Mr Shvetsov has been on the board of directors of ZAO Sevestal-Invest since 1994; he was general director of ZAO Severstal-Invest in 1996-2002; and has been a board member of OAO Ospaz, OAO Severstal-resource and OAO Severstal. Mr Shvetsov graduated from Moscow Institute of Steel and Alloys. He has an MBA degree from the Business School of the University of Northumbria (UK).



Viktor Klochai (1957) is a member of the boards of directors of UAZ, ZMZ and OAO Severstal-auto, and first deputy of the Company's general director. He was production director of OAO Severstal in 1995-1997 and 1999-2000, general director of UAZ in 2002-2003 and of ZMZ in 2001-2003. Mr Klochai graduated from Donetsk Polytechnic Institute in the Ukraine.

Sergey Gorelik (1976) is the head of the financial planning department of ZAO Severstal-group and member of the boards of directors of the Company, ZMZ, UAZ, OAO Severstal-resource, OAO Metkombank, and other mining and insurance companies. Mr Gorelik was chief economist of OAO Severstal in 2000 and head of the bureau for relations with affiliated persons in 2000-2002. Mr Gorelik graduated from Karagadinsky Metallurgichesky Institute.

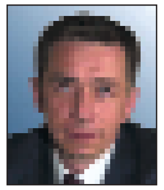
Alexander Makarov (1959) is the leading advisor of the lawyers' bureau Centurion - M and serves as an independent director on the board of directors of the Company. In the past, Mr Makarov held a senior position in the Federal Service of the Tax Police. Mr Makarov graduated from Minsky Higher Engineering Air Defence Missile College and Moscow Academy of Economics and Law.



Seppo Remes (1955) is an independent director of the Company, president of Kiuru Partners LLC (management consulting), member of the board of RAO UES, where he chairs the audit committee, board member of OAO OMZ and Ponsse Oyj. Mr Remes was vice-president of NESTE and director of its Moscow representative office in 1993-2001, and was general director of Vostok Energo Investment in 2001-2003 and Vostok Nafta Investment in 2002-2004. Mr Remes graduated from Oulu University and holds a PhD from Turku School of Economics and Business Administration.

David Herman (1946) is an independent director in the Company and member of the American-Russian Business Council of the American Chamber of Commerce in Russia and RAND Corp. Russia Business Leaders Forum. He was with General Motors for 29 years, including 10 years as a vice-president. He has established GM-AVTOVAZ, the largest Russian automotive joint venture, was chairman of the board of Adam Opel AG, general director of SAAB Automobile and represented General Motors in a number of countries. He was the first representative of General Motors in Spain, where he supervised the establishment of GM Espana in 1978-1982. Mr Herman graduated from New York University, holds a master's degree from Harvard Graduate School and a JD degree from Harvard Law School. He received the German Bundesverdienstkreuz and the Belgian Order of Leopold honours.

Vladimir Kozlov (1960) is a member of the boards of directors of the Company and OAO Severstal-resource, and deputy general director for general matters of ZAO Severstal-group. Mr Kozlov held a number of senior positions in the government, including as Deputy Minister of Internal Affairs in 1999-2001. Mr Kozlov graduated from the Higher School of the Ministry of Internal Affairs.



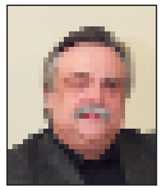
Pavel Chelnokov (1966) is the general director of OOO Capital and OOO Staltrust, and a member of the boards of directors of the Company, OAO Severstal and OAO Severstal-resource. Mr Chelnokov was head of the legal department of ZAO Severstal-invest in 1995-2002, deputy general director for legal matters of OOO Severstal-Invest Service in 1999-2000, general director and member of the boards of various companies. Mr Chelnokov graduated from Yaroslavsky State University.

The Board's Committees

Strategy	Audit	Personnel and Remuneration
David Herman (Chair)	Seppo Remes (Chair)	Alexander Makarov (Chair)
Viktor Klochai	Pavel Chelnokov	Pavel Chelnokov
Vadim Shvetsov	Sergey Gorelik	Alexey Mordashov

Executive Management

Vadim Shvetsov (1967) is the general director of the Company. For more details on Mr Shvetsov please refer to the description of the board of directors above.

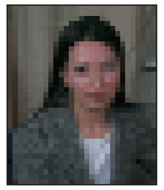


Viktor Klochai (1957) is the deputy general director of the Company and the managing director of UAZ and ZMZ. For more details on Mr Klochai please refer to the description of the board of directors above.

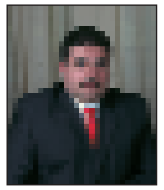
Nikolay Sobolev (1976) is the chief financial officer of the Company. Prior to joining the Company, Mr Sobolev was first deputy general director and vice-president of ZAO Yuzhuralmash Holding and a member of the board of directors of OAO Yuzhuralmash. Currently, Mr Sobolev is also economy and finance director and a member of the board of directors of UAZ. Mr Sobolev graduated from the faculty of economics of Moscow State University, holds a degree in financial management from Academy of National Economy, obtained an MBA degree from Kingston University (UK) and PhD in Economics from Moscow State University.

Alexey Rakhmanov (1964) is the director for business strategy of the Company. In the past, Mr Rakhmanov worked as an engineer of the off-road vehicles department of Gorky Polytechnic Institute, was a deputy head of the non-standard equipment production division and was head of the department of foreign economic relations of Lazur plant in Nizhny Novgorod. He worked as senior economist of the department of international relations in the Administration of the Governor of the Nizhny Novgorod Region in 1992-1994 and the Russian privatisation centre in Moscow in 1994-1996. From 1996 to 2002 Mr Rakhmanov worked in the corporate finance department of Ernst & Young in Moscow and in London where he held positions from senior consultant to senior manager. Mr Rakhmanov received his bachelor's degree in automotive engineering from Gorky Polytechnic Institute in 1986 and an MBA degree from the University of Chicago in 2003.

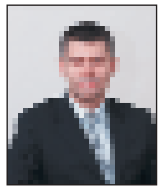
Vasiliy Boitsov (1971) is the marketing director of the Company. In the past, Mr Boitsov worked at KPMG and Ernst & Young, providing services to automotive companies. He also was director of the Centre on Promoting Investments in the Automobile Industry. Mr Boitsov graduated from Moscow Aviation Institute (Technical University) where he received degrees in engineering and economics and a Candidate of Science (Engineering) degree. He attended several courses at Michigan State University in 1991-1992 and is a Member of the Association of Chartered Certified Accountants (ACCA).



Zoya Kaika (1978) is the public relations director of the Company. In the past, Ms Kaika worked first as a journalist and then deputy of the chief editor of the Russian popular economic newspaper “Vedomosti” before she started to produce her own programme on the “Open Radio Station”. In 2002, she joined Severstal Group as an analyst and, in 2003, became public relations director of the Company. Ms Kaika graduated from Moscow State University with a degree in journalism.



Adil Shirinov (1964) is the commercial director of the Company. In the past, Mr Shirinov was commercial and supply director of OTIS Elevators Russia in 1993-1998, director for production and non-production procurement, regional supply director with Ford Motor Company in 1999-2002 and supply director of OAO RusPromAvto in 2003-2004. Mr Shirinov graduated from Nizhny Novgorod Institute of Foreign Languages and received an MBA degree from International Management Institute in Saint Petersburg.



Oleg Mikhailov (1976) is the Company’s director for business controlling. Prior to joining the Company in 2003, Mr Mikhailov worked as a management reporting specialist in the Volga-Dnepr Group. He graduated from Bashkirskiy State University with a degree in mathematics in 1998, and from Russian Economic Academy im. Plekhanova with a degree in economics in 2002.

Oleg Semenov (1965) is the sales director of the Company. Mr Semenov was manager at the car sales department of Rolf Holding Co. in 1997-1999, warranty manager of CMV Truck & Bus in 1999-2000, head of the car sales department of Rolf SP and of ZAO SP Diamant Ltd. of the Rolf Group and commercial director of Citroen Centre Moscow LLC. Mr Semenov graduated from Moscow Road Transport Institute as a mechanical engineer.

Directors’ compensation

Compensation paid to key management and directors for their services in full or part time executive management positions is made up of a contractual salary and a performance bonus depending on operating results.

Additional fees, compensation and allowances to directors for their services in that capacity, and also for attending board meetings and board committees’ meetings were not paid.

Total key management and directors’ compensation included in general and administrative expenses in the statement of income amounted to RUB 71 million for the year ended 31 December 2004 (2003: RUB 89 million).

Corporate governance developments

In our first annual report, which discussed the results of 2003, we expressed our commitment to building a robust system of corporate governance based on the three core values: transparency, accountability and adaptability.

We adhere to them by embedding best practices into day-to-day operations of the Company. During the last three years, the following steps have been taken to improve the Company’s corporate governance:

- In February 2005, the Company established an audit committee, headed by Seppo Remes, one of the independent directors, to review the adequacy of internal controls, and also to review the results of the Company’s internal and external audits.
- In February 2005, the Company’s Board of Directors approved audit committee, strategy committee and remuneration committee regulations as well as a number of documents regulating information policy of the Company. The Board of Directors has also approved Corporate Governance Principles, including the Company’s dividend policy which the Company expects to propose to the next annual general shareholders’ meeting of the Company for approval.
- In December 2004, two new independent directors were invited onto the Company’s Board of Directors so that the number of independent directors on the Board totalled three.
- In 2004, based on the balanced score card, a detailed set of financial and non-financial performance measures was developed, which has allowed the management to gauge the long-term profitability and sustainability of the Company.
- In 2004, the Company issued the first annual report in the Company’s history for the year ended 31 December 2003 in accordance with international best practices.
- In 2003, the Company adopted the practice of producing IFRS accounts on a half-year and annual basis. Currently, the Company has IFRS consolidated financial statements for 2002-2004 financial years.

Striving to achieve the highest standard of corporate governance

Corporate governance has legal and overall management dimensions. In its daily business transactions, compliance with all applicable laws and regulations is vital and significant attention is paid to ensure it is maintained. Developing a compliance monitoring system is an important initiative pursued by the Company in this area. The Company’s internal policies and by-laws are designed to achieve compliance in the context of the Company’s realities. This calls for the Board of Directors and executive management team to work together in order to achieve the highest standard of corporate governance. While the tasks of the Board and executive management differ, they work together not only through formal communication, but also by means of ad-hoc mechanisms. These teams interact proactively to ensure that good corporate governance is adopted, practised and reported by the entire organisation.

Audit committee

In February 2005, the Company's Board of Directors established an audit committee. The Board also approved the regulation on the audit committee which sets out the committee's responsibilities, criteria for appointment and the committee's procedures. The Board of Directors established the committee charging it with the tasks of ensuring completeness and accuracy of reporting; monitoring the internal control system, internal audit and risk management; reviewing the results of the Company's internal and external audits; evaluating the work of external auditors and proposing appointment of external auditors; and overseeing the compliance with legislation, the Company's Charter and internal regulations of the Company. The committee is made up of three non-executive members of the Board of Directors and is appointed for the tenure of the Board. Seppo Remes, an independent director, was elected chairman of the committee. Since February 2005, the committee has met six times. In March 2005, the committee met with external auditors to discuss the results of the Company's audit of the financial year 2004 and reviewed the Company's IFRS financial statements before their publication.

Strategy committee

In February 2005, the Company's Board of Directors decided to appoint a committee for strategy. This committee will develop recommendations to the Board on matters of the Company's strategy and priorities, including evaluation of business plans, restructuring opportunities and investment projects. The committee is made up of three members of the Board of Directors. The committee is appointed for the tenure of the Board.

Personnel and remuneration committee

This committee was also established in February 2005. The Board sees its role in developing policies and recommendations for attracting competent individuals to running the Company and establishing a fair level of remuneration. The committee is tasked with developing the principles and criteria for setting the level of the compensation of the Board's members and general director; recommending significant provisions in contracts with the Board's members and general director; determining the criteria for selection of candidates to the board and general director, and preliminary evaluation of candidates; and evaluating the performance of the general director on a regular basis and recommending reappointment. The committee also monitors the market situation to ensure that the Company's compensation of its senior management is competitive. The committee is made up of three members of the Board, except for the general director.

Information disclosure

The Company has published its IFRS financial statements and other reports on its corporate web site since 2003. This decision reflects on the Company's long-term goal of transforming the Company into a transparent and investor-friendly organisation. In 2004, the Company started to prepare for an initial public offering of its shares to investors in global capital markets, except the United States and several other countries. This has been a major learning experience for the management team in preparing to meet the expectations of the international investment community. As the IPO takes place and the Company becomes public, it will be able to conduct a meaningful dialogue with investors, complying with their information requirements as well as listing rules and applicable legislation. In February 2005, the Company's Board of Directors approved a corporate information policy to confirm its commitment to providing complete and accurate information on the Company to shareholders, investors and other stakeholders in a timely and fair manner (accessible to all stakeholders). In view of this policy, the Company's stakeholders should understand that it is fully committed to openness and transparency, while reasonable limits to information disclosure should exist where excessive disclosure can mislead investors or can harm the Company's commercial interests.

severstal-auto | annual report 2004

The Company's approach to disclosing information is based on the principle of providing information to all interested parties, irrespective of their purposes. Everybody should have the equal opportunity to locate and obtain information.

The Company is bound by law to disclose specific categories of information required by the joint-stock company law, securities market law, rules issued by the federal securities market regulator and other regulations dealing with information disclosure, including:

- Information provided to shareholders in accordance with laws and other regulations;
- Quarterly reports of the securities issuer;
- Bulletins describing significant transactions (events, actions) that have an impact on the Company's activities;
- Disclosure of information that may influence significantly the price of the Company's securities;
- Securities prospectuses and issuance status reports, when required by law;
- Disclosure of related parties;
- The Charter and internal regulations;
- Annual report and financial statements; and
- Other information, as required by law or market regulations.

The Company strives to surpass these requirements by disclosing information that stakeholders need in order to make investment or managerial decisions in relation to the Company, including corporate news, strategic priorities, organisational structure, social policies, financial and operating results, public statements made by the Company's management and employees in the mass media. The Company's web site (www.severstalauto.ru) is being redesigned to improve access to information and its content.

Expected developments

It is expected that the annual general shareholders' meeting, which will be held on 10 June 2005, will vote on adopting the Company's dividend policy which is and will be primarily dictated by the Company's available resources balanced against its investment needs. These factors will be considered when the Company will make potential amendments to the policy. Another important item on the meeting's agenda will be adoption of the Company's code of corporate governance.

Business strategy

Strategic priorities

Key element	Action points
Low cost modernisation of the traditional product range of UAZ and ZMZ	■ The Company intends to extend the life of its existing product range through low cost modernisation. In July 2005, the Company expects to introduce a new four-wheel-drive vehicle UAZ Patriot, which is an entirely new generation of SUVs based on R&D work done in the late 1990s. In December 2003, the Company launched the UAZ Hunter SUV, an upgraded version of its old 3151 range with improved consumer appeal and technical characteristics. ■ The current 406 family of engines was designed so that it could be quickly upgraded to meet the Euro 3 standard at little or no additional cost. Furthermore, the Company, with the assistance of leading global engineering consultants, is in the process of developing engines satisfying Euro 4 requirements that can be put in production once the new environmental standards become effective. ■ In addition to investing its resources into product modernisation, the Company continuously strives to improve the quality of the assembly process and the quality of the components used in its products.
Production of new vehicles and model ranges in partnership with global automotive manufacturers	■ According to the Licence Agreement signed with SsangYong in December 2004, the Company has obtained rights to manufacture the SsangYong Rexton model in Russia. After the Rexton is launched in Russia at the end of 2005, the Company and SsangYong will consider the possibility of assembling other SsangYong models in Russia. The new SUV range may be extended to include light SUVs and other luxury SUVs of SsangYong. ■ The Company is also in the process of negotiating with another potential strategic partner on establishing joint production of LCVs.
Production of modern automotive components in partnership with global manufacturers	■ The Company plans to establish a separate automotive component manufacturing business in partnership with global automakers to take advantage of the continuing trend by major global vehicle manufacturers of switching component manufacturing to countries with low material and labour costs and to capitalise on the Company's excess component manufacturing capacities. The Company sees high potential in the market for components as more global vehicle manufacturers set up manufacturing and assembly operations in Russia.
Competitive pricing	■ The Company aims to maintain affordable prices as a key competitive advantage of its traditional products, which can be sustained through reduction of costs and higher operational efficiencies. To sustain its cost leadership, the Company aims to further increase the productivity and efficiency of its production processes and to introduce comprehensive cost-cutting measures.

Key element	Action points
Continuous development of the company's distribution and services network	■ Although it already has a very extensive distribution network, to make the Company's products even more attractive to consumers the Company is working with its distributors and dealers to ensure that the sales and service centres that market and service the Company's products conform to modern international standards and can satisfy the growing expectations of the end consumers of the Company's products.
Consolidation and development of R&D resources	■ To preserve and develop its engineering competences, the Company aims to combine R&D resources of UAZ and ZMZ into a single R&D Centre that will employ its best engineering staff. ■ The Company plans to develop its vehicle design capabilities jointly with its strategic partners. In line with this strategy, the Company is negotiating with SsangYong with a view towards undertaking joint R&D initiatives, including potential sharing of platforms and reengineering of UAZ production processes. ■ The Company has received a government grant to develop a new generation diesel engine. ■ The Company pays particular attention to the development of its R&D capabilities in components manufacturing (such as power trains), which will be an important factor for its competitiveness on the growing Russian market of automotive components.
Expansion of export programme	■ The Company believes that both ZMZ and UAZ have high export potential due to the well-known brand name, attractive combination of price and quality, unique off road capabilities and maintainability of their products as well as very limited competition in certain price segments. The Company tries to identify new audiences for its products, such as companies involved in ecological tourism, 4WD sporting and leisure activities, etc. The Company expects that older generations of products can be successfully sold in other emerging markets to satisfy basic transportation needs. ■ The management aims to increase its export volume substantially over the next few years by penetrating new geographical markets through entering right hand wheel drive markets, creating local partnerships and signing distribution agreements with local dealerships in the target markets.
Introduction of new marketing tools to promote domestic sales	■ The Company aims to apply the most effective marketing tools to improve its brand image and promote its sales. To support vehicle sales to individual consumers, the Company expects to use the services of internationally recognised advertising agencies. To support sales, the Company works directly with its corporate clients to customise products to meet their specific needs.

severstal-auto | annual report 2004

Strategic partnership with SsangYong

In December 2004, the Company signed the Licence Agreement with SsangYong contemplating the launch of a Complete Knock Down (CKD) assembly of the New Rexton model in December 2005. The agreement is effective until 31 December 2010.

The Company has undertaken to set up an CKD assembly facility, promoting the SsangYong brand in Russia and distributing the assembled Rexton vehicles through the Company's distribution network in Russia. The Licence Agreement further provides for the possibility of expanding the distributorship territory beyond Russia.

The Company considers the Licence Agreement to be the initial step in its cooperation with SsangYong and plans to expand its business relationships with SsangYong further in the near future. The Company has also obtained the exclusive right to distribute several other SsangYong vehicles within Russia (with possible future expansion to the CIS) and to become the exclusive importer of SsangYong Knock Down kits to Russia.

The Company's relationship with SsangYong will evolve into:

- Assembling and distributing in Russia some or all of SsangYong's future vehicle models;
- Sourcing from SsangYong and Daewoo International, SsangYong's trading partner, some of the components needed for manufacturing of other Company's vehicles; and
- Cooperating in other areas, such as coordinating export strategies, establishing joint research and development initiatives, modernising UAZ vehicles and production engineering.

The Company's choice of SsangYong as a partner was made for the following reasons:

- SsangYong manufactures the same classes of vehicles as the Company and is present in the middle and upper price segments, thus creating a possibility for the Company to expand its presence to all price segments;
- SsangYong, through long-term cooperation arrangement with a leading global automotive manufacturer, has substantially adopted the most modern production and R&D practices;
- SsangYong may be willing to allow the Company to assemble its current and future vehicle models; and
- SsangYong agreed to grant the Company the exclusive right to assemble and distribute in Russia its Rexton model for a period of six years, while requiring the Company not to launch production of vehicles competing directly with Rexton.

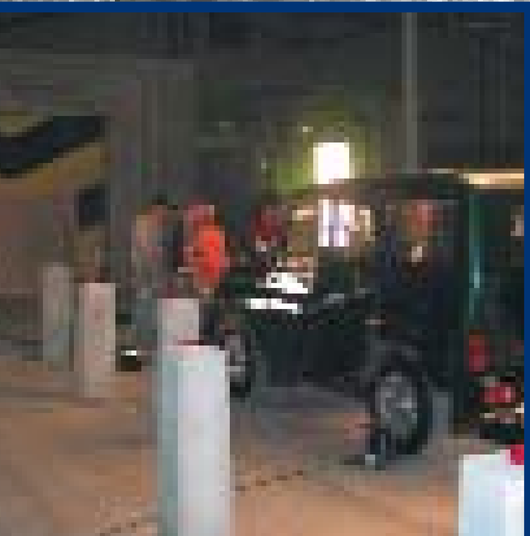
In order to establish the manufacture of the SsangYong SUV, the Company acquired OAO Zavod Mallolitrazhnikh Automobiley ("ZMA") in May 2005. As a result, the Company acquired 99.6% of ZMA's shares for US$ 49.8 million which was raised as part of the recent initial public offering of the Company's shares.

ZMA produces Class A cars branded as the OKA; in 2004, its output was 46 thousand vehicles. The site of ZMA was chosen after thorough review of all available options. The critical factors for this decision were:

- Existing production processes and facilities of ZMA provide for enough flexibility to be able to manufacture SUV and LCV models;
- The plant was newly built utilising the best practices of production engineering, which makes ZMA one of the few production facilities in Russia meeting the modern standards;
- ZMA has a brand new DURR paint shop which was launched in March 2003. Again, with some upgrades, this paint shop can be used for painting the bodies of larger vehicle classes;
- Management of the Company believes that, compared to a greenfield solution, the acquisition of ZMA is a more commercially sound decision. Although the additional investment in new equipment will be not less than US$ 25 million, it is less expensive than building a new plant. In addition, less time will be required to realign the operations to meet the Company's production targets, giving the Company a competitive advantage in relation to global automotive players coming to the Russian market; and
- The plant's workforce is adequately skilled to be retrained for manufacturing foreign models of vehicles.

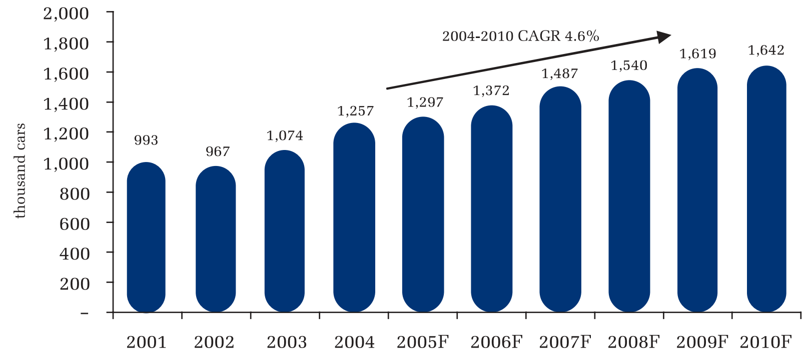
Estimated production capacity of ZMA is up to 80 thousand vehicles a year, which allows the Company, in addition to the Rexton, to continue producing the Oka model and then gradually replace it with new foreign models.

The Company's management views these developments as an important step in achieving the Company's strategic goals.



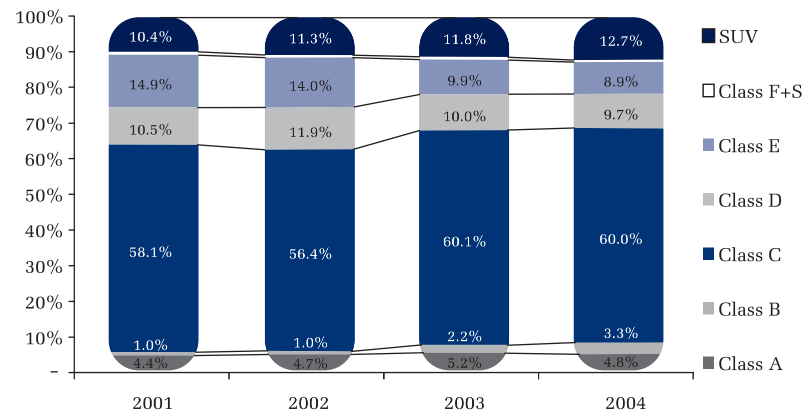
Sales and marketing

Outlook for new car sales including SUV



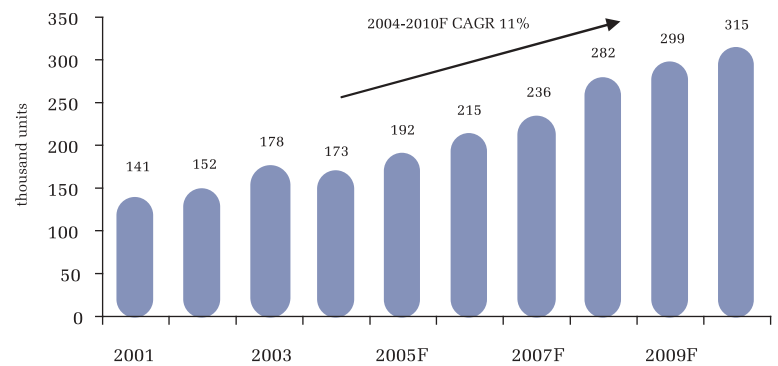
Source: J.D. Power LMC , Global Car & Truck Forecast,
First Quarter 2005.

Share of SUVs in total car sales



Source: European Business Club, State Customs Committee

Outlook for new LCV sales



Source: J.D. Power LMC , Global Car & Truck Forecast,
First Quarter 2005.

Market overview

In 2001-2004, the Russian car market demonstrated a CAGR of 8.2% and LCV market – a CAGR of 7.1% driven by growing disposable income of the population and continued economic upturn. The market share of SUVs in total car sales increased from 11.8% in 2003 to 12.7% in 2004 on the basis of growing popularity of off-road vehicles. Market infrastructure, such as expanding distribution and after-sales services networks and availability of customer credit and trade-in services, has rapidly developed in recent years contributing to the market growth.

However, car penetration in Russia, and particularly in the regions, still lags behind significantly from the majority of emerging markets countries and, thus, is expected to demonstrate a steady growth in the coming years. New car sales are expected by J.D. Power to grow at a 4.6% CAGR in 2004-2010 from 1.25 million cars in 2004 to 1.64 million cars in 2010.

LCV sales are projected by J.D. Power to grow from 173 thousand units in 2004 to 315 thousand units in 2010 at a CAGR of 10.5% on the basis of continued development of small businesses and replacement demand.

In 2004-2010, the local car production in Russia is expected by J.D. Power to grow by 5% CAGR from 1.1 million cars in 2004 to 1.48 million cars in 2010. The production of cars by Russian OEMs is expected to grow by 1.1% in 2004-2010 constrained by capacity limitations; however, their share in total domestic assembly is expected to remain high at 68% by 2010. The local car production by foreign OEMs and JVs is expected to grow by 19% per annum.

The output of SUVs is forecasted by J.D. Power to expand at 8.6% CAGR from 116 thousand in 2004 to 190 thousand in 2010. The output of SUVs by domestic OEMs is expected to grow at 6.7% CAGR in 2004-2010 from 55 thousand units in 2004 to 81 thousand units in 2010 to reach 43% of the total local SUV assembly in 2010. The balance is expected to come from JVs with non-Russian OEMs, which are forecast by J.D. Power to increase production from 60.5 thousand units in 2004 to 108 thousand units in 2010 at a CAGR of 10.2%.

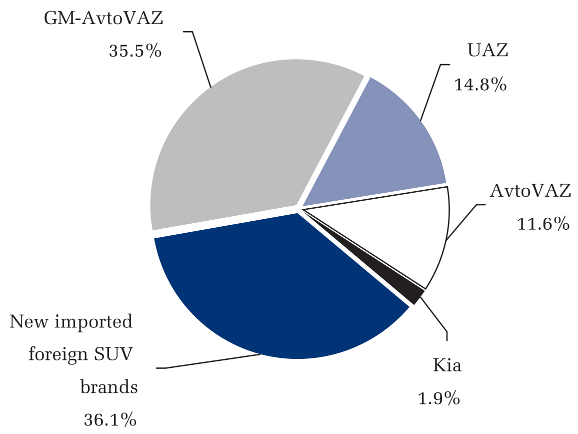
The output of LCVs is expected by J.D. Power to increase at 4.7% CAGR from 193 thousand in 2004 to 255 thousand units in 2010. The output of LCVs by local OEMs is expected to grow at 4% CAGR in 2004-2010 from 193 thousand units in 2004 to 245 thousand units in 2010, while local production of foreign OEMs over the same period will remain insignificant.

In 2002, the Government adopted protectionist customs policy by raising barriers against second-hand imports with the goal to give domestic manufacturers a grace period enabling them to restructure their assets, secure financing to develop new models and develop partnerships with foreign manufacturers, and simultaneously encourage foreign automotive manufacturers to establish local production facilities prior to Russia's WTO entry. The policy stimulated foreign OEMs to enter the Russian market by setting up greenfield production and entering into strategic partnerships with Russian OEMs.

The Company expects that the Euro 2 standard would be adopted by the Government sometime in 2006. The Company dominant that after the adoption of the Euro 2 standard it will be the dominant mass producer of engines with displacement of 2.2 – 2.7 litres for E-class cars, SUVs and LCVs.

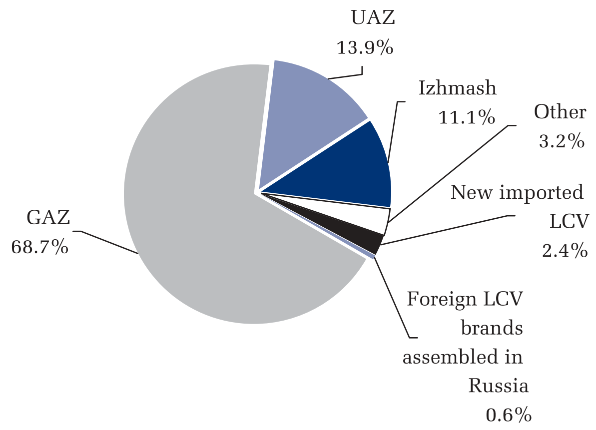
In April 2005, the Government eliminated import tariffs for key automotive parts and components used for vehicle assembly operations on the territory of the Russian Federation, which is likely to make domestic production of foreign models more attractive for foreign original equipment manufacturers (OEMs) and joint ventures with participation of foreign OEMs.

Russian SUV market, 2004 sales



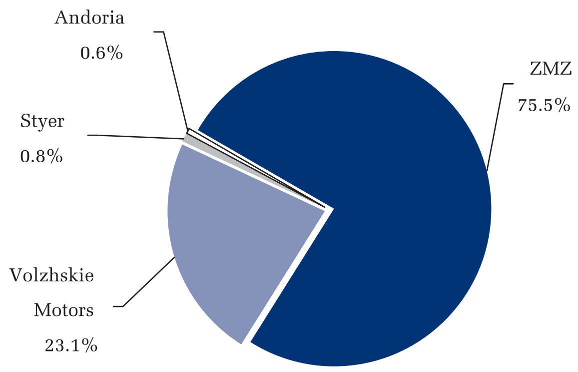
Source: European Business Club, State Customs Committee

Russian Light trucks market, 2004 sales



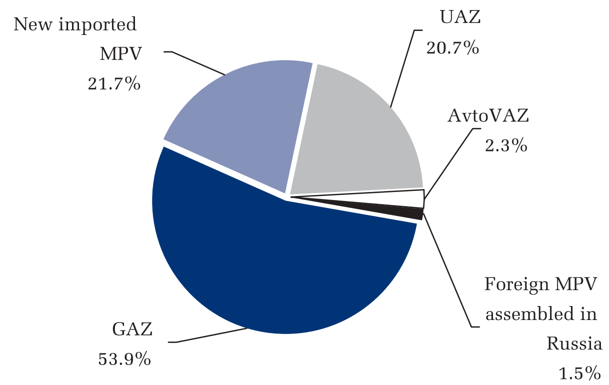
Source: European Business Club, State Customs Committee

Russian 2.3-3 liter engine market, 2004 sales



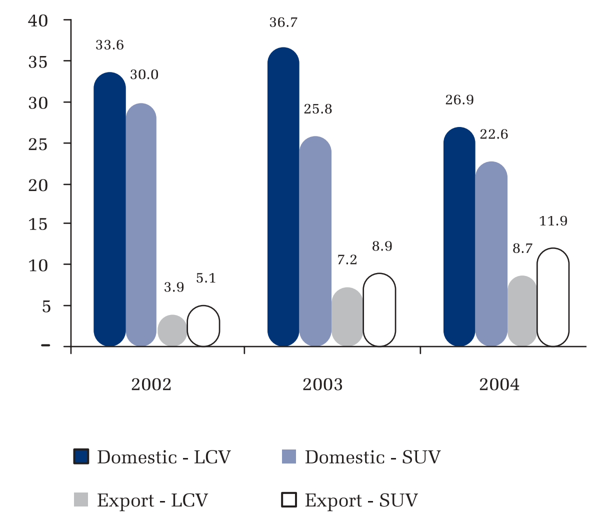
Source: ASM Holding, Companies' data

Russian Vans market, 2004 sales

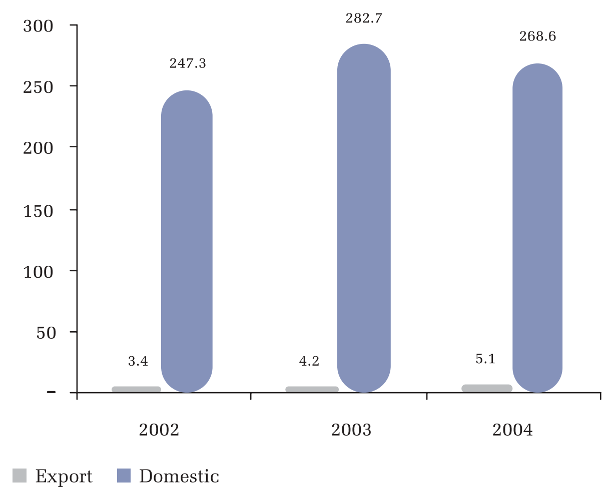


Source: European Business Club, State Customs Committee

Vehicle sales, thousand units



Engine sale, thousand units



Sales and distribution network

In 2004 the Company has focused on restructuring UAZ's and ZMZ's sales and distribution systems. The main objectives of this effort will be to develop affordable quality technical services for our customers, reduce the costs of distributing and transporting products, and obtain reliable feedback from end customers on an ongoing basis.

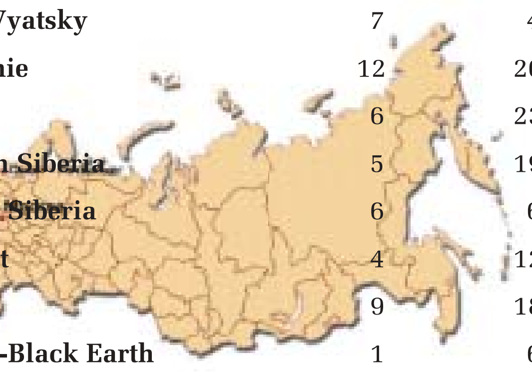
Sales of automobiles

The table below sets out the number of UAZ vehicles sold during 2002-2004:

	Year ended 31st December					
	2004		2003		2002	
	Sales volume, units	Share of total sales volume	Sales volume, units	Share of total sales volume	Sales volume, units	Share of total sales volume
Light trucks	18,536	26%	22,297	28%	17,569	24%
Vans	17,083	24%	21,572	27%	19,914	27%
SUVs	30,736	44%	32,676	42%	34,461	48%
Assembly kits	3,716	5%	1,999	3%	597	1%
Total	**70,071**	**100%**	**78,544**	**100%**	**72,541**	**100%**
Of which export	20,608	29%	16,049	20%	8,981	12%

The sales volume decrease by 11% in 2004 is mainly a result of a temporary decline in orders from governmental agencies due to the restructuring of a number of those agencies that began in March 2004 and continued throughout the year. The management of the Company believes that government orders will be re-bound in 2005 once the restructuring is completed. The decrease in the Company's sales volume in the Russian market by about 13 thousand units was partially offset by a 4.5 thousand units increase in export sales.

Domestic sales and distribution network



	Distributors	Dealers
North	3	12
North West	2	5
Volgo-Vyatsky	7	4
Povolzhie	12	26
Urals	6	23
Western Siberia	5	19
Eastern Siberia	6	6
Far East	4	12
Central	9	18
Central-Black Earth	1	6
North Caucasus	4	10
Total	**59**	**141**

severstal-auto | annual report 2004

The Company has contractual arrangements with over 59 distributors and 141 dealers selling its vehicles at 200 points of sale across Russia. In 2004, the Company's domestic vehicle sales network covered approximately 109 cities in 60 regions.

The Company plans to further extend this sales network by contracting with new dealers.

Over the last two years, as part of the Company's sales and distribution network reorganisation action plan, it has implemented the following steps:

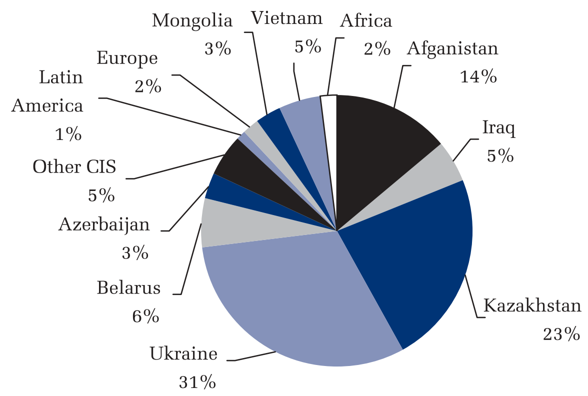
- It has switched to selecting its distributors by tenders and requires that its distributors arrange wholesale warehouses at their premises;
- It has introduced certification of showrooms for compliance with the Company's standards, which calls for the renovation of showrooms, the modernisation of technical service centres, and improvements in the information support sales system etc.;
- It has introduced uniform pricing criteria for the Company's dealers who purchase the Company's products from various regions of the Russian Federation and Belarus. This is achieved by evenly allocating the cost of vehicle delivery throughout the price of vehicles;
- It has introduced uniform pricing for wholesale shipments that are made to the Russian regions and the northern regions of Kazakhstan and Mongolia in an attempt to eliminate unauthorised re-importation from the border districts into Russia; and
- It has developed uniform sales reports. It now requires the Company's regional distributors to provide these sales reports to the Company at the end of each reporting period.

Normally, dealers also sell products of other manufacturers. The Company's distributors and dealers are also well informed about the end-consumers for the Company's products and are a good source of marketing information for the Company.

Export sales and distribution network

Since the Company acquired control of UAZ, it has been directing significant efforts towards increasing the volume of export sales. In 2002, 2003 and 2004 the Company has exported 8,981, 16,049 and 20,608 vehicles and assembly kits, respectively. The Company's target markets in the near future include Africa, Middle East and Latin America. The two main factors that continue to hinder the Company's export sales are the higher environmental standards in many developed countries and high import duties in most developing countries. To address the higher environmental requirements, the Company is actively developing products to satisfy the Euro 3 emission standards. To mitigate the high import duties in the developing countries, the Company is making efforts to export its products as assembly kits, which reduces import duties. For instance, the Company has established assembly operations in Vietnam and the Ukraine in partnership with local partners.

Vehicle export sales, 2004



Customers of automobile products
The Company targets its products at different customer groups.

SUVs

UAZ Hunter and UAZ 3151
In 2004, the following two categories of customers were the primary buyers of the UAZ Hunter and UAZ 3151 model: (i) corporate clients and government entities and (ii) individuals. These accounted for 71% and 29% of total vehicle sales, respectively. The corporate buyers of the UAZ Hunter model include companies in the fuel & energy, construction, transport, and communications sectors as well as small businesses. The government buyers include healthcare organisations, the Ministry of Defence, the Ministry of Taxes, the Justice Ministry, the Ministry of Internal Affairs, the Federal Postal Service and the Federal Security Service.

UAZ Patriot
The target audience of the UAZ Patriot is represented by private individuals who will account for some 60% of the total customer base, while corporate clients, including state-funded organisations, will make up another 40%.

LCVs

In 2004, the customer base of the Company's old LCV range consisted of corporate clients and government entities with 83% and private individuals with 17%.

Spare parts

The Company sells car parts and components through vehicle dealers.

Largest customers

For each of the three years ended 31 December 2002, 2003 and 2004, UAZ's five largest customers accounted for about 15%, 17% and 17% of its total turnover, respectively, and the largest customer accounted for about 3%, 4% and 5% of its total turnover, respectively.

For each of the three years ended 31 December 2002, 2003 and 2004, ZMZ's five largest customers accounted for about 75%, 68% and 69% of its total turnover, respectively, and the largest customer accounted for about 59%, 56% and 61% of its total turnover, respectively.

None of the executive management of the Company or its subsidiaries and, as far as the Company is aware, no shareholder who owns more than 5% of the share capital of the Company or its subsidiaries has any interest in the five largest customers.

Sales of engines

The table below sets out the number of ZMZ engines sold during 2002-2004:

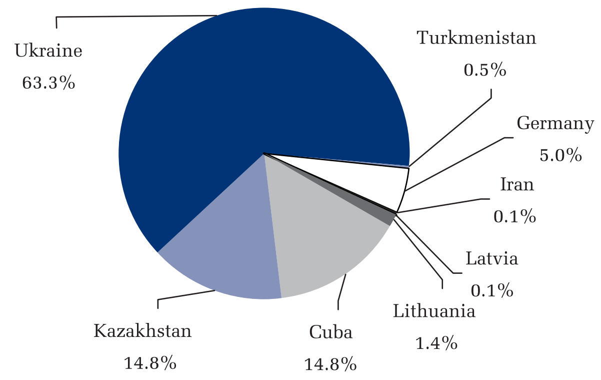
	Year ended 31st December					
	2004		2003		2002	
	Sales volume, units	Share of total sales volume	Sales volume, units	Share of total sales volume	Sales volume, units	Share of total sales volume
402	34,083	12%	78,758	28%	94,070	37%
406	204,477	75%	169,872	59%	119,804	48%
Diesel	25	-	313	-	1,732	1%
V8	35,134	13%	37,961	13%	35,024	14%
Total	**273,719**	**100%**	**286,904**	**100%**	**250,630**	**100%**
Of which exports	5,132	2%	4,190	2%	3,364	1%

Domestic sales
ZMZ engines installed on new vehicles are distributed directly to OEMs. The secondary market distribution network for engines consists of 80 large wholesale distributors, including 59 in Russia, which can offer transparent and manageable distribution channels that conform to the Company's own distribution policies. The Company uses a single-tier distribution channel (ZMZ - Dealer with own distribution chain - End user) and a two-tier channel (ZMZ - Regional warehouse - Dealer with own distribution chain - End user).

The Company has significantly increased its share of sales of engine spare parts. The revenue from sales of engine components increased by 13.4% in 2003 and by 19% in 2004. Engines' sales for replacement to the secondary market totalled (in units): 39,101 in 2002, 42,716 in 2003 and 42,320 in 2004.

Export sales
Up until 2004, engine export sales accounted for an insignificant proportion of total engine sales. 80% of the Company's engine export sales in units were to CIS customers where the Company maintains a network of 26 distributors.

Engine export sales, 2004



Since 2004, the Company has been negotiating several long-term export contracts with Chinese and Iranian customers. Prices of ZMZ products make them very competitive on foreign markets. For example, in China, ZMZ engines priced at $1,700 compete with old licensed Toyota engines priced at about $2,200 and licensed Mitsubishi engines with a price tag of about $2,400.

China
Due to the recent cut in import tariffs for engines in China, ZMZ has become very competitive in terms of price among other comparable Euro 2 imported and locally assembled engines. ZMZ engines have particularly good fit with inexpensive vehicles whose life cycle can be extended by three to four years through engine modernization. In the second half of 2004, ZMZ signed a memorandum of understanding regarding a potential contract with the Chinese vehicle manufacturer Naveco, a joint venture between Iveco and Nanjing Iveco Automobile Co, to supply its 406 series engines to be installed in the Iveco Daily 316. To do this, ZMZ had to modify the 2.7L engine and to have it certified by the local authorities. ZMZ believes that it will be able to start exporting these engines to China in the second half of 2005. The planned export deliveries to Naveco are expected to amount to approximately 10,000 engines by 2008. Another project in China is with YueJin Motor (Group) Co to supply 409.10 series engines for its pick-ups assembled under licence agreements with Nissan, Toyota and Isuzu. The price and transportation terms are currently being discussed with both partners.

Iran
In 2005, ZMZ plans to complete negotiations for a supply contract with the Iranian bus-maker Zamiad to supply dual fuel (gas/petrol) V-8 engines for its 8-meter buses. The volume of deliveries is expected to vary from 3,000 units to 10,000 units per annum.

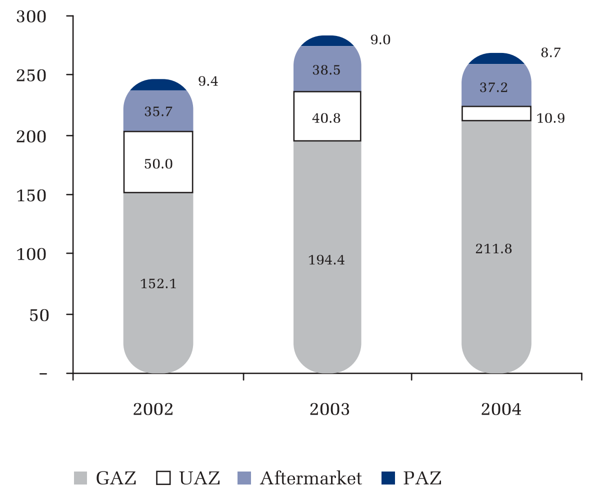
CIS
Traditional CIS export markets of ZMZ are the Ukraine and Kazakhstan (ZMZ 402, 511 and 406) and the goal is to maintain market share and an increase in sales to Moldova, Georgia, Armenia, Azerbaijan, Tajikistan and Uzbekistan. In 2002, 2003 and 2004 export sales volumes of engines were 3,364, 4,190, 5,134 units per year respectively.

Customers of ZMZ

ZMZ vehicle engines are supplied to UAZ, sold domestically or exported. The Company's engines are mainly used in top-selling domestic LCV brands produced by OAO GAZ - Gazelle and Sobol, in SUVs produced by UAZ and in mid-size buses produced by OAO PAZ. Vehicle engines sold to customers outside the Company for the three years ended 31 December 2002, 2003 and 2004 accounted, respectively, for approximately 80%, 86% and 96% of the total sales volumes of the Company's vehicle engines.

ZMZ pursues a strategy aimed at diversifying its domestic customer base, increasing its share of the spare parts market and expanding its export sales.

Engine sales breakdown, thousand units



After-sales services

The Company has an extensive vehicles after-sales service network in Russia and other CIS countries. In March 2005, UAZ had 120 independent after-sales service centres. The operation of each of these after-sales service centres is out-sourced to independent third parties pursuant to a service agreement made with the Company.

Standard warranty

For the UAZ old SUV and LCV range, UAZ offers a standard warranty for the first 12 months or 30,000 km (whichever occurs first), during which a free guarantee service for the repair and maintenance of automotive parts and components under normal usage is provided to customers in accordance with their applicable guarantee periods. For the UAZ' new SUV range it offers a standard warranty for the first 24 months or 50,000 km.

For ZMZ engines installed on LCVs and SUVs, ZMZ offers a standard warranty for the first 12 months or 30,000 km (whichever occurs first). For ZMZ engines installed on class E vehicles, ZMZ offers a standard warranty for the first 12 months or 50,000 km (whichever occurs first). For ZMZ engines 409.10 sold in the secondary market ZMZ offers a standard warranty for the first 12 months without limits on distance run.

For the years ended 31 December 2002, 2003 and 2004 the total cost of mandatory inspection and standard warranty services charged to the Company's selling expenses when an automobile is sold was about RUB 111 million, RUB 69 million and RUB 100 million, respectively.

Following the expiration of the standard warranty and guarantee periods, the Company provides repairs and maintenance services to its customers on payment of the relevant charges.

severstal-auto | annual report 2004

Production and quality management

Automobiles

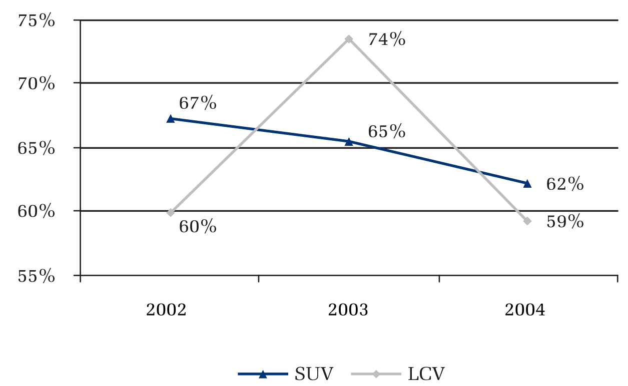
The Company's principal production vehicle manufacturing facility is located in the city of Ulyanovsk on the properties of UAZ, and can be utilised for the manufacture of both SUVs and LCVs.

Production capacity

When UAZ was set up over half a century ago, future capacity was planned to satisfy the needs for vehicles of all the Soviet military and other governmental agencies, such as police, security and emergency services, and others. Since the break-up of the Soviet Union, the proportion of UAZ sales to military and other state organisations has decreased significantly. Consequently, it has had to find new customers in other areas, such as in the oil, gas and energy industries, and among agricultural companies, small businesses and individual entrepreneurs. The Company's success in finding new customers has contributed to keeping its capacity utilisation at a relatively high level.

The Company annual vehicle production capacity is approximately 110,000 units of which about 60,000 units is LCV and 50,000 units is SUV production capacity.

Vehicle capacity utilisation, %



Production process

The production process at UAZ varies for different categories of automobiles, but generally it is a highly vertically integrated operation involving production of parts and components, stamping, welding, painting and overall assembly. There is also a dies and tooling manufacturing workshop that produces dies and other auxiliary equipment such as rigging, cutting and measuring equipment, which the Company separated into a wholly-owned subsidiary.

Engines

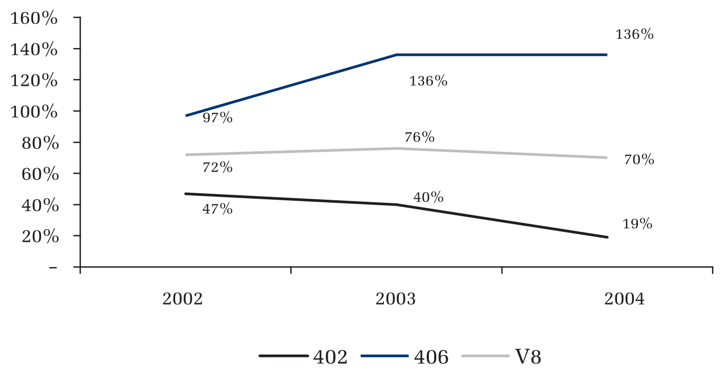
The Company's engine manufacturing facility is located in the city of Zavolzhie on the properties of ZMZ and can be utilised to produce the 402 series, 406 series and V8 series petrol engines.

Production capacity

ZMZ was originally established to be the engine supplier to GAZ (a manufacturer of Class E cars and LCVs), PAZ and KAVZ (producers of buses). GAZ and PAZ remain the Company's major customers, and the utilisation of ZMZ's production capacity continues to depend largely on demand from these two automobile manufacturers. To reduce this dependence, the Company is currently in the process of targeting new markets for ZMZ engines.

The annual production capacity based on two shifts is approximately 375,000 engines of which 175,000 units relates to 402 series of engines, 150,000 units - to 406 series and 50,000 units - to V8 series.

Engine Capacity Utilization



The capacity of the 406 series was fully utilised in 2004. In order to satisfy the growing demand for this Euro 2 compliant engine, in 2005 the Company increased its capacity to 220,000 units per annum based on two shifts operation.

Production process

ZMZ is a unique full production cycle plant which encompasses all technological stages, including castings of aluminium semi-finished parts, processing and assembly of engine parts into a complete engine unit and its testing. About 50% of engine components are manufactured in-house. The Company's engine production lines at ZMZ comprise highly automated and advanced equipment for raw casting and machining of engine blocks, cylinder heads, gearbox casings, crankshafts and camshafts, gears and bearings.

ZMZ production facilities consist of 12 workshops, including two casting, one thermo treatment, four machining workshops, two assembly and a number of auxiliary production workshops.

ZMZ has one multi-sectional engine block production line and one cylinder head production line, which are used to produce 406 series engines. Most of the facilities and equipment used in the engine block and cylinder head production lines for 406 series engines are Russian made and imported from Germany.

s e v e r s t a l - a u t o | a n n u a l r e p o r t 2 0 0 4

Streamlining production processes of UAZ and ZMZ

The Company has been paying particular attention to benchmarking and adopting the best practices of manufacturing and quality management used by the leading European and Japanese automotive manufacturers. The Company's top and mid-level managers have gone through special training courses focusing on the best practices in the organisation of production processes. In 2003 and 2004, the Company took the following actions to streamline production processes of both UAZ and ZMZ:

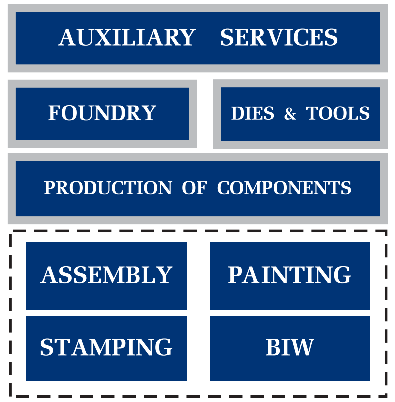
- Reduction in vertical integration. Both UAZ and ZMZ have a high level of vertical integration: UAZ manufactures up to 60% of vehicle components in-house and ZMZ approximately 50%. The Company plans to restructure UAZ from being vertically integrated into an assembly plant so that only stamping, welding, painting and vehicle assembly operations are carried out at the plant. All auxiliary businesses, including manufacturing of components, will be reorganised into separate business units and/or outsourced in line with more optimal make-or-buy decisions.

- Unification of component base to achieve economies of scale. Unification of the component base for UAZ vehicles will lead to cost reductions, enabling the Company to achieve economies of scale.

- Optimisation of production processes. The Company improves efficiency of its production organisation. The Company is in the process of implementing the "Toyota Production System" that includes Just-in-Time (JIT) delivery, continuous process improvement (Kaizen), and other Lean Manufacturing principles. In 2004, the system was introduced at ZMZ, and it is planned to use this know how at UAZ in 2005. The key components of this initiative are the introduction of a system of ongoing improvements, transfer of control functions to employees and replacement of the traditional push system with a pull system. These measures are virtually cost-free, but they have brought noticeable improvements in profitability. The key methods employed at ZMZ include certain elements of the Just-in-Time system; the working team method based on effective collaboration between workers and motivating people to take part in the process of ongoing improvements; and the Six Sigma system for organising, cleaning, developing, and sustaining a productive work environment.

- Technological audit to allow for higher materials utilisation. To achieve cost savings, the Company has reviewed its technological processes to identify inefficiencies and to locate possibilities of using alternative materials. This has allowed for a 3% reduction in raw materials costs in 2004 against 2003.

- Labour costs optimisation through restructuring, outsourcing and productivity gains. Recently, the Company reorganised UAZ workshops by reducing their number from 30 to 16 and by bringing up the average number of employees per workshop from 300-900 to 700-1100. This will lead to reductions in the headcount. In 2004, ZMZ successfully reorganised its plain bearings workshop and transportation department into separate business units, and started outsourcing products and services from them. The Company plans to continue spinning off its auxiliary divisions. Besides, the Company sees potential for productivity improvement through optimisation of production processes.



- Reduction of other direct production and overhead costs. The Company also introduced various cost cutting initiatives such as energy saving and improving efficiency of internal logistics.

- Taking advantage of global specialist expertise. In 2004, as part of this strategy, the Company hired Gemco, a Dutch engineering company, to improve efficiency of ZMZ foundry operations. Gemco has helped the Company to achieve significant improvements in quality, productivity, capacity utilisation and costs reduction.

Quality management

The Company recognises the importance of product quality control. The Company has established and implemented a quality control system in strict compliance with international standards. Over the last few years, it has been concentrating on the following three key areas:

- Improving the production processes, quality control and management with a view to reducing the level of internally generated defects, and providing training to employees in the field of quality assurance;
- Setting strict requirements for the Company's suppliers and implementing stringent quality control of materials and components at the suppliers' sites; and
- Educating staff involved in quality control at the TUV Academy.

In 2003, the ZMZ quality control and management system underwent a recertification audit by TUV (Germany) for compliance with the requirements of ISO 9001:2000. This audit found that the system adopted by ZMZ was in compliance with this standard. UAZ's quality control and management system for the assembly division also obtained a certificate of compliance with ISO 9001:2000 from TUV. UAZ is currently in the process of certifying its mechanical and stamping workshops to meet the requirements of ISO 9001:2000.

The Company has adopted advanced and stringent quality controls at each stage of production. There are several inspection points within the car assembly process. The Company is implementing a system of individual motivation aimed at increasing production quality by transferring responsibility for the production quality to each individual employee. This is to ensure that its products adhere to customers' specifications. The Company regularly provides training for its entire quality control staff in order to ensure they are able to carry out their work to the highest possible standards.

To ensure consistent and high quality standards for the Company's automobiles and engines, all finished products are subject to environmental exposure, road tests and final product inspections. The Company's inspection lines conform to the technological standards prescribed by the Government.

Purchasing and logistics

Over the last three years, the ever increasing standards of performance would not have been possible without significant improvements in the supply and purchasing function. In this area, the Company focuses on the following:

- Optimising expenditures on purchases of raw materials and services;
- Increasing internal efficiencies in the supply and purchasing sectors; and
- Improving the quality of purchased materials, components and services.

Optimising expenditures on purchases of raw materials and services

Over the last three years, as part of its cost-cutting programme, the Company managed to reduce the growth of suppliers' prices due primarily to: (i) reducing the bargaining power of suppliers through diversification of its component supplier base; (ii) adopting integrated purchasing of raw materials by UAZ, ZMZ and the Company, which has increased the Company's bargaining power with its suppliers; and (iii) achieving standardisation of purchased materials and components with global car manufacturers, which allows the Company to procure its parts and components from foreign suppliers.

Increasing internal efficiencies in the supply and purchasing function

UAZ and ZMZ have been implementing a new manufacturing resource planning system (MRP), which has significantly improved the planning and control of materials and financial resources, as well as control over fulfilling supply plans and level of inventories held at UAZ and ZMZ warehouses. The Company has computerised and centralised its warehouse distribution system, which has allowed it to manage the inventories more efficiently, and significantly reduce warehousing costs.

Improving the quality of purchased materials, components and services

Over the last three years, the Company has introduced new processes for the evaluation and selection of the Company's suppliers with the aim of improving the quality of materials and components supplied. These processes include reviewing the quality control systems and manufacturing techniques used by the Company's suppliers as well as conducting financial and economic audits of these suppliers. The Company is insistent that its most important suppliers also obtain quality certificates from TUV. Suppliers committing investments into the modernisation of their products and production facilities are offered long-term contracts.

Suppliers

For the production of its vehicles and engines, the Company outsources some of the parts and components.

The Company has been decreasing its stocks by automating its warehouses and inviting suppliers to open their consignment warehouses at the Company's manufacturing sites. UAZ's and ZMZ's purchasing teams closely follow the monthly production plans in order to maintain control over the purchase of raw materials.

The principal raw materials that the Company purchases from third-party suppliers are metals such as plate steel, pig iron, aluminium-alloy, other alloys and non-metals such as plastics, paint and oil.

Most of the Company's suppliers are located in Russia. The Company purchases some of the raw materials, parts and components from foreign suppliers when they are of better quality and lower price, or when no substitutes are available in Russia. Raw materials and parts for which there is not a sufficient market are purchased by the Company through tenders.

The Company adopts a policy, wherever possible, of sourcing the important raw materials, parts and components from at least two different ultimate suppliers in order to ensure availability and quality, and to obtain the best price. Moreover, due to the Company's programme of supplier de-monopolisation, the share of monopoly suppliers decreased from 35% in 2002 to 24% in 2003 and to 11% in 2004. The Company has never experienced and does not foresee any significant problems in sourcing vehicle parts required for production.

The Company's purchases are generally settled by cash and cash equivalents. Supplies are usually paid for within 30 days of delivery, depending on the types of materials or products ordered. Contract terms vary from one year to five years. Deliveries are usually made on DDP terms.

For the years ended 31 December 2002, 2003 and 2004, ZMZ five largest suppliers accounted for about 32%, 30% and 34% of ZMZ total purchases, respectively. During the same periods, the largest supplier accounted for about 19%, 20% and 21%, respectively, of ZMZ total purchases.

For the years ended 31 December 2002, 2003 and 2004, UAZ five largest suppliers accounted for about 36%, 42% and 38% of UAZ total purchases, respectively. During the same periods, the largest supplier accounted for about 6%, 8% and 13%, respectively, of UAZ total purchases.

None of the executive management of the Company or its subsidiaries and, as far as the Company is aware, no shareholder who owns more than 5% of the issued share capital of the Company or its subsidiaries, has any interest in any of the five largest suppliers of UAZ or ZMZ, except for OAO Severstal and its subsidiaries. UAZ and ZMZ purchases steel sheet metal and semi-finished products from OAO Severstal and its subsidiaries on terms and at prices no less favourable than those available from third party suppliers in the open market.

Supplier	Customer	Product	Prices	Purchasing volume, 2004 in million RUB (excluding VAT)
ZMZ	UAZ	Engines	Market	308
Severstal	UAZ	Steel	Market	965
Severstal	ZMZ	Steel sheets	Market	49
Severstal-Metiz	UAZ	Calibrated metals	Market	21
Severstal-Metiz	ZMZ	Calibrated metals	Market	6

Evaluation of suppliers
When choosing its suppliers, the Company pays particular attention to their quality control systems and manufacturing techniques as well as assessments of their financial and economic conditions.

The reviews of the Company's suppliers' quality control and management systems include:

- Auditing the quality control and management systems adopted by the Company's suppliers to obtain assurance that they conform to its standards; where deviations from the Company's standards are identified, remedial actions are developed together with the relevant supplier and the standards are subsequently re-evaluated;

- Analysing the suppliers' quality control and management systems after the supply of materials and components based on a known level of defects at the entry point; this is done during production and within the warranty period; and

- Organising supplier conferences to give feedback on their performance and to develop and discuss remedial actions.

Transportation
The Company contracts with third-party transportation companies to deliver its vehicles to different locations at market price using primarily large trailers and railways. Starting from the second half of 2003, the Company has partially subsidised transportation costs in order to better control pricing of its products in distant regions. For engine transportation, the Company uses its transportation division.

severstal-auto | annual report 2004

Products and research & development

Products
The Company's principal automobile products are LCVs, including trucks, minibuses and multi-purpose commercial vehicles with unique off-road capabilities, and SUVs, for both cross-country and urban use.
The Company's current SUV and LCV product lines project the image of a reliable workhorse. The Company's vehicles are used for everyday transportation of people and cargo in difficult road conditions. The Company's SUVs, trucks and buses are known for their traditionally reliable and simple design and are inexpensive and easy to service and repair. Without compromising the best parts of this image, the Company will strive for its new SUV and LCV product lines to be accepted as good universal transportation solutions, not only for use in the most difficult off-road conditions, but also in the urban environment where particular emphasis is placed on comfort and safety and on convenient service and maintenance through a modern, developed service network.
Set out below are details of the Company's current principal vehicles:

Product types and series	Images	Average retail price in February 2005	Engine power, HP (KWt)	Passenger seating capacity	Payload, kg	Unit sales in 2004
LCVs						
Trucks (UAZ 3303)		US$6,700	UMZ - 76 (55.9), ZMZ - 74 (54.4), UMZ - 84 (61.8), ZMZ - 85 (62.5)	2-6	600 - 1,000	6,941
Minivans (UAZ 2206/ 3962)		US$7,700	UMZ - 76 (55.9), ZMZ - 74 (54.4), UMZ - 84 (61.8), ZMZ - 85 (62.5)	7-11	900-1,000	17,083
Multi-purpose vehicles (UAZ 3909)		US$7,800	UMZ - 84 (61.8), ZMZ - 85 (62.5)	9	1,150	11,595
SUVs						
UAZ 3151 + UAZ Hunter		US$6,900 - 7,600	Andoria - 86 (63.5), ZMZ - 91 (67.0), ZMZ - 128 (94.1), UMZ - 84 (61.8)	5+2	535-800, depending on modification	28,904
UAZ 3162		US$14,000	ZMZ - 128 (94.1)	5+4	800 kg	1,832

The Company's current four-wheel-drive vehicle line contains a wide variety of models:

Light commercial vehicles (LCVs)

Trucks: UAZ 3303/3741

The UAZ 3303/3741 series are primarily used as light cargo carriers. The first modification of UAZ trucks was commercially launched in early 1960s. Currently, there are nine modifications within the UAZ 3303/3741 series. Among them are cab chassis and panel vans with payload capacity of 850-1,300 kg. The UAZ 3303/3741 series are generally equipped with petrol engines produced by ZMZ and Volzhskie Motory. All of them are characterised by a rugged, simple and reliable design. The target audience of the vehicle is individuals and entrepreneurs living in rural areas with poor road infrastructure who use the vehicle for commercial purposes, as well as corporate clients operating in poor road conditions, such as fuel and energy companies, etc.

Minivens: UAZ 2206/3962

The Company's UAZ 2206/3962 series mini-buses share their base platform with UAZ 3303/3741 light trucks. The Company's basic mini-bus is an 11-seater and, as is the case with the Company's other vehicles, features off-road capability. The target audience of these vehicles is the same as for the Company's light trucks.

Multi-purpose vehicles UAZ 3909

Special vehicles in the UAZ 3909 series have double cab cargo platform design. They are used for both passenger and cargo transportation. The Company also specialises in manufacturing special purpose vehicles such as ambulances.

Special purpose vehicles

The target audience of these vehicles is the population in rural areas with poor road conditions where the vehicles are used for business purposes as well as for active vacation activities such as fishing and hunting.

Sport utility vehicles (SUVs)

UAZ 3151 SUV

The UAZ 3151 product line traces its roots to a vehicle designed for the Russian military in the late 1970s. UAZ 3151 has much in common with other products designed for and adopted by the Russian military, such as its simple and reliable design, easy operational and maintenance requirements that can be handled even by inexperienced drivers, and the ability to function in practically any climate or terrain, ranging from the hot, dry and sandy desert environment to the frozen tundra of the North. The target audience for the vehicle is public sector organisations. This model is being gradually phased out and replaced by the UAZ Hunter model.

UAZ Hunter SUV

The UAZ 3151 product line has gone through evolutionary changes and is currently represented by the UAZ Hunter model that features more than 300 improvements over the older UAZ 3151 model. All these improvements have made the UAZ Hunter model more powerful, dynamic and reliable, and provide a greater level of driver and passenger comfort. The UAZ Hunter was commercially launched in the end of 2003. The UAZ Hunter's target audience is a 25-39 year-old male with an average monthly income of $400-500 per family member, with higher education, who pursues active lifestyle and who is looking for functionality in vehicles, such as off-road capabilities, reliability and load capacity. This target consumer is expected to be willing to spend $6,000 - 8,000 to buy a UAZ Hunter as the first vehicle for his family. The UAZ Hunter is therefore positioned by the Company as a universal vehicle for business and personal use in any road conditions.

SUV 3162

The 3162 series is a completely new type of platform designed by the UAZ research and development department jointly with AvtoVAZ design bureau in 1997. The UAZ 3162 moved the Company into the new segment of urban SUVs. A small number of the vehicle prototypes was sold in a pilot programme in 2004.

New SUV UAZ Patriot

During 2004, the UAZ 3162 model was further upgraded to the UAZ Patriot series, which is currently being prepared for commercial launch in the second half of 2005. The target audience for the UAZ Patriot are the middle-aged, middle class, family men living in regional towns. This target audience requires practical but comfortable family vehicles suited for use in any road conditions as they regularly travel to the countryside either on business or for outdoor activities such as fishing and hunting. This UAZ model is priced at around $13,000-15,000 and is expected to be the first or second family vehicle. In line with the expected preferences of the target audience, the Company positions the UAZ Patriot as a multipurpose universal vehicle for daily urban use.

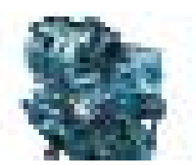
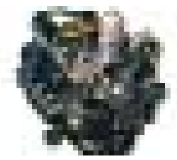
Automotive parts and components

In addition to production of automobiles, UAZ is engaged in manufacturing of certain key automotive parts and components used primarily in the production of its LCVs and SUVs. These include transmission components, front and rear axles, body frames, body parts and bumpers.

Engines

The Company, through its subsidiary ZMZ, is the largest Russian producer of petrol engines for the Class E automobiles, SUVs, light and medium size trucks and buses. ZMZ engines are superior to its nearest competitors in terms of such features as drive torque, fuel efficiency, price/quality, reliability, availability of service and spare parts.

ZMZ manufactures a range of four cylinder (in-line) petrol engines for E class cars, SUVs, micro- and mini-buses and light trucks. Set forth below is the information of the Company's current principal engine series and their characteristics:

Engine series	Images	Customers	Power-HP (KWt)	Torque, nm (kg m)	Emission standard	Fuel consumption (gr/HP*KWt)	Displacement (litres)	Unit sales, 2004
ZMZ 402: 402,4021, 4025,4026		GAZ, UAZ, export	66.2 (90) - 73.5 (100)	172.6 (17.6) - 182.4 (18.6)	Euro 0	292.4 (215) - 299.2 (220)	2.445	34,083
ZMZ 406: 4061, 4062, 4063, 4064, 405, 406, 409, 410		GAZ, UAZ, export	73.5 (100) - 147.0 (200)	176.6 (18.0) - 323.4 (33)	Euro 2	265.4 (195) - 285.6 (210)	2.28 - 2.69	204,477
Diesel engine: ZMZ - 514		UAZ	72 (98) - 96 (130)	216 (22) - 284 (29)	Euro 2	210 (155) - 231 (170)	2.24	25
V8: ZMZ - 511, 513, 5233, 5234		GAZ, PAZ, export	92 (125) - 96 (130)	294 (30) - 314 (32)	Euro 0	279 (205) - 286 (210)	4.25 - 4.67	35,134

402 series

The ZMZ 402 series has an older carburettor design and is primarily sold on the aftermarket. The ZMZ 402 is being gradually replaced by the more modern ZMZ 406 series engine.

406 series

The ZMZ 406 series is a modern 16-valve injector design engine equipped with a catalytic converter meeting Euro 2 standards. It can also be upgraded to satisfy Euro 3 standards. The 406 series engine is designed for high-capability four-wheel drive vehicles and LCVs. It is installed on GAZ LCVs, UAZ 3162, UAZ Hunter off-road vehicles and E-class vehicles.

V8 series
Eight cylinder petrol engines used in mid-size trucks and buses produced by GAZ, PAZ and KAVZ. ZMZ's eight cylinder engines are attractive because of their simple design, ease of maintenance and repair, an extensive network of technical services and a low price. ZMZ makes modifications of the eight cylinder engines that work on liquefied (LPG) and compressed natural gas (CNG) instead of petrol. There also a number of bi-fuel versions of this engine developed.

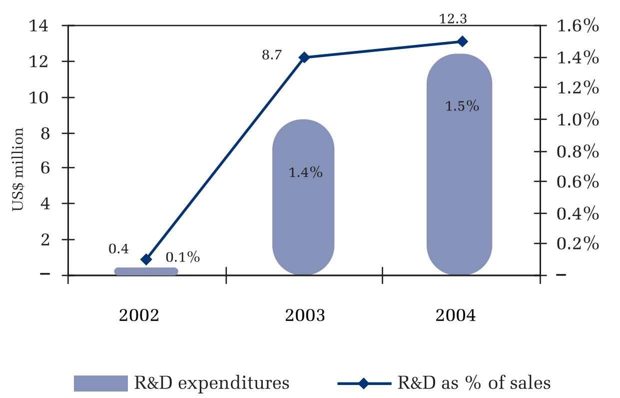
514 diesel engines series
The ZMZ 514 diesel engines are designed for vehicles with a gross weight of up to 3.5 tonnes (e.g. UAZ Patriot, GAZel, Sobol, Volga).

The ZMZ 514 engine series has the following principal characteristics: displacement 2.235 litres, Euro 2 emission standard. ZMZ is currently working on further development of this engine. This engine series is not mass-produced. The ZMZ 514 is a prototype for a new diesel engine, which will satisfy Euro 3 emission standards. Development of this new diesel engine is mostly financed by funds provided under a grant from the Government of the Russian Federation.

Engine and other automotive components
In addition to manufacturing engines, ZMZ also produces other automotive components, such as engine plain bearings, aluminium alloy castings, clutches, and others. ZMZ has capacity to produce up to 116 million plain bearings per year and up to 45 thousand metric tonnes of various aluminium alloy castings ranging from 0.03 to 47.5 kilograms per piece.

Research and development
Research and development is an essential element of the Company's competitive strengths. Continuous investments in research will allow the Company to keep pace with the rapid technological advances in the car industry and to enhance its competitive edge. The Company therefore places significant emphasis on R&D aimed at upgrading and designing new versions of vehicles and engines, and implementing an optimal production process and creating innovative production techniques.

Research and Development Expenditures



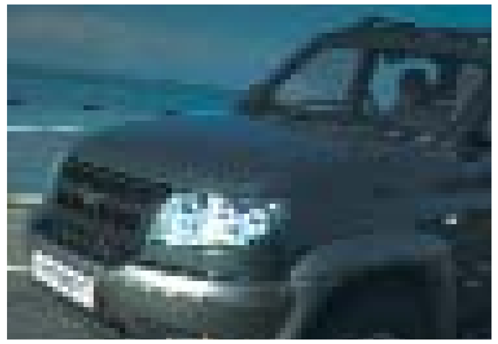
Vehicles
The Company's approach towards R&D during the recent years was based on the development of essential skills such as overall vehicle packaging, powertrain installation and calibration, exterior and interior design, design of chassis elements and interfaces in house. At the same time, the Company utilises services of world class engineering institutions from Russia and abroad in specialised areas such as anti-locking brake systems, active safety systems and electronics.

In 2003-2004, Company's R&D efforts in the vehicle segment were focused on designing the UAZ Patriot, a vehicle that was designed in the late 1990s but never introduced to the market. This sunk cost allowed the Company to mobilise existing resources and complete an upgrade of the model with improved design, quality and performance within a relatively low budget compared to the automotive industry average.

UAZ has its own vehicle research and development team of approximately 600 employees. This team is comprised of engineers responsible for the development of new vehicle models and products and technicians involved in production engineering support, vehicle testing, validation and prototyping. The efforts of the in-house engineering team in 2004 were focused on exterior design, design of new drive axles (which are produced in-house), application of power steering systems with ZF and Delphi, design and application of new five-speed manual transmission to be supplied by Korean Dymos, application of anti-lock braking systems with Bosch, and design of interior and coordination with leading Russian and foreign interior trim suppliers.

The outsourced R&D services included the cooling system calibration performed in association with AvtoVAZ laboratory, NVH testing and improvement at Austrian AVL, engine management systems upgrade with Siemens VDO and further design improvements with a number of other foreign and Russian specialized companies. The Company's current projects under consideration include a close cooperation with independent R&D companies as well as component and systems suppliers. For instance, it is envisaged that the Company will be developing new HVAC system, airbags and other active safety systems, as well as seats and other interior trim elements with leading Tier 1 component suppliers. This approach will ensure the quality delivery and reliability of overall engineering solutions and will significantly improve consumer appeal and features of UAZ vehicles.

UAZ Patriot SUV



The Company is currently in the process of introducing the UAZ Patriot SUV product line, which will serve as the flagship of its SUV range. The Company expects that the UAZ Patriot will take it to a new level in terms of both quality and consumer specifications. While the UAZ Patriot will retain the reliability and the off-road capabilities of the Company's traditional products, the Company believes that its modern design will satisfy the most stringent international comfort, safety and environmental requirements, and will be able to successfully compete with other SUVs on the Russian and certain international markets. The UAZ Patriot provides improved comfort, increased drivetrain horsepower and payload capacity. It will also feature components supplied by the leading international manufacturers in addition to ZMZ's newest petrol engines. It is assumed that the UAZ Patriot will also be equipped with a line of modern petrol and diesel engines from known international engine makers to satisfy specific requirements of certain export markets. In the near future its specification will be upgraded to feature air-conditioning, ABS and airbags. The UAZ Patriot will be produced in five seat and seven seat arrangements. With its reasonably high payload capacity of 800 kg and spacious passenger compartment this SUV will be versatile enough for family outings as well as business purposes. The planned retail price for the UAZ Patriot in Russia starts from US$13,000 for the Standard version and from US$15,000 for the Comfort version. The price for export markets will be tailored to the precise specification and engine type required for each specific market. The commercial launch is planned for July 2005.

UAZ LCVs and minibuses based on UAZ Patriot platform
As part of the Company's strategy for a platform unification for the range of UAZ products, during the next few years the Company's current light truck and mini bus product lines will be replaced with new vehicles based on the same platform as the new UAZ Patriot SUVs. It is assumed that such vehicles will share the majority of frame, suspension, drivetrain and interior components and produced in 4x4 as well as 4x2 version. The Company will also consider expansion of this diversification programme into production of three and five-seater pick-up truck versions that will share body design elements (and thus major body parts) with the UAZ Patriot. This project will be associated with quite moderate investments and expected to be a successful in Asian, Latin American and other markets, where such versions have certain price (through tax allowances for such types of car) advantages.

Engines
Historically the design of engines produced by ZMZ was done by an independent design institution. Since 1987, ZMZ developed full scope design capability in house and now has its own research and development team comprised of approximately 248 engineers and technicians.

Core competences of ZMZ R&D team include design and engineering of principal engines parts, such as cylinder block, cylinder head, crankshafts, camshafts and conrods, as well as they serve as efficient liaison with other engine systems designers and suppliers.

To ensure a competitive edge, ZMZ has been outsourcing conceptual design and key calculations (including FEA) services from leading European engine design specialists such as AVL List (Austria) and Ricardo (UK). Ricardo assisted ZMZ in designing the combustion process for the ZMZ diesel engine under development, whereas AVL has assisted with the concept design of the new ZMZ 214 family of engines.

In 2002 the ZMZ in-house engineering team, in collaboration with a leading European engine management systems supplier, launched mass production of the 406 series electronic fuel injection engines compliant with Euro 2.

Given its current market positioning, it is crucial for ZMZ to further develop engine application and calibration skills. This R&D capability allows ZMZ to offer its engines to a variety of customers all over the world.

For example, the Company has prepared design for the ZMZ 4092.1000400-20 engine and conducted application tests on the IVECO DAILY 30.16 vehicle produced by NAVECO (China). Similar activity is being conducted with a number of potential customers in Iran and other emerging markets.

Another field of the Company's current R&D activity and expertise is focused on modernising the Company's existing engine model range for compliance with Euro 3 norms and standards.

The following Company Research and development projects are being considered:

ZMZ 214 engine family
The requirement of cost effective production of modernized engines has driven the decision to focus on "deep" redesign of the existing 406 family of petrol engines which is predominantly based on the following parameters:

- The geometrical dimensions of the cylinder block are common to the previous generation of engines to utilize current production facilities of ZMZ and ensure seamless product introduction;
- The material selection and production processes are common to facilitate effective production;
- The design of the engine accommodates all innovations that are usual for this type and displacement of engine;
- All of the engine dressing will share common components to ensure economies of scale; and
- Combustion process and basic design of the engine will allow achievement of emission norms of Euro 3 and Euro 4.

The above stated principles in engine design and implementation of flexible approaches to the production engineering will result in moderate investment requirements of approximately US$50 million, which is significantly lower than the amount required for a similar project developed from scratch. In addition, the Company expects to share the R&D costs for the modernisation of the engine with its customers.

The Company plans that the new engine family will gradually substitute engines of the previous generation and thus will not require expansion of capacity. The first series of prototypes of this engine are currently being tested. The Company believes it will be able to begin the mass production of this engine model in 2007.

ZMZ 514 diesel engine
The Company has won a governmental financing of RUB 500 (US$16) million to conduct additional R&D to the activity of ZMZ in this area. This financing will complement efforts of ZMZ in diesel engine development and will enhance testing and development facilities of ZMZ. The Company is planning to offer this engine to its potential customers at very attractive price compared to the immediate competition. The engine will be offered in three versions to suit different fuel and country requirements (i.e. common rail engines up to Euro 4, mechanical pump and electronically controlled pump for engines of Euro 2 standard). The target customers are companies producing SUVs, LCVs and MPVs, including UAZ.

Dual fuel engines
ZMZ is offering its R&D capabilities to upgrade petrol and diesel engines into a dual fuel version to supply to commercial fleets and to countries where compressed natural gas (CNG) and liquefied petroleum gas (LPG) is major fuel for various types of vehicles (such as Iran).

Power generation equipment
As an alternative to automotive applications, ZMZ R&D staff also devotes certain resources for the development of off-highway application of their petrol and diesel engines. Typical applications include marine (motorboats and yachts) and power generation units for remote locations and emergency electricity supply.

Alternatives to internal combustion engines and hybrid systems
In the light of growing concerns regarding energy preservation issues, ZMZ is closely monitoring developments of alternative power systems including hybrid systems. ZMZ R&D resources consider the use of existing and perspective engines for the use in hybrid systems, where smaller engines (i.e. ZMZ's 2.3 and 2.5 litre engines) can be used in hybrid systems that will substitute larger (i.e. 4 litre and above) engine traditionally used in medium buses and light duty trucks.

The initiatives were closely monitored but an investment plan for such topic has yet to be approved by the Company.

Innovation
The Company devotes much effort to encouraging and enhancing innovation, which will allow it to make the best use of the creative potential and experience of its employees. Starting from 2003, the Company has been applying international best practices to develop and implement new regulations to simplify and speed up the procedures of submission, review and implementation of innovative proposals. At the same time, the Company has revised its employee motivation systems to encourage people to share their innovative ideas. Under the new system, authors of innovative ideas are financially rewarded regardless of whether their ideas are subsequently implemented or not. In addition, bonuses are paid to those whose ideas bring real benefits to the Company and to those who realise such ideas. The level of such bonuses is linked to the economic benefits obtained by the Company from implementing such innovative ideas.

Investment programme

In acquiring controlling shareholding of UAZ and ZMZ, OAO Severstal clearly understood the necessity for the production facilities upgrade to ensure quality production of engines and vehicles. The Company has audited existing equipment and the following decision was made:

- For the products that are at the end if their life cycles the Company chose to support existing equipment to guarantee seamless supply of products to customers with minimum necessary investments;
- For new products such as the ZMZ diesel engine, the new family of petrol engines and UAZ Patriot vehicle, the Company is choosing the optimum combination between supporting existing assets that are in good operating conditions and can be modernised to efficiently utilise its remaining useful life and investing in new equipment.

To ensure the quality of topcoat painting of the new model UAZ Patriot, a new paint shop manufactured by Eisenmann (Germany) was commissioned in January 2005. This new paint shop will contribute to the Company's continuous efforts to improve the consumer features of UAZ vehicles and will allow the Company to provide a seven-year body panel's rust-through corrosion warranty on its vehicles.

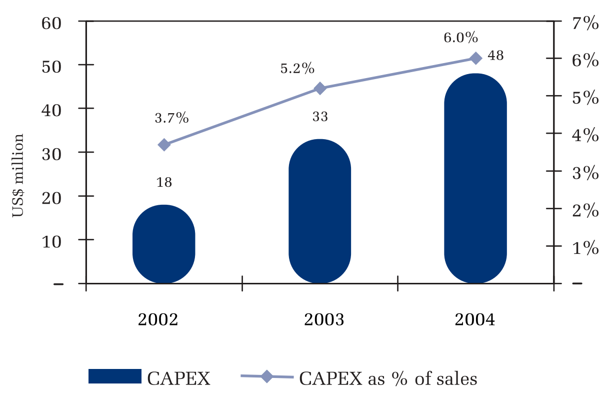
The level of automation at UAZ is optimal for the output volumes and current labour costs. The Company, however, anticipates increasing automation of production processes at UAZ to eliminate human exposure and to prepare for the anticipated increase in volumes and for further technical development of UAZ vehicles. For example, UAZ will install robotic hanging parts hemming devices to increase labour efficiency and to ensure quality of body parts of the new UAZ Patriot.

Other investments of a lesser magnitude will be focused on optimisation of material flow and internal logistics, which will optimise work in progress and will be a significant step towards Lean Manufacturing principles implementation.

Due to continuous efforts in maintaining production equipment at ZMZ and development of more technologically advanced processes, ZMZ production facilities do not require replacement or major overhaul in the short term. However, due to the fact that historically the product mix comprised a large share of older V8 petrol engines (up to 300,000 units per year), utilisation of the 4-cylinder engine production capacity has been reaching 100% and, thus, required expansion. The Company has already invested in expanding the production capacity of the ZMZ 406 engine family to 220,000 units per year in a two-shift operation. Part of the equipment installed is universal and can be utilised for production of the projected 4-cylinder 2.24 L diesel engines too.

ZMZ is continuously upgrading its testing facilities to comply with increasing requirement of the engine technical level (including emission standards). Thus, recently ZMZ has commissioned a chassis dyno produced by FROUDE CONSINE (UK) and an exhaust gas analysis test bed produced by HORIBA (Japan), which is equipped with chassis dynamometers produced by MAHA (Germany). This equipment is essential for the development of in-house skills for engine calibration and development to the strict requirements of the fuel efficiency emission standards requirements of Euro 3 and Euro 4.

Capital Expenditures



For the three years ending 31 December 2004, 2003, 2002 UAZ capital expenditures totalled RUB 754 (US$26) million, RUB 430 (US$14) million and RUB 226 (US$7) million, respectively. The Company's overall capital expenditures for the same period totalled RUB 1,374 (US$48) million, RUB 1,027 (US$33) million and RUB 553 (US$18) million, respectively. There is a unified procedure for UAZ and ZMZ for the investment approval. Initially, projects are developed by designated departments at UAZ and ZMZ and after the preliminary review are submitted for the review and approval of the Company's investment committee. Investment over a certain amount can only be approved by the Company's Board of Directors.

The Company repairs and maintains its machinery and equipment on a regular basis. It recorded no provision for impairment on the Company's machinery and equipment in each of the three years ended 31 December 2004, 2003 and 2002.

Information systems

The Company considers information system development to be one of the most important tools in supporting the needs of its operational management and in achieving its strategic goals. The Company's information systems are developed in the context of the key areas of its strategic business plan. The Company is focusing on the following two priorities:

- Development of a comprehensive management information system that would have the functionality of a comprehensive Enterprise Resource Planning (ERP) system. Over the last couple of years the Company has concentrated its efforts on developing and improving the system's main functions such as the level of required materials planning; shipment control; required capacity planning; quality control; properties, plant and equipment management; and project management.

- Automation of the development of design and technical documentation (implementation of CAD) and creation of an electronic engineering archive, which will continue to result in significantly lower time and money expenditures for the development of design documentation and technical production preparation.

In addition, the Company has completed installation of the Company's corporate telecommunications network, which provides for secure internal telephone and video communications among the Company's various locations.

Environmental statement

Environment policy

The Company's environmental policy is based on the following major areas:

- Improvement of the environmental performance of its products;
- Creation of safe working environment for employees: protecting the health of employees and the general public; and
- Improvement of the environmental situation in the regions the Company's plants operate and reducing hazardous emissions.

Environment protection initiatives

OAO ZMZ was ranked second in the Rating of environmental responsibility of major Russian companies for 2004. Seven hundred major Russian companies participated in the rating conducted by the Independent Social Environment Protection Initiative (NESPI or "Don't Sleep!"), an interregional non-government social organization, and Interfax, a news agency.

Companies were rated against four comprehensive indicators: the extent of compliance with Russia's environmental legislation; the extent of transparency of companies' activities impacting the environment and accuracy of published information, including governmental statistics; the extent to which companies adhere to the timing and scopes of their environment-protection plans, programmes and actions previously declared; and companies' proactive approach and sponsorship in environment protection.

In 2004, the Company maintained full-capacity operation of the first phase of machinery designed to collect and purify runoff surface rainwater which was launched in the autumn of 2003. As a result of this initiative, the discharge of waste into the Volga was only 6% of the allowed level, the intake of fresh water was reduced by 12%.

In December 2004, the Company launched a sludge recycling facility produced by Alfa Laval. This allowed to recycle the waste at both the discharge area and production facilities.

Thanks to improvements in manufacturing processes and launch of new environment-protection facilities, ZMZ is continuing to reduce its impact on the environment. For instance, gross discharge of polluting substances into the air was reduced by 28% in 2004. In addition, the plant does not discharge sludge at the waste collection area any longer. ZMZ achieved savings of RUB 11.5 million in 2004 as a result of the concessions given by federal authorities.

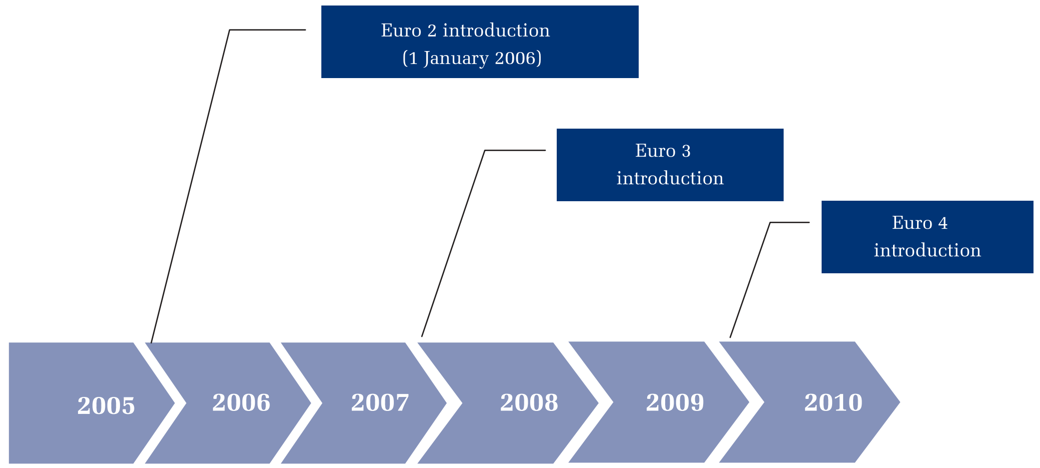
s e v e r s t a l - a u t o | a n n u a l r e p o r t 2 0 0 4

Environmental regulations

The Government is expected to adopt the Euro 2 standard sometime in 2006. If so adopted, Russian automotive manufacturers would be required to comply with the Euro 2 emission standards. The program envisages that several vehicle models produced domestically can be exempt from this obligation due to their social importance. Among such vehicles are UAZ Minibuses 2206/3662 series and Kamaz-ZMA Oka model. The government has already restricted imports of vehicles that do not comply with the Euro 2 standard. These initiatives are part of a longer-term gradual transition programme to European environmental standards, with the expected introduction of Euro 3 in 2008 and Euro 4 between 2008-2010.

The new environmental standards may create difficulties for some Russian manufacturers whose products are not prepared to comply with the Euro 2 requirements. The Company believes that after the adoption of the Euro 2 standard it will be the dominant mass producer of engines with displacement of 2.2-2.7 litres for E-class cars, SUVs and LCVs.

Unlike in most other foreign markets, Russian law does not place any obligations on manufacturers to recycle their products after they reach the end of their operational life.



Human resources and social activities

Employees

The following table shows recent developments in the Company's total staff numbers by business segment:

	Total Employees, at 31 December	
	2004	2003
Company total, including:	37,874	40,409
UAZ	19,918	22,591
ZMZ	16,729	17,294

The Company constantly seeks to increase efficiency and labour productivity. Among the measures that the Company has recently undertaken are: business restructuring, staff outsourcing, tightening of work standards, and an early retirement programme.

Both production and administrative process reengineering should result in a substantial decrease in administrative staff, because of the elimination of duplicate functions and delegation of responsibility, better resource allocation and rotation of employees.

The Company considers the Company's employees motivation and development programmes to be essential to its competitiveness. The Company pays significant attention to improving the efficiency of the Company's personnel policies. The Company's expenditures on social programmes are aimed at improving the well-being of the Company's employees. The social support programmes ensure stability and economic security in the regions where the Company's operating assets are located.

Human resource policies

The cornerstone of the Company's human resource policy is the on-going development and maximum use of people's potential to increase each employee's contribution to attaining the Company's overall goals.

The Company pays special attention to the following areas:

- Developing the competence of the Company's employees by means of on-the-job training and educational programmes;
- Creating a new generation of young professionals; and
- Reducing the headcount, which is implemented by means of restructuring the Company, spinning off non-core support divisions and improving the organisation of labour.

Education and training

Over 50% of the Company's employees have advanced or professional education degrees. The Company continually improves its employees' professionalism, including top management, specialists and line workers. The Company's training programmes are built on those provided by the Severstal Group Corporate University. In addition, it has independent contractual arrangements with educational organisations in Nizhny Novgorod, Ulyanovsk, Moscow and St. Petersburg. The Company's senior managers attend an MBA training programme at the University of Northumbria Business School (UK). Corporate seminars and training events are held as part of the Company's educational programmes.

Specialist education encompasses the most important professional areas for the Company: state-of-the-art technology, potential engine designs, electronic control systems, information technology and software applications, engineering methods of quality control, etc.

Staff education is aimed at increasing staff qualifications, developing multi-functionality, enhancing professional skills, and learning new technology and production techniques.

Motivating management and employees

The Company believes that no significant improvement in the professional level of management or employees is possible without a competitive level of compensation. In the communities where the Company's subsidiaries are located - Ulyanovsk and Zavolzhye (Nizhny Novgorod Region) - the level of wages and salaries offered by the Company is somewhat higher than the average regional level. This helps to attract the most promising new entrants to the general work force and to motivate top professionals. Over the last two years, the Company designed a new employee motivation scheme, including:

- A new management motivation framework based on individual key performance indicators;
- An increase in bonus eligibility for employees' teams that participate in investment projects, as well as in projects which optimise the utilisation of labour and material resources; and
- The Company implements the system of individual motivation of the increase of production quality which involves transferring within the Company of the responsibility for the quality to each employee involved in the production process.

	2004	2003	04/03 Change, %
Average monthly salary, RUB	6,659	5,775	15.3

In 2004, the Company carried on with its consumer-credit programme, which allows the Company's employees to buy UAZ vehicles on credit.

In addition, based on the balanced score card, a detailed set of financial and non-financial performance measures were developed, which has allowed to gauge the long-term profitability and sustainability of the Company as well as to link the senior and middle level management remunerations to the strategic goals of the Company and measure the results achieved by each of the management team member.

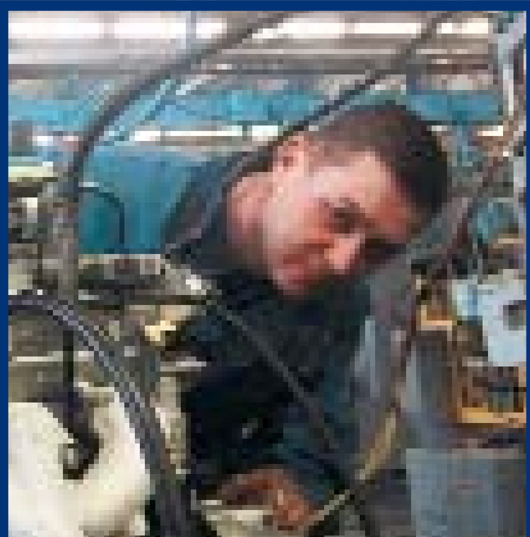
Early retirement programme

OAO ZMZ provides post retirement benefits in the form of a lump sum payment on retirement (RUB 32,000 on average) and quarterly cash payments (RUB 300 on average) to its retirees via the non-state pension fund "Stalfond". The benefit amount is determined by key management. The entitlement to benefits (cash payments) ceases when the retirees pass away. The scheme's retirement age is the State retirement age (55 for females and 60 for males). Currently, about 12,150 employees participate in this programme.

Social programmes

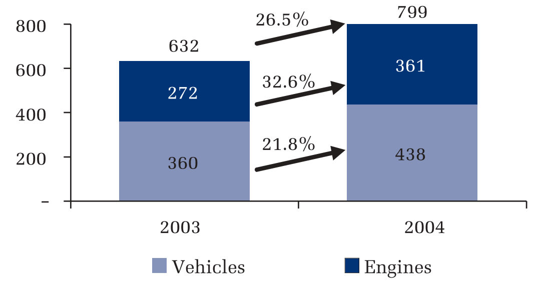
The Company follows a policy of optimising its expenditures on social programmes. Scrutiny of this cost category is an ongoing task of the Company's management. The Company's focus in this area is based on providing targeted social support to the highest degree possible and reducing social programmes that do not satisfy the Company's objective of providing adequate social support to employees with a minimum impact on the Company's profits. Currently, the Company's social programmes include the following:

- Compensating the cost of vouchers to employees and their children;
- Providing medical insurance;
- Pension plan for ZMZ; and
- Maintenance of facilities and assets for social programmes.

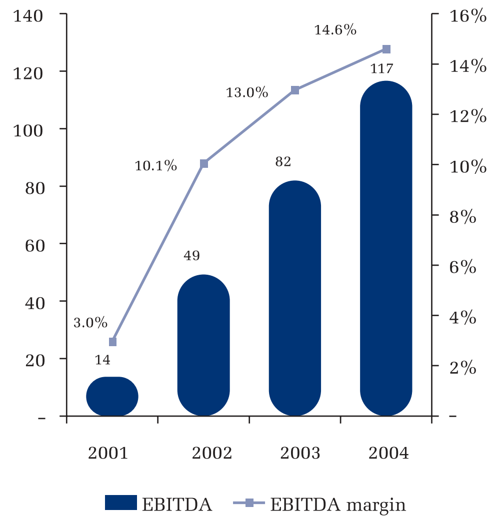


Financial information

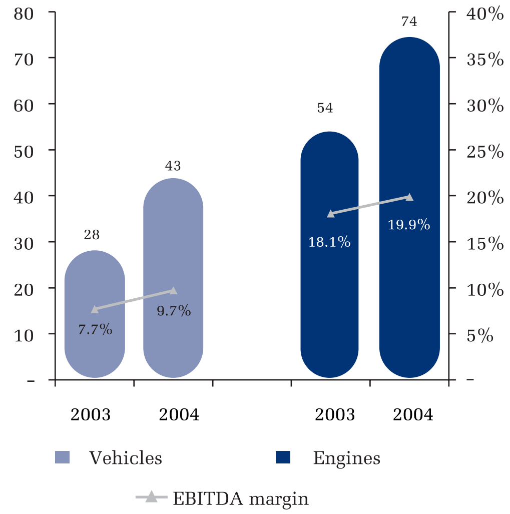
Product revenue breakdown, US$ million



Stable rise in EBITDA margin

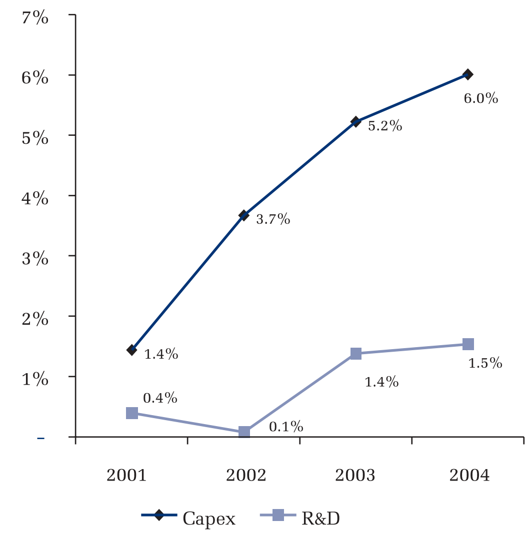


Product EBITDA breakdown, US$ million

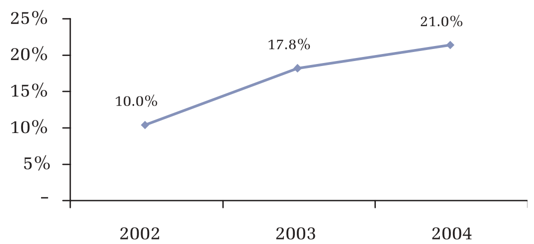


Strict control over working capital

CAPEX and R&D, % of net sales



Return on capital employed (ROCE)



Selected financial data

Selected consolidated statement of income data

	Year ended 31 December						Year ended 31 December		
	2004		2003		2002		2004	2003	2002
	RUB	%	RUB	%	RUB	%	US$	US$	US$
	(in millions, except for percentages)						(in millions)		
Sales	23,029	100%	19,385	100%	15,366	100%	799	632	490
Cost of sales	(17,446)	(76%)	(14,758)	(76%)	(12,507)	(81%)	(605)	(481)	(399)
Gross profit	**5,583**	**24%**	**4,627**	**24%**	**2,859**	**19%**	**194**	**151**	**91**
Distribution costs	(856)	(4%)	(707)	(4%)	(451)	(3%)	(30)	(23)	(14)
General and administrative expenses	(2,011)	(9%)	(1,790)	(9%)	(1,502)	(10%)	(70)	(58)	(48)
Other operating expenses/ (income), net	50	-	(203)	(1%)	47	-	2	(7)	1
Operating income	**2,766**	**12%**	**1,927**	**10%**	**953**	**6%**	**96**	**63**	**30**
Interest expense, net	(423)	(2%)	(481)	(2%)	(600)	(4%)	(15)	(16)	(19)
Other financial gains	(40)	-	14	-	15	-	(1)	-	-
Monetary gain	-	-	-	-	619	4%	-	-	20
Gains on forgiveness of tax debt	-	-	23	-	599	4%	-	1	19
Income before taxation	**2,303**	**10%**	**1,483**	**8%**	**1,586**	**10%**	**80**	**48**	**50**
Income tax expense	(631)	(3%)	(386)	(2%)	(409)	(2%)	(22)	(12)	(13)
Income for the year	**1,672**	**7%**	**1,097**	**6%**	**1,177**	**8%**	**58**	**36**	**37**
Minority interest	(330)	(1%)	(197)	(1%)	(542)	(4%)	(11)	(6)	(17)
Income attributable to equity holders of the Company (net income)	1,342	6%	900	5%	635	4%	47	30	20
Weighted average ordinary shares outstanding (thousands)	24,445		22,074		22,074		24,445	22,074	22,074
Earnings per share (roubles, US dollars)	54.90		40.77		28.77		1.9	1.4	0.9

s e v e r s t a l - a u t o | a n n u a l r e p o r t 2 0 0 4

Selected consolidated statement of cash flows data

	Year ended 31 December			Year ended 31 December		
	2004	2003	2002	2004	2003	2002
	RUB	RUB	RUB	US$	US$	US$
	(in millions, except for percentages)			(in millions)		
Net cash provided from operating activities	1,425	1,064	1,653	49	36	51
Net cash used in investing activities	(1,957)	(1,241)	(544)	(69)	(40)	(18)
Net cash provided from (used in) financing activities	919	579	(1,055)	32	18	(34)

Selected consolidated balance sheet data

	Year ended 31 December						Year ended 31 December		
	2004		2003		2002		2004	2003	2002
	RUB	%	RUB	%	RUB	%	US$	US$	US$
	(in millions, except for percentages)						(in millions)		
Current assets	6,628	35	5,565	33	3,957	29	238	189	124
incl. cash and cash equivalents	982	5	595	4	193	1	35	20	6
Non-current assets	12,196	65	11,051	67	9,736	71	440	374	306
Total assets	**18,824**	**100**	**16,616**	**100**	**13,693**	**100**	**678**	**563**	**430**
Current liabilities	3,750	20	3,596	21	3,790	28	135	121	118
incl. short-term borrowings	830	4	798	5	1,290	9	30	27	40
Non-current liabilities	3,539	19	3,620	22	3,141	23	127	123	99
incl. long-term borrowings	1,782	9	2,007	12	1,352	10	64	67	43
Total liabilities	**7,289**	**39**	**7,216**	**43**	**6,931**	**51**	**262**	**244**	**217**
Total equity	**11,535**	**61**	**9,400**	**57**	**6,762**	**49**	**416**	**319**	**213**

Management's discussion and analysis of financial condition and results of operations

The following discussion and analysis of the Company's financial condition and results of operations covers years ended 31 December 2004, 2003 and 2002. The financial information presented in this discussion has been extracted or derived from the Company's audited consolidated IFRS financial statements for the years ended 31 December 2004, 2003 and 2002. This section should be read together with the IFRS financial statements and related notes, as well as the other financial information included elsewhere in this annual report. For periods prior to 1 January 2003, all rouble amounts are expressed in constant roubles based on the purchasing power of the rouble on 31 December 2002, and translated into U.S. Dollars for presentation purposes, except as otherwise noted.

Solely for the convenience of the reader, certain information derived from the consolidated financial statements included in the annual report has been translated into U.S. Dollars using the following approach:

- All income statement and cash flow statement items for the year ended 31 December 2002 were translated using 31 December 2002 exchange rate in order to better reflect hyperinflation nature of the economy then existed;

- All income statement and cash flow statement items for the year ended 31 December 2004 and 2003 were translated using the average exchange rates for corresponding periods; and

- Balance sheet items were translated using the year-end exchange rate as at the date of the related balance sheet.

The table below shows the average and period end exchange rates between the rouble and the US dollar, as published by the Central Bank of Russia and expressed as the number of roubles per US$1.00.

Year Ended 31 December	Average	Period End
2002	31.36	31.78
2003	30.67	29.45
2004	28.81	27.75

Overview

The Company is a Russian automotive holding company that owns controlling stakes in and acts as the sole executive body for UAZ and ZMZ. UAZ and ZMZ are among the most famous Russian automotive brands and are leaders in their respective market segments. UAZ is the leading Russian manufacturer of four-wheel-drive vehicles including full size SUVs and LCVs, such as light trucks, minibuses and multi-purpose vehicles, while ZMZ is the largest Russian producer of four-cylinder and eight-cylinder petrol engines for class E cars, SUVs, buses, light trucks and multi-purpose vehicles.

Since its inception, the Company has taken major steps to improve the efficiency of the business, which has led to substantial improvements in the operating and financial performance of both UAZ and ZMZ. Today, the Company is one of the fastest-growing and most profitable automotive companies in Russia.

The Company's goal is to continually improve quality of its products and to maximise returns through increased efficiency of production. The Company's approach includes:

- Modernising its existing product range and launching new vehicles and engines with improved consumer features;

- Implementing measures aimed at further optimising the production process by improving operating efficiency, increasing labour productivity, maximising capacity utilisation, improving the management of non-core assets, implementing quality management systems and cost cutting programmes;

- Outsourcing auxiliary functions to reduce costs and improve the quality of the end product; and

- Developing employees' competences.

s e v e r s t a l - a u t o | a n n u a l r e p o r t 2 0 0 4

The Company's plans include projects for developing new models of vehicles as well as establishing assembly operations in partnerships with global automakers. These efforts would require the Company to further develop its distribution and services network in order to achieve international standards.

The current global trend in component production is to relocate production to countries with lower costs of raw materials and labour. The Company's management anticipates a strong potential for the production of automotive components in Russia. The Company plans to use this opportunity to establish production of modern automotive components with foreign partners.

Certain factors affecting results of operations

The Company's results of operations are affected by certain factors relating to its business and industry, as well as by Russia's political, economic and legal environment. Such factors include its ability to utilise the advantages of its niche market position, continued research and development, improvement of internal efficiency, restructuring and renovation.

Niche market leader

The Company's automobile production unit, UAZ, is a major player in Russia for production of full size SUVs with full off-road capabilities in its price range. Low costs of components and production have historically provided the Company with a major competitive advantage relative to its competitors in pricing of products on both the Russian domestic and export markets on which UAZ offers its vehicles.

The Company's engine production unit, ZMZ, is a dominant supplier on the Russian market of low cost petrol engines with displacement of 2.2-2.7 litres compliant with Euro 2 standards for SUVs, light trucks and multi-purpose vehicles.

The Company's consolidated sales revenue increased by RUB 3,644 (US$167) million or 18.8% to RUB 23,029 (US$799) million for 2004 as compared to RUB 19,385 (US$632) million in 2003. Between 2003 and 2002, the Company's sales increased by RUB 4,019 (US$142) million or 26.2%, to RUB 19,385 (US$632) million from RUB 15,366 (US$490) million in 2002. The positive trend in sales revenue growth is primarily the result of the Company' stable position in its niche market, increased share of export sales, favourable changes in the product mix towards higher priced products and inflationary increase of sales prices.

Research and development

The Company's management devotes significant resources to introducing new products and features, maintaining high quality standards for its existing products and enhancing its vehicles to improve overall customer satisfaction. In 2003, the Company launched a new product, the UAZ Hunter off-road vehicle, which is a modernised version of the previous UAZ 3151 model. The updated model has more than 300 improvements, including modernized front and rear axels, helical gearbox, etc., which made it a more dynamic, reliable and comfortable model. In addition, a series of new high-quality components have been added to the entire range of UAZ vehicles, which has resulted in a marked quality improvement in the vehicles.

The Company is in the final stages of development of its new line of UAZ Patriot off-road vehicles and light trucks (the UAZ 2360), which will take its products to a new level of comfort and design. The launch of UAZ Patriot is planned for July 2005.

During 2002, the Company completed the development of its new Euro 2 compliant 406-family petrol engines. In 2003 and 2004, the Company, together with the Austrian company AVL, further upgraded its engine in order to meet Euro 3 environmental standard requirements.

During 2003, the Company was granted funding by the Government for the development of a diesel engine with displacement of 2.2-2.5 litres compliant with Euro 3 requirements for SUVs and light trucks.

Improvement of internal efficiency
Following the acquisition of UAZ and ZMZ, one of management's priorities was to increase the internal efficiency of the Company's operations and reduce production costs in order to retain its position as a cost leader in the market. During 2004, 2003 and 2002, the Company implemented comprehensive cost reduction initiatives covering all aspects of the business. The most important features of the cost reduction programme are as follows:

- *More efficient procurement function.* The Company's increased efforts to use alternative suppliers mitigated the effects of overall growth in the price of materials;
- *Unification of component base and model modifications.* In line with the Company's technological and production policy, the Company is in the process of unifying the components base for UAZ models, including the unification of model modifications;
- *Optimisation of operating standards.* Operating standards were revised to ensure efficiency in production logistics, materials and components usage;
- *Energy cost reduction.* The Company has been actively adopting energy saving technologies;
- *Tighter control over overhead costs.* Management has been able to reduce production overheads as a result of introduced measures of tougher control of overhead costs; and
- *More effective staffing policy.* The Company continues to introduce a teams based approach for most working practices and more effective task organisation. Additionally, the total headcount was reduced by offering incentives to employees who retire after reaching the statutory retirement age (60 and 55 for men and women, respectively) and direct headcount reduction in non-core divisions. The total number of employees as at 31 December 2004 was 37.9 thousand as compared to 40.4 and 41.2 thousand as at 31 December 2003 and 2002, respectively. The Company's current workforce is better trained, more skilled and better motivated. With its focused workforce, the Company is better positioned to optimise its work flows, focus training and development efforts, better motivate and retain its personnel.

In addition to introducing initiatives to improve production and operating efficiency, the Company also developed and implemented a more effective working capital policy that has significantly improved its cash management. Key elements of the policy include:

- *More efficient inventory management.* The implementation of more stringent control over inventories, computerisation of the central warehouses, re-organisation of the inventory logistics department, and improvements in the planning system, have allowed the Company to reduce finished goods, work in progress, materials and component inventories to the optimal level;
- *More effective customer credit control policy.* The Company has standardised and improved its customer credit policy to balance deposit requirements, cash discounts and timely payments;
- *Negotiation of extended supplier terms.* Efficient negotiation of the credit terms with most of the Company's major suppliers has allowed the Company to extend its payment periods from mandatory prepayments for most suppliers on average of 25 days. The Company also encourages its suppliers to establish their warehouses on the Company's factory sites; and
- *Obtaining significant reductions in borrowing costs.* The effective interest rate on the Company's borrowings decreased to 8-11% in 2004 from 10-14% in 2003 and 15-17% in 2002. The overall decrease in interest rates, improvement of the Company's credit rating and a new corporate governance system are the major reasons for the significant decreases.

Sales growth and cost reductions have led to increases in the Company's consolidated operating profit by RUB 839 (US$33) million or 43.5% in 2004 as compared to 2003, and RUB 974 (US$33) million or 102.2% in 2003 as compared to 2002. Total operating income amounted to RUB 2,766 (US$96) million in 2004, RUB 1,927 (US$63) million in 2003 and RUB 953 (US$30) million in 2002.

Restructuring and renovation
The Company's production units - UAZ and ZMZ - historically had a vertically integrated structure inherited from the Soviet economy model. Since the acquisition of UAZ and ZMZ by the Company, it has been the Company's strategy to optimise the structure of its production units to focus on the core business and to reorganise its non-core activities into separate business units within the Company. When managed separately, the non-core units are better positioned to improve efficiency, develop and expand their own customer base and facilitate their own profitability and growth. During 2003, ZMZ moved its plain bearings production and transportation departments out of its core business to be managed as separate business units. In 2004, ZMZ reorganised its repair and maintenance and building construction divisions, press and tools shops and other employee facilities. During 2004, UAZ also transferred its transportation and project departments and building maintenance division out of its core business to be managed as separate business units. In 2005, the Company continued similar efforts with the metallurgical production division of UAZ. Plans for 2005 include the reorganisation of the tooling and stamping divisions of UAZ and foundry of ZMZ into separate business units.

Maintaining the Company's factories with the latest technology and equipment is a critical element of the Company's strategy to ensure quality and commitment to introduce new vehicles and features. UAZ and ZMZ have made significant investments in new Eisenmann's body painting equipment, equipment for the production of Euro 2 compliant 406-petrol family engines and increased the production capacity for those engines to 220 thousand units per year in two operating shifts. The Company has also invested in equipment for the production of helical gearboxes and drive axles.

Recent developments

Strategic partnership
In December 2004, the Company entered into an agreement with SsangYong that provides the Company with exclusive rights to manufacture and distribute the SsangYong Rexton SUV manufactured by it in Russia. The parties continue discussions on the possibility of further cooperation including assembly of other SsangYong models, joint export, research, development and processes improvement initiatives.

Purchase of ZMA
In order to establish the manufacture of the SsangYong SUV, the Company acquired OAO Zavod Mallolitrazhnikh Automobiley ("ZMA") in May 2005. As a result, the Company acquired 99.6% of ZMA's shares for US$ 49.8 million which was raised as part of the recent initial public offering of the Company's shares.

ZMA produces Class A cars branded as the Oka; in 2004, its output was 46 thousand vehicles. The site of ZMA was chosen after thorough review of all available options.

Major customer relationships
Sales to GAZ, the Company's major customer, accounted for 28.2%, 26.1% and 22.4% of total consolidated sales of the Company for the years ended 31 December 2004, 2003 and 2002, respectively. The price and volumes of engine sales to GAZ are contractual and agreed between the Company and GAZ on an annual basis. In January 2005, the parties reached an agreement for 2005 on mutually favourable terms, however, the delayed negotiations affected January 2005 sales of ZMZ and, to a lesser extent, of UAZ, however, there was no interruption of scheduled production. As a result of the delayed negotiations, there was a significant reduction in UAZ and ZMZ output for the month of January, which was partially offset by increased production of units in February and March 2005. The Company believes the sales shortfall in January will not affect its initial annual budgeted sales. To avoid such situations in the future, the Company and GAZ intend to negotiate long-term contracts for the period of up to three years.

Reduction of import tariffs
In April 2005, the Government cut import tariffs for key automotive parts and components used in the territory of the Russian Federation. The Company expects the new tariff regime to benefit its strategic partnership initiatives with SsangYong. However, the Company also recognizes the potential risks of increased competition from foreign automakers more actively entering the Russian market following the elimination of tariffs.

Year ended 31 December 2004 compared to the year ended 31 December 2003

Sales

Consolidated sales increased by RUB 3,644 (US$167) million or 18.8%, to RUB 23,029 (US$799) million in 2004 from RUB 19,385 (US$632) million in 2003 as a result of net sales revenue growth in both the vehicles and engines segment of RUB 1,590 (US$78) million or 14.4% and RUB 2,054 (US$89) million or 24.6%, respectively. Inter-segmental sales primarily represent sales of engines from ZMZ to UAZ made on an arm's length basis. The following table sets out the Company's sales by business segment:

	2004		2003		2004	2003
	RUB	%	RUB	%	US$	US$
	(in millions, except for percentages)				(in millions)	
Vehicle segment						
Total segment sales	12,639	55	1,035	57	439	360
Sales to engine segment - eliminated	(14)	(0.1)	-	-	(1)	-
Net segment sales	12,625	55	11,035	57	438	360
Engine segment						
Total segment sales	10,712	46	9,099	47	372	297
Sales to engine segment - eliminated	(308)	(1)	(749)	(4)	(11)	(25)
Net segment sales	10,404	45	8,350	43	361	272
Consolidated sales, net	**23,029**	**100**	**19,385**	**100**	**799**	**632**

Sales - vehicle segment

The following table sets out sales of the vehicle business segment by product type for the years ended 31 December 2004 and 2003:

	2004		2003		2004	2003
	RUB	%	RUB	%	US$	US$
	(in millions, except for percentages)				(in millions)	
Vehicles	10,310	82	9,418	85	358	307
Automotive components	1,384	11	1,043	10	48	34
Assembly kits	506	4	244	2	18	8
Other sales	439	3	330	3	15	11
Total	12,639	100	11,035	100	439	360
Sales to engine segment - eliminated	(14)	(0.1)	-	-	(1)	-
Net segment sales	**12,625**	**100**	**11,035**	**100**	**438**	**360**
Number of vehicles sold, in thousands of units	**70.1**	**100**	**78.5**	**100**	**70.1**	**78.5**

Vehicle net sales revenue has increased by RUB 1,590 (US$78) million or 14.4% between 2004 and 2003, despite a decrease of 8.4 thousand units or 10.7% in sales volume during the period. Revenue growth was mainly a result of the following factors:

- *Increase in export sales of vehicles and assembly kits.* Export sales of UAZ vehicles increased by RUB 1,067 (US$41) million or 51.4% from RUB 2,075 (US$68) million in 2003 to RUB 3,142 (US$109) million in 2004. Sales of assembly kits increased by 28.0% as compared to 2003. Export sales prices have traditionally been slightly higher than the prices to local dealers due to lower sales discounts;

- *Change in the sales mix in favour of more expensive models.* The launch of the UAZ Hunter in the second half of 2003 and its continued success during 2004 was a primary driver in sales growth. The UAZ Hunter is the upgraded substitute for the Company's previous UAZ 3151 model. Sales of the UAZ Hunter increased by 15.1 thousand units to 16.8 thousand units during 2004 from 1.7 thousand units in 2003. The UAZ Hunter's share of the Company's total SUV sales has increased from 5.3% in 2003 to 54.6% in 2004; and

- *Price increases consistent with inflation.* The Company increased prices across its model range to compensate for the effects of inflation.

The sales volume decrease is mainly a result of a temporary decline in orders from governmental agencies due to the restructuring of a number of those agencies that began in March 2004 and continued throughout the year. The management of the Company believes that government orders will re-bound in 2005 once the restructuring is completed. Decreases in the Company's sales volume in the Russian market of 13.0 thousand units was partially offset by a 4.5 thousand unit increase in export sales. During 2004, 20.6 thousand units were sold for export, up 28.8% from the 2003 level of 16.1 thousand export vehicles.

Revenue from sales of automotive components was RUB 1,384 (US$48) million in 2004 and RUB 1,043 (US$34) million in 2003. The increase is a result of improved branding and distribution system for components. The Company reorganised its distribution network by expanding geographically and by introducing data feedback and marketing initiatives. The Company also introduced branded packaging for its components to reduce the impact of the counterfeit parts market.

In 2004, the Company continued to increase shipments of assembly kits to assembly operations in the Ukraine and Vietnam. For the years ended 31 December 2004 and 2003, the sales revenue of assembly kits reached RUB 506 (US$18) million or 4.0% and RUB 244 (US$8) million or 2% of the total vehicle revenue, respectively.

Sales - engine segment

The following table sets out sales of the engine business segment by product type for the years ended 31 December 2004 and 2003:

	2004		2003		2004	2003
	RUB	%	RUB	%	US$	US$
	(in millions, except for percentages)				(in millions)	
Engines	8,178	76	7,004	77	284	228
Automotive components	2,109	20	1,773	19	73	58
Other sales	425	4	322	4	15	11
Total	**10,712**	**100**	**9,099**	**100**	**372**	**297**
Sales to vehicle segment - eliminated	(308)	(3)	(749)	(8)	(11)	(25)
Net segment sales	**10,404**	**97**	**8,350**	**92**	**361**	**272**
Number of engines sold, thousand units	273.7	100	286.9	100	273.7	286.9
Sales to vehicle segment, thousand units	(10.9)	(4)	(40.8)	(14)	(10.9)	(40.8)
Net segment sales, thousand units	**262.8**	**96**	**246.1**	**86**	**262.8**	**246.1**

Engine segment net sales increased by RUB 2,054 (US$89) million or 24.6% to RUB 10,404 (US$361) million in 2004 as compared to RUB 8,350 (US$272) million in 2003. The increase was primarily driven by a change in the sales mix in favour of the more profitable 406-family of engines as well as a 6.8% overall increase in units sold outside the Company. In 2004, the share of 406-family of engines reached 74.7% as compared to 59.2% in 2003. The sales of the 406-family of engines increased by 20.4% to 204.5 thousand units in 2004 from 169.8 thousand units in 2003. The 406-family of engines are Euro 2 compliant and are priced on average 80% higher than the older 402-family Euro 0 compliant engines. The sales of the 402-family of engines decreased by 56.8% to 34.1 thousand units in 2004 from 78.9 thousand units in 2003.

The increase in sales quantities to external customers in 2004 was due to a higher demand from ZMZ major cutomer, GAZ. Sales to GAZ accounted for 61% and 56% of total gross revenues for the engine segment in 2004 and 2003.

Revenue from sales of engine components totalled RUB 2,109 (US$73) million in 2004 and RUB 1,773 (US$58) million in 2003. The increase is a result of improved branding and distribution system for both ZMZ engine and UAZ vehicle components, as part of the Company's overall strategy. The Company reorganised its distribution network by expanding geographically and by introducing data feedback and marketing initiatives. The Company also introduced branded packaging for its engine and vehicle components to reduce the impact of counterfeit products market.

Cost of sales

The following table sets out the Company's cost of sales by business segment for the years ended 31 December 2004 and 2003:

	2004		2003		2004	2003
	RUB	%	RUB	%	US$	US$
	(in millions, except for percentages)				(in millions)	
Vehicle segment	10,159	58	9,105	62	353	297
Engine segment	7,609	44	6,402	43	264	209
Inter-segmental sales - eliminated	(322)	(2)	(749)	(5)	(12)	(25)
Total cost of sales	**17,446**	**100**	**14,758**	**100**	**605**	**481**

The consolidated cost of sales has increased by RUB 2,688 (US$124) million, or 18.2% from RUB 14,758 (US$481) million in 2003 to RUB 17,446 (US$605) million in 2004. The growth of sales revenue of 18.8% exceeded the growth of cost of sales, which positively influenced the profitability of the Company.

Cost of sales - vehicle segment

	2004		2003		2004	2003
	RUB	%	RUB	%	US$	US$
	(in millions, except for percentages)				(in millions)	
Vehicle segment						
Materials and components used	7,709	76	6,649	73	267	217
Labour costs	1,773	18	1,601	18	62	52
Other	937	9	960	10	33	31
Change in finished goods and work in progress	(260)	(3)	(105)	(1)	(9)	(3)
Total	**10,159**	**100**	**9,105**	**100**	**353**	**297**

The vehicle segment's cost of sales increased by RUB 1,054 (US$56) million or 11.6% to RUB 10,159 (US$353) million in 2004 from RUB 9,105 (US$297) million in 2003 due to the increase of cost per unit produced resulting from the changes in the production and sales mix in favour of the more expensive models, such as the UAZ Hunter. Major drivers affecting the increase of production costs per unit during 2004 included:

- Dramatic increase in steel market prices during 2004 compared to 2003 impacted the cost of steel used in production of vehicles and other steel-based automotive components;
- Labour cost increase of 10.7% as a result of the Company's strategy towards improving productivity by hiring and retaining qualified personnel while reducing the overall headcount. Additional employee training and incentive initiatives were also introduced in 2004. The increase in average monthly employees' salary by RUB 884 (US$43) or 15.3% to RUB 6,659 (US$231) in 2004 from RUB 5,775 (US$188) in 2003 was partially offset by the effects of a 7.0% reduction in headcount during the period. Labour costs as a percentage of production costs for the vehicle segment remained flat at 17.5% in 2004; and
- Rising transportation tariffs and petrol prices in Russia increased the cost of materials and components purchased.

The Company's implementation of a cost-reduction programme including improving efficiency of operations, tougher control over overheads and a headcount reduction allowed the Company to keep the cost of sales in its vehicle segment growth at a significantly lower level of 11.6% than the growth of revenue which was 14.4% in 2004 compared to 2003.

Cost of sales - engine segment

	2004		2003		2004	2003
	RUB	%	RUB	%	US$	US$
	(in millions, except for percentages)				(in millions)	
Engine segment						
Materials and components used	5,210	68	4,352	68	180	142
Labour costs	1,639	22	1,447	23	57	47
Other	829	11	632	10	29	21
Change in finished goods and work in progress	(69)	(1)	(29)	(1)	(2)	(1)
Total	**7,609**	**100**	**6,402**	**100**	**264**	**209**

Cost of goods sold of the Company's engine segment increased by RUB 1,207 (US$55) million or 18.9% to RUB 7,609 (US$264) million in 2004 as compared to RUB 6,402 (US$209) million in 2003. The number of engines sold decreased by 13.2 thousand units or 4.6% from 286.9 thousand in 2003 to 273.7 thousand in 2004. The increase in production cost per unit was due to the following factors:

- Change in the sales mix in favour of the more advanced 406-family Euro 2 compliant engines with higher unit production costs than the older 402-family engine. Sales of 406-family of engines increased in 2004 by 20.4% or by 34.6 thousand units with a corresponding 56.7% decrease in sales of the 402-family of engines by 44.7 thousand units. The production of the 406-family of engines requires more expensive components for their production as compared to the 402-family of engines;
- Increase in cost of materials and components by 19.7% in 2004 as a result of increases in market prices of metals. During 2004, market prices of aluminium increased by 19% and of non-ferrous metals by 14% (Sources: Goskomstat and London Metals Exchange, respectively);
- Labour costs increased by 13.3% as a result of the Company's strategy towards improving productivity by hiring and retaining qualified personnel while reducing overall headcount. Average monthly salary per employee increased 17.2% or by RUB 1,261 (US$60) to RUB 8,602 (US$299) in 2004 from RUB 7,341 (US$239) in 2003 to compensate and provide performance incentives. This increase in salaries was partially offset by a headcount reduction of 3.3% between the periods; and
- Rising transportation tariffs and petrol prices in Russia increased the cost of materials and components purchased.

Gross profit and margin

The following table sets out the Company's gross profit and margin by business segment, including intersegment sales, for the years ended 31 December 2004 and 2003:

	2004		2003		2004	2003
	RUB	%	RUB	%	US$	US$
	(in millions, except for percentages)				(in millions)	
Gross profit						
Vehicle segment	2,480	44	1,930	42	86	63
Engine segment	3,103	56	2,697	58	108	88
Total gross profit	**5,583**	**100**	**4,627**	**100**	**194**	**151**
Gross profit margin as % of sales						
Vehicle segment	19.6		17.5		19.6	17.5
Engine segment	29.0		29.6		29.0	29.6
Consolidated gross profit margin as % of sales	**24.2**		**23.9**		**24.2**	**23.9**

The consolidated gross profit increased by RUB 956 (US$43) million or 20.7% to RUB 5,583 (US$194) million in 2004 as compared to RUB 4,627 (US$151) million in 2003. The consolidated gross profit margin was 24.2% in 2004 as compared to 23.9% in 2003. Consolidated gross profit margin improved in 2004 largely a result of increased sales and profitability of the Company's vehicle segment, which was partially offset by a slight decrease in profitability of engine segment.

Gross profit - vehicle segment

Gross profit of the vehicle segment increased by RUB 550 (US$23) million or 28.5% to RUB 2,480 (US$86) million in 2004 as compared to RUB 1,930 (US$63) million in 2003. The favourable effects of changes in the sales mix in 2004 outweighed the decrease in units sold in 2004 comparing with 2003 by 10.7% and the increase in costs per unit, resulting in an increase in gross profit margin of the vehicle segment in 2004 to 19.6% from 17.5% in 2003. Major factors influencing the increase in gross profit included:

- Change in the sales mix towards more expensive and profitable models with the introduction of the UAZ Hunter in the second half of 2003. Sales of the UAZ Hunter in 2004 reached 24% of total vehicle sales, gradually replacing the older UAZ 3151 model;
- Increased export sales of vehicles and assembly kits. Export sales reached a historical high for the Company of 20.6 thousand units. Sales of assembly kits increased 86.0% as compared to levels in 2003. Export sales are more profitable as they generally have lower sales discounts; and
- Continued shift of non-core activities outside of the Company's core business allowed the Company to improve profitability in both UAZ and ZMZ.

The favourable effects on gross profit margin discussed above were partially offset by the following factors:

- Dramatic increase in steel market prices during 2004 by 49% impacted direct materials costs and the cost of steel-based components of UAZ. The Company's price increases did not fully compensate for the effects of the increase in the cost of steel and steel-based components;
- Increased share of more sophisticated components with the introduction of an improved model line, such as the UAZ Hunter;
- Growing energy, utilities and petrol prices increased the Company's overheads; and
- Rising labour costs due to wage increases to increase quality and productivity, partially offset by headcount reductions.

Despite decreases in units sold, significant growth in steel prices and increased labour costs in 2004, the Company's gross profit margin for the vehicle segment improved to 19.6% in 2004 from 17.5% in 2003.

Gross profit - engine segment

Gross profit of the engine segment increased by RUB 406 (US$20) million or 15.1% to RUB 3,103 (US$108) million in 2004 as compared to RUB 2,697 (US$88) million in 2003. Positive factors affecting the profitability of the engine segment in 2004 included:

- Change in the sales mix in favour of the more profitable 406-family of engines; and
- Increased profitability of non-core operations resulting from their reorganisation into separate business units.

The above favourable effects of gross profit were partially offset by the following factors:

- The impact of increased market prices on the cast iron, aluminium and non-ferrous metals, partially offset by the effects of the Company's price increases for its engines in line with inflation;
- Rising labour costs due to wage increases to increase quality and productivity, partially offset by headcount reductions; and
- Increase in energy and heat costs as a result of the increase in tariffs during 2004.

Gross profit in the engine segment decreased to 29.0% in 2004, as compared to 29.6% in 2003, primarily due to the increase in materials prices. The Company's engine business depends on a small number of customers, which limits the Company's ability to negotiate price increases for its engines to compensate for raising costs of materials. The Company believes it has the ability to increase profitability by negotiating longer term contracts with its major customers and diversifying its customer base by focusing on export sales. In early 2005, the Company signed an annual contract with its major customer GAZ with more favourable price terms as compared to 2004.

Distribution, general and administrative and other operating expenses

The following table sets out the Company distribution, general and administrative and other operating expenses for the years ended 31 December 2004 and 2003:

	2004		2003		2004	2003
	RUB	%	RUB	%	US$	US$
	(in millions, except for percentages)				(in millions)	
Distribution costs	856	4	707	4	30	23
General and administrative expenses	2,011	8	1,790	9	70	58
Other operating (income) expenses	(50)	0.2	203	1	(2)	7
Total	**2,817**	**12**	**2,700**	**14**	**98**	**88**

Operating expenses, exclusive of cost of sales, increased by RUB 117 (US$10) million or 4.3% to RUB 2,817 (US$98) million in 2004 as compared to RUB 2,700 (US$88) million in 2003.

Distribution costs

Distribution expenses increased by RUB 149 (US$7) million or 21.1% to RUB 856 (US$30) million in 2004 as compared to RUB 707 (US$23) million in 2003. The increase in distribution expenses was due to:

- Additional costs associated with the introduction of the pre-sale quality control system;
- Intensified and more focused marketing efforts for sales to individual and corporate customers; and
- Increased transportation costs associated with the increased volume of export sales.

General and administrative expenses

General and administrative expenses represented 71.4% of total operating expenses in 2004. General and administrative expenses increased by RUB 221 (US$12) million or 12.3% to RUB 2,011 (US$70) million in 2004 as compared to RUB 1,790 (US$58) million in 2003. The increase in general and administrative expenses was mainly attributable to the increase in labour costs of RUB 184 (US$9) million or 18.1% to RUB 1,200 (US$42) million in 2004 from RUB 1,016 (US$33) million in 2003.

Other operating (income) expenses

Other operating income in 2004 was RUB 50 (US$2) million and consisted mainly of the excess of the acquired share over the purchase consideration write-off of RUB 121 (US$4) million associated with the step up acquisition of ZMZ's preferred shares by the Company. See the Consolidated IFRS Financial Statements for further details.

Operating income and operating margin

The following table sets out the Company's operating income and margin by business segment, including intersegment sales, for the years ended 31 December 2004 and 2003:

	2004		2003		2004	2003
	RUB	%	RUB	%	US$	US$
	(in millions, except for percentages)				(in millions)	
Operating income						
Vehicle segment	807	29	428	22	28	14
Engine segment	1,959	71	1,499	78	68	49
Total operating income	**2,766**	**100**	**1,927**	**100**	**96**	**63**
Operating margin as a % of sales						
Vehicle segment	6.4		3.9		6.4	3.9
Engine segment	18.3		16.5		18.3	16.5
Consolidated operating margin	**12.0**		**9.9**		**12.0**	**9.9**

Total operating income increased by RUB 839 (US$33) million or 43.5% to RUB 2,766 (US$96) million in 2004 as compared to RUB 1,927 (US$63) million in 2003.

Operating income of the vehicle segment increased by RUB 379 (US$14) million or 88.6% to RUB 807 (US$28) million in 2004 as compared to RUB 428 (US$14) million in 2003. The operating margin for the segment was 6.4% in 2004 as compared to 3.9% in 2003. The increase is attributable to the following factors:

- Changes in the sales mix in favour of more profitable models and sale price increases; and

- Implementation of a cost-reduction programme, which included a decrease in headcount, tougher control over overheads and maintenance costs, increased efficiency of logistics and transfer of certain non-core assets out of the Company's core business, including the transfer of social assets to the local government.

The engine segment's operating income increased by RUB 460 (US$19) million or by 30.7% to RUB 1,959 (US$68) million in 2004 as compared to RUB 1,499 (US$49) million in 2003. An improved sales mix enabled the Company to increase its operating profit margin growth in the engine segment in 2004 to 18.3% from 16.5% in 2003.

Net interest expenses
Net interest expenses totalled RUB 423 (US$15) million and RUB 481 (US$16) million in 2004 and 2003, respectively. The Company's interest expenses decreased by RUB 58 (US$1) million or 12.1% due to the decrease in the effective interest rates of the Company's borrowings by approximately three percentage points during 2004 and slight decrease in the indebtedness of the Company during the year.

Income tax
The Company and its subsidiaries' income were taxed at the statutory rate of 24% in 2004 and 2003. The effective income tax rate for the Company was 27.4% and 26.0% for the year ended 31 December 2004 and 2003, respectively. Income tax expenses increased by RUB 245 (US$10) million or 63.5% to RUB 631 (US$22) million in 2004 from RUB 386 (US$12) million in 2003, in line with the increase of profitability of the business. Total income tax expense for 2003 was partially offset by a deferred tax credit of RUB 93 (US$3) million associated with the early retirement of a long-term interest free loan from OAO Severstal to UAZ. In 2004, the Company recognised a deferred tax charge of RUB 41 (US$1) million.

Income attributable to the equity holders of the Company (Net income)
As a result of an increase in sales and a more effective cost management policy, net income attributable to the equity holders increased by RUB 442 (US$17) million or 49.1% to RUB 1,342 (US$47) million in 2004 from RUB 900 (US$30) million in 2003. Earnings per share increased by RUB 14.13 (US$0.5) per ordinary share or 34.7% to RUB 54.90 (US$1.9) in 2004 from RUB 40.77 (US$1.4) in 2003.

Income attributable to minority interest
Minority interest in the Company is attributed to both ZMZ and UAZ. As a result of the increased profitability of both subsidiaries, the minority interest share in their income for the year increased by RUB 133 (US$5) million or 67.5% to RUB 330 (US$11) million in 2004 as compared to RUB 197 (US$6) million in 2003. Minority interest attributable to ZMZ was 28% and 34% as at 31 December 2004 and 2003, respectively. Minority interest attributable to UAZ was 34% as at 31 December 2004 and 2003.

Year Ended 31 December 2003 Compared to the Year Ended 31 December 2002
Sales
Consolidated sales increased by RUB 4,019 (US$142) million or 26.2% to RUB 19,385 (US$632) million in 2003 from RUB 15,366 (US$490) million in 2002 as a result of net sales revenue growth in both the vehicles and engines segments of RUB 2,133 (US$76) million or 23.9% and RUB 1,886 (US$66) million or 29.3%, respectively.

The following table sets out the Company's sales by business segment in nominal amounts for the year ended 31 December 2003 and inflation-adjusted amounts for the year ended 31 December 2002, based on the purchasing power of the rouble as of 31 December 2002:

	2003		2002		2003	2002
	RUB	%	RUB	%	US$	US$
	(in millions, except for percentages)				(in millions)	
Vehicle segment						
Total segment sales	11,035	57	8,907	58	360	284
Sales to engine segment - eliminated	-	-	(5)	-	-	-
Net segment sales	**11,035**	**57**	**8,902**	**58**	**360**	**284**
Engine segment						
Total segment sales	9,099	47	7,286	47	297	232
Sales to engine segment - eliminated	(749)	(4)	(822)	(5)	(25)	(26)
Net segment sales	8,350	43	6,464	42	272	206
Consolidated sales, net	**19,385**	**100**	**15,366**	**100**	**632**	**490**

Sales - Vehicle segment
The following table sets out sales of the vehicle business segment by product type in nominal amounts for the year ended 31 December 2003 and inflation-adjusted amounts for the year ended 31 December 2002, based on the purchasing power of the rouble as of 31 December 2002:

	2003		2002		2003	2002
	RUB	%	RUB	%	US$	US$
	(in millions, except for percentages)				(in millions)	
Vehicles	9,418	85	7,677	86	307	245
Automotive components	1,043	10	806	9	34	26
Assembly kits	244	2	50	1	8	2
Other sales	330	3	374	4	11	12
Total	**11,035**	**100**	**8,907**	**100**	**360**	**285**
Sales to engine segment - eliminated	-	-	(5)	-	-	-
Net segment sales	**11,035**	**100**	**8,902**	**100**	**360**	**285**
Number of vehicles sold, in thousands of units	**78.5**	**100**	**72.5**	**100**	**78.5**	**72.5**

Vehicle net sales revenue increased by RUB 2,133 (US$76) million or 23.9% to RUB 11,035 (US$360) million in 2003 as compared with RUB 8,902 (US$284) million in 2002. The increase was mainly due to a 8.3% increase in the number of vehicles sold, inflationary price increase as well as positive trends in the sales mix in favour of more expensive models with the introduction of the UAZ Hunter in the second half of 2003. Sales volume growth was mainly the result of higher export sales.

Revenue from the sale of automotive components was RUB 1,043 (US$34) million in 2003 and RUB 806 (US$26) million in 2002. The increase is a result of price increases and additional sales volumes of components to service a greater number of customer vehicles resulting from the higher vehicle sales in 2001 and 2002.

In 2003, the Company significantly increased shipments of assembly kits due to the establishment of assembly operations in the Ukraine and Vietnam. Revenue from sales of assembly kits quadrupled to RUB 244 (US$8) million or 2% of the total vehicle revenue in 2003 as compared to RUB 50 (US$2) million or 1% in 2002.

Sales - engine segment
The following table sets out sales of the engine business segment by product type in nominal amounts for the year ended 31 December 2003 and inflation-adjusted amounts for the year ended 31 December 2002, based on the purchasing power of the rouble as of 31 December 2002.

	2003		2002		2003	2002
	RUB	%	RUB	%	US$	US$
	(in millions, except for percentages)				(in millions)	
Engines	7,004	77	5,530	76	228	176
Automotive components	1,773	20	1,564	21	58	50
Other sales	322	3	192	3	11	6
Total	9,099	100	7,286	100	297	232
Sales to vehicle segment - eliminated	(749)	(8)	(827)	(11)	(25)	(26)
Net segment sales	**8,350**	**92**	**6,459**	**89**	**272**	**206**
Total number of engines sold, thousand units	286.9		250.6		286.9	250.6
Sales to vehicle segment, thousand units	(40.8)		(50.0)		(40.8)	(50.0)
Net segment sales, thousand units	**246.1**		**200.6**		**246.1**	**200.6**

Engine segment net sales increased by RUB 1,891 (US$66) million or 29.3% to RUB 8,350 (US$272) million in 2003 as compared to RUB 6,459 (US$206) million in 2002. The increase was mainly driven by a 22.7% increase in units sold (net of intersegment sales), sales price increases and changes in the sales mix towards the more expensive 406-family of engines.

Revenue from sales of engine components totalled RUB 1,773 (US$58) million in 2003 and RUB 1,564 (US$50) million in 2002. The increase is a result of price increases and additional sales volumes of engine components to service the greater number of engines in the market resulting from the higher vehicle sales in 2001 and 2002.

Cost of sales

The following table sets out the Company's cost of sales by business segment in nominal amounts for the year ended 31 December 2003 and inflation-adjusted amounts for the year ended 31 December 2002, based on the purchasing power of the rouble as of 31 December 2002:

	2003		2002		2003	2002
	RUB	%	RUB	%	US$	US$
	(in millions, except for percentages)				(in millions)	
Vehicle segment	9,105	62	8,059	64	297	257
Engine segment	6,402	43	5,275	42	209	168
Inter-segmental sales - eliminated	(749)	(5)	(827)	(6)	(25)	(26)
Total cost of sales	**14,758**	**100**	**12,507**	**100**	**481**	**399**

The consolidated cost of sales increased by RUB 2,251 (US$82) million or 18.0% from RUB 12,507 (US$399) million in 2002 to RUB 14,758 (US$481) million in 2003. As a result of successful implementation of Company strategy focused on cost leadership strategy, the 18.0% increase in cost of sales in 2003 was significantly lower than the respective 26.2% growth of sales revenue, resulting in significantly higher margins earned by the Company in 2003 compared to 2002.

Cost of sales - vehicle segment

The following table sets out the vehicle segment's cost of sales in nominal amounts for the year ended 31 December 2003 and inflation-adjusted amounts for the year ended 31 December 2002, based on the purchasing power of the rouble as of 31 December 2002.

	2003		2002		2003	2002
	RUB	%	RUB	%	US$	US$
	(in millions, except for percentages)				(in millions)	
Vehicle segment						
Materials and components used	6,649	73	5,527	69	217	177
Labour costs	1,601	18	1,354	17	52	43
Other	960	10	858	10	31	27
Change in finished goods and work in progress	(105)	(1)	320	4	(3)	10
Total	**9,105**	**100**	**8,059**	**100**	**297**	**257**

The Company's cost of sales in its vehicle segment increased by RUB 1,046 (US$40) million or 13.0% to RUB 9,105 (US$297) million in 2003 as compared to RUB 8,059 (US$257) million in 2002. The 8.3% increase in vehicle sale volumes, change in sales mix and increase of production cost per unit due to higher supply prices and raising labour costs are the major reasons for cost of sales growth. Major factors influencing the increase in production costs during 2003 included:

- Increase in steel prices during 2003 resulted in a significant increase in cost of materials during the year. Steel and metal-based components costs collectively make up about 25% of the vehicle segment's total production costs.

- Labour costs increased by 18.2% due to wage increases and increased volume of production. The average monthly employees' salary increased by RUB 955 (US$34) or 19.8% to RUB 5,775 (US$188) in 2003 from RUB 4,820 (US$154) in 2002, while the number of employees decreased by 1.1%. Labour costs as a percentage of production costs for the vehicle segment increased to 17.6% in 2003, up from 16.8% in 2002.

Despite the significant increases in metal prices, labour costs and energy tariffs, the Company managed to keep the growth in the costs of sales at 13.0% in 2003 compared with the increase in sales revenue for the segment of 24.0% as a result of the implementation of its cost-reduction programme.

Cost of sales - engine segment

The following table sets out the engine segment's cost of sales in nominal amounts for the year ended 31 December 2003 and inflation-adjusted amounts for the year ended 31 December 2002, based on the purchasing power of the rouble as of 31 December 2002.

	2003		2002		2003	2002
	RUB	%	RUB	%	US$	US$
	(in millions, except for percentages)				(in millions)	
Engine segment						
Materials and components used	4,352	68	3,780	72	142	120
Labour costs	1,447	23	1,056	20	47	34
Other	632	10	451	8	21	14
Change in finished goods and work in progress	(29)	(1)	(12)	-	(1)	-
Total	**6,402**	**100**	**5,275**	**100**	**209**	**168**

Cost of goods sold of the Company's engine segment increased by RUB 1,127 (US$41) million or 21.4% to RUB 6,402 (US$209) million in 2003 as compared to RUB 5,275 (US$168) million in 2002. Major factors affecting the increase in costs of goods sold during 2003 included:

- Cost of materials increased primarily due to the increase in market prices of aluminium and non-ferrous metals by 27% during 2003 (Sources: Goskomstat and London Metals Exchange); and

- Increase in labour costs by 37.0% primarily due to wage increases and significantly increased volume of production. The average monthly employees' salary increased by RUB 2,447 (US$83), or 50.0% to RUB 7,341 (US$239) in 2003 from RUB 4,894 (US$156) in 2002, while the number of employees decreased by 5.5% due to headcount reductions measures. Labour costs as a percentage of production costs for the engine segment increased to 22.6% in 2003, up from 20.0% in 2002.

Despite a significant increase in the prices for major components during 2003, the Company kept the growth in the cost of sales of the engine segment of only 21.4% in 2003 while the total segment revenue increased by 29.3%.

Gross profit and margin

The following table sets out the Company's gross profit and margin by business segment, including intersegment sales, in nominal amounts for the year ended 31 December 2003 and inflation-adjusted amounts for the year ended 31 December 2002, based on the purchasing power of the rouble as of 31 December 2002.

	2003		2002		2003	2002
	RUB	**%**	**RUB**	**%**	**US$**	**US$**
	(in millions, except for percentages)				(in millions)	
Gross profit						
Vehicle segment	1,930	42	848	30	63	27
Engine segment	2,697	58	2,011	70	88	64
Total gross profit	**4,627**	**100**	**2,859**	**100**	**151**	**91**
Gross profit margin as % of sales						
Vehicle segment	17.5		9.5		17.5	9.5
Engine segment	32.3		31.1		32.3	31.1
Consolidated	**23.9**		**18.6**		**23.9**	**18.6**

The Company's gross profit increased by RUB 1,768 (US$60) million or 61.8% to RUB 4,627 (US$151) million in 2003 as compared to RUB 2,859 (US$91) million in 2002. The consolidated gross profit margin grew from 18.6% in 2002 to 23.9% in 2003. The improved consolidated gross margin in 2003 was largely the result of increased sales and profitability of the vehicle market.

Gross profit - vehicle segment
Gross profit of the vehicle segment increased by RUB 1,082 (US$36) million or 127.6% to RUB 1,930 (US$63) million in 2003 as compared to RUB 848 (US$27) million in 2002. Stable demand for UAZ four-wheel-drive vehicles and limited competition in the market enabled the Company to increase sales volumes, raise prices for its vehicles slightly above inflation in 2003, whilst the introduction of a cost reduction programme helped the Company to keep its unit cost increases under inflation. The Company's efforts resulted in an increase in the gross profit margin in its vehicle segment to 17.5% in 2003, up from 9.5% in 2002.

Gross profit - engine segment
Gross profit in the engines segment increased by RUB 686 (US$24) million or 34.1% to RUB 2,697 (US$88) million in 2003 as compared to RUB 2,011 (US$64) million in 2002. Growth in engine sales was driven by demand growth from the Company's major customers, GAZ and PAZ. A higher margin sales mix and successful implementation of a cost reduction programme enabled the Company to increase its gross margin profit in its engine segment to 32.3% in 2003 from 31.1% in 2002. The Company's engine sales depend to a great extent on a small number of customers, which makes it more difficult for the Company to raise engine prices in line with inflation.

Distribution, general and administrative and other operating expenses
The following table sets out the Company's distribution, general and administrative and other operating expenses in nominal amounts for the year ended 31 December 2003 and inflation-adjusted amounts for the year ended 31 December 2002, based on the purchasing power of the rouble as of 31 December 2002.

	2003		2002		2003	2002
	RUB	**%**	**RUB**	**%**	**US$**	**US$**
	(in millions, except for percentages)				(in millions)	
Distribution costs	707	4	451	3	23	14
General and administrative expenses	1,790	9	1,502	9	58	48
Other operating (income) expenses	203	1	(47)	-	7	(1)
Total	**2,700**	**14**	**1,906**	**12**	**88**	**61**

Operating expenses, exclusive of cost of sales, increased by RUB 794 (US$27) million or 41.7% to RUB 2,700 (US$88) million in 2003 as compared to RUB 1,906 (US$61) million in 2002.

Distribution costs
Distribution costs increased by RUB 256 (US$9) million or 56.8% to RUB 707 (US$23) million in 2003 as compared to RUB 451 (US$14) million in 2002. The increase in distribution expenses was mainly due to increased transportation, advertising and packaging material costs.

Transportation costs increased by RUB 124 (US$4) million or 44.3% to RUB 404 (US$13) million in 2003 from RUB 280 (US$9) million in 2002. The growth in transportation expenses was driven by sales volumes increases and re-organisation of the Company's vehicle distribution network to more effectively reach regional customers. Beginning in the second half of 2003, the Company changed its transportation terms to equalise dealer sales prices in order to control the distribution network. Under the new policy, transportation costs are allocated and borne by

the Company and are included in wholesale prices. Previously, transportation costs were borne by dealers, which resulted in significant price variations for UAZ vehicles in various regions of Russia.

In line with a more aggressive marketing strategy and launch of the Company's advertising campaign for its new UAZ Hunter SUV, the Company increased its advertising expenses by RUB 56 (US$2) million or 127.3% to RUB 100 (US$3) million in 2003 from RUB 44 (US$1) million in 2002.

General and administrative expenses
General and administrative expenses represented 66.2% of total operating expenses for 2003. General and administrative expenses increased by RUB 288 (US$10) million or 19.2% to RUB 1,790 (US$58) million in 2003 as compared to RUB 1,502 (US$48) million in 2002 primarily due to increased labour costs of RUB 338 (US$11) million or 49.9% to RUB 1,016 (US$33) million in 2003 from RUB 678 (US$22) million in 2002. Taxes, other than income tax, decreased by RUB 178 (US$6) million or 52.0% to RUB 164 (US$5) million in 2003 from RUB 342 (US$11) million in 2002. This decrease in taxes was the result of the abolishment of the "road users" tax on 1 January 2003. Previously, the "road users" tax was calculated as 1% of revenue.

Other operating expenses (income)
Other operating expenses were RUB 203 (US$7) million in 2003 and consisted of social costs and charity expenses of RUB 150 (US$5) million and research and development costs of RUB 53 (US$2) million.

Operating income and operating margin
The following table sets out the Company's operating income and operating margin by business segment, including intersegment sales, in nominal amounts for the year ended 31 December 2003 and inflation-adjusted amounts for the year ended 31 December 2002, based on the purchasing power of the rouble as of 31 December 2002.

	2003		2002		2003	2002
	RUB	**%**	**RUB**	**%**	**US$**	**US$**
	(in millions, except for percentages)				(in millions)	
Operating income						
Vehicle segment	428	22	(155)	(16)	14	(6)
Engine segment	1,499	78	1,182	124	49	38
Unallocated	-	-	(74)	(8)	-	(2)
Total operating income	**1,927**	**100**	**953**	**100**	**63**	**30**
Operating margin as a % of sales						
Vehicle segment	3.9		(1.7)		3.9	(1.7)
Engine segment	16.5		16.2		16.5	16.2
Consolidated operating margin	**9.9**		**6.2**		**9.9**	**6.2**

Total operating income increased by RUB 974 (US$33) million or 102.2% to RUB 1,927 (US$63) million in 2003 as compared to RUB 953 (US$30) million in 2002.

Operating income of the vehicle segment increased significantly to RUB 428 (US$14) million in 2003 as compared to RUB 155 (US$6) million operating loss in 2002. The operating margin for the segment was 3.9% in 2003 as compared with a negative operating margin of 1.7% for 2002. Implementation of a cost-reduction programme, better management of the sales mix, and sales prices increases were the primary reasons for the positive operating income in 2003.

The engine segment's operating income has increased by RUB 317 (US$11) million or 26.8% to RUB 1,499 (US$49) million in 2003 as compared to RUB 1,182 (US$38) million in 2002. The sales growth together with tighter cost control enabled the Company to increase its operating profit margin to 16.5% in 2003 from 16.2% in 2002.

Other non-operating income
Gains from the cancellation of tax debts amounted to RUB 23 (US$1) million and RUB 599 (US$19) million in 2003 and 2002, respectively. Overdue taxes and tax fines accumulated by UAZ and ZMZ before their acquisition were restructured over a period of up to 10 years in 2001 (at zero or preferential interest rates) and some of the previously restructured tax penalties were discharged. At the end of 2002 and 2003, the Company had no overdue liabilities on current or restructured tax liabilities. The Company is currently in compliance with all the tax debts restructuring terms and management is confident that UAZ and ZMZ will continue to abide by the restructuring terms.

The monetary gain in 2002 was RUB 619 (US$20) million. For the periods prior to 1 January 2003, the Company restated its financial statements to account for the changes in purchasing power of the rouble as required by IAS 29. As of 1 January 2003, Russia's economy ceased to be a hyperinflationary economy under the requirements of IAS 29 and the Company discontinued the restatements of its financial statements. Accordingly, the Company has no monetary gain or loss for the year ended 31 December 2003.

Net interest expenses
Net interest expenses totalled RUB 481 (US$16) million and RUB 600 (US$19) million in 2003 and 2002, respectively. Although the overall indebtedness of the Company remained relatively unchanged between 2003 and 2002, the Company's interest expenses decreased by RUB 199 (US$3) million or 33.2% due to the decrease in the effective interest rates of the Company to 10-14%% from 15-17%% between 2002 and 2003.

Income tax
The effective income tax rate for the Company was 26.0% and 25.8% for the year-ended 31 December 2003 and 2002. Income tax expenses decreased by RUB 23 (US$1) million or 5.6% to RUB 386 (US$12) million in 2003 from RUB 409 (US$13) million in 2002. The decrease in income tax was a result of a RUB 93 (US$3) million deferred tax credit recognised during 2003 associated with the early retirement of a long-term interest free loan given by the Company to UAZ.

Income attributable to the equity holders of the Company (Net income)
As a result of an increase of sales and a more effective management cost policy, income attributable to the equity holders of the Company increased by RUB 265 (US$10) million or 41.7% to RUB 900 (US$30) million in 2003 from RUB 635 (US$20) million in 2002. Earnings per share increased by RUB 12.00 (US$0.5) per share or 41.7% to RUB 40.77 (US$1.4) in 2003 from RUB 28.77 (US$0.9) in 2002.

Income attributable to minority interest
Minority interest is attributable to both UAZ and ZMZ. As a result of the decrease in minorities interests in the subsidiaries, the minority interest share in their net income for the year has decreased by RUB 345 (US$11) million or 63.7% to RUB 197 (US$6) million in 2003 from RUB 542 (US$17) million in 2002. Minority interest attributable to ZMZ was 34% as of 31 December 2003 and 2002. Minority interest attributable to UAZ was 34% and 42% as of 31 December 2003 and 2002, respectively.

Liquidity, capital resources and cash flow

Since its formation, the Company's principal sources of funds have been long-term and short-term borrowings, equity contributions from the shareholders and cash flows from operating activities. Funds have been principally used to finance the renovation of factories' plant and equipment, research and development efforts, working capital needs and service the Company's debt. The Company plans to fund further capital expenditures with the cash generated from operating activities, a portion of proceeds from the recent initial public offering and from the borrowings under its available credit facilities.

Liquidity
The following table summarises liquidity ratios and working capital calculations of the Company as of 31 December 2004, 2003 and 2002. Amounts for the year ended 31 December 2002 are inflation-adjusted, based on the purchasing power of the rouble as of 31 December 2002.

Liquidity and working capital ratios	2004	2003	2002
Current liquidity ratio [a]	1.8	1.5	1.0
Quick liquidity ratio[b]	0.8	0.7	0.4
Trade receivables turnover, days[c]	16	12	10
Raw materials turnover, days[d]	65	81	77
Trade payables turnover, days[e]	26	28	25
Working capital efficiency ratio[f]	18%	18%	17%

(a) Current liquidity ratio is calculated as current assets divided by current liabilities;
(b) Quick liquidity ratio is calculated as current assets less inventory, divided by current liabilities;
(c) Trade receivables turnover is calculated as trade receivables (net of provision and VAT) divided by sales, multiplied by 365;
(d) Raw materials turnover is calculated as raw materials balance at the end of the year, net of provision, divided by materials component of cost of sales, multiplied by 365;
(e) Trade payables turnover is calculated as trade payables (net of VAT) divided by cost of sales, multiplied by 365;
(f) Working capital efficiency ratio is calculated as working capital divided by sales. Working capital is calculated as a sum of trade receivable and prepayments and inventories less accounts payables.

severstal-auto | annual report 2004

The working capital efficiency ratio, current and quick liquidity ratios demonstrated a continuous year-on-year improvement between 2004, 2003 and 2002, and the trade payable turnover days ratio remained relatively constant between the periods. Trade receivable days increased from 10 days in 2002 to 12 days in 2003 and 16 days in 2004 due to higher volumes of export sales that have longer delivery and credit periods than sales in the domestic market. Materials turnover days increased in 2003 as a result of an increased inventory volume in December to support additional export contracts and to accommodate the holiday schedule in January 2004. These positive trends in liquidity are the result of a management policy to facilitate the cash turnover from operations while maintaining relatively low levels of receivables, inventory and payables. This policy included the following measures:

- Cost reduction programme and reorganisation of non-core operations;

- From 2002, the Company has significantly improved its customer credit policy by introducing a stringent payment discipline, requiring a 5% non-refundable deposit plus a prepayment of 25% of the total order amount with two payment options for the remaining balance: (a) 100% prepayment to receive a 1% discount; or (b) free credit term of 14 to 30 days depending on the customer's location and delivery period; and

- Reduction in inventory levels through the improvement in the production planning system, computerisation of the central warehouses and optimisation of the production materials logistic principles.

The Company management's effective liquidity strategy allowed the Company to receive sustainable cash flows from operating activities year over year between 2004, 2003 and 2002 of RUB 1,425 (US$49) million, RUB 1,064 (US$36) million and RUB 1,653 (US$51) million, respectively.

Cash flows
The following table summarises the Company's cash flows for the years ended 31 December 2004, 2003 and 2002. Amounts for the year ended 31 December 2002 are inflation-adjusted, based on the purchasing power of the rouble as of 31 December 2002.

	2004 RUB	2003 RUB	2002 RUB	2004 US$	2003 US$	2002 US$
		(in millions)			(in millions)	
Net cash provided from operating activities	1,425	1,064	1,653	49	36	51
Net cash used in investing activities	(1,957)	(1,241)	(544)	(69)	(40)	(18)
Net cash provided from (used in) financing activities	919	579	(1,055)	32	18	(34)

For the year ended 31 December 2004
Net consolidated cash provided from operating activities was RUB 1,425 (US$49) million, representing an increase of RUB 361(US$13) or 34% as compared to RUB 1,064 (US$36) million in 2003. The increase is largely the result of the Company's improved profitability and continued effective working capital management.

Net consolidated cash used in investment activities was RUB 1,957 (US$69) million for the year. RUB 1,374 (US$48) million of the total spent was devoted to the purchase of property, plant and equipment for a new Eisenmann's painting shop at UAZ, further increases in production capacity for the 406-family of engines, and technological updates for existing assets. Capitalised development costs were RUB 335 (US$12) million for the year and were primarily devoted to the development of a new family of diesel engines and additional efforts related to raising the emission standards of the 406-family of engines to satisfy the Euro 2 and 3 environmental requirements. RUB 214 (US$7) million was spent for the purchase of an additional 6% shareholder stake in ZMZ from minority shareholders, bringing the Company's ownership to a total of 72%.

Net consolidated cash provided from financing activities was RUB 919 (US$32) million for the year. Proceeds from borrowings and loans were RUB 9,811 (US$342) million with most of the loans being provided by Sberbank and other Russian banks for the periods of one to two months. Borrowings and loans repayment, including the current portion of long-term restructured tax repayments, totalled RUB 10,182 (US$354) million. During 2004, the Company paid RUB 1,300 (US$45) million and accrued long-term interest of RUB 79 (US$3) for the early retirement of a five-year loan received from the majority shareholder in 2003. In January 2004, the Company issued RUB 1,500 (US$50) million of six-year rouble denominated bonds on the Russian market with the semi-annual coupon of 11.25% per annum attached to the bond and early redemption permitted after January 2007.

In May 2003, the Company won a RUB 500 (US$16) million government grant for the development of a mid-size diesel engine. During 2004, the Company received RUB 186 (US$6) million under the grant, RUB 105 (US$3) million had already been received in 2003. Grant funds received were used for the purchase of new equipment required for research and development of a diesel engine.

In May 2004, the Company declared a dividend of RUB 375 (US$13) million or RUB 17 (US$0.6) per ordinary share based on its 2003 financial results. As at 31 December 2004, the Company already paid RUB 367 (US$13) millions as interim dividends for 2004. In December 2004, the Company announced an interim dividend of RUB 298 (US$11) million or RUB 10 (US$0.4) per ordinary share based on its financial results for the nine months ended 30 September 2004. The payment period for the 2004 interim dividend began on 10 January 2005.

For the year ended 31 December 2003

Net consolidated cash provided from operating activities was RUB 1,064 (US$36) million, representing a decrease of RUB 589 (US$15) million or 35.6% as compared to RUB 1,653 (US$51) million in 2002. The decrease is largely the result of the Company's investment in working capital to support increased export sales in December 2003 and increase in stocks to accommodate sales following extended holidays in January 2004.

Net consolidated cash used in investment activities was RUB 1,241 (US$40) million for the year. RUB 1,027 (US$33) million of the total spent was devoted to the purchase of property, plant and equipment to increase the production capacity of 406-family of engines, construction of the new Eisenmann's painting shop to improve the paint quality of vehicles and further equipment enhancements to improve the quality of vehicles and components, including helical gear boxes and spacer axles. Capitalised development costs were RUB 207 (US$7) million for the year and were primarily devoted to the final development efforts associated with the launch of the UAZ Hunter SUV (modernised version of the UAZ 3151), the development of the new SUV model UAZ Patriot, the new LCV model UAZ 2360, development of a new family of diesel engines and further works related to raising the emission standards of the 406-family to satisfy the Euro 3 environmental requirements.

Net consolidated cash provided from financing activities was RUB 579 (US$18) million for the year. Proceeds from the borrowings were RUB 7,245 (US$236) million. Loans and long-term restructured tax repayments were RUB 7,869 (US$256) million. Contribution from shareholders of RUB 748 (US$24) million was a result of a restructuring of loan from the majority shareholder. Please see a detailed discussion in Note 16 to the consolidated IFRS financial statements for the year ended 31 December 2003.

In the second half of 2003, UAZ increased its ordinary share capital in the form of a rights issue to existing shareholders. Minority shareholders contributed RUB 350 (US$11) million.

In May 2003, ZMZ won a RUB 500 (US$16) million government grant for the development of a mid-size diesel engine. During 2003, ZMZ received RUB 105 (US$3) million under the grant used for the purchase of equipment and for research and development of a diesel engine.

For the year ended 31 December 2002

Net consolidated cash provided from operating activities was RUB 1,653 (US$51) million for the year ended 31 December 2002, which is a result of the Company's improved working capital management.

Net consolidated cash used in investment activities was RUB 544 (US$18) million for the year. RUB 553 (US$18) million of the total spent was devoted to the purchase of property, plant and equipment in connection with the creation of the 406-family engine and equipment purchases for the production of several vehicle components, including helical gear boxes and spacer axles.

Net consolidated cash used in financing activities was RUB 1,055 (US$34) million for the year. Proceeds from borrowings were RUB 4,767 (US$152) million. Loans and long-term restructured tax repayments totalled RUB 6,049 (US$193) million. During 2002, the UAZ and ZMZ paid all overdue liabilities accumulated prior to their acquisition by the Company.

Commitments, guarantees and off-balance sheet obligations

Commitments

As at 31 December 2004, 2003 and 2002, the Company had contractual commitments for the purchase of property, plant and equipment from third parties consisting of RUB 34 (US$1) million, RUB 123 (US$4) million and RUB 246 (US$8) million, respectively.

As at 31 December 2004, UAZ had a contractual commitment of US$100 million to deliver assembly kits to the Ukraine.

Post-retirement benefit plan obligations

Starting from 2004, ZMZ provided post-retirement benefits in the form of a lump sum payment on retirement and quarterly cash payments to their retirees through the non-state pension fund "Stalfond". Key management has determined the amount of the benefit to be paid and the entitlement to the benefits (cash payments) ceases when the retirees die. The retirement age under the plan is consistent with the Russian statutory retirement age of 55 for females and 60 for males. The plan is unfunded, with no assets specifically allocated to cover the scheme's liabilities. The last actuarial valuation was performed by management in December 2004. The amount of pension fund liabilities recorded in the balance sheet as at 31 December 2004 amounted to RUB 18 (US$1) million, pension plan expenses incurred during 2004 were RUB 37 (US$1) million. The cost of unrecognised past services amounted to RUB 128 (US$4) million and will be amortised over the employees' average remaining service period of 12 years.

Guarantees

In January 2004, the Company issued corporate bonds of RUB 1,500,000 at 11.25%, maturing in 2010 and redeemable in 2007. UAZ and ZMZ have provided guarantees for the Company.

Off-balance sheet entities

As at 31 December 2004, 2003 and 2002, the Company did not have any relationships with unconsolidated entities or partnerships, such entities are often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements.

Product and environmental liabilities

Warranties

The Company's standard warranty on vehicles it produces is 12 months or 30,000 kilometres, except for the new SUV models with a warranty period extended to 24 months or 50,000 kilometres. The Company's standard warranty on engines installed on LCV and SUV models is 12 months or 30,000 kilometres and for engines installed on GAZ passenger cars is 12 months or 50,000 kilometres.

The Company incurred warranty expenses of RUB 100 (US$3) million in 2004, RUB 69 (US$2) million in 2003 and RUB 111 (US$4) million in 2002. The trend in warranty expense reflects year-on-year fluctuations in sales volumes and the Company's efforts to improve product reliability. Management believes that the warranty provision recorded in the financial statements adequately reflected management estimates of future warranty expenses.

Environmental liabilities

UAZ and ZMZ are subject to environmental government charges, which are estimated using the approved requirements for air, soil and water pollution. In the case of excessive pollution these charges are increased five-fold. Total expenses for these charges amounted to RUB 15 (US$0.5) million in 2004, RUB 8 (US$0.3) million in 2003 and RUB 6 (US$0.2) million in 2002.

Risk factors

The Company's management considers the following risks and uncertainties to be material, but these risks and uncertainties may not be the only ones the Company faces. Additional risks and uncertainties, including those the Company currently does not know about or deems immaterial, may also result in decreased revenues, increased expenses or other events.

The risks described below are categorised by

- Risks relating to the Company, its business and industry;
- Risks relating to the Company's financial condition; and
- Risks relating to the Russian Federation (economic and legal).

Risks relating to the Company, its business and industry

Russia's tariffs and duties on imported motor vehicles, from which the Company indirectly benefits, are expected to be lower in the future.

Russia currently imposes import tariffs with respect to cars and trucks imported into Russia, excluding those from certain other CIS countries (between 10% and 48% of customs value). Russia's potential accession to the World Trade Organisation in the near future is expected to result in a gradual lowering of these tariffs and duties for vehicles less than seven years old over a period of five to 10 years from the date of Russia's accession to the WTO, which will result in increased competition from foreign manufacturers.

Introduction of new environmental and safety standards will increase the Company's costs

The Government plans to introduce new environmental and safety standards which will be comparable with those currently in force in more economically developed European countries. Although the Company has been preparing for these changes over the last several years by developing new products that comply with the new environmental and safety standards, the introduction of new products fully compliant with the new standards will likely increase production costs.

The Company is expecting potential competition from foreign manufacturers who have established manufacturing facilities in Russia

The import tariffs and duties as well as the growing demand for new cars and trucks in Russia have encouraged foreign automakers and component manufacturers to set up manufacturing and assembly facilities in Russia. The Company expects the growing competition from foreign automakers with production facilities in Russia. The Company plans to cope with this competition by not only launching new and better products and upgrading its existing product lines, but also seeking foreign strategic partners among leading foreign automakers for establishing joint production in Russia. For example, the Company has entered into a Licence Agreement with SsangYong for the production of SsangYong's Rexton sport utility vehicle. The Company and SsangYong have also agreed to consider expanding their cooperation in the future, which will allow the Company to mitigate the risk of growing competition from foreign automakers.

The Company's competitive position may be eroded if the rouble continues to appreciate against other currencies

The strengthening of the rouble against other currencies, particularly against the U.S. Dollar, which began in 2003, has resulted in prices of imported vehicles and components becoming closer to those of vehicles and components produced in the Russian market, which, on the one hand, has made the Company's products less price competitive, and, on the other hand, has increased its supply, production and employment costs on a relative basis. This risk may be partially compensated by the Company's efforts to diversify its supplier base and to increase the number of components sourced from foreign countries where costs are not as dependent on the U.S. Dollar exchange rate.

Dependence on a limited number of suppliers and customers

Despite making significant efforts to increase the number of alternative supply sources, the Company remains dependent on a relatively limited number of suppliers for some of the raw materials and components used in the manufacturing of its products. Also, the dominant suppliers may not be willing to conform to the quality standards set by the Company, which may negatively affect the quality of the Company's finished products.

One of the Company's main operating subsidiaries, ZMZ, sells most of its engines to GAZ. The Company's arrangements with GAZ are based on a short-term agreement. Approximately 61% of ZMZ's revenues in 2004 came from sales of engines to GAZ. If GAZ is unable or unwilling to continue its relationships with ZMZ, ZMZ's business, financial conditions, results of operations and prospects would be materially and adversely affected.

Increasing costs of raw materials and energy used in the Company's business as well as increasing costs of transporting the Company's products could materially and adversely affect the Company

Steel is the main raw material used in the manufacturing of the Company's products. The price of steel is traditionally very volatile and has risen significantly over the last several years. To control the effect of the volatility in steel prices, when the market price for steel decreases the Company endeavours to enter into short-term supply contracts with its main steel suppliers; when market price for steel increases the Company endeavours to enter into long-term supply arrangements that fix the steel price for the term of contracts. However, no assurance can be given that the Company will be able to enter into such long-term contracts on favourable terms, if at all, in which case the Company's costs may become less predictable than is the case currently. In any event, if steel prices continue to rise, the Company's costs could increase significantly.

The cost of electricity used in the Company's business is a significant component of its production costs. The Company buys its electricity from local subsidiaries of RAO UES, the government-controlled national holding company for the Russian power sector. The electricity prices have been steadily rising over the last several years and will likely continue to rise in the future as the Government restructures the power sector with a goal towards liberalising the wholesale electricity market and moving away from regulated pricing to a market-based system. If the Company is required to pay higher prices for electricity in the future, its costs will rise.

Railway transportation is one of the Company's principal means of transporting its products to its facilities and to customers. Currently, the Government sets rail tariffs and may further increase these tariffs, as it has done in the past. To optimise its transportation costs the Company takes steps to broaden the use of deliveries by trucks as an alternative way of transportation.

The Company's business strategy depends to a great extent on the Company's ability to successfully develop its business relationships with SsangYong and to attract other business partners

Future success of the Company depends in part on whether it will be able to develop and significantly expand in the future its business relationships with SsangYong. The Company's strategy also contemplates establishing joint venture arrangements with other vehicle and automotive components manufacturers. If the Company's strategy is not fully implemented in this respect, the future of the Company will be different from what is currently envisioned by the Company's management.

The Company relies on certain key personnel

The Company's growth and future success depends to a significant degree upon the efforts and abilities of certain key persons, including the Company's management and on its ability to attract employees with relevant expertise.

Exposure to emerging markets

The Company sells a significant portion of its products in a number of emerging markets, including the CIS countries, Middle East, Africa and Latin America. As compared to the United States and European markets, emerging markets are more likely to suffer from economic risks such as inflation, currency devaluation and restrictions on currency movements, which may affect the value of the Company's earnings in these markets. In addition, it has been difficult generally to enforce contract terms against contracting parties in emerging markets.

Risks relating to the Company's financial condition

The Company's indebtedness or the enforcement of certain provisions of its financing arrangements and related pledges could adversely affect its operational and financial condition

The Company owes significant amounts in debt to clients, suppliers, finance vehicles and banks. The Company's ability to make payments on its debt depends upon its ability to substantially maintain its operating performance, which is subject to general economic and competitive conditions and to financial, business and other factors, many of which the Company cannot control.

If the Company fails to make timely tax payments, the Ministry of Taxes and Duties may recommend to the Government to nullify the tax restructuring agreements currently in force and as a result to demand immediate payment of the full amount of the Company's restructured tax liability
The Company's long-term taxes payable comprise various taxes payable other than income tax of UAZ and ZMZ to the Government, which were previously past due and which have been restructured to be repaid over a period of up to 10 years following the application of a number of Government Resolutions including No. 410 dated 23 May 2001 "On making changes and amendments to the Government Resolution No. 1002 dated 3 September 1999 "Terms of the restructuring of payables to the Federal Budget". As at 31 December 2004 the Company's balances of restructured taxes liability were RUB 479 (US$17) million. The terms of the restructuring provide that UAZ and ZMZ would lose the right to make payments under the restructured schedule if they (i) default on the tax payments, or (ii) fail to make any payments under the restructuring schedule. Although the Company believes that it is in compliance with the requirements and there are no grounds for termination of the tax debt restructuring, if it fails to make timely tax payments, the Ministry of Taxes and Duties may recommend to the Government to nullify the tax restructuring agreements currently in force and as a result to demand immediate payment of the full amount of the Company's restructured tax liability.

The Company will require a significant amount of cash to fund its capital improvements programme, and its ability to generate cash or obtain financing depends on many factors
In the next several years, the Company is expected to spend a significant amount of cash to fund its capital improvements programme. Most of the Company's current borrowing is from Russian banks. In the future, the Company may rely to a greater extent than currently on foreign capital markets and other foreign financing sources for its capital needs. It is possible that domestic and foreign sources of financing may not be available in the future in the amounts the Company requires or at an acceptable cost.

Risks relating to the Russian Federation - economic risks

Economic instability in the Russian Federation could adversely affect the Company's operations as well as its investment plans
The Russian economy has been subject to abrupt downturns. For example, the financial crisis of August 1998 resulted in an immediate and severe devaluation of the rouble and a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities, and an inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the near collapse of the Russian banking sector in connection with the same events. This further impaired the ability of the banking sector to act as a reliable source of liquidity to Russian companies, and resulted in the widespread loss of bank deposits.

Another recent example is the instability in the banking sector that took place between May and July 2004. The withdrawal by the Central Bank of Russia of the licence of a bank gave rise to rumours of possible withdrawals of licences of other banks. This led to the destabilisation of the Russian interbank loan market in June 2004. These events in turn resulted in a temporary broader loss of confidence in the Russian banking system. That loss of confidence resulted in a large number of depositors withdrawing their bank deposits, causing temporary liquidity problems throughout the whole banking system, which resulted in several Russian banks limiting or suspending their operations.

There can be no assurance that recent trends in the Russian economy - such as the increase in the gross domestic product, the relatively stable rouble, and a reduced rate of inflation - will continue or will not be abruptly reversed. Moreover, recent fluctuations in international oil and gas prices, the strengthening of the rouble in real terms relative to the dollar and the consequences of a relaxation in monetary policy, or other factors, could adversely affect the Russian Federation's economy.

The Russian Federation's physical infrastructure is in poor condition, which could disrupt normal business activity
The Russian Federation's physical infrastructure largely dates back to Soviet times and has not been adequately funded and maintained over the past 15 years. Particularly affected are the rail and road networks; power generation and transmission; communication systems; and building stock. Electricity and heating shortages in some of the Russian Federation's regions have seriously disrupted the local economies. Other parts of the country face similar problems.

Road conditions throughout the Russian Federation are also quite poor, with many roads not meeting minimum quality requirements. The Government is actively pursuing the reorganisation of the nation's rail, electricity and telephone systems. Any such reorganisation may result in increased charges and tariffs while failing to generate the anticipated capital investment needed to repair, maintain and improve these systems.

The deterioration of the Russian Federation's physical infrastructure harms the national economy, disrupts access to communications, adds costs to doing business in the Russian Federation and can interrupt business operations.

Fluctuations in the global economy may adversely affect the Russian Federation's economy, limiting the Company's access to capital
The Russian Federation's economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in the Russian Federation and adversely affect the Russian economy. Additionally, because the Russian Federation produces and exports large quantities of oil, the Russian economy is especially vulnerable to the price of oil on the world market and a decline in the price of oil could slow or disrupt the Russian economy. These developments could severely limit the Company's access to capital.

Risks relating to the Russian Federation - risks relating to the Russian legal system and Russian legislation

Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and for business activity
The Russian Federation is still developing the legal framework required to support a market economy. Among the risks of the current Russian legal system are:

- Legal norms, at times, overlap or contradict one another;
- There is a lack of judicial and administrative guidance on interpreting legislation as well as a lack of sufficient commentaries on judicial rulings and legislation;
- Judges and courts have difficulties in interpreting legislation in accordance with the new principles established under reformed statutes;
- There are substantial gaps in the legal framework due to the delay or absence of implementing regulations for certain legislation;
- Bankruptcy procedures are not well developed and are subject to abuse.

Lack of reliable official data
Official statistics and other data published by Russian federal, regional and local governments, and by federal agencies, are substantially less complete or reliable than those published by comparable bodies in Western countries. Accordingly, the Company may not give any assurance to prospective investors that the official sources from which certain of the information set forth herein has been drawn are reliable or complete. Official statistics may also be produced on different bases than those used in Western jurisdictions. Any discussion of matters relating to the Russian Federation herein may, therefore, be subject to uncertainty due to concerns about the completeness or reliability of available official and public information.

Limitations and restrictions on the conversion of roubles to hard currency in Russia could increase the Company's costs when making payments in hard currency and could cause the Company to default on its obligations
The rouble is not convertible outside the CIS. Within Russia, the Company's ability to convert roubles into other currencies may be subject to reserve requirements and/or requirements on the use of special accounts. In addition, because of the limited development of the foreign currency market in Russia, the Company may experience difficulty converting roubles into other currencies.

Any delay or other difficulty in converting roubles into foreign currencies to make payments or a delay or restriction in the transfer of foreign currency could adversely affect the Company's ability to meet its payment and debt obligations, which could result in the loss of suppliers and contractors, acceleration of debt obligations and cross-defaults.

SEVERSTAL-AUTO GROUP

INTERNATIONAL FINANCIAL REPORTING STANDARDS

CONSOLIDATED FINANCIAL STATEMENTS
AND AUDITORS' REPORT

31 December 2004

Contents

PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya Nab. 52, Bldg. 5
115054 Moscow
Russia
Telephone +7 (095) 967 6000
Facsimile +7 (095) 967 6001

AUDITORS' REPORT

To the Shareholders of Open Joint-Stock Company "Severstal-auto":

1 We have audited the accompanying consolidated balance sheet of open joint – stock company "Severstal-auto" and its subsidiaries (the "Group") as of 31 December 2004 and the related consolidated statements of income, of cash flow and of changes in shareholders' equity for the year then ended. These financial statements (as set out on pages 2 to 31) are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3 In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers

Moscow, Russian Federation
10 March 2005

Consolidated Balance Sheet at 31 December 2004

(in millions of Russian Roubles)
(Amounts translated into US Dollars for convenience purposes, Note 2)

		RR million		Supplementary information US$ million	
		At 31 December		At 31 December	
			restated		restated
	Note	2004	2003	2004	2003
ASSETS					
Non-current assets:					
Property, plant and equipment	5	9,854	9,059	356	307
Development costs	6	543	207	20	7
Goodwill	7	1,484	1,484	53	50
Financial assets	8	84	50	3	2
Other non-current assets	9	231	251	8	8
Total non-current assets		**12,196**	**11,051**	**440**	**374**
Current assets:					
Inventories	10	3,448	3,197	124	109
Accounts receivable and prepayments	11	2,145	1,680	77	57
Other current assets	12	53	93	2	3
Cash and cash equivalents	13	982	595	35	20
Total current assets		**6,628**	**5,565**	**238**	**189**
Total assets		**18,824**	**16,616**	**678**	**563**
LIABILITIES AND EQUITY					
Equity:					
Capital and reserves attributable to the Company's equity holders:	14				
Share capital		474	377	17	13
Share premium		4,259	2,885	153	98
Additional paid-in capital		1,438	1,438	52	49
Retained earnings		2,210	1,541	80	52
Total capital and reserves attributable to the Company's equity holders		**8,381**	**6,241**	**302**	**212**
Minority interest		3,154	3,159	114	107
Total equity		**11,535**	**9,400**	**416**	**319**
Non-current liabilities:					
Long-term borrowings	15	1,782	2,007	64	68
Long-term taxes payable	16	286	387	10	13
Post-retirement benefit obligations	17	18	–	1	–
Deferred income on government grant	18	291	105	10	4
Deferred income tax liabilities	28	1,162	1,121	42	38
Total non-current liabilities		**3,539**	**3,620**	**127**	**123**
Current liabilities:					
Accounts payable		1,448	1,364	52	46
Advances received and other payables	19	1,001	983	36	33
Taxes payable	16	372	362	13	12
Warranty and other provisions	20	99	89	4	3
Short-term borrowings	21	830	798	30	27
Total current liabilities		**3,750**	**3,596**	**135**	**121**
Total liabilities		**7,289**	**7,216**	**262**	**244**
Total liabilities and equity		**18,824**	**16,616**	**678**	**563**

General Director
V.A. Shvetsov

Chief Financial Officer
N.A. Sobolev

10 March 2005

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Income for the year ended 31 December 2004

(in millions of Russian Roubles)
(Amounts translated into US Dollars for convenience purposes, Note 2)

		RR million		Supplementary information US$ million	
		Year ended 31 December		Year ended 31 December	
			restated		restated
	Note	2004	2003	2004	2003
Sales	22	23,029	19,385	799	632
Cost of sales	23	(17,446)	(14,758)	(605)	(481)
Gross profit		**5,583**	**4,627**	**194**	**151**
Distribution costs	24	(856)	(707)	(30)	(23)
General and administrative expenses	25	(2,011)	(1,790)	(70)	(58)
Other operating income/(expenses)	26	50	(203)	2	(7)
Operating income		**2,766**	**1,927**	**96**	**63**
Interest expense		(423)	(481)	(15)	(16)
Net foreign exchange (loss)/gain		(40)	14	(1)	–
Gains on forgiveness of tax debt		–	23	–	1
Income before taxation		**2,303**	**1,483**	**80**	**48**
Income tax expense	28	(631)	(386)	(22)	(12)
Income for the year		**1,672**	**1,097**	**58**	**36**
Attributable to:					
Equity holders of the Company		1,342	900	47	30
Minority interest		330	197	11	6
		1,672	**1,097**	**58**	**36**
Weighted average number of shares outstanding during the year (thousands)	29	24,445	22,074	24,445	22,074
Earnings per share (in RR and US$) – basic and fully diluted	29	54.90	40.77	1.9	1.4

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Cash Flows for the year ended 31 December 2004

(in millions of Russian Roubles)
(Amounts translated into US Dollars for convenience purposes, Note 2)

	Note	RR million Year ended 31 December 2004	RR million Year ended 31 December restated 2003	Supplementary information US$ million Year ended 31 December 2004	Supplementary information US$ million Year ended 31 December restated 2003
Cash flows from operating activities					
Income before taxation		**2,303**	**1,483**	**80**	**48**
Adjustments for:					
Depreciation	5	596	568	21	19
Provision for impairment of receivables	11	5	2	–	–
Gains on forgiveness of tax debt		–	(23)	–	(1)
Excess of acquired share over purchase consideration	7	(121)	–	(4)	–
Interest expense		423	481	15	16
Provisions movements		106	(13)	3	–
Retirement benefit obligation	17	18	–	1	–
Fair value losses/(gains) on financial assets at fair value through profit or loss		11	(4)	–	–
Loss on sale of property, plant and equipment	26	44	13	1	–
Operating cash flows before working capital changes		**3,385**	**2,507**	**117**	**82**
Increase in accounts receivable and prepayments		(470)	(536)	(16)	(17)
Increase in inventories		(348)	(769)	(12)	(25)
Decrease in other current assets		12	99	–	3
(Decrease)/increase in accounts payable, advances received and other payables		(205)	373	(7)	12
(Decrease)/increase in taxes payable, other than income tax		(151)	79	(5)	3
Cash provided from operations		**2,223**	**1,753**	**77**	**58**
Income tax paid		(562)	(530)	(20)	(17)
Interest paid		(236)	(159)	(8)	(5)
Net cash provided from operating activities		**1,425**	**1,064**	**49**	**36**
Cash flows from investing activities:					
Purchase of property, plant and equipment		(1,374)	(1,027)	(48)	(33)
Proceeds from the sale of property, plant and equipment		10	16	–	1
Development costs capitalised	6	(335)	(207)	(12)	(7)
Increase in stake in subsidiary	7	(214)	–	(7)	–
Purchase of other non-current assets		(44)	(23)	(2)	(1)
Net cash used in investing activities:		**(1,957)**	**(1,241)**	**(69)**	**(40)**

Consolidated Statement of Cash Flows for the year ended 31 December 2004 (continued)

(in millions of Russian Roubles)
(Amounts translated into US Dollars for convenience purposes, Note 2)

	Note	RR million Year ended 31 December 2004	RR million Year ended 31 December restated 2003	Supplementary information US$ million Year ended 31 December 2004	Supplementary information US$ million Year ended 31 December restated 2003
Cash flows from financing activities:					
Proceeds from borrowings		9,811	7,245	342	236
Repayment of borrowings and long-term taxes payable		(10,182)	(7,869)	(354)	(256)
Contribution from shareholders		–	748	–	24
Proceeds from subsidiary's share issue		–	350	–	11
Proceeds from parent company share issue	14	1,471	–	51	–
Proceeds from government grant	18	186	105	6	3
Dividends paid		(367)	–	(13)	–
Net cash provided from financing activities		**919**	**579**	**32**	**18**
Net increase in cash and cash equivalents		**387**	**402**	**15**	**14**
Cash and cash equivalents at the beginning of the year	13	**595**	**193**	**20**	**6**
Cash and cash equivalents at the end of the year	13	**982**	**595**	**35**	**20**

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Changes in Shareholders' Equity for the year ended 31 December 2004

(in millions of Russian Roubles)

(Amounts translated into US Dollars for convenience purposes, Note 2)

	Note	Share capital	Share premium	Additional paid-in-capital	Retained earnings	Attributable to equity shareholders of the Company	Minority interest	Total equity
Balance at 31 December 2002		**377**	**2,885**	**1,019**	**641**	**4,922**	**2,332**	**7,254**
Net income for the year		–	–	–	886	886	191	1,077
Additional share capital issue of subsidiary		–	–	419	–	419	1,063	1,482
Share of net assets acquired from minority shareholders		–	–	–	–	–	(433)	(433)
Balance at 31 December 2003		**377**	**2,885**	**1,438**	**1,527**	**6,227**	**3,153**	**9,380**
Change in accounting policy	3.2	–	–	–	14	14	6	20
Restated balance at 31 December 2003		**377**	**2,885**	**1,438**	**1,541**	**6,241**	**3,159**	**9,400**
Net income for the year		–	–	–	1,342	1,342	330	1,672
Additional share issue	14	97	1,374	–	–	1,471	–	1,471
Dividends for 2003	14	–	–	–	(375)	(375)	–	(375)
Interim dividends for 2004	14	–	–	–	(298)	(298)	–	(298)
Share of net assets acquired from minority shareholders	7	–	–	–	–	–	(335)	(335)
Balance at 31 December 2004		**474**	**4,259**	**1,438**	**2,210**	**8,381**	**3,154**	**11,535**

	Share capital	Share premium	Additional paid-in-capital	Retained earnings	Attributable to equity shareholders of the Company	Minority interest	Total equity
Supplementary information							
US$ million							
Balance at 31 December 2003	**13**	**98**	**49**	**52**	**212**	**107**	**319**
Change in accounting policy	–	–	–	–	–	–	–
Restated balance at 31 December 2003	**13**	**98**	**49**	**52**	**212**	**107**	**319**
Balance at 31 December 2004	**17**	**153**	**52**	**80**	**302**	**114**	**416**

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Consolidated Financial Statements at 31 December 2004

(in millions of Russian Roubles)

1 The Severstal-auto Group and its operations

OAO "Severstal-auto" (the "Company") and its subsidiaries' (the "Group") principal activities are the manufacture and sale of vehicles, including automotive components, assembly kits, and engines. The Group's manufacturing facilities are primarily based in the City of Ulyanovsk and the Nizhny Novgorod Region in Russia.

OAO "Severstal-auto" was incorporated as an open joint stock company in the Russian Federation in March 2002 by OAO "Severstal" (the predecessor) by contributing its controlling interests in OAO "UAZ" and OAO "ZMZ", which were acquired through purchases close to the end of 2000, in exchange for the Company's share capital.

The Company's parent is Newdeal Investments Limited which holds 87.69% of the Company's share capital. At the balance sheet date Alexei Mordashov controlled 100% of the share capital of Newdeal Investments Limited.

The registered office of the Company is Prospect Pobedy, 33, Cherepovets, Vologda Region, 162614, Russian Federation.

These consolidated financial statements have been approved for issue by General Director on 10 March 2005.

2 Basis of presentation of the financial statements

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The Group companies maintain their accounting records in Russian Roubles ("RR") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. These financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below. For example, financial assets are shown at fair value. The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.22.

Accounting for the effect of inflation

Prior to 1 January 2003 the adjustments and reclassifications made to the statutory records for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the RR in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflationary has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these financial statements.

(in millions of Russian Roubles)

Supplementary information

U.S. Dollar ("US$") amounts shown in the accompanying consolidated financial statements are translated from the RR as a matter of arithmetic computation only, at the official rate of the Central Bank of the Russian Federation at 31 December 2004 of RR 27.75 = US$1 (at 31 December 2003 of RR 29.45 = US$1). The statement of income and cash flow statement have been translated at the average exchange rates during the year. The difference was recognized in equity. The US$ amounts are presented solely for the convenience of the reader, and should not be construed as a representation that RR amounts have been or could have been converted to the US$ at this rate, nor that the US$ amounts present fairly the financial position and results of operations and cash flows of the Group in accordance with IFRS.

Exchange restrictions and currency controls exist relating to converting the RR into other currencies. The RR is not freely convertible in most countries outside of the Russian Federation.

3 Summary of significant accounting policies

3.1 Early adoption of standards

In 2003 the Group early adopted all the applicable IFRS which are relevant to its operations. None of the new standards or interpretations, issued up to the date of signing these financial statements, are expected to have any effect of the Group's financial statements.

3.2 Change in accounting policy

From 1 July 2004 the Company changed its accounting policy regarding interest on borrowings. Borrowings costs that are directly attributable to the acquisition, construction or production of qualifying asset are capitalized as part of the cost of that asset.

Management believes that capitalization of borrowings costs within qualifying asset results in the financial statements providing more reliable and relevant information about the effects of transactions.

The change in accounting policy resulted in:

	Year ended 31 December 2004	**Six month ended 30 June 2004**	**Year ended 31 December 2003**
Increase in property, plant and equipment	46	32	26
Increase in retained earnings	25	17	14
Increase in equity attributable to minority	10	8	6
Increase in deferred income tax liabilities	11	7	6
Decrease in interest expenses	(20)	(6)	(26)
Increase in deferred income tax expenses	5	1	6
Increase in minority share of profit for the period	4	2	6
Increase in basic and diluted earnings per share	0.45	0.14	0.63

There was no impact on opening retained earnings at 1 January 2003 from change of accounting policy.

3.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from these of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from these of segments operating in other economic environments.

3.4 Group accounting

Subsidiary undertakings

Subsidiary undertakings, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over the operations, are included into the consolidated financial statements. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intergroup transactions, balances and unrealised gains on transactions between the Group's companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Minority interest at the balance sheet date represents the minority shareholders' portion of the fair values of the identifiable assets and liabilities of the subsidiaries at the acquisition date, and the minorities' portion of movements in those subsidiaries' equity since the date of the combination. Minority interest is presented within equity.

Purchases of subsidiaries from parties under common control

Purchases of subsidiaries from parties under common control are accounted for using the predecessor cost method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these financial statements at the historical cost of the predecessor. Related goodwill inherent in the predecessor's original acquisition is also recorded in these financial statements.

These financial statements, including corresponding figures, are presented as if the subsidiary had been accounted for under the purchase method from the date it was originally acquired by the predecessor.

3.5 Property, plant and equipment

Property, plant and equipment is recorded at purchase or construction cost. Before 31 December 2002 property, plant and equipment were recorded at purchase or construction cost restated to the equivalent purchasing power of the RR. At each reporting date management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's net selling price and its value in use. The carrying amount is reduced to the recoverable amount and the difference is recognised as an expense (impairment loss) in the consolidated statement of income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the assets recoverable amount.

Depreciation is calculated on the amounts of property, plant and equipment on a straight-line basis. The depreciation periods, which approximate to the estimated useful economic lives of the respective assets, are as follows:

	Number of years
Buildings	35 to 45
Plant and machinery	15 to 25
Other	5 to 12

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the consolidated statement of income as incurred.

Assets under construction and land owned by the Group are not depreciated.

3.6 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually in December for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. When shares are acquired from minority shareholders, the management use carrying values of the underlying net identifiable assets for the purposes of the goodwill computation.

Any excess of the Group's share of the net identifiable assets over the cost of an acquisition is recognized immediately in the statement of income.

Goodwill is allocated to cash generating units for the purposes of impairment testing, namely the two major subsidiaries: OAO "UAZ" and OAO "ZMZ".

Research and development costs

Research expenditure is recognised as an expense as incurred. Costs incurred for development projects are recognised as intangible assets if, and only if it is probable that the future economic benefits that are attributable to the asset will flow to the Group and the cost of the asset can be measured reliably. Development costs with a finite useful life that have been capitalized are amortized from the commencement of commercial production on a straight-line basis over the period of their expected benefits. Development costs with indefinite useful life are tested for impairment at each balance sheet date.

3.7 Investments

Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. These financial assets are classified in this category if acquired principally for the purpose of selling or if so designated by management. Assets in this category are classified as non current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation at each reporting date.

All purchases and sales of financial assets at fair value through profit or loss are recognised on the settlement date, which is the date that the investment is delivered to or by the Group. The fair value of financial assets that are not traded in an active market is determined by using valuation techniques. Estimated discounted cash flows are used to determine fair value for the remaining financial assets. Realised and unrealised gains and losses arising from changes in the fair value of these financial assets are included in the statement of income in the period in which they arise.

3.8 Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overhead (based on normal operating capacity), but excludes borrowing costs and administrative overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses. Provision is made for potential losses on obsolete or slow-moving inventories taking into account their expected use and future realisable value.

Notes to the Consolidated Financial Statements
at 31 December 2004
(in millions of Russian Roubles)

3.9 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the market rate of interest for similar borrowers, less provision for impairment and includes value added taxes. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the market rate of interest for similar borrowers. The amount of the provision is recognised in the statement of income.

3.10 Value added tax

Value added tax (VAT) related to sales is 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 and purchases, which have not been settled at the balance sheet date (VAT deferred) is recognised in the consolidated balance sheet on a net basis and disclosed separately from the actual VAT payable. Where provision has been made for impairment of receivables, impairment 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 statutory accounting purposes when it becomes due.

3.11 Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents comprise short-term investments with less than 3 months of maturity since inception, which are readily converted to cash, are not subject to significant risk of changes in value.

3.12 Borrowings and restructured taxes

Borrowings are recognised initially at their fair value (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings. Borrowing costs are expensed in the period when incurred except for those, which are directly attributable to the acquisition, construction or production of a qualifying asset. Such borrowing costs are capitalised as part of cost of asset when it is probable that they will result in future economic benefits to the company and costs can be measured reliably. This accounting policy has been applied in 2004 retrospectively (Note 3.2).

Accrued interest is recorded within the relevant borrowing.

Restructured taxes are recognised initially at their fair value (which is determined using the prevailing market rate of interest for a similar instrument). In subsequent periods, restructured taxes are stated at amortised cost.

3.13 Provision for warranties

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The Group recognises the estimated liability to repair or replace products sold, but that are still under warranty at the balance sheet date. This provision is calculated based on past history of the level of repairs and replacements. Estimated costs of future product warranties are fully provided for at the time of the sale of products.

3.14 Deferred income taxes

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method for financial reporting and accounting for deferred income taxes. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that a taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

3.15 Employee benefits

Social costs

The Group incurs employee costs related to the provision of benefits such as health services and recreational activities. These amounts principally represent an implicit cost of employees and, accordingly, have been charged to other operating expenses in the consolidated statement of income.

Pension costs

In the normal course of business Group companies contribute to the Russian Federation state pension scheme on behalf of their employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

One subsidiary of the Group, OAO "ZMZ", operates a voluntary pension scheme, a defined benefit plan. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by management using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income over the employees' expected average remaining working lives.

Past service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in services for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

3.16 Government grant

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in non current liabilities as deferred government grant and are credited to the income statements on a straight line basis over the expected lives of the related assets.

Notes to the Consolidated Financial Statements
at 31 December 2004
(in millions of Russian Roubles)

3.17 Use of bills of exchange and promissory notes

The Group uses third party bills of exchange in its operations. Bank promissory notes received are included in the balance sheet within cash and cash equivalents.

3.18 Shareholders' equity

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as a share premium.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

3.19 Revenue recognition

Revenues on sales of vehicles, engines, automotive components and other products are recognised when goods are dispatched to customers as this is the date that the risks and rewards of ownership are transferred to the customers.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Sales are shown net of VAT and discounts, and after eliminating sales within the Group.

3.20 Earnings per share

Basic earnings per share is determined by dividing the net income attributable to ordinary shareholders by the weighted average number of participating shares in issue during the reporting year.

3.21 Foreign currency transactions

Monetary assets and liabilities, which are held by Group entities and denominated in any currency other than RR (i.e. foreign currencies) are translated into RR at the exchange rates prevailing at the balance sheet date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the statement of income.

3.22 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated impairment of goodwill

The Group tests annually whether the goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 3.6. The recoverable amounts of cash generating units have been determined, based on value-in-use calculations. These calculations require the use of estimates.

(in millions of Russian Roubles)

If the operating margin would be 20% lower, or the estimated pre-tax discount rate applied to the individual segments' cash flows would be 20% higher, than management has assumed in its impairment testing the carrying value of the goodwill relating to either segment would remain unchanged.

If the actual operating margin had been higher or the pre-tax discounted rate lower than management's estimates, the Group would not be able to reverse any impairment losses that arose on goodwill.

Remaining useful life of property, plant and equipment
Management assesses the remaining useful life of property, plant and equipment in accordance with the current technical conditions of assets and estimated period when these assets will bring economic benefit to the Group.

If the estimated remaining useful life of buildings had been 20% higher or lower than management estimates, then the carrying value of buildings would be RR 94 higher or RR 141 lower accordingly. If the estimated remaining useful life of plant and equipment had been 20% higher or lower than management estimates, then the carrying value of plant and equipment would be RR 151 higher or RR 232 lower accordingly.

Income tax
Judgement is required in determining provision for income taxes. The Group recognises liabilities for taxes based on estimates of whether additional taxes will be due. Where the final outcome of various tax matters is different from the amounts that were initially recorded, such differences will impact income tax and deferred tax provision in the period in which such determination is made.

Capitalisation of development costs
The Group capitalises development costs in accordance with the accounting policy stated in Note 3.6. Judgement is required to assess the probability that future economic benefits that are attributable to these assets will flow to the Group. If management assumptions at 31 December 2004 of the degree of certainty attached to the flow of future economic benefits are not fulfilled, all development costs, which do not meet recognition criteria would reduce the operating income by RR 543 at 31 December 2004.

Warranty provision
Judgement is required in determining warranty provision. The Group recognises liabilities for warranty based on estimates of whether additional liability to repair or replace products sold which are still under warranty at the balance sheet date. This provision is calculated based on the past history of the level of repairs and replacements. If the revised warranty expense incurred during 2004 had been 50% higher than actual, the Group would need to reduce its income attributable to the equity holders of the Company by RR 46.

3.23 Comparatives
The Group previously disclosed advances paid to suppliers of property, plant and equipment within 'property, plant and equipment'. Management believes that their inclusion in 'other non-current assets' is a fairer representation of these advances.

4 Balances and transactions with related parties
For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

4.1 Balances and transactions with related parties
Balances with related parties of the Group as at 31 December 2004 and 2003 consist of the following:

	Newdeal Investments Limited	Other Severstal group companies	Total
Nature of the relationship	Parent company	Significant influence of management	
Balances			
At 31 December 2004			
Accounts receivable and prepayments	–	7	7
Accounts payable	–	55	55
At 31 December 2003			
Accounts receivable and prepayments	–	14	14
Borrowings issued	–	7	7
Borrowings received	1,340	–	1,340
Accounts payable	–	39	39
Advances received and other payables	–	19	19

Transactions with related parties of the Group for the year ended 31 December 2004 and 31 December 2003 consist of the following:

Transactions			
Year ended 31 December 2004			
Purchases	–	942	942
Interest accrued	39	–	39
Borrowings repaid	1,379	–	1,379
Year ended 31 December 2003			
Purchases	–	721	721
Sales revenue	–	1	1
Interest accrued	40	–	40
Borrowings obtained	1,300	–	1,300

4.2 Directors' compensation
Compensation paid to key management and directors for their services in full or part time executive management positions is made up of a contractual salary and a performance bonus depending on operating results.

Additional fees, compensation and allowances to directors for their services in that capacity, and also for attending board meetings and board committees' meetings were not paid.

Total key management and directors' compensation included in general and administrative expenses in the statement of income amounted to RR 71 for the year ended 31 December 2004 (2003: RR 89).

(in millions of Russian Roubles)

5 Property, plant and equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

	Land and Buildings	Plant and equipment	Other	Assets under construction	Total
Cost					
Balance at 31 December 2002	4,626	4,334	453	522	9,935
Additions	–	–	–	819	819
Disposals	(25)	(18)	(2)	–	(45)
Transfers	139	395	225	(759)	–
Balance at 31 December 2003	**4,740**	**4,711**	**676**	**582**	**10,709**
Additions	–	–	–	1,445	1,445
Disposals	(10)	(51)	(36)	–	(97)
Transfers	62	898	171	(1,131)	–
Balance at 31 December 2004	**4,792**	**5,558**	**811**	**896**	**12,057**
Accumulated Depreciation					
Balance at 31 December 2002	(389)	(623)	(86)	–	(1,098)
Depreciation expense for 2003	(177)	(309)	(82)	–	(568)
Disposals	2	3	11	–	16
Balance at 31 December 2003	**(564)**	**(929)**	**(157)**	**–**	**(1,650)**
Depreciation expense for 2004	(175)	(328)	(93)	–	(596)
Disposals	1	25	17	–	43
Balance at 31 December 2004	**(738)**	**(1,232)**	**(233)**	**–**	**(2,203)**
Net Book Value					
Balance at 31 December 2002	**4,237**	**3,711**	**367**	**522**	**8,837**
Balance at 31 December 2003	**4,176**	**3,782**	**519**	**582**	**9,059**
Balance at 31 December 2004	**4,054**	**4,326**	**578**	**896**	**9,854**

Bank borrowings are secured on properties as at 31 December 2004 to the value of RR 1,596 (31 December 2003: RR 1,548); see Note 21. During the year the Group capitalised borrowing costs for RR 20 (31 December 2003: RR 26) in the cost of the qualifying assets (see Note 3.2).

The Group owns the land on which factories and buildings, comprising the principal manufacturing facilities of the Group, are situated. At 31 December 2004 cost of the land amounts to RR 896.

(in millions of Russian Roubles)

6 Development costs

	31 December 2004	31 December 2003
Expenditures related to settling production of diesel engine	154	–
Development of diesel engine funded by government grant	114	53
Improvement of diesel engine funded by internal financing	32	21
Improvement of four-cylinder petrol engine	80	46
Improvement of vehicles and engines to satisfy Euro-2 requirements	52	32
Development of a new off-road vehicle (UAZ Patriot)	34	13
Improvement of some vehicle component parts	39	26
Development of new light commercial vehicle (UAZ-2360)	14	7
Other	24	9
	543	**207**

Development projects expenditures capitalized by the Group were in development phase as at 31 December 2004. No amortization was accumulated as at the end of the year and charged to the cost of sales.

7 Goodwill

Goodwill arose first on the original purchase of controlling stakes in OAO "UAZ" and OAO "ZMZ" and then on increases of holding stakes in OAO "UAZ" in 2003 and OAO "ZMZ" in 2004. Goodwill is attributable to the profitability of the acquired businesses and the synergies expected to arise following the Group's acquisition of OAO "UAZ" and OAO "ZMZ".

	OAO "UAZ"	OAO "ZMZ"	Total
Cost			
Balance at 31 December 2002	907	277	1,184
Purchased goodwill	300	–	300
Balance at 31 December 2003	**1,207**	**277**	**1,484**
Excess of acquired share over purchase consideration	-	(121)	(121)
Write off excess of acquired share over purchase consideration	-	121	121
Balance at 31 December 2004	**1,207**	**277**	**1,484**

In 2003 OAO "UAZ" made a rights issue to existing shareholders amounting to RR 2,475. Not all minority shareholders exercised their rights and the remaining shares were purchased by the holding company. As a result OAO "Severstal-auto" stake in total share capital of OAO "UAZ" increased to 66% and goodwill arose on the acquisition in the amount of RR 300.

In 2004 the holding stake in OAO "ZMZ" was further increased by step acquisition from 66% to 72% of total share capital.

Step increase in % of ownership	6.29%
Purchase consideration	214
Share of net assets acquired from minority shareholders	(335)
Excess of acquired share in the net identifiable assets and liabilities over purchase consideration	**(121)**

The Company was able to increase the ownership in this subsidiary by acquiring shares from minority shareholders who, having lost significant influence, sold their shares at favourable prices for the Company.

Impairment tests for goodwill
The Group tested its goodwill for impairment at 31 December 2004. Goodwill is allocated to the Group's cash generating units (CGUs) according to business segments namely the two major subsidiaries: OAO "UAZ" (vehicle segment) and OAO "ZMZ" (engine segment).

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Management has based the CGU's cash flow projections on three key assumptions related to the operating margin, growth rate and discount rate specific to each CGU. Management determined budgeted operating margin based on past performance for the last two years (i.e. since the beginning of the Group's operations) and its expectations for the market development. For the vehicle segment these include continued strong demand for quality vehicles in the niche markets in which the segment operates, and the segment's sales price advantage over its foreign competition in those markets. For the engine segment these include the consolidation of its position as the dominant supplier of car engines to the Russian market, and its capability to upgrade its products in line with expected increases in regulations over emission levels. Cash flows beyond the five-year period are extrapolated using the estimated growth rates of 7.7% for vehicle segment and 8.7% for engine segment; these growth rates do not exceed the long-term average growth rate for the automotive business in which the CGUs operate. The discount rates used 19% for vehicle segment and 18.9% for engine segment are pre-tax and reflects specific risks relating to the relevant segments. Management believes that any reasonably possible change in the key assumptions described above would not cause the carrying amount of goodwill related to vehicle and engine segments to exceed their recoverable amounts.

As a result of the above testing no impairment provision was deemed necessary at 31 December 2004.

The Group has changed its accounting policy in respect of goodwill (see Note 3.1) with the early adoption of IFRS 3 "Business Combinations" from 1 January 2003. From this date the Group ceased amortization of positive goodwill. Excess of the acquired share in the net fair value of identifiable assets and liabilities over purchase consideration (negative goodwill) is written off to the statement of income immediately as incurred.

Excess of the acquired share in the net fair value of identifiable assets and liabilities over purchase consideration arose in 2002 when companies financed by OAO "Severstal" purchased additional ordinary shares of OAO "ZMZ". Subsequently, in April and May 2003 these shares were transferred to the Group. As a result, the share of the Group in OAO "ZMZ" increased from 47% to 66%, or from 63% to 88% of ordinary share capital. This purchase has been treated as a transaction between entities under common control, and, as such, corresponding figures for minority interest, negative goodwill, intergroup liability and retained earnings, have been presented as if the transactions had occurred at the dates when companies financed by OAO "Severstal" purchased interests in OAO "ZMZ".

Notes to the Consolidated Financial Statements
at 31 December 2004
(in millions of Russian Roubles)

8 Financial assets

Non current financial assets comprise principally non-marketable equity securities, which are not publicly traded or listed on the Russian stock exchange and, due to the nature of the local financial markets, it is not possible to obtain current market value for these investments. For these investments, fair value is estimated by reference to the discounted operating cash flows of the investee. The carrying value of these assets is approximately equal their fair value.

9 Other non-current assets

Other non-current assets consist mainly from advances made to suppliers of property plant and equipment. As 31 December 2004 amount of advances paid for property, plant and equipment was RR 160 (31 December 2003: RR 208).

10 Inventories

Inventories consist of the following:

	31 December 2004	**31 December 2003**
Raw materials	2,402	2,384
Less: obsolescence provision	(162)	(98)
	2,240	**2,286**
Work in progress	621	511
Less: NRV provision	(20)	-
	601	**511**
Finished products	619	400
Less: NRV provision	(12)	-
	607	**400**
	3,448	**3,197**

Obsolescence provision relates only to raw materials. As at 31 December 2004 finished products in the amount of RR 73 and work in progress in the amount of RR 42 were recorded at net realisable value. As at 31 December 2003 there are no finished products and work in progress recorded at net realisable value. The cost of inventories recognised as expense and included in cost of sales amounted to RR 11,916 (2003: RR 10,679). Inventories of RR 887 (2003: RR 1,183) have been pledged as security for borrowings, see Note 21.

11 Accounts receivable and prepayments

	31 December 2004	**31 December 2003**
Trade receivables	1,182	785
Less: provision for impairment	(27)	(14)
	1,155	**771**
Other receivables	358	323
Less: provision for impairment	(19)	(27)
	339	**296**
Advances to suppliers	264	212
Less: provision for impairment	(5)	(5)
	259	**207**
VAT recoverable, net	384	347
Prepayments	8	59
	2,145	**1,680**

Included within net VAT recoverable is RR 166 of deferred VAT payable (2003: RR 115).

(in millions of Russian Roubles)

Foreign currency denominated net trade receivables:

Currency	31 December 2004	31 December 2003
Euro	92	25
US$	76	166
	168	**191**

The carrying value of accounts receivable and prepayments as at 31 December 2004 and 2003 is approximately equal their fair value.

Non-cash settlements

In the year ended 31 December 2004 RR 479 (approximately 2% of total sales) of the Group's settlements of accounts receivable were settled by means of mutual settlements, and RR 210 (approximately 1% of total sales) by means of third-party bills of exchange. In the year ended 31 December 2003 RR 487 (approximately 3% of total sales) of the Group's settlements of accounts receivable were settled by means of mutual settlements, and RR 460 (approximately 2% of total sales) were settled by means of third-party bills of exchange.

12 Other current assets

Other current assets represent mainly by bills of exchange of third parties with a turnover period of less than a year and are classified as short-term investments. They have been purchased for further settlements for supply of components.

13 Cash and cash equivalents

Cash and cash equivalents comprise the following:

	31 December 2004	31 December 2003
Cash on hand and balances with banks	298	45
Letters of credit	239	237
Cash deposits	345	205
Short-term bank promissory notes	100	108
	982	**595**

Cash deposits of RR 345 held by a Group at 31 December 2004 bear interest of 5.5% per annum. Cash and cash equivalents of RR 637 held by the Group are not interest bearing. Letters of credit was established for suppliers of equipment.

Foreign currency denominated cash balances consist of the following:

Currency	31 December 2004	31 December 2003
Euro	237	214
US$	5	4
	242	**218**

The carrying value of cash and cash equivalents as at 31 December 2004 and 2003 is approximately equal their fair value.

14 Shareholders' equity

The value of share capital issued and fully paid up consists of the following shares:

	Number of outstanding ordinary shares (thousands)	Share capital, RR	Share premium, RR	Additional paid-in capital, RR	Total share capital, RR
At 31 December 2003	22,074	377	2,885	1,438	4,700
At 31 December 2004	29,800	474	4,259	1,438	6,171

In May 2003, the General Shareholders' Meeting decided to increase the Company's authorised share capital by 60,000,000 ordinary shares.

Nominal value of all shares is 12.5 roubles per share. Statutory share capital of the Company totalled RR 374 (31 December 2003: RR 276).

On 10 September 2004 the Federal Commission of Securities Market registered the issue of 7,726 thousand ordinary shares of the Company at a nominal value of 12.5 roubles per share. The issue started in June 2004 in the form of a rights issue at 190.71 roubles per share. Transaction costs incurred of RR 2 were deducted from the proceeds.

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For the year ended 31 December 2004, the net statutory profit for the Company as reported in the published annual statutory reporting forms was RR 2,068.

The Company declared dividends of RR 375 or 17 roubles per ordinary share for the year ended 31 December 2003 and RR 298 or 10 roubles per ordinary share of interim dividends for nine months ended 30 September 2004.

15 Long-term borrowings

In January 2004 the Company has issued rouble-denominated non-convertible bonds for RR 1,500 payable in three years time with a coupon payable every six months of 11.25% per annum. Transaction costs incurred on the bond placement of RR 15 were deducted from proceeds received. The funds received were lent on to subsidiaries at similar terms.

As at 31 December 2003 long-term loans contain a 5-years 10%-interest rouble denominated loan from Severstal Group in the amount of RR 1,300. During 2004 the loan was fully settled ahead of payment schedule.

Interest accrued for the loan received from the major shareholder was payable together with the principle amount of the loan, and therefore considered as long-term as at 31 December 2003. RR 79 of interests was paid earlier than initially agreed with the lender.

During the year ended 31 December 2004 the Group received Euro denominated loan from Sberbank amounting to RR 297 with effective floating interest rate of EuroLIBOR + 4.35% for purchase of equipment for a painting workshop. The loan is repayable in 9 equal semi-annual instalments starting from July 2005. The short-term part of this loan of RR 33 was classified as short-term borrowings.

As at 31 December 2004 and 2003 long-term loan balances included RR 28 of bills of exchange issued by the Group to third parties with a redemption date in February 2007.

(in millions of Russian Roubles)

Long-term debt is repayable as follows:

	31 December 2004	31 December 2003
1 to 2 years	66	165
2 to 3 years	1,584	–
3 to 4 years	66	1,842
4 to 5 years	66	–
	1,782	**2,007**

As at 31 December 2004 and 2003 the carrying value of these liabilities approximates their fair value.

16 Taxes payable

Current taxes payable
Current taxes payable comprise the following:

	31 December 2004	31 December 2003
Current portion of taxes restructured to long-term	193	101
Value-added tax	64	10
Payments to the Pension Fund and other social taxes	57	90
Personal income tax	24	36
Tax penalties and interest	4	4
Property tax	3	16
Income tax	1	80
Other taxes	26	25
Total	**372**	**362**

The Group had no tax liabilities past due at 31 December 2004 and 2003.

Long-term taxes payable
Long-term taxes payable comprise various taxes payable other than income tax to the Russian Government which were previously past due and which have been restructured to be repaid over a period of up to 10 years following the application of various Government Resolutions including No. 410 dated 23 May 2001 "On making changes and amendments to the Russian Government Resolution No. 1002 dated 3 September 1999 "Terms of the restructuring of payables to the Federal Budget"", as described below. The carrying value of this debt and its maturity profile is as follows:

	31 December 2004	31 December 2003
Current	193	101
1 to 2 years	133	143
2 to 3 years	131	109
3 to 4 years	21	95
4 to 5 years	1	23
Thereafter	–	17
Total restructured	**479**	**488**
Less: current portion of taxes payable	(193)	(101)
Long-term portion of restructured taxes	**286**	**387**

In the event that the Group companies fail to make current tax payments and payments of restructured tax liabilities by the end of each quarter, the Ministry of Taxes and Duties may, within one month, recommend to the Government to cancel the restructuring agreement and call-in the entire liability.

Both OAO "UAZ" and OAO "ZMZ" are in compliance with the terms of the restructuring of the federal, regional and local tax debts at 31 December 2004. Management is confident that these companies will continue to abide by the terms of the restructuring.

As at 31 December 2004, fair value of these liabilities was estimated to be RR 340 (31 December 2003: RR 465) using a current market interest rate of 11.3 % (31 December 2003: 11.5%).

17 Post-retirement benefits

OAO "ZMZ" provides post retirement benefits in the form of a lump sum payment on retirement and quarterly cash payments to their retirees via the non-state pension fund "Stalfond". The benefit amount is determined by key management. The entitlement to benefits (cash payments) ceases when the retirees die. To date it has been an unfunded plan, with no assets specifically allocated to cover the scheme liabilities. The scheme's retirement age is the State retirement age (55 for females and 60 for males). The last actuarial valuation was performed by management in December 2004, with measurement date 1 January 2004.

The amounts recognised in the balance sheet are determined as follows:

	31 December 2004	31 December 2003
Present value of unfunded obligations	146	140
Unrecognised past service cost	(128)	(140)
Liability in the balance sheet	**18**	**–**

The amounts recognised in the statement of income are as follows:

	31 December 2004	31 December 2003
Recognised actuarial gain	9	–
Current service cost	6	–
Amortisation of past service cost	12	–
Interest cost	10	–
Total included in labour expenses (Note 27)	**37**	**–**

Deferred past service cost will be amortised over the employees' average remaining working life of 12 years.

Movements in the net liability recognised in the balance sheet are as follows:

	31 December 2004	31 December 2003
At the beginning of the period	–	–
Total expense as above	37	–
Contributions paid	(19)	–
Net liability at the end of the year	**18**	**–**

The principal actuarial assumptions used were as follows:

	31 December 2004	31 December 2003
Withdraw Rate	3%	3%
Interest	9%	9%
Salary growth	6%	6%

18 Deferred income on government grant

In May 2003 the Group won a government grant for a total of RR 500 for the development of a new diesel engine during the years 2003 - 2007. As at 31 December 2004 the Group has received RR 291 of this grant. RR 149 has been used for purchase of new equipment required for research and development works and RR 114 has been spent on the development of the diesel engine and has been capitalized as development costs in the balance sheet as at 31 December 2004. To fulfil the terms of the grant the Group should sell during the period from 2005 to 2007 developed new diesel engines in the amount of RR 4,000. If sales target is not met, the Group would have to pay a fine to the government equal to 20% of the difference between the volume designated and sales made. The grant will be recognised as revenue to match the depreciation costs of equipment purchased for development works and development expenditures capitalized in the balance sheet. Depreciation of the grant will commence when the Group meets all conditions attached to the grant. Management consider that the Group is in compliance with the terms of the grant and will not need to return cash received.

19 Advances received and other payables

	31 December 2004	31 December 2003
Dividends payable	309	3
Advances from customers	225	287
Salaries payable	180	255
Vacation accrual	107	187
Bonus accrual	92	35
Payable for bills	66	205
Other	22	11
Total	**1,001**	**983**

Non-cash settlements

In the year ended 31 December 2004 RR 649 (approximately 4% of total purchases) of the Group's settlements of accounts payable and accrued charges were settled by means of third-party bills of exchange and RR 479 (approximately 4% of total purchases) by means of mutual settlements with suppliers. In the year ended 31 December 2003 RR 535 (approximately 4% of total purchases) of the Group's settlements of accounts payable and accrued charges were settled by means of third-party bills of exchange and RR 487 (approximately 4% of total purchases) by means of mutual settlements with suppliers.

Notes to the Consolidated Financial Statements
at 31 December 2004
(in millions of Russian Roubles)

20 Warranty and other provisions

During 2004 and 2003 the following movements of the warranty provision took place:

	Warranty	Tax claims	Total
Balance at 31 December 2002	**102**	**–**	**102**
Additional provision	50	6	56
Utilised in the year	(69)	–	(69)
Balance at 31 December 2003	**83**	**6**	**89**
Additional provision	109	1	110
Utilised in the year	(100)	–	(100)
Balance at 31 December 2004	**92**	**7**	**99**

The Group gives one-year warranty on certain products and undertakes to repair or replace items that fail to perform satisfactorily. A provision of RR 92 (31 December 2003: RR 83) has been recognised at 31 December 2004 for expected warranty claims based on past experience of the level of repairs and replacements.

21 Short-term borrowings

As at 31 December 2004 and 2003 short-term borrowings consist of bank loans amounting to RR 752 and RR 796 respectively and interest on loans amounting to RR 78 and RR 2 respectively.

As at 31 December 2004 short-term debt comprises a total of rouble-denominated loans at effective fixed interest rates 8 - 11% during the year. Included within short-term borrowings a loan amounting to RR 199 was obtained to finance a letter of credit of OAO "UAZ". As at 31 December 2003 short-term debt comprises a total of rouble-denominated loans at effective fixed interest rates 10 - 13.75 % during the year ended 31 December 2003.

As at 31 December 2004 and 2003 loans for RR 1,016 and RR 1,242 respectively, inclusive of short-term borrowings, are guaranteed by collateral of inventories and equipment, see Notes 5, 10.

22 Sales

Sales were as follows:

	2004	2003
Vehicles	10,310	9,418
Engines	7,870	6,256
Automotive components	3,493	2,816
Assembly kits	506	244
Other sales	850	651
	23,029	**19,385**

23 Cost of sales

The components of cost of sales were as follows:

	2004	2003
Materials and components used	12,618	10,252
Labour costs	3,416	3,048
Production overheads	1,236	1,123
Depreciation	504	469
Change in finished goods and work in progress	(328)	(134)
	17,446	**14,758**

(in millions of Russian Roubles)

24 Distribution costs

Distribution costs comprise:

	2004	2003
Transportation	441	404
Materials	114	103
Check and inspection performed by dealers	93	-
Labour costs	80	68
Advertising	75	100
Other	53	32
	856	**707**

25 General and administrative expenses

General and administrative expenses comprise:

	2004	2003
Labour costs	1,200	1,016
Services provided by third parties	225	286
Taxes other than on income	133	164
Insurance	93	15
Depreciation	92	99
Materials	82	48
Fire brigade and security costs	36	39
Training costs	32	33
Transportation	24	21
Provision for impairment of receivables	5	2
Other	89	67
	2,011	**1,790**

26 Other operating (income)/expenses - net

The components of other operating (income)/expenses were as follows:

	2004	2003
Social expenses	78	106
Loss on disposals of property, plant and equipment	44	13
Charity	36	44
Fair value losses/(gains) financial assets at fair value through profit or loss	11	(4)
Research and development expenses	8	53
Provisions and settlements of claims and similar charges	1	6
Excess of acquired share over purchase consideration	(121)	–
Gain on disposal of materials	(55)	(58)
Write-off of payables	(10)	(5)
Other	(42)	48
	(50)	**203**

Notes to the Consolidated Financial Statements
at 31 December 2004

(in millions of Russian Roubles)

27 Expenses by nature

Labour expenses included in different captions of the consolidated statement of income were as follows:

	2004	2003
Cost of sales	3,416	3,048
Administrative expenses	1,200	1,016
Distribution costs	80	68
	4,696	**4,132**

Labour expenses comprise wages, salaries, bonuses, payroll taxes, vacation and salary accruals.

Depreciation included in different captions of the consolidated statement of income was as follows:

	2004	2003
Cost of sales	504	469
Administrative expenses	92	99
	596	**568**

Materials included in different captions of the consolidated statement of income were as follows:

	2004	2003
Cost of sales	12,618	10,252
Distribution costs	114	103
Administrative expenses	82	48
	12,814	**10,403**

28 Income tax expense

	2004	2003
Income tax expense - current	590	479
Deferred tax expense/(credit) – origination and reversal of temporary differences	41	(93)
Income tax expense	**631**	**386**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

	2004	2003
Income before taxation	**2,303**	**1,483**
Theoretical tax charge at the statutory rate of 24%	553	356
Tax effect of items which are not deductible or assessable for taxation purposes:		
Tax penalties and interest	27	23
Gain on forgiveness of tax debts	–	(6)
Other	51	13
Income tax expense	**631**	**386**

(in millions of Russian Roubles)

In general during the 2004 the Group was subject to tax rates of 24% on taxable profits. Deferred tax assets/liabilities are measured at the rate of 24% as at 31 December 2004 and 2003.

	31 December 2002	Movement in the year	31 December 2003	Movement in the year	31 December 2004
Tax effects of deductible temporary differences:					
Accounts receivable	37	(7)	30	(5)	25
Inventories	–	36	36	(36)	–
Financial assets	3	(3)	–	1	1
Pension fund liabilities	–	–	–	4	4
Accounts payable and provisions	97	(34)	63	4	67
Other non-current assets	–	9	9	(9)	–
Total deferred tax assets	**137**	**1**	**138**	**(41)**	**97**
Tax effects of taxable temporary differences:					
Property, plant and equipment	(1,224)	(35)	(1,259)	15	(1,244)
Long-term liabilities	(115)	115	–	–	–
Inventories	(11)	11	–	(15)	(15)
Other non-current assets	(1)	1	–	–	–
Total deferred tax liability	**(1,351)**	**92**	**(1,259)**	**–**	**(1,259)**
Total net deferred tax (liability)/assets	**(1,214)**	**93**	**(1,121)**	**(41)**	**(1,162)**

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies and, accordingly, taxes may accrue even where there is a net consolidated tax loss. The deferred tax assets will be realised in different periods than the deferred tax liabilities will be settled. Management believes that there will be sufficient taxable profits available at the time the temporary differences reverse to utilise the deferred tax assets.

Deferred income tax liabilities of RR 249 (31 December 2003: RR 166) have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of subsidiaries. Such amounts are permanently reinvested. Unremitted earnings totalled RR 4,144 at 31 December 2004 (31 December 2003: RR 2,767).

29 Earnings per share

Earnings per share is calculated by dividing the income attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2004	2003
Weighted average number of ordinary shares in issue (thousands)	24,445	22,074
Income attributable to equity holders of the Company	1,342	900
Basic/diluted earnings per share (in roubles per share)	54.90	40.77

30 Segment information

Primary reporting format – business segments

At 31 December 2004, the Group is organised as two main business segments:

(1) manufacture and sale of vehicles and
(2) manufacture and sale of engines.

Other Group operations are not sufficiently significant to record as separate reportable segments.

The segment results for the year ended and balances at 31 December 2004 are as follows:

	Vehicles segment	Engines segment	Unallocated	Group
Sales	12,639	10,712	–	23,351
Inter-segmental sales	(14)	(308)	–	(322)
Net sales	**12,625**	**10,404**	**–**	**23,029**
Segment results / operating income	807	1,959	–	2,766
Interest expense				(423)
Net foreign exchange loss				(40)
Income tax expense				(631)
Income for the year				**1,672**
Segment assets	10,224	8,562	38	18,824
Segment liabilities	4,294	2,712	283	7,289
Capital expenditures	873	880	–	1,753
Depreciation	422	174	–	596
Non-cash expenses other than depreciation	207	43	–	250

The segment results for the year ended and balances as at 31 December 2003 are as follows:

	Vehicles segment	Engines segment	Unallocated	Group
Sales	11,035	9,099	–	20,134
Inter-segmental sales	–	(749)	–	(749)
Net sales	**11,035**	**8,350**	**–**	**19,385**
Segment results / operating income	428	1,499	–	1,927
Interest expense				(481)
Net foreign exchange gain				14
Gains of forgiveness of tax debt				23
Income tax expense				(386)
Income for the year				**1,097**
Segment assets	9,061	7,555	–	16,616
Segment liabilities	3,230	2,603	1,383	7,216
Capital expenditures	512	745	–	1,257
Depreciation	421	147	–	568
Non-cash expenses other than depreciation	253	44	–	297

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

(in millions of Russian Roubles)

Secondary reporting format - geographical segments
The Group's sales are mainly within Russia and in CIS countries.

Geographical reportable segments by location of customers are as follows:

Sales	2004	2003
Domestic	19,435	16,963
Export to CIS	2,473	1,630
Export to other countries	1,121	792
Total	**23,029**	**19,385**

All assets of the Group are located in the Russian Federation.

31 Contingencies, commitments and operating risks

31.1 Contractual commitments and guarantees

As at 31 December 2004 the Group had contractual commitments of RR 34 for the purchase of property, plant and equipment from third parties (2003: RR 123).

As at 31 December 2004 one subsidiary of the Group, OAO "UAZ", had contractual commitment of RR 2,775 (equivalent of 100 million US dollars) to deliver assembly kits to Ukraine.

31.2 Taxation

Russian tax, currency and customs legislation 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 the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal period 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 cover longer periods.

As at 31 December 2004 management believes that its interpretation of the relevant legislation 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 consolidated financial statements.

31.3 Dependency on a limited number of suppliers and customers

The Group is dependent on a relatively limited number of suppliers for several raw materials and components used in the manufacturing of its products. Consequently, there is a risk that the Group may not be able to negotiate favourable terms, ensure adequate quality of its raw material and components and the performance of its business segments could be affected.

The engine business segment sells 61% (2003: 56%) of its production to one customer – OAO "GAZ". Consequently, the segment performance, results of operation and prospects are highly dependent on the continued relationship with this customer.

31.4 Insurance policies

The Group holds insurance policies in relation to its operating assets and vehicles and all events subject to mandatory insurance. The Group is subject to political, legislative, tax and regulatory developments and risks, which are not covered by insurance. No provisions for self-insurance are included in the consolidated financial statements and the occurrence of significant losses and impairments associated with facilities could have a material effect on the Group's operations.

31.5 Environmental matters

The enforcement of environmental regulation in the 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. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

31.6 Legal proceedings

During the year ended 31 December 2004, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

31.7 Operating environment of the Group

The Russian Federation 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.

32 Principal subsidiaries

The principal subsidiaries consolidated within the Group and the degree of control exercised by OAO "Severstal-auto" are as follows:

			31 December 2004		31 December 2003	
Entity	Country of Incorporation	Activity	% of total share capital	% of ordinary shares	% of total share capital	% of ordinary shares
OAO "Ulyanovsky Avtomobilny Zavod"	Russia	Manufacture and sale of passenger automobiles, light trucks and minibuses	66	68	66	68
OAO "Zavolzhskiy Motor Works"	Russia	Manufacture and sale of engines for passenger automobiles, trucks and buses	72	88	66	88
OOO "ZMZ-Podshipniky Skolzheniya"	Russia	Manufacture and sale of bearings	76	–	71	–
OOO "ZMZ-Transservice"	Russia	Transport services	72	–	66	–
OOO "UAZ-Autotrans"	Russia	Transport services	66	–	–	–

OAO "Severstal-auto" owns 15% directly and 61% indirectly via its subsidiary OAO "ZMZ" in OOO "ZMZ - Podshipniky Skolzheniya". OOO "ZMZ - Transservice" is 100% owned by the Company's subsidiary OAO "ZMZ". OOO "UAZ - Autotrans" is 100% owned by the Company's subsidiary OAO "UAZ". Share in OOO "ZMZ - Podshipniky Skolzheniya", OOO "ZMZ - Transservice" and OOO "UAZ-Autotrans" represents stockholders' stakes, not number of shares held.

Notes to the Consolidated Financial Statements
at 31 December 2004
(in millions of Russian Roubles)

33 Financial risks

33.1 Credit risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded.

Cash is placed in financial institutions, which are considered at the time of deposit to have minimal risk of default.

33.2 Foreign exchange risk

The Group's manufacturing operation is in the Russian Federation with limited imports of raw materials and components. Revenue from export of the Group's automotive production is 16% (2003: 12%) of total revenue, most of these sales are denominated in hard currency. Net foreign currency receivables amount to RR 168 (31 December 2003: RR 191). Hence, the Group is exposed to the related foreign exchange risk primarily with respect to US dollar. However, management believe that foreign exchange risk is not significant.

33.3 Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest bearing borrowings. The Group has cash deposits bearing the interest rate of 5.5% (see Note 13). The Group has mostly fixed rate interest bearing borrowings (see Note 15, 21).

33.4 Fair values

In assessing the fair value of non-traded financial instruments the Group uses a variety of methods including estimated discounted value of future cash flows, and makes assumptions that are based on market conditions existing at each balance sheet date.

At 31 December 2004 and 31 December 2003, the fair value of financial liabilities, which is estimated by discounting the future contractual cash flows at the current market interest rate for similar financial instruments with the same remaining maturity and were disclosed in relevant notes to these consolidated financial statements.

At 31 December 2004 and 31 December 2003, the carrying value of financial assets and cash deposits approximates their fair value.

(in millions of Russian Roubles)

34 Post balance sheet events

On 1 March 2005 the Company purchased a further 2.92% of preferred shares of OAO "ZMZ" and increased its stake in ZMZ share capital to 75%. Purchase consideration paid equal to RR 158. The Company acquired RR 163 of net identifiable assets and liabilities using the carrying value at 31 December 2004. Consequently, approximate value of the excess of acquired share over purchase consideration is RR 5 which would be taken to the statement of income in 2005 in accordance with the accounting policy stated in Note 3.6.

On 13 January 2005 the Federal Commission of Securities Market registered the prospectus of 4,470 thousand ordinary shares of the Company at a nominal value of 12.5 roubles per share.

On 27 January 2005 OAO "ZMZ" signed a contract for engine sales in 2005 with its major customer OAO "GAZ" with reasonable price increase.

Shareholder information

Date of the Company's state registration: 14.03.2002
State registration number: 1023501244524

Location of the Company:

Legal address:
33, Pobedy pr.
Cherepovets, Vologda Region,
162614 Russia

Moscow Office:
2/3 Klara Tsetkin st.,
Moscow,
127299 Russia
(the office will be relocated in mid-June 2005;
the new address will be:
Kolpachny per. 6, Bldg. 2,
Moscow,
101000 Russia)

Contacts:
Phone: +7 (095) 540 77 66
Fax: +7 (095) 721 35 93
Nikolay Sobolev, Chief Financial Officer
Zoya Kaika, Public Relations Director
Elena Milinova, Head of Corporate Reporting and Investor Relations
E-mail address: InvestorRelations@severstalauto.com
Web-site www.severstalauto.ru

The Company's securities being placed:

Shares:
Issued shares at 31.12.2004: 29,800,159 ordinary shares
Par value: RUB 12.5 per share
Traded on RTS and MICEX under the symbol "SVAV"

Bonds:
Non-convertible bearer certified interest-bearing (coupon) bonds
Quantity: 1,500,000 bonds
Par value: RUB 1,000 per bond
Date of issue: 29.01.2004
Date of maturity: 2,184 days of the date of issue
Redemption date: within the last 10 (ten) days of the sixth coupon period
Coupon payment period: 182 days
The interest rate: 11.25% per annum
Traded on MICEX under the symbol "SVAV"

Details of the Company's auditors:

The Company's statutory financial statements are audited by ZAO PRIMA audit (Saint Petersburg); and
The Company's consolidated IFRS financial statements are audited by ZAO PricewaterhouseCoopers Audit (Moscow).

Details of the Company's dividends for 2003

Period	Dividend per share	Record date	Beginning of dividend payment period
Annual dividends for 2003	RUB 17	18.04.2004	7.06.2004
Interim dividends based on the results for the 9 months of 2004	RUB 10	28.10.2004	10.01.2005
Annual dividends for 2004*	RUB 21	21.04.2005	27.06.2005

*Annual dividends for 2004 were proposed by the Board of Directors on 12 May 2005 for approval by the General Shareholders' meeting. The total amount includes interim dividends declared based on the results for the 9 months of 2004.