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annual report and accounts 2006

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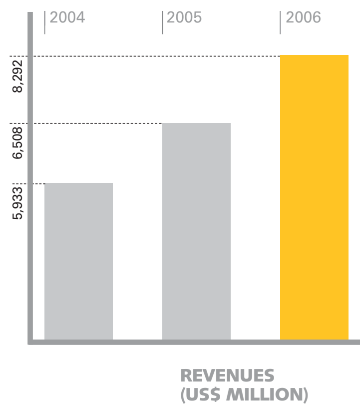
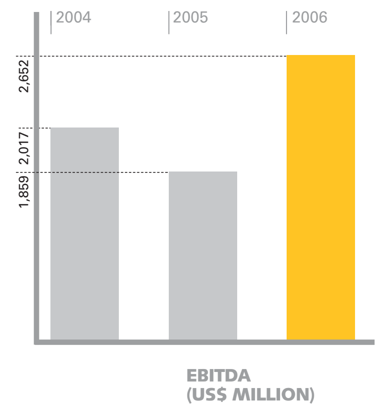
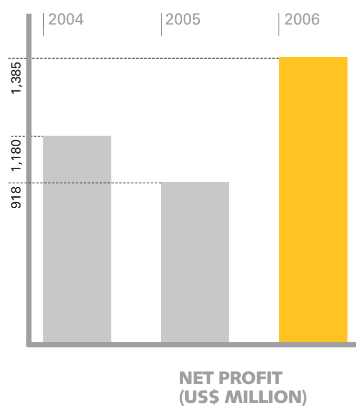
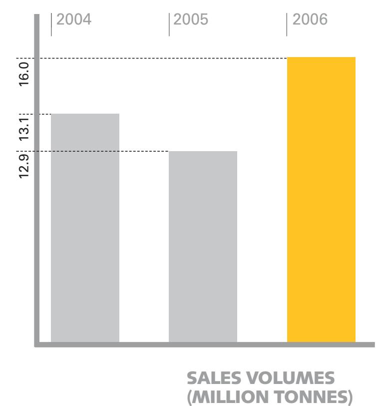
**All references to Evraz Group S.A., Evraz Group, "we" or "us" are references to Evraz Group S.A. and its consolidated subsidiaries, unless otherwise stated.*

Evraz Group in Figures







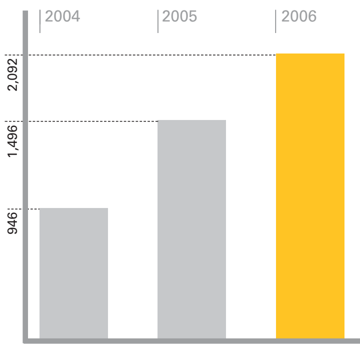


EAM Group, a predecessor of Evraz Group, was formed in 1992. Evraz Group went public with a listing on the London Stock Exchange in 2005.

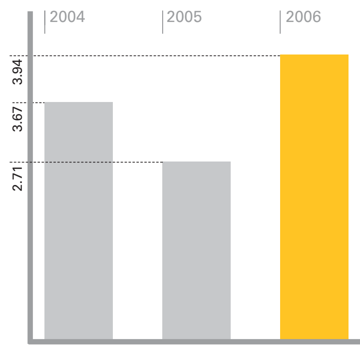
One of the largest vertically integrated steel and mining businesses, Evraz Group continues to grow and deliver exceptional results. While most of its business is held in Russia, Evraz Group also owns steel and vanadium assets in North America, Europe and South Africa.

Evraz Group has a long-term strategy aimed at delivering superior value for shareholders and other stakeholders and maintaining its pace of development.

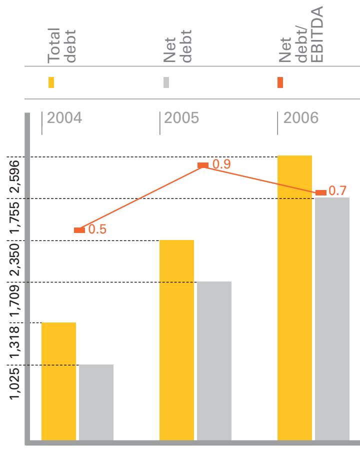
Evraz Group is committed to high corporate governance and ethical standards. With this in mind, Evraz Group strives to act as a responsible corporate citizen and interact with stakeholders in an open and honest fashion.



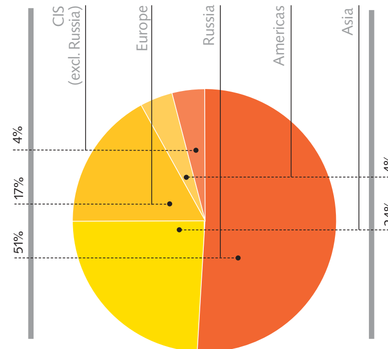
OPERATING CASH FLOW (US$ MILLION)



EARNINGS PER GDR (US$)



TOTAL DEBT/NET DEBT/ EBITDA (US$ MILLION)



REVENUES BY GEOGRAPHIC ZONE

Message from the Chairman and CEO

alexander frolov

Chairman of the Board and CEO

We make the world stronger...
...by achieving strong results

Welcome to the third Annual Report of Evraz Group S.A.

In April 2007, we proudly announced our preliminary 2006 full year results with strong year-on-year growth in sales volumes and revenues. With revenue expansion of 27% and net profit increase of 51%, 2006 marked the best year in the financial history of Evraz.

Looking at the results in more detail, revenues grew from US$6,508 million in 2005 to US$8,292 million in 2006. Our consolidated EBITDA was up 43% to US$2,652 million from US$1,859 in 2005. Evraz Group improved production across all its steel plants. In particular, we realised synergies from the successful integration of our European rolling mill facilities, Palini e Bertoli and Vitkovice Steel, which produce higher value-added products.

We saw net profit increase from US$918 million in 2005 to US$1,385 million in 2006. In addition, we experienced yet another year of strong cash flow generation which was primarily due to increased profit margins and more efficient working capital management.

Our steel business saw crude steel production grow by 16% to a record high level of 16.1 million tonnes. Total steel sales volumes for the year soared by 25% to 16.0 million tonnes driven by organic growth, acquisitions in Europe and inventory reductions. Our leadership in the booming Russian long products market was strengthened further in 2006 and together with the favourable pricing environment supported our strong revenue and profit growth. In addition, we successfully implemented a US$660 million capital investments programme focused on improving our cost efficiency and revamping the front end of our steel making facilities.

Our mining business also made significant progress. Strong self-coverage in iron ore (80%) and coking coal (84%) represents a solid platform that enables us to build and develop our steel business and significantly protects our earnings from fluctuations of raw material prices and third party availability. We commenced iron ore production at Izykhgol and Burluk mines in Siberia and acquired a new iron ore development licence with 3.3 billion tonnes of resources in the Urals. We increased our investment in our affiliate, OAO Raspadskaya, that acquired new quality coking coal resources to expand production. In late 2006, OAO Raspadskaya successfully publicly listed approximately 18% of its charter capital in a secondary offering that still remains Russia's largest equity offering made by a coal company. A review of our plans to develop a stand-alone coal mine in Siberia (Neryungri) led to the disposal of the project in April 2007. The disposal resulted in a one-off loss of US$66 million that was written off in 2006.

2006 was another important year as we continued to grow our business through international acquisitions. Evraz made several strategic acquisitions that included the purchase of 100% of shares in Oregon Steel Mills, Inc. (USA) for US$2.3 billion. The deal, which officially closed in January 2007, gives us access to the more attractive plate market and expanding pipe business in North America and makes Evraz the leading global rail producer. Other strategic transactions completed during the year include acquisition of 72.84% interest in Strategic Minerals Corporation (Stratcor), a world's leading producer of vanadium alloys and associated specialty chemicals with assets in the US and South Africa, for US$125 million in August and 24.9% interest in Highveld Steel and Vanadium Corporation, one of the largest producer of steel and vanadium products in South Africa, for US$207 million in July.

During recent years, we have also developed a very successful dialogue with debt investors. In 2006, we negotiated a syndicated loan of US$1.8 billion to fund the acquisition of Oregon Steel. Through 2006, Evraz's GDRs appreciated by 37% outperforming the MSCI index growth rate. Moreover, in previous year we obtained further recognition from the investor community, when Institutional Investor magazine named us as the company "achieving the greatest progress in investor relations".

In the course of 2006, Evraz Group continued to focus on its corporate governance, with improved standards. In addition, we made some important changes to the Board, its committees and the senior management team.

On the sustainable development aspects, Evraz Group made major efforts to address occupational and social needs of its employees and launched extensive social projects aimed at benefiting the people in the regions of Russia in which we operate.

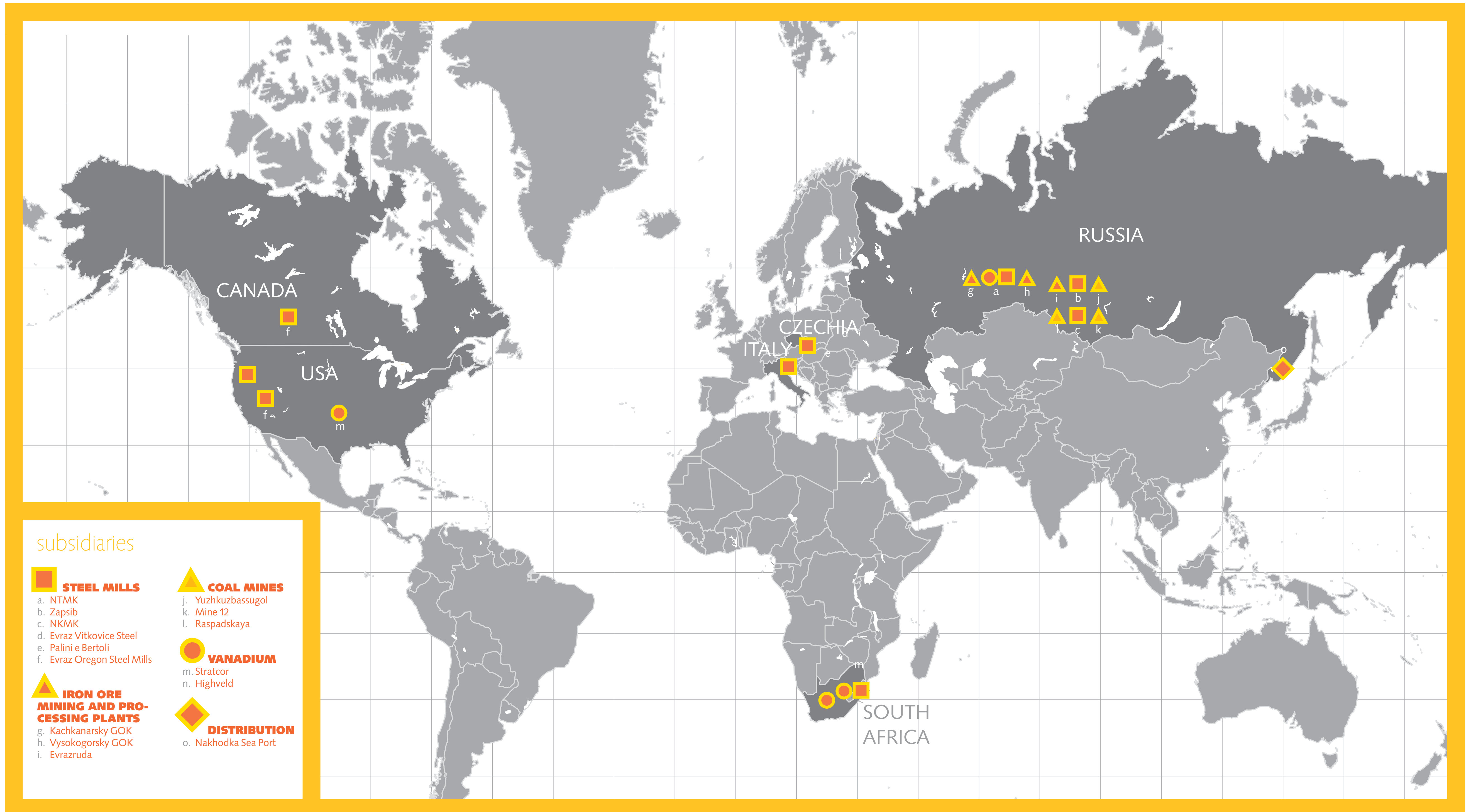
The record setting results achieved in 2006 could not have been possible without the hard work, commitment and dedication of our talented employees around the world. Evraz Group has always considered all of its employees as a tremendously important asset. This is why I would like to thank each and every one of them for their enormous contribution to the year's outstanding overall results.

While we are very pleased with the 2006 results, we are determined to grow shareholder value. We remain committed to continue to meet the objectives of our shareholders and at the same time serve the communities in every region and location where our company operates.

Alexander Frolov
Chairman of the Board and CEO

Our Presence in the World

We make the world stronger...
... by expanding our business



Highlights 2006

The decision to acquire Oregon Steel Mills is undoubtedly the key highlight of 2006. The acquisition secures Evraz Group an important place in the plate market and access to the expanding pipe business in North America. It allows both companies to benefit from vertical integration synergies and to improve margins through access to lucrative downstream markets and the provision of a reliable source of Russian slabs to support an already low cost base in the US.

We make the world stronger...
...by developing dynamically

FEBRUARY

Evraz launches programme "Operational Excellence of Evraz Group" at NTMK

The programme aims to increase operating efficiency and cut down costs in steelmaking, rolling, the blast furnace process and energy supplies.

APRIL

Acquisition of Strategic Minerals Corporation

Evraz Group S.A. announced the signing of an agreement to purchase outstanding shares from the major shareholders of Strategic Minerals Corporation (Stratcor), one of the world's leading producers of vanadium alloys and chemicals for the steel, chemical and titanium industries.

MAY

Expansion of interests in coal mining assets

Raspadskaya acquired two additional coal mining assets, Mezhdurechenskaya Coal Company-96 and Razrez Raspadsky. To maintain its interest, Evraz Group invested US$225 million in cash and also US$300 million in short-term financial guarantees for OJSC Raspadskaya.

JULY

Acquisition of 24.9% in Highveld Steel and Vanadium Corporation Limited

Evraz Group S.A. acquired 24.9% of shares of Highveld Steel and Vanadium Corporation Limited from Anglo American plc with an option to increase its stake in Highveld to 79%, on the receipt of regulatory approval.

Changes to the Board

An extraordinary general meeting of shareholders, held on July 24, approved, inter alia, amendments to the articles of incorporation of Evraz Group S.A. and changes to the composition of the Board. Olga Pokrovskaya, Eugene Shvidler and Eugene Tenenbaum were elected directors.

AUGUST

Completion of the acquisition of Stratcor

Evraz Group S.A. announced the completion of the acquisition of approximately 73% of the shares in Stratcor.

SEPTEMBER

Evraz Group repays US$175 million in eurobonds

Evraz Group S.A. repaid US$175 million in eurobonds, originally placed in September and December 2003. The Eurobonds had a term of 36 months with a coupon of 8.875%.

Renewed blast furnace No 5 at NTMK starts production

Evraz brought blast furnace No 5 at NTMK back into production with capacity of 1.7 million tonnes of pig iron per year.

OCTOBER

Credit rating upgrades by Fitch and change in Moody's ratings outlook to Positive

Fitch Ratings upgraded Issuer Default (IDR) and senior unsecured ratings of Evraz Group S.A. to "BB". The Agency also upgraded to "BB" the IDR of Cypriot-registered Mastercroft Limited, an Evraz wholly owned subsidiary, as well as the Senior Unsecured Notes issued by its wholly owned subsidiary, EvrazSecurities S.A.

In addition and at the same time, Fitch's confirmed a Short-term "B" rating for both Evraz Group and Mastercroft.

Moody's changed the outlook on all ratings assigned to Evraz Group S.A. from "Stable" to "Positive".

Kachkanarsky Ore Mining and Processing Enterprise Vanady (KGOK) received a licence to develop the Sobstvenno-Kachkanarskoye ore deposit

Evraz Group's subsidiary, KGOK, won the auction for the development licence of the Sobstvenno-Kachkanarskoye magnetite and titanium deposit in Central Ural, valid for 25 years. The Sobstvenno-Kachkanarskoye deposit has reserves of 3.3 billion tonnes of ore with estimated iron content of 16%.

NOVEMBER

Successful US$317 million IPO of Raspadskaya

Raspadskaya successfully completed an IPO to place 18% of its share capital with investors in the Russian Federation and qualified investors in some other countries on RTS and MICEX.

Evraz commences a tender offer to acquire Oregon Steel Mills

Evraz Group S.A. announced the commencement of a cash tender offer to purchase all outstanding shares of Oregon Steel Mills. The acquisition was successfully completed in January 2007.

DECEMBER

Senior management changes

Valery Khoroshkovsky resigned as Chief Executive Officer. An extraordinary meeting of shareholders held on January 18, 2007 approved his resignation and the appointment of Alexander Frolov as Chief Executive Officer of Evraz Group S.A., with effect from January 19, 2007.

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Corporate Governance

Evraz Group strives to continuously develop and improve its corporate governance, maintain the trust of our shareholders and other stakeholders and deliver superior returns.

We make the world stronger...
...by adhering to high governance standards

OVERVIEW

Evraz Group S.A. was incorporated under the laws of the Grand Duchy of Luxembourg on December 31, 2004 as a société anonyme and operates in accordance with Luxembourg law, in particular the Law of August 10, 1915 on commercial companies (as amended).

We accept corporate governance as the set of objectives, policies, procedures and relationships between shareholders, the Board, management of Evraz Group and other stakeholders that affect and regulate how Evraz Group is governed, controlled and managed.

Evraz Group complies in the main with all applicable laws and regulations, including those regulations incumbent upon it as a result of the listing of its Global Depositary Receipts on the Official List of the UK Listing Authority. With this in mind, Evraz Group is also committed to meeting high standards of corporate governance, reporting, accountability and responsibility for which directors are accountable to shareholders.

BOARD OF DIRECTORS

The Board is collectively responsible for the performance of Evraz Group S.A. and is entrusted with all powers not expressly reserved to the general meeting of shareholders. Key matters reserved for the Board include the following:

01 determination and review of strategy;

02 approval of significant transactions;

03 review of management performance;

04 determination and review of the dividend and remuneration policies.

The Board exercises its powers based on what the directors believe to be in the best interests of Evraz Group S.A. and its shareholders, and other stakeholders and is accountable to them.

Members of the Board are elected by majority vote of shareholders at the annual general meeting as provided in the Articles of Association of Evraz Group S.A. Directors are elected for one-year terms, and may be re-elected an unlimited number of times. At least one-third of the Board consists of independent directors. Directors are considered independent, if there are no relationships or circumstances which are likely to affect, or could appear to affect their judgement. Their independence is determined in accordance with the criteria adopted by the Board on April 25, 2005.

During 2006 the Board of Evraz Group S.A. consisted of seven to nine members.

MEMBERS OF THE BOARD OF DIRECTORS

As of January 19, 2007, the names and other biographical details of the Board members are as follows:

Alexander Frolov
Chairman of the Board and CEO

42 years
Joined Evraz in 1994; a member of the Board since 21 April 2005.
Received a Ph.D. in Physics and Mathematics from Moscow Institute of Physics and Technology.

Board Committee membership:
a member of the Remuneration Committee.

Alexander Abramov
Director

48 years
Founder of Evraz and former Chairman of the Board and CEO; a member of the Board since 21 April 2005.
Holds a Ph.D. in Physics and Mathematics.

Board Committee membership:
none.

Otari Arshba
Director

51 years
Joined Evraz in 1998; a member of the Board since 6 May 2005.
Received a Ph.D. in political science from the Russian Academy of Government Service.

Membership in other boards of directors or any other significant commitments:
A deputy of the State Duma of the Russian Federation.

Board Committee membership:
none.

James W. Campbell
Independent Director

57 years
A member of the Board since 21 April 2005.
Previously held various positions with the Anglo American group of companies.
Received a B.Sc. in Mathematical Physics from Queen's University, Belfast, and an M.A. in Engineering Management from Cambridge University, England.

Membership in other boards of directors or any other significant commitments:
Board of Directors of Minara Resources Ltd (Chairman).

Board Committee membership:
Chairman of the Strategy Committee;
a member of the Remuneration Committee.

Philippe Delaunois
Independent Director

65 years
A member of the Board since 18 January 2007.
Previously CEO of Cockerill-Sambre (steel).
Received a degree in engineering and economics, studied business at Harvard Business School; Honorary Consul of Austria for the Province of Hainaut and Namur, Officer in the Order of Leopold (Belgium), Chevalier de la Légion d'Honneur (France).

Membership in other boards of directors or any other significant commitments:
Chairman of the Board of CFE (construction and dredging);
Board of Directors of ING Belgium (Bank); Cumerio (copper); Mobistar (mobile telephone); Shanks plc (waste management); Suez energy services.

Board Committee membership:
Chairman of the Remuneration Committee.

Olga Pokrovskaya
Director

37 years
A member of the Board since 9 August 2006.
Previously held positions with Sibneft and Arthur Andersen.
Received a degree in finance.

Membership in other boards of directors or any other significant commitments:
Millhouse LLC (Head of corporate finance).

Board Committee membership:
A member of the Audit Committee.

Terry Robinson
Independent Director

62 years
A member of the Board since 21 April 2005.
Senior Independent Non-executive Director, Nikanor plc. Previously held various positions with Lonrho plc, Chapada Diamonds plc, the Albert Fisher Group plc, Halstead Services Ltd.
A Fellow of the Institute of Chartered Accountants of England and Wales.

Membership in other boards of directors or any other significant commitments:
Nikanor plc.

Board Committee membership:
Chairman of the Audit Committee;
A member of the Strategy Committee.

Eugene Shvidler
Director

42 years
A member of the Board since 9 August 2006.
Previously held various positions with Sibneft and Deloitte & Touche in New York.
Received a degree in applied mathematics and MBA in finance and international tax accounting.

Membership in other boards of directors or any other significant commitments:
Millhouse group (Chairman).

Board Committee membership:
none.

Eugene Tenenbaum
Director

42 years
A member of the Board since 9 August 2006.
Previously held various positions with Sibneft, Salomon Brothers, KPMG and Price Waterhouse in Toronto.
Chartered accountant. Received a bachelor's degree in commerce and finance.

Membership in other boards of directors or any other significant commitments:
Millhouse Capital UK Ltd (managing director)
Chelsea FC Plc (member of the board).

Board Committee membership:
a member of the Remuneration Committee.

The **Secretary of the Board** is Dmitry Melnikov, Evraz Group's Director for Legal Support of Projects.

CHANGES TO THE BOARD

Lord Daresbury and Bruno Bolfo resigned from the Board on June 20, 2006 and October 23, 2006 respectively.

DIRECTORS' ATTENDANCE

During 2006 the Board held 10 meetings. The number of Board meetings attended by each director is shown in the table below.

BOARD MEETINGS IN 2006	Attended	Eligible to attend*
Alexander Abramov	9	10
Otari Arshba	9	10
Bruno Bolfo	3	4
James W. Campbell	10	10
Lord Daresbury	4	4
Philippe Delaunois**	–	–
Alexander Frolov	10	10
Olga Pokrovskaya	4	4
Terry Robinson	10	10
Eugene Shvidler	4	4
Eugene Tenenbaum	4	4

**The number of meetings held while a director held an office and was eligible to attend as a member of the Board.*

***Mr. Delaunois joined the Board on 18 January 2007.*

COMMITTEES

The Board designated the Audit Committee, the Remuneration Committee and the Strategy Committee which are standing committees. Committees consist of Board members and may also include external experts determined by the Board.

AUDIT COMMITTEE

The core oversight responsibilities of the **Audit Committee** include:

01 internal control and risk management;

02 financial reporting;

03 internal audit;

04 external audit.

More details on the composition of the Audit Committee and its activities during 2006 can be found in the section **Audit Committee report** on page 25.

REMUNERATION COMMITTEE

The Remuneration Committee has the following core responsibilities:

01 to determine and coordinate with the Board the remuneration policy of the Chairman, the executive directors, the CEO and senior managers;

02 to review and make recommendations on long-term incentive plans, including the use of equity-based plans;

03 to review and discuss with the Board development plans and succession planning with respect to the CEO and senior managers.

As of January 19, 2007, the Remuneration Committee consisted of the following individuals: Philippe Delaunois (Chairman), James Campbell, Alexander Frolov, Natalia Ionova, and Eugene Tenenbaum.

In the course of 2006, the Remuneration Committee met twice and, inter alia, defined KPIs for the Chairman of the Board and CEO, discussed changes to management team and the remuneration of senior managers.

STRATEGY COMMITTEE

The Strategy Committee has the following core responsibilities:

01 development of strategy;

02 assessment of existing assets, as well as consideration of future investment in growth assets;

03 technical development of management and training.

As of January 19, 2007, the Strategy Committee consisted of the following individuals: James Campbell (Chairman), Terry Robinson, Pavel Tatyanin, and Timur Yanbukhtin.

The Remuneration Committee reviews the remuneration policy on a regular basis, considering the need both to reflect long-term shareholder interests and retain competitive remuneration levels.

DIRECTORS' REMUNERATION

The Remuneration Committee determines and agrees with the Board a policy on the remuneration of the Chairman and executive directors, as well as a policy on the reimbursement of the Chairman's expenses. The remuneration of non-executive directors is a matter for the Chairman. A director may neither participate in the discussion nor vote on the matter pertaining to the individual's remuneration.

The Remuneration Committee reviews the remuneration policy on a regular basis, considering the need both to reflect long-term shareholder interests and retain competitive remuneration levels.

Directors' remuneration consists of an annual fee of US$150,000 and a fee paid for committee membership or chairmanship (except for Mr. Arshba who is not entitled to any remuneration as a member of the Russian Parliament).

The Chairman of the Board is also entitled to a performance-related bonus which is paid at the sole discretion of the Board and is linked to certain key performance indicators.

In 2005, Evraz Group S.A. introduced a long-term incentive programme for the independent directors. Under the 2006 arrangement the option must be exercised within one year since the 14th day from the announcement date of Evraz Group results for the previous financial year; otherwise it lapses.

The table below provides details regarding the options granted as of January 19, 2007.

	Date of grant	Date from which exercisable	Granted, GDR	Option price, US$ per GDR	Exercised, GDR	Expiry date
James Campbell	June 7, 2005 June 21, 2006	May 25, 2006 May 10, 2007	55,173 36,714	14.5 21.79	– –	June 3, 2008 May 9, 2008
Lord Daresbury	June 7, 2005	May 25, 2006	55,173	14.5	55,173	June 3, 2008
Terry Robinson	June 7, 2005 June 21, 2006	May 25, 2006 May 10, 2007	55,173 36,714	14.5 21.79	– –	June 3, 2008 May 9, 2008

SENIOR MANAGEMENT TEAM

As of April 2, 2007, Evraz Group had the following senior management team:

Giacomo Baizini
Vice-President, Product and Resource Management

37 years

Joined Evraz Group in 2005; previously held various positions with McKinsey's, JMAC. Received a degree in physics from Oxford University.

Vladimir Bruev
Vice-President, Mining

51 years

Joined Evraz Group in 2004; previously held various positions with MGOK and Sokolov-Sarbajsk GOK. Graduated from the Industrial University in Kazakhstan.

Natalia Cheltsova
Vice-President, Legal

32 years

Joined Evraz Group in 2006; previously held various positions with Ilim Pulp Group. Received a Ph.D. in law from St. Petersburg State University.

Alexander Frolov
Chief Executive Officer

42 years

Joined Evraz Group in 1994; previously worked as a research fellow at the Kurchatov Institute of Atomic Energy. Received a Ph.D. in Physics and Mathematics from Moscow Institute of Physics and Technology.

Igor Gaponov
Vice-President, Information Technologies

32 years

Joined Evraz Group in 2002; previously held various positions with UNICON/MS Consulting group and Deltek Systems Inc. Graduated from Moscow State Academy of Management.

Natalia Ionova
Vice-President, Human Resources

41 years

Joined Evraz Group in 2006; previously held various supervising positions in HR with the NDK Merkury and Russian Gold. Received a degree in management from the University of Sports and Tourism. Holds a Ph.D. degree in psychology.

Leonid Kachur
Senior Vice-President, Business Security

46 years
Joined Evraz Group in 1993. Mr. Kachur holds a masters degree in engineering from a technical higher institution in Moscow.

Irina Kibina
Vice-President, Corporate Affairs and Investor Relations

42 years
Joined Evraz Group in 2005; previously was Vice-President Corporate Affairs, SUN Interbrew Ltd., and Vice-Mayor of Veliky Novgorod. Received an EMBA and graduated from the Pew Program at Georgetown University.

Giuseppe Mannina
Vice-President, Sales and Logistics

55 years
Joined Evraz Group in 2002; previously held various positions with East Metals S.A. and Duferco S.A. and Siderius, Inc. Received a degree in Business Administration from the University of Palermo.

Andrey Mokrinsky
Vice-President, Metallurgy

47 years
Joined Evraz Group in 2003; previously held various positions with Zapsib and Chelyabinsk Integrated Iron and Steel Plant. Graduated from Moscow Institute of Steel and Alloys.

Alexander Sorokin
Vice-President, International Operations

41 years
Joined Evraz Group in 2005; previously held various positions with United Iron & Steel in Jordan, the Znamya Truda machine-building plant and Pepsi Bottling Group. Received an MBA in international business from New York Pasi University.
A member of the boards of Vitkovice Steel, Highveld Steel and Vanadium Corporation.

Pavel Tatyanin
Senior Vice-President, Chief Financial Officer

33 years
Joined Evraz Group in 2001; previously held various positions with Adamant Financial Corporation. Received a master's degree in economics from Moscow State University.

Timur Yanbukhtin
Vice-President, Strategy and Corporate Development

42 years
Joined Evraz Group in 2002; previously held various positions with Yandex LLC, Alfa Bank, Salomon Brothers and Pioneer Investments. Received a master's degree in economics from Yale University.

CHANGES TO SENIOR MANAGEMENT

The changes to senior management of Evraz Group in 2006 are presented in the table below.

Departures	Joiners
Leonid Berlin	Natalia Cheltsova
Valery Khoroshkovsky	Natalia Ionova
Sergey Litvin	
Andrey Teterkin	

An internal control system is designed to manage rather than eliminate the risk of failure to meet business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

INTERNAL CONTROL SYSTEM

The Board is responsible for Evraz Group's system of internal control and for reviewing its effectiveness. An internal control system is designed to manage rather than eliminate the risk of failure to meet business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The internal control systems currently effective within Evraz Group are not wholly Turnbull guidance compliant. The principal reason for this is the assimilation of the dynamic growth of Evraz Group prior to its IPO and subsequent to IPO. Action is in hand to bring current and all recently acquired operations onto a common and comprehensive form of Turnbull compliant internal control system.

The Audit Committee monitors and reviews the effectiveness of Evraz Group S.A.'s internal audit function within the context of its overall business risk management systems. This review includes the scope of work, authority and resources of the internal audit function. In 2006, the Audit Committee reviewed on behalf of the Board the effectiveness of the internal control and risk management systems. The review covered material areas of the business, including financial, operating and compliance controls and risk management. When reviewing its effectiveness, the Audit Committee considered the following reports and activities: internal audit reports on reviews of business processes and activities, minutes of management meetings on the discussion and resolution of significant issues and risks, including action plans to address any identified control weaknesses. The status of these action plans was also monitored by the Internal Audit Directorate and overdue actions reported to the Audit Committee. The Audit Committee also took into account management's own assessments of the strengths and weaknesses of the overall control environment in their area with action plans to address these weaknesses, and the independent auditor's reports on material issues identified in the course of their work, including internal control reports on control weaknesses, which were provided to the Audit Committee as well as executive management.

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AUDIT COMMITTEE REPORT

(AS OF APRIL 24, 2007)

Evraz Group established the Audit Committee as a committee of the Board at the Board meeting of April 25, 2005. This report, therefore, is the second report of the Audit Committee to the shareholders.

As referred in the 2005 report and separately in the 2006 Annual Report, the Audit Committee has continued to work with the company and with the company's management to establish internal controls and 'Turnbull' compliant enterprise risk management processes and procedures.

ROLE OF THE COMMITTEE

The Board has delegated to the Committee responsibility for oversight of the Evraz Group financial reporting, overseeing the establishment and conducting the appropriate reviews of the Group's internal control and risk management systems and through the Audit Committee agreed and planned internal audit function activity. The independence, resourcing, responsibilities and accountabilities of the Group's Internal Audit function is detailed in the Group's Internal Audit Charter as posted on the Group's web-site.

In addition, the Committee has the responsibility for managing the company's relationship with the company's external auditor.

Further to the matters above, and specifically with regards to the Company's relationship with its external and internal auditors, the Committee has:

01 reviewed the form and content as well as monitored the integrity of the Company's and Group's financial statements;

02 monitored and reviewed the arrangements for ensuring the objectivity, scope and effectiveness of the External and Internal audit functions, including the proposed respective planned programme of audit work and the costs of such audits;

03 after reviewing the independence of the external auditor and non-audit fees, recommended to the Board the appointment, reappointment of the external auditor.

THE COMPOSITION OF THE COMMITTEE

The Committee's mandate provides for three independent members. During the year, the actual Committee membership has been:

01 Terry Robinson (Chairman), independent financially qualified non-executive director: January 2006 to present.

02 The Lord Peter Daresbury, an ex-independent non-executive director: January 2006 to June 20, 2006.

03 Olga Pokrovskaya, a financially qualified non-executive director: August 2006 to present.

04 John Heywood, an independent financial qualified Board nominee appointment to the Audit Committee: January 2007 to present.

The Board's mandate specifies that the membership of the Committee should consist of the Board's independent directors plus a non-executive director.

The actual Committee's membership composition is an independent non-executive chairman, a major shareholder nominated non-executive director and an independent retired 'big four' professional accounting firm partner.

Such membership composition is not in accordance with the recommendation of the Combined Code. However, the Board is of the view that the independence of the Committee is assured through the majority of independent members and that the Committee deliberations are critically assisted by the contributions from a Russian qualified financial member in the Committee composition.

In respect of the Combined Code, Terry Robinson is considered by the Board to have recent and relevant financial experience.

REPORT ON THE COMMITTEE'S ACTIVITIES IN 2006

Meetings and attendance: the Committee met nine times inclusive of the 2007 meetings to review the 2006 financial statement, internal auditor's interim reports and external auditor's management letter and other matters within the Committee's mandate.

Terry Robinson fully attended all nine meetings. The Lord Peter Daresbury resigned as a director of the Company on June 20, 2006. Olga Pokrovskaya was in attendance for three meetings and for two meetings partially. John Heywood has attended the two meetings since his appointment.

The external auditor, Ernst and Young, was in attendance at all meetings and on three occasions, meetings were held with the external auditor, in the absence of management.

There were ten separate meetings with the Head of the Internal Audit and members of his team. In addition there have been four separate meetings with the Company's Chairman. In these separate meetings no matters of particular significance were raised. Matters considered were the results of the self—assessment process of the Internal Audit function, the role and performance of the External Audit and the performance of the Audit Committee's Chairman. Additionally matters discussed were the Group's progress in its plans and projects to bring about a Group wide internal control and enterprise risk management.

The actual Committee membership composition is an independent non-executive chairman, a major shareholder nominated non-executive director and an independent retired 'big four' professional accounting firm partner.

To assist the Committee to fulfil its role, senior executives and members of the finance team have been present at all or certain of the Committee's meetings. These include the Chief Executive, Chief Financial Officer, the Head of the Internal Audit and members of his team; the Head of IFRS accounting function and other members of the head office accounts team, the IT Vice-President, the Corporate Affairs and Investor Relations Vice-President and the Head of the Corporate Finance.

The Committee has a formal timetable for the review of its financial oversight duties and a timetable for review and implementation of internal control rationalisation.

Principal issues considered during the 2006 financial review period from June 2006 to April 2007 were:

01 June 1, 2006: Review of the external auditors' management letter and the company's response and proposed action.

02 August 18, 2006: Review and discussion in respect of the Review (Audit) fee for the interim results to June 30, 2006.

03 October 5, 2006:

a. Review and discussion in respect of the proposed accounting judgements and accounting treatments for the interim results to June 30, 2006.
b. Consideration of the Company's Fast Close project initiative designed to advance the date of publication of the Company's interim and final results.
c. Review of the Internal Audit report concerning the Company's sales/inventory 'cut-off' procedures, and slow-moving/defective stock management and instigating improved control procedures.
d. Review of the Internal Audit report on a payments procedure systems review at Vitkovice.
e. Review of the Committee's Terms of Reference for recommendation to the Company's Board.
f. Follow-up review of the Company's IT disaster recovery plans and regularising the Company's software licences position.
g. Consideration and adoption of the approval process for non-audit fees for such engagements of the external auditor.
h. Review and discussion of internal/self assessments of the internal audit function, external audit function and the chairmanship of the Audit Committee.

04 October 10, 2006:

a. Review of the 6 months interim Financial Statements and Stock Exchange announcement and resolving to recommend such to the Company's Board of Directors.
b. Discussion and instigating a project to define the Company's Codes of Corporate Governance, Conduct and Ethics, including the initialisation of a company 'whistleblowing' facility for the Company's Board adoption.
c. Review and discussion of the Internal Audit's proposed forward 6 months workplan, allocated resources and priorities.

05 November 1, 2006: Approval of non-audit fees.

06 November 10, 2006:
- a. Consideration and discussion of the proposals of the External Audit fees for the year end audit, December 2006.
- b. Discussion and instigation of a working party to develop proposals for a Turnbull compliant Enterprise Risk Management process.
- c. Consideration of interim progress reports in respect of the 'Fast Close' and Codes initiation projects.

06 December 8, 2006: Consideration of the risks identified and recommended action contained in a series of the Internal Audit reports. Principally these reports concerned Repair and Maintenance authorisations and management; HR and Payroll systems; Management and controls in respect of scrap metal, Vanadium Slag and Ferroalloys and procedures for tendering of Capital projects.

06 April 19, 2007:
- a. Review and discussion of key judgements, accounting policies in respect of the year end December 2006. Including acquisitions and investments, impairment tests, site restoration provisions and actuarial post-employment benefit costs and subsequent events
- b. Reviewed progress on the Enterprise Risk Management process project.
- c. Reviewed Oregon Steel Mills Repair and Maintenance procedures.

07 April 24, 2007:
- a. Reviewed and discussed the Financial Statement for the year to December 2006 together with the Stock Exchange Preliminary announcement for recommendation to the Board of Directors.
- b. Enquired as to Tax risk issues and to outstanding litigation.
- c. Reviewed the final statements constituting the Company's Codes of Corporate compliance, Conduct and Ethics, including the Company's 'whistleblowing' facility and social investment policy for recommendation to the Board.

NON-AUDIT SERVICES

It is the Group policy to engage accountancy firms for due diligence work and general accountancy. As described above, the Committee has reviewed all non-audit engagements conducted by the external auditor.

In 2006, the audit fees amounted to US$4.3 million and non-audit service fees were US$2.6 million.

COMMITTEE AND EXTERNAL AUDITOR'S PERFORMANCE EVALUATION

As described above, assessments have been made as to the Committee's, Internal Audit and External Audit performance.

INTERNAL AUDIT

The Internal Audit Directorate is established with a clear mandate enshrining its independence from executive management and its separate objectivity, and is responsible for reviewing key business processes with a focus on the effectiveness of the system of internal control, including a follow-up of the implementation of management actions. The Internal Audit function operates a risk-based audit approach and provides a concise report on internal controls and business risk management systems to support the Board's annual statements.

RISK MANAGEMENT

Risk management is an integral part of all decisions and business processes in Evraz Group. The Board in Evraz Group's public documents have scheduled and described key areas of business and financial risk. These particular risks continue to be under consideration throughout all the Board's business and strategy considerations. Further, in combination with the finalisation of a comprehensive Turnbull compliant internal control system, Evraz Group has commenced action in defining its risk management philosophy, policies and processes through a business driven risk management matrix.

The management structure, planning system, detailed reporting and information systems form in particular the basis for the organisational integration of risk management in the business processes.

Evraz Group has determined a seven-step risk management process:

01 Define risk in terms of the Group's business goals and objectives.

02 Identify material risks.

03 Assess and quantify the risks identified.

04 Develop action plans to manage risks.

05 Reassess risks after mitigating actions have been taken.

06 Monitor the status of the mitigating actions.

07 Report to the Board on risks, the extent of mitigation and status of action plans.

As an international company, Evraz Group is exposed to a wide variety of risks in the course of its worldwide activities.

Management Information Outlook is a process/tool, that uses forecast operational and financial data to assess performance and facilitate management intervention.

The goal is to identify the potential risks associated with our activities as early as possible by recording them in an internal database, evaluate them according to set criteria, assess the possible quantitative and qualitative consequences of their occurrence, and take suitable measures to mitigate them. The various processes and instruments used, depending on respective risks, are constantly improved, supplemented and optimised in accordance with statutory requirements.

The Internal Audit Directorate examines on a regular basis Evraz Group's management of risk efficiency and functionality. The Audit Committee consults regularly on risk management issues.

MANAGEMENT INFORMATION OUTLOOK

Management Information Outlook (MIFO) is a process/tool, that uses forecast operational and financial data to assess performance and facilitate management intervention.

Reporting plays a key role in monitoring the economic risks of our everyday business. It ensures that the business performance of subsidiaries is fully alerted to possible risks in a reliable and timely fashion. Evraz Group's accounting and controlling functions support these activities and work to help increase the responsiveness and efficiency of the reporting system.

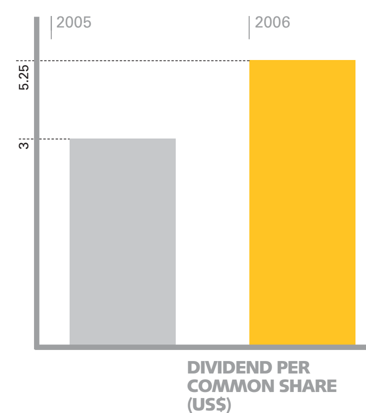
The objective of the MIFO project that was carried out in May—October 2006 and included Evraz's Russian and international metals, mining and services companies was to develop and implement a system for consolidated management reporting and automate the marginal profitability model, as well as the planning and budgeting systems. The project harmonised actual, planning and budgeting data at the group level, as well as reporting data, improving data reliability, implementation and verification within Evraz's various businesses in order to allow for effective management decisions.

As a result of the MIFO successful implementation, Evraz has improved its readiness for accounting reporting consolidation and fast-close projects.

ANNUAL GENERAL MEETING

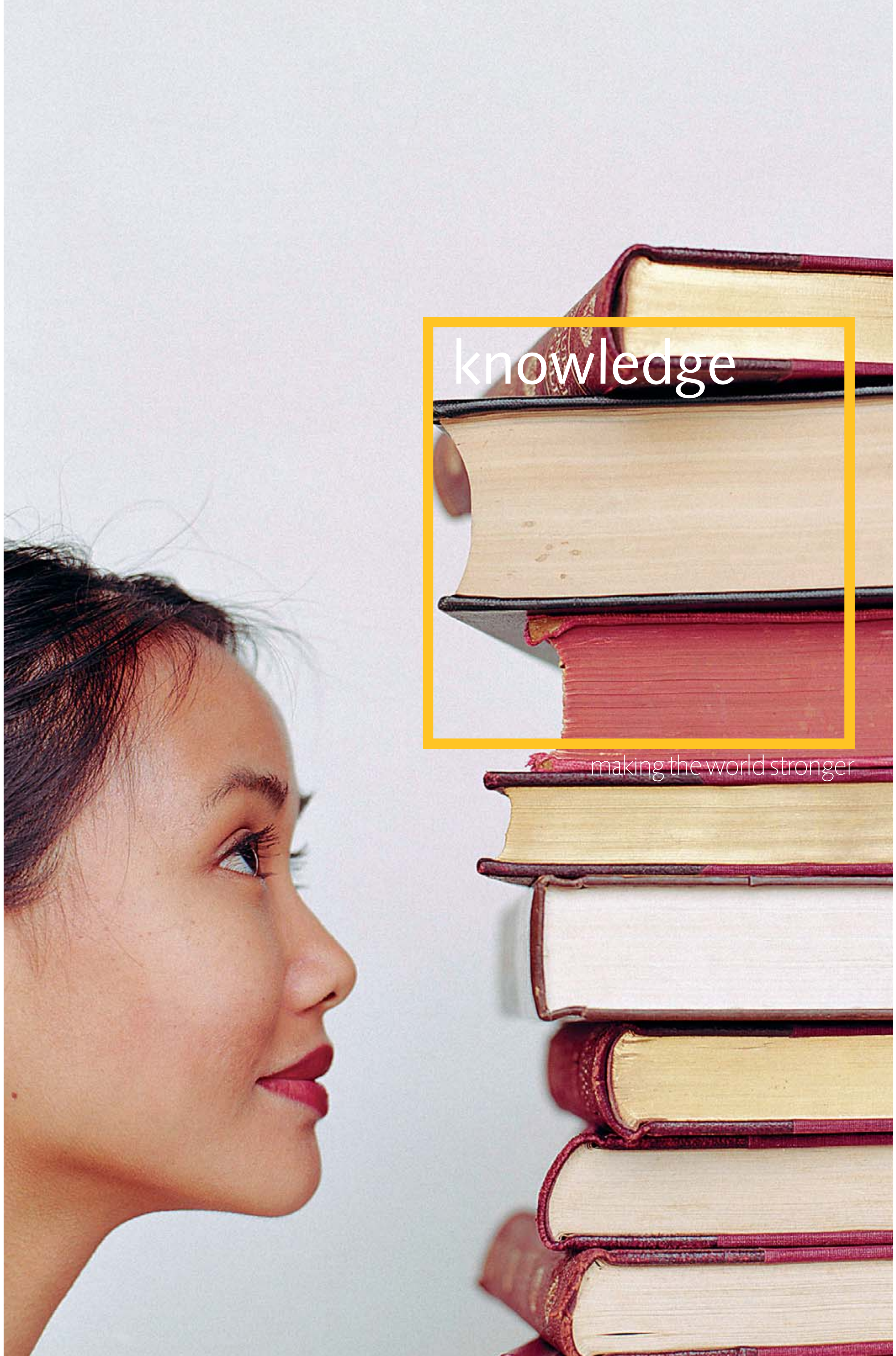
The 2007 Annual General Meeting—June 20, 2007, 12:00 Luxembourg.

Dividends



Shareholders are entitled to receive dividends on their shares paid by Evraz Group S.A. The annual general meeting shall approve the decision to pay year-end dividends. The Board may also authorise interim dividend payments.

The Board has recommended that the annual general meeting approve a year-end dividend of US$3.3 per common share or of US$1.1 per GDR for the year ended December 31, 2006. In 2006, Evraz Group S.A. paid an interim dividend for the first six months of 2006 of US$1.95 per common share or US$0.65 per GDR. This will make a total dividend for the year of US$5.25 per common share or of US$1.75 per GDR.

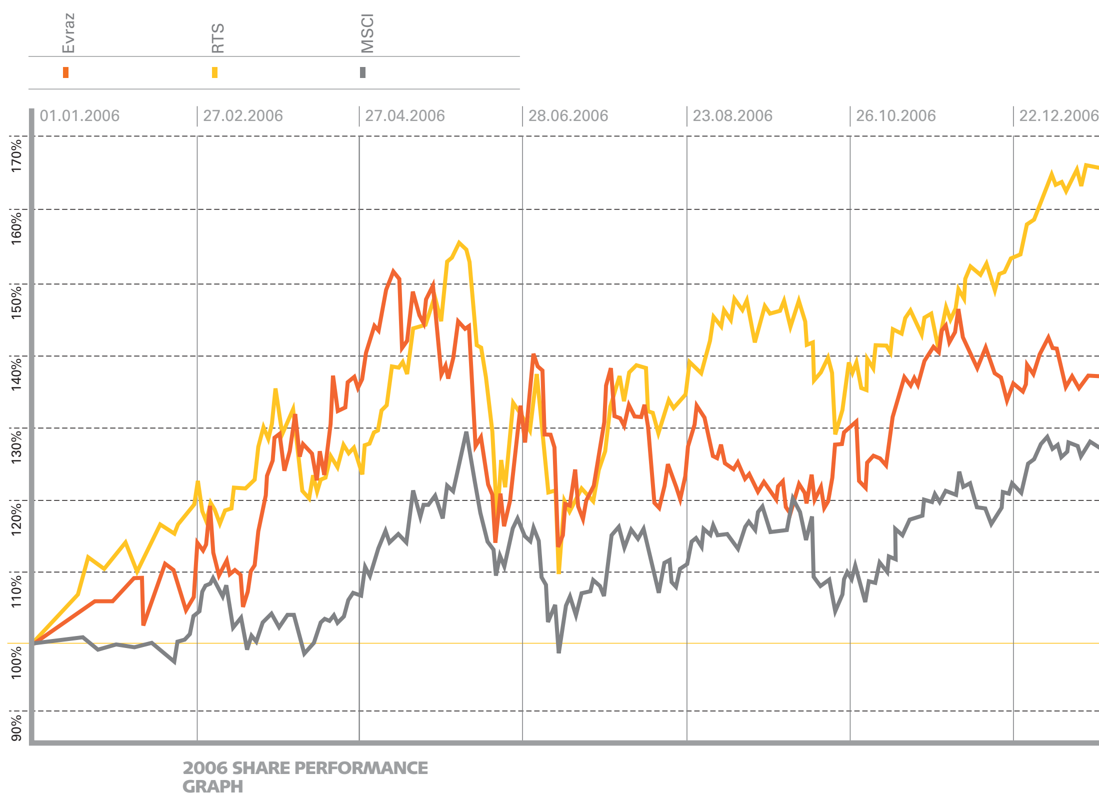

knowledge
making the world stronger

Share Capital

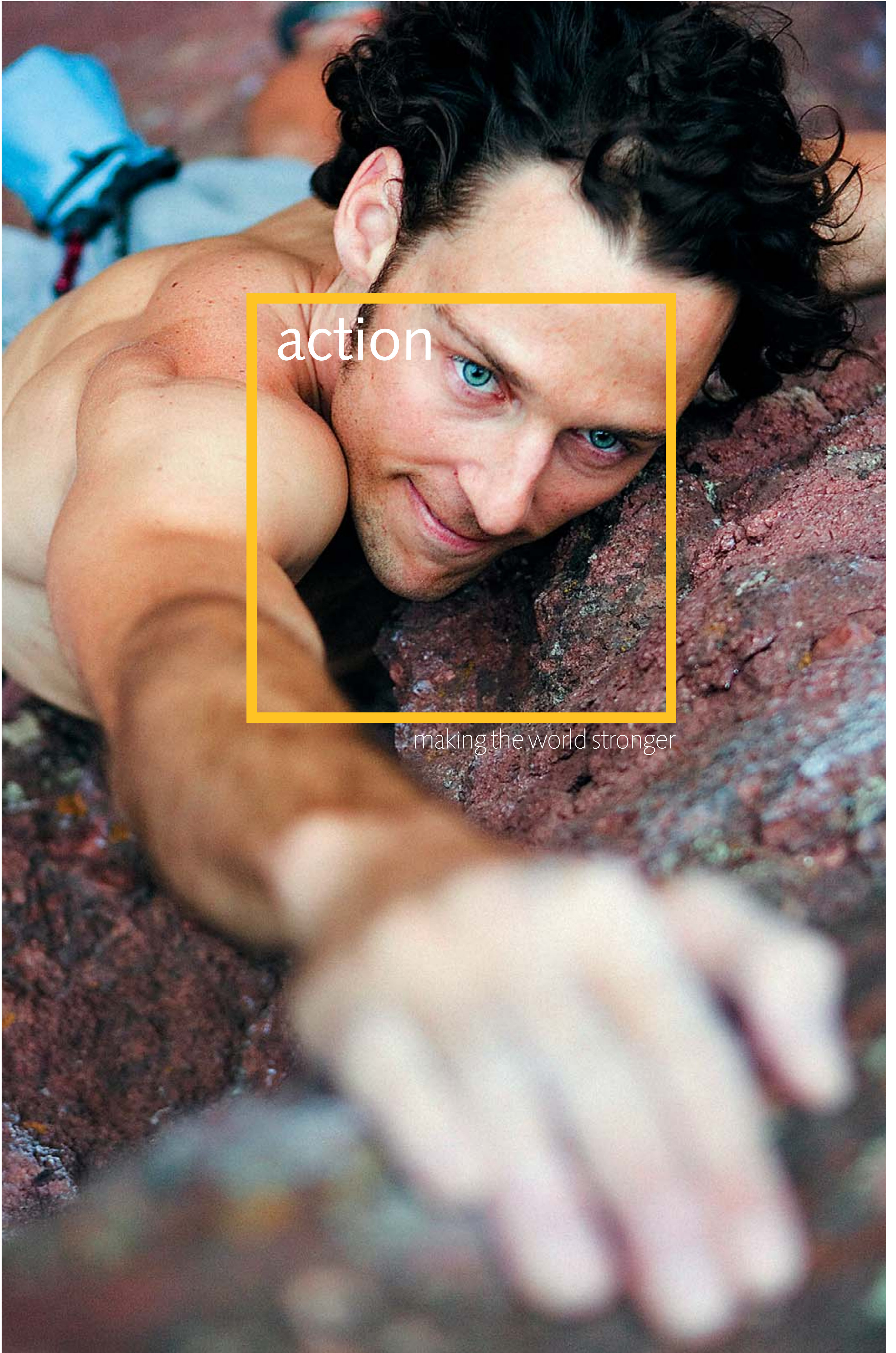
As of December 31, 2006, the total number of shares issued by Evraz Group S.A. amounted to 117,499,606 shares at two euros each.

Representing 15.33% of the issued share capital, 18,015,745 global depositary receipts (GDRs) are listed and traded on the London Stock Exchange under the symbol EVR. Three GDRs represent one share.

Shareholder	% of shares as of December 31, 2006
Lanebrook Limited	83.19
General Refractories Ltd	1.18
Other	0.3
BNY (Nominees) Limited (free float)	15.33
Total	**100**



2006 SHARE PERFORMANCE GRAPH


action
making the world stronger

Our Business

We make the world stronger...
...by delivering value

CORPORATE STRUCTURE

EVRAZ GROUP S.A.
(AS OF DECEMBER 31, 2006)

STEEL		IRON ORE		COAL		VANADIUM		DISTRIBUTION	
NTMK	95.00%	KGOK	97.72%	Raspadskaya	40%**	Stratcor	72.84%	Nakhodka Sea Port	94.20%
Zapsib	96.68%	Evrazruda	100%	Yuzhkuzbassugol	50%**	Highveld	24.90%	Ferrotrade	100%
NKMK	100%	VGOK	93.13%	Mine 12	100%			Trade House EvrazHolding	100%
Palini e Bertoli	75%+1			Neryungriugol	100%***			Evraztrans	100%
Vitkovice Steel	100%								
Oregon Steel*	100%								

** Acquired on 12 January 2007.*
***Accounted for on an equity basis.*
****Disposed in April 2007.*

OUR STRATEGY

OUR VISION IS TO BE:

01 World-class steel and mining company.

02 One of the top five most profitable steelmakers globally by ROCE and EBITDA margins.

03 Leader in the construction and railway steel product markets in Russia and other CIS countries.

04 Global player with a strong position in the flat product markets of Europe and the USA, complementing a world-class semis export business.

05 Lowest cost producer of crude steel in Russia and other CIS countries through superior efficiency and a vertically integrated mining platform.

06 Important slag and product supplier in the world vanadium market.

OUR STRATEGY IS:

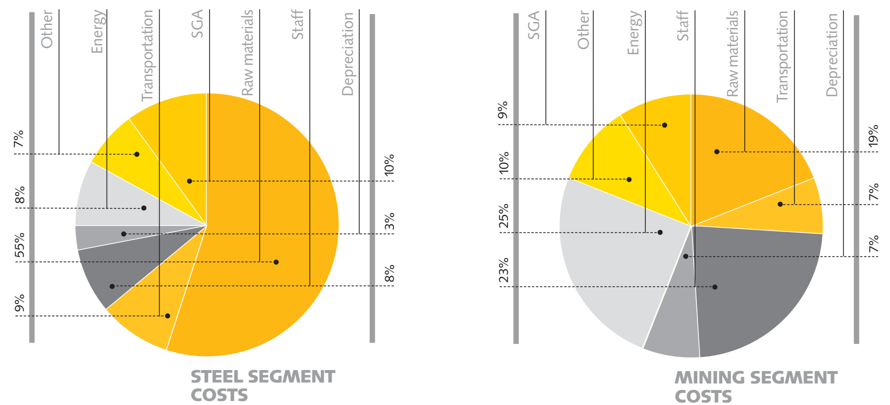
01 To advance our long product leadership position in Russia and other CIS countries.
- a. Leverage the breadth of the construction product range, effective distribution and customer service to grow the construction steel business segment in Russia and secure a leadership position in other CIS countries.
- b. Develop our railroad product portfolio to strengthen our dominant position in the railway segment in Russia and other CIS countries.

02 To build a global steel business expanding Evraz Group's presence in attractive flat product markets.
- a. Expand our presence in the attractive flat product markets through selective M&A and greenfield projects in plate and other flat segments.
- b. Build an important world-class semis export business by achieving best-in-class position in product range, quality and customer service benchmarks.

03 To enhance the cost leadership position of Evraz Group.
- a. Cut production costs through operating improvements, increase efficiency investments, ongoing asset synergy and energy savings programmes.
- b. Achieve best-in-class performance in workplace safety and ecological compliance indicators.

04 To complete vertical integration and to grow a competitive mining platform.
- a. Increase iron ore production to meet 100% of Evraz Group's requirements through brownfield expansion at KGOK and pursue selective opportunities globally.
- b. Develop and increase value of the coal business.

05 To achieve world leadership in the vanadium business.
- a. Diversify the processing base and increase the quality of vanadium slag.



OPERATIONAL REVIEW

Evraz's consolidated revenues in 2006 amounted to US$8,292 million, a 27.4% increase compared to revenues of US$6,508 million in 2005.

Consolidated adjusted EBITDA increased by 42.7% to US$2,652 million in 2006 compared with US$1,859 million in 2005. The adjusted EBITDA margin advanced to 32% in 2006 from 28.6% in 2005. The steel segment sales accounted for the majority of this increase in revenues following on the growth in sales volumes combined with the upward price trends in world markets. Total volumes of steel products sold in 2006 were 16.0 million tonnes, up 24.5% from 12.9 million tonnes in 2005.

CAPITAL EXPENDITURE PROGRAMME

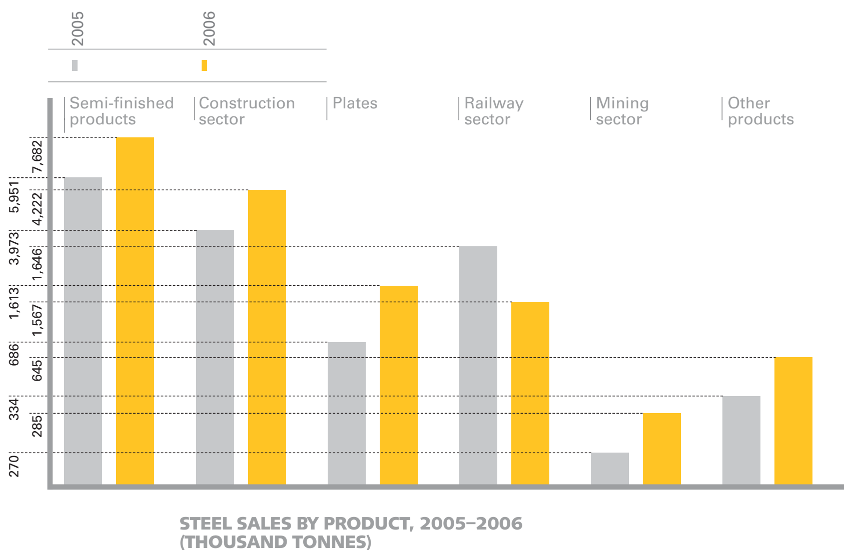
The focus of Evraz Group's capital expenditure in 2006 continued to be on achieving efficiency improvements at the front end of steel production. Total capital expenditures in 2006 were US$660 million (including US$207 million maintenance), down from US$695 million in 2005.

A number of major projects at subsidiaries level were completed in the course of 2006. Some of the projects scheduled for completion in 2007 commenced in 2006.

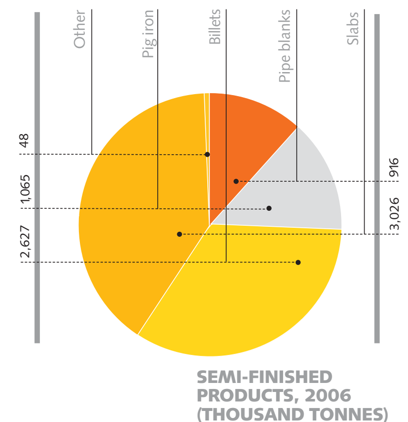
COSTS

Evraz Group's costs in the steel segment rose by 26% to US$6,088 million from US$4,837 million in the previous year mainly as a result of higher steel sales volumes, increased transportation costs, as well as the impact of our European acquisitions that have a higher cost structure, particularly in labour, electricity and gas input costs. Raw materials costs increased by 28.5% year-on-year primarily due to a significant growth in total steel sales and due to higher prices of iron ore and scrap purchased by the Russian plants. Transportation costs increased by 25%. As a large part of the costs relates to railway tariffs in respect of the transportation of Evraz's steel products from the Russian plants to the relevant ports, the growth in export sales volumes contributed to the increase in transportation costs. Our SGA expenses in the steel segment stood at US$600 million, an increase of 15% over 2005.

Evraz Group's costs in the mining segment rose by 9% to US$781 million from US$717 million in the previous year. Staff costs increased by 21% and energy costs were also up 21% due to the growth in electricity, gas and heat tariffs.



STEEL SALES BY PRODUCT, 2005–2006 (THOUSAND TONNES)



SEMI-FINISHED PRODUCTS, 2006 (THOUSAND TONNES)

STEEL DIVISION

Summary Description of Evraz Group's Steel Assets

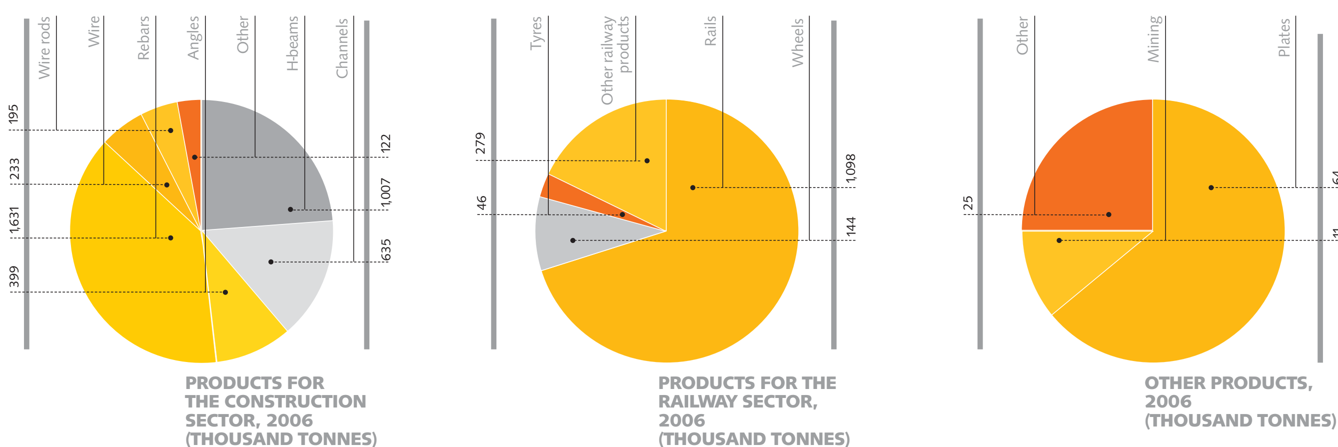
Asset	Location	Type of production	Crude Steel production in 2006, million tonnes	Rolled products in 2006, million tonnes	Market position
West Siberian (Zapsib)	Russia	Crude and rolling	7.32	6.62	Largest steel mill in Siberia
Nizhny Tagil (NTMK)	Russia	Crude and rolling	5.6	5.07	Leading producer of rail and construction products in Russia
Novokuznetsk (NKMK)	Russia	Crude and rolling	1.44	1.76	Largest rail producer in Russia and one of top five globally
Vitkovice Steel	Czech Republic	Crude and rolling	0.8	0.85	Largest rolled product producer in the Czech Republic
Palini e Bertoli	Italy	Rolling	—	0.44	One of the largest rolled product producer in Central and Northern Italy
Evraz Oregon Steel Mills*	USA	Crude and rolling	n/a	n/a	Leading producer of rails, plate and pipes in the USA

In 2006, Evraz Group's steel division posted outstanding financial and operating results: revenues of US$8,161 million, an increase of 31% from US$6,221 million in 2005; consolidated production of 16.1 million tonnes, an increase of 16.3%, compared to 2005.

Steel sales volumes climbed significantly in 2006 amounting to 16.0 million tonnes, up 25% from the approximately 12.9 million tonnes for 2005. This was driven by organic growth and acquisitions in Europe. Organic growth was also the main driver for the 29% growth of semi-finished product sales volumes. The significant increase in plate steel sales was attributable to the acquisitions of the Vitkovice Steel and Palini e Bertoli mills.

We continue our efforts to diversify our sales base by adding more mature USA and European markets where our value-added products can command a higher price.

**The acquisition of Evraz Oregon Steel Mills was completed in January 2007.*



PRODUCTS FOR THE CONSTRUCTION SECTOR, 2006 (THOUSAND TONNES)

PRODUCTS FOR THE RAILWAY SECTOR, 2006 (THOUSAND TONNES)

OTHER PRODUCTS, 2006 (THOUSAND TONNES)

Evraz Group is pleased with the strong rate of growth in our non-Russian steel sales, which were up 57% to US$4,075 million when adding in revenues from our successfully integrated European assets Palini e Bertoli and Vitkovice Steel.

Total volume of overseas steel sales increased at a healthy rate of 35% year-on-year to 8.9 million tonnes. Revenues from CIS sales increased by 148% to US$321 million with total sales volumes up 36% to 0.7 million tonnes.

Russia remained the key market for Evraz Group's steel division in 2006, contributing about 50% of total steel segment revenues. This was attributable to the favourable market environment in the Russian steel sector in 2006, which is expected to continue in 2007. Evraz Group's steel sales in Russia increased in volume by 13% in 2006 to approximately 7.1 million tonnes. Non-Russian steel sales volumes increased by 31.8%, compared to 2005, to approximately 8.9 million tonnes. Export sales were characterised by continued diversification to European and US markets.

In 2006, Evraz Group's performance has been underpinned by the strength of construction sector in Russia, upon where we maintain an important position. Overall, compared to 2005, total steel consumption in Russia increased by 16%, compared to 2005, to 36 million tonnes, maintaining strong growth.

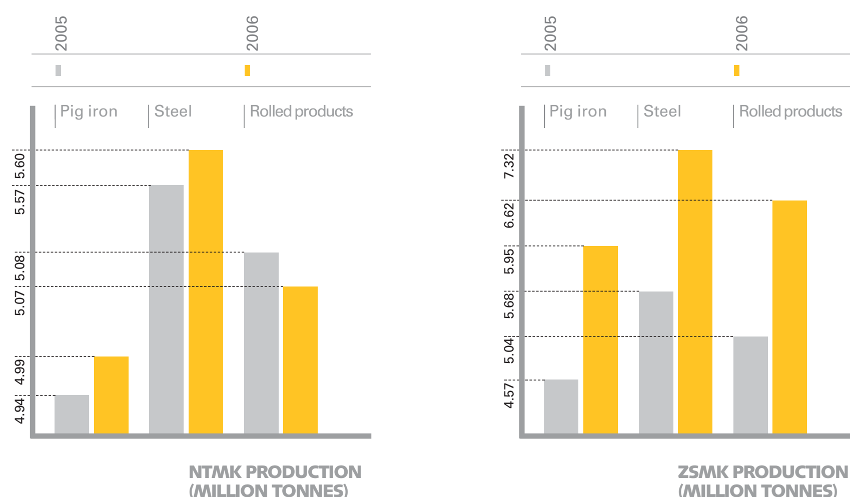
To generate future business growth and development opportunities, Evraz Group has made significant investments in innovation and modernisation of production capacities: in 2006 steel segment capital expenditures amounted to US$533 million.

Description of Subsidiaries

Nizhny Tagil Iron and Steel Plant (NTMK). NTMK is one of the largest metallurgical plants in Russia. Full-cycle steel production of NTMK consists of the following: an ore-mining and beneficiating group, coke-chemical production, blast-furnace production, steel-making facilities and rolling mills. NTMK has annual production capacities of 5.4 million tonnes of pig iron, 5.5 million tonnes of steel, and 4.9 million tonnes of rolled products.

Furthermore, NTMK is the world's biggest processor of vanadium-enriched titaniferrous ores, recovering vanadium in blast oxygen furnaces and in oxygen converters using special technologies. NTMK is one of Russia's largest producers for the railway, construction and tubular sectors.

Most sales of NTMK's steel products in Russia are attributable to the rail, construction and pipe-making sectors. The product mix was upgraded to higher value-added products in 2006 compared to 2005.



In 2006, NTMK completed a number of modernisation and development projects, including the construction of a blast furnace and new coking plant, the introduction of a new electrical substation and a new turbocharger. Despite production growth, total emissions decreased following the commissioning of environmental efficient facilities.

West Siberian Iron and Steel Plant (ZSMK or Zapsib). Zapsib is the largest steel mill in Siberia. Its operations include coke-chemical production, sinter production, three blast furnaces, steel-making facilities, a blooming plant, a continuous casting machine and four rolling mills. Technological advancements guarantee high-quality billets and rolled steel.

Zapsib concentrates on long products for the construction and engineering sectors, iron and steel casting, coke by-products, low hardenability steel wire cord, cold-resistant rebar, and welding wire. Zabsib's production is certified under ISO 9001:2000. Zapsib also has an ISO 14001:2004 environmental management standard certificate. In 2006, Zapsib received the Russian Government award for the quality of its production.

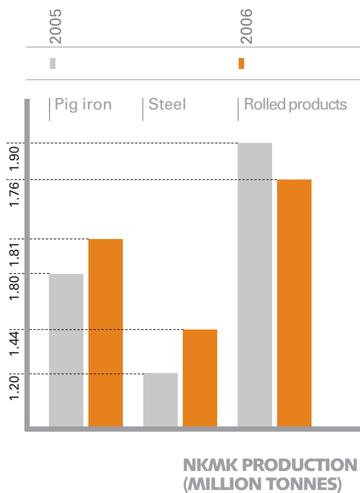
In 2006, Zapsib produced 6.6 million tonnes of metal products matching the performance in 1989 – the Company's previous record year in output terms.

During 2006 Zapsib undertook various modernisations to its production facilities, including the introduction of a new electrical substation with 13.5 MWt capacity and a new packaging line, the attainment of full production at a coking plant and an improvement in the product mix for the construction sector.

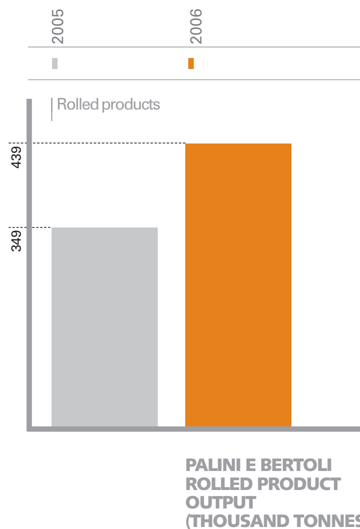
Novokuznetsk Iron and Steel Plant (NKMK). NKMK is the leading rail producer in Russia, producing a full range of rail products. NKMK's rail output accounts for approximately two-thirds of the Russian rail production. NKMK is an integrated steel plant-production facilities include a chemical coke production plant, two blast furnaces, steel-making facilities, a blooming plant, two continuous casting machines, rail production facilities and rolling mills.

NKMK makes high-quality, extra-straight rails, which are particularly valued by the market. The plant uses a unique flaw detection facility, including three stages of non-destructive testing, to ensure maximum compliance of its rail products with international quality standards.

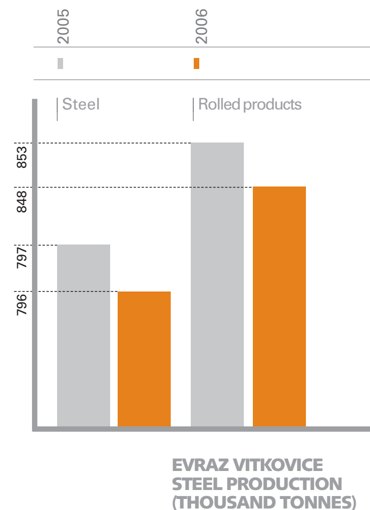
In 2006, NKMK modernised an EA furnace plant and a blast furnace, increased the product mix and quality of railway products and introduced an air-separation workshop and a continuous furnace with a production capacity of 250 tonnes per hour.



NKMK PRODUCTION (MILLION TONNES)



PALINI E BERTOLI ROLLED PRODUCT OUTPUT (THOUSAND TONNES)



EVRAZ VITKOVICE STEEL PRODUCTION (THOUSAND TONNES)

Palini e Bertoli. Palini e Bertoli is a rolling mill plant, which sells its products to a wide range of customers in Europe and North America. It produces customised, high-quality plate products for the construction, ship-building and automotive industries. Annual production capacity was increased and it produced 440,000 tonnes of plates of various sizes and quality in 2006. Palini operates a quality assurance system certified under ISO 9001:2000.

Evraz Vitkovice Steel. Evraz Vitkovice Steel is a leading European manufacturer of rolled steel products. The main product mix consists of plates, sections, sheet piles and flame-cut shapes. Vitkovice has an annual production capacity of 950,000 tonnes of steel, of which 755,000 tonnes is of plate, 140,000 tonnes is of sections and 30,000 tonnes is of flame-cut shapes.

Key customers of Vitkovice products are from the following industrial sectors – construction, machine-building, ship-building, vehicle production, pressure vessels, and machinery for the construction and pipeline production sectors. Moreover, Vitkovice Steel is the sole producer of sheet pile sections for the European domestic market and holds a 90% market share.

Evraz Oregon Steel Mills. Evraz Oregon Steel Mills is one of the most diversified steel manufacturers in North America and a leading West Coast steel producer, as well as a leading rail and large diameter line pipe producer in North America. It is organised into two business units: the Oregon Steel Division and Rocky Mountain Steel Mill Division.

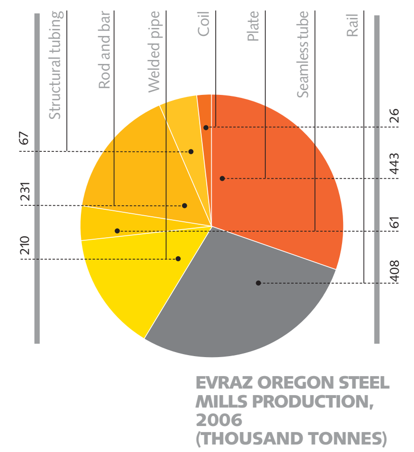
The diverse range of manufacturing capabilities provide for a wide product mix of steel products: plate, coiled plate, welded and seamless pipe for oil and gas applications, structural tubing, rail and wire rod/bar. Evraz Oregon Steel Mills can produce annually over 2 million tonnes of higher margin steel products.

Strategic Minerals Corporation (Stratcor). Stratcor is one of the world's leading producers of vanadium and a major supplier of vanadium and tungsten products, used by the steel, chemical, titanium, superalloy, turbine coating and wear-resistant industries.

All Stratcor alloys and chemicals consistently meet purity and consistency standards that are unmatched in the vanadium industry.

in 2006, Stratcor produced 1,506 tonnes of various alloy products in vanadium equivalent.

Highveld Steel and Vanadium (Highveld). Highveld Steel and Vanadium is the world's largest vanadium and South Africa's second largest steel producer, with integrated mining, steel and vanadium production resources and facilities. The company also produces steel products, manganese alloys, ferrosilicon and carbonaceous products.

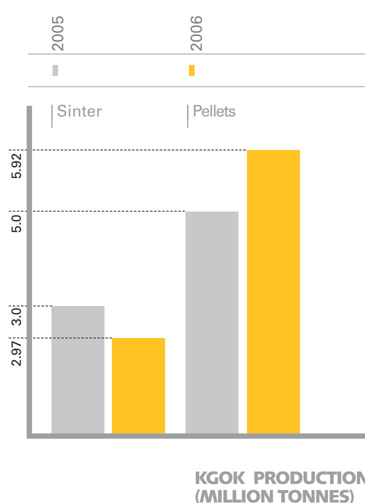


EVRAZ OREGON STEEL MILLS PRODUCTION, 2006 (THOUSAND TONNES)

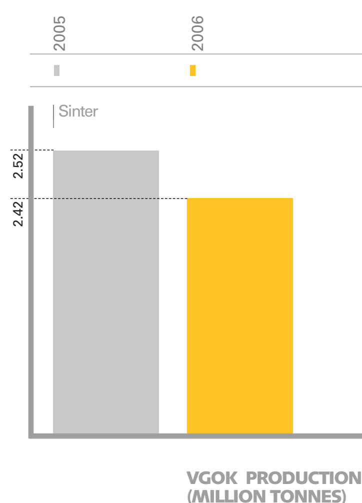
In 2006, Highveld produced 8,700 tonnes of vanadium oxide, 7,600 tonnes of ferrovanadium (incl. ferrovanadium nitride) and 64,000 tonnes of vanadium bearing slag. Moreover, it produced 185,000 tonnes of plate, 243,000 tonnes of coils and 339,000 tonnes of sections in 2006. Steel products were predominantly sold in the domestic market, with the remainder sold in niche markets globally. The company is the primary producer of medium and heavy structural sections and thick plate in South Africa.

Highveld also produced 136,000 tonnes of manganese alloys, 51,000 tonnes of ferrosilicon and 89,000 tonnes of carbonaceous products.

In 2006, Highveld completed the conversion of a second furnace at the iron-making division to the open slag bath configuration and implemented various other projects and initiatives aimed at improving efficiencies and yields, reducing costs and increasing output.



KGOK PRODUCTION (MILLION TONNES)



VGOK PRODUCTION (MILLION TONNES)

MINING DIVISION

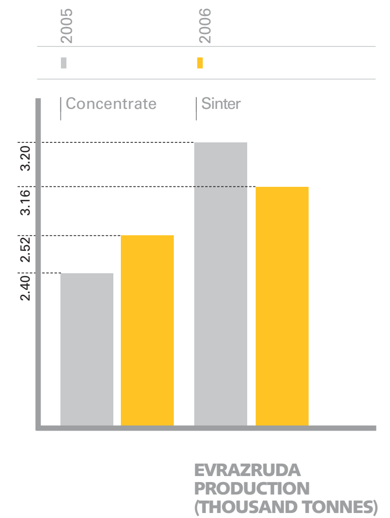
Summary Description of Evraz Group's Mining Assets

Asset	Type of production	Production in 2006, million tonnes	Market position
Kachkanarsky GOK (KGOK)	Iron ore	8.9, incl. 5.9 of pellets	One of the top five- ore mining enterprises in Russia
Vysokogorsky GOK (VGOK)	Sinter ore	2.4 of sinter ore	One of the largest mining enterprises in the Urals
Evrazruda	Iron ore	5.7, incl. 3.16 of sinter ore	
Yuzhkuzbassugol*	Coking and steam coal	16.1, incl. 10,8 of coking coal	Largest coking coal producer in Russia
Raspadskaya*	Coking coal	9.2 of coking coal	Second largest coking coal producer in Russia
Mine 12	Coking and steam coal	0.8, incl. 0.7 of coking coal	

Mining segment revenues grew by 16% to US$1,147 million in 2006 compared with the same period last year largely as a result of the increase in the average price of iron ore. Iron ore and coke sales volumes increased marginally by 2%. Evraz Group achieved 80% self-sufficiency in iron ore and 84% in coking coal. During 2006, Evraz Group also disposed the Neryungriugol project in Yakutia, resulting in an impairment loss of US$66 million. Operational highlights in mining include the commencement of iron ore production at Izykhgol and Burluk mines in Siberia.

In 2006, the mining sector of Evraz Group finalised development strategies, that will make it possible to increase production volumes and improve production quality with relatively modest investments. The coal segment also implemented the complex modernisation of mineral processing equipment and restructured the technology process to expand the range of its products.

**Evraz Group holds an equity interest in Raspadskaya and Yuzhkuzbassugol.*



Iron Ore Assets

Kachkanarsky Ore Mining and Processing Enterprise Vanady (KGOK). KGOK is one of the five largest ore mining enterprises in Russia. The Company is developing the Gusevogorskoye ore deposit, which contains a vanadium rich component. Vanadium alloy is suitable for high-tensile steel products, such as those used in construction and the production of stainless steel.

KGOK currently mines iron ore from three open pit mines, where ore is processed at its on-site crushing, enrichment, sintering and pelletising facilities. In 2006, KGOK achieved record results in ore mining and production. The Company mined more than 51 million tonnes of ore and produced approximately 8.89 million tonnes of saleable iron ore.

In 2006, the company successfully commissioned environmental improvement projects to modernise the electrostatic cleaner and baking furnaces in the pellet plant. KGOK also obtained a licence for the Sobstvenno-Kachkanarskoye ore deposit in 2006.

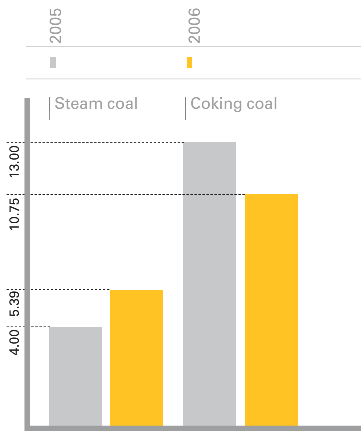
Vysokogorsky Mining and Processing Integrated Works (VGOK). As one of the oldest mining enterprises in the Urals region, VGOK operates underground ore mines as well as processing facilities. VGOK exploits the Vysokogorskoye, Lebyazhinskoye, Estuninskoye and Mednorudyanskoye iron ore deposits, where it mines iron ore and produces iron ore concentrate, sinter, limestone, natural stone and other products.

In 2006, VGOK started developing the Goroblagodatskoye deposit, defined a project to develop the Yuzhnaya mine and started implementing an expansion programme which will be fully commissioned by 2015. Importantly, VGOK also increased production efficiencies by improving ore output, ragging and enrichment, as well as contributing to the energy-saving initiative.

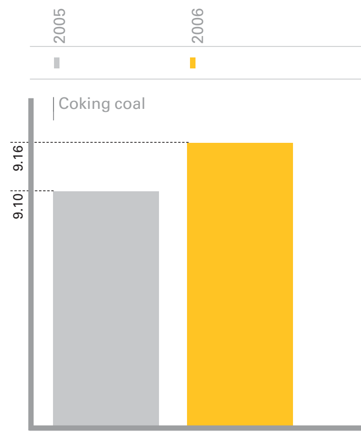
Evrazruda. Evrazruda includes a number of ore mining and ore enrichment enterprises. Evrazruda coordinates the budgeting, industrial and economic development programmes of these enterprises. Centralised management facilitates implementation of a unified technical and economic approach as well as the optimal allocation of ore resources between Evraz's steel plants.

In 2006, Evrazruda commenced operating the Izykhgol deposit with ore reserves of 12 million tonnes and developing of the Burluk mine with Fe content of 31%.

In 2006, Evrazruda started implementing a new enterprise development programme aimed at expanding product volume and improving product quality, including a reduction in product moisture. In addition, the Company took steps to modernise the enrichment plant and several of its production facilities.



YUZHKUZBASSUGOL PRODUCTION (MILLION TONNES)



RASPADSKAYA PRODUCTION (MILLION TONNES)

Coal Assets

Yuzhkuzbassugol. Yuzhkuzbassugol is Russia's leading producer of coking coal. As of January 1, 2007, total proved and probable coal reserves were estimated by IMC Consulting at 888 million tonnes. The Company includes 27 enterprises, including 12 coal mines, 2 enrichment plants and several servicing entities. In 2006, Yuzhkuzbassugol generated revenues of US$595 million.

Raspadskaya. A compact integrated coal mining and enrichment complex, Raspadskaya is the second largest coking coal producer in Russia.

Raspadskaya's licence area covers part of a very extensive coal field south-west of the Tom-Usinsk area of the Kuznetsk coal basin, which accounts for about 75 percent of coking coal production in Russia. Raspadskaya has the largest coking coal reserves in Russia. As of June 2006, total coal reserves were estimated by IMC Consulting at 782 million tonnes, while total resources amounted to 1,461 million tonnes under JORC standards.

In 2006, Raspadskaya's revenues reached US$472 million and net profit US$85 million, contributing US$39 million to Evraz's bottom line.

challenge

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Outlook for 2007

In 2007, Evraz Group expects to produce 15.5–16.0 million tonnes of crude steel and 14.2–14.8 million tonnes of steel products including 1.6–1.7 million tonnes in the USA.
Evraz Group's capital expenditure programme of approximately US$575 million will mainly target on-going projects to increase operational efficiency. Included in these projects is the relining of the Zapsib blast furnace. This investment will decrease crude steel output for 2007 by approximately one million tonnes. Additionally there will be the closure of all open hearth furnaces located in the centre of Novokuznetsk, a city with population of over 550,000 people. Such action will eventually result in the improvement of the environment as well as increasing the operational efficiency of the plant.

The anticipated continual expansion of the Russian construction sector will further underpin domestic demand for steel products. A strong pricing environment in 2007 and solid growth in sales volumes are expected to increase Evraz Group's consolidated revenues for the first six months of 2007 by between 45 and 55% and EBITDA by between 50 and 60%.

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Sustainable Development

We make the world stronger...
...by performing responsibly

OVERVIEW

Evraz Group is committed to operating in a healthy, safe, environmentally and socially responsible way. The Board assumes overall responsibility for ensuring that the development of Evraz Group is sustainable and various health, safety, environmental, social issues are properly addressed.

Evraz Group's sustainable development programmes are intended for a broad target audience: to ensure the professional development of its employees and to address their social needs; to facilitate the social and cultural development of employee dependents and other people living in the areas where Evraz Group's subsidiaries are located.

The sustainable development strategy of Evraz Group includes targets divided into three main categories:

01 Economic targets intended to contribute to the sustainability of regional and national economies.

02 Environmental targets aimed to reduce the adverse environmental impact of Evraz Group activities.

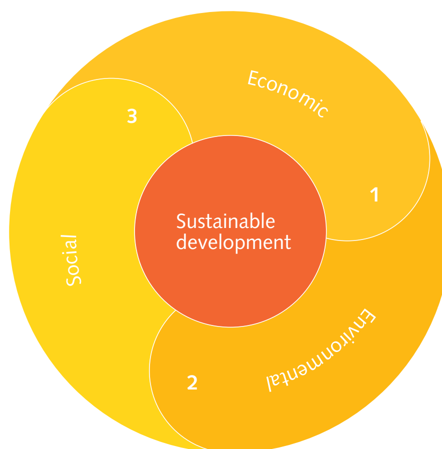
03 Social targets achieved through participation in various health and safety activities as well as charitable programmes.

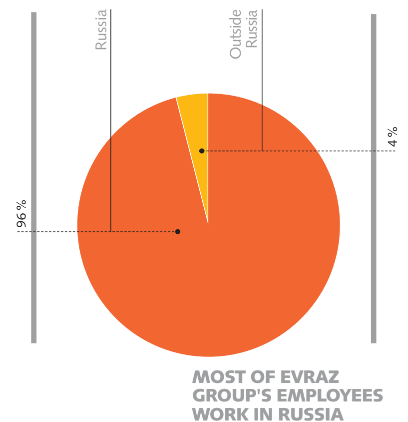
Evraz Group has defined the following priority points in economic, environmental and social areas:

01 ECONOMIC AREA
Support for local development and economic growth.
Maintenance of a high level of labour standards.

02 ENVIRONMENTAL POLICY
Precautionary approach to environmental challenges.
Development and introduction of environmentally sound technologies.

03 SOCIAL RESPONSIBILITY
Health and safety protection.
Promotion of social investment programmes.





ECONOMIC AREA

SUPPORT FOR LOCAL DEVELOPMENT AND ECONOMIC GROWTH

Evraz Group's subsidiaries located in Russia are the major local employers and consequently have a significant impact on local business activity as well as social and cultural life. Evraz Group recognises its responsibility to local communities and strives to act as a responsible corporate citizen.

HIGH LEVEL OF LABOUR STANDARDS

Evraz Group respects and highly values its diverse employee population. Keen to build long-term relationship with its employees, Evraz Group aims to create challenging career opportunities and provide a work environment that is free of all forms of discrimination and encourages professional growth and development.

Evraz Group strives to attract young specialists with significant potential and retain experienced professionals to strengthen its market position. To this end, Evraz Group offers them opportunities to improve their professional skills, grow and realise their potential. In addition, some subsidiaries run newcomer training courses, professional development programmes and offer computer-based distance learning courses.

Evraz Group runs a social care programme for its female employees. This programme aims to provide additional privileges to women, including lighter jobs for pregnant women with no reduction in salary. Furthermore, female employees are provided with financial assistance after childbirth, additional leave at the beginning of the school year and the New Year, as well as the reimbursement of kindergarden expenses.

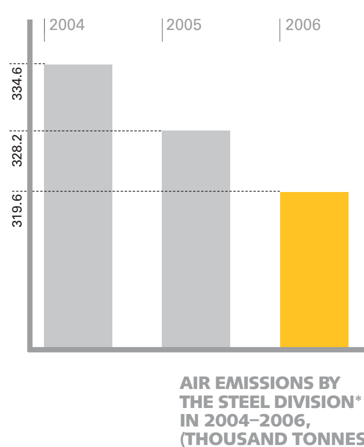
Various other employee-oriented programmes and initiatives including work canteens, health clinics, gyms, kindergardens, sports stadiums, recreation and cultural centres are also in place.

RETIREMENT SCHEMES

Evraz Group endeavours to provide its employees with preferential living conditions during the period of active employment and also after retirement. To achieve this goal, Evraz Group has established a pension plan and social protection programme for its retired employees.

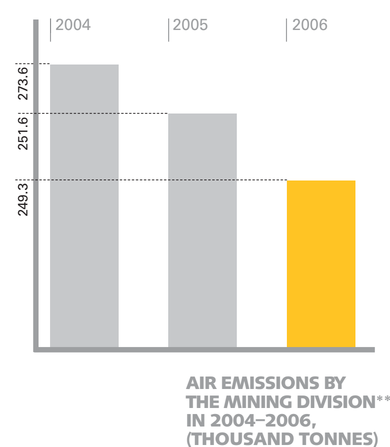
Several Evraz Group's subsidiaries have founded the "National Metallurgist's Private Pension and Social Security Fund". This Fund accumulates in equal amounts employee contributions in the form of salary deductions and employer contributions. In 2006, the Fund's investment income of 19% materially exceeded the annual inflation rate, one of the highest rates among Russian private pension funds.

In addition, Evraz Group's subsidiaries develop various employee social protection programmes that provide various cash payments, emergency financial assistance, medical aid, and other benefits.



AIR EMISSIONS BY THE STEEL DIVISION* IN 2004–2006, (THOUSAND TONNES)

*includes NTMK, NKMK and Zapsib.



AIR EMISSIONS BY THE MINING DIVISION** IN 2004–2006, (THOUSAND TONNES)

** includes KGOK, VGOK and Evrazruda.

ENVIRONMENTAL POLICY

PRECAUTIONARY APPROACH TO ENVIRONMENTAL CHALLENGES

Evraz Group makes every effort to reduce the adverse impact of its business activities on the environment. Evraz Group's subsidiaries possess all necessary environmental licences for the use of water resources, water discharges, air emissions, waste disposal and waste management pursuant to local laws and regulations.

DEVELOPMENT AND INTRODUCTION OF ENVIRONMENTALLY SOUND TECHNOLOGIES

In a bid to withdraw or if possible upgrade all outdated equipment and machinery, Evraz Group encourages its subsidiaries to launch extensive modernisation programmes. Such programmes include the construction and commissioning of state-of-the-art units and machinery that make it possible to significantly reduce the adverse environmental impact of company activities.

ACHIEVEMENTS

In 2006, Evraz Group's subsidiaries performed a comprehensive set of activities to reduce air emissions and water discharges, processing industrial waste and implement resource-saving technologies.

The following projects had the most positive impact on the environment during 2006.

01 Special environmental control departments were introduced at Evraz's subsidiaries. A system of constant monitoring of greenhouse gas emissions is gradually being introduced. As a whole, this makes it possible to maintain the optimal operating regime for equipment to ensure the complete combustion of fuel in efficient processes. The active and systematic operation of this system should result in an increase in the operating efficiency of power equipment resulting in a significant drop in energy consumption per tonne of product produced and a positive impact on the environment.

02 Zapsib was awarded a National Ecological Prize in the category "Eco-efficiency" for its development and the implementation of low-waste and energy-saving technology in steel converters. The new technology makes it possible to reduce air emissions during the production of pig iron and steel by 1,500 tonnes per year, and greenhouse gases by 200,000 tonnes a year.

03 NTMK installed a vacuum-circulation degassing unit to remove damaging gases created during smelting of liquid steel, along with new blast furnaces that meet international quality standards.

04 Owing to its modernisation and renovation programme, NTMK managed to achieve record results in terms of environmental policy, reducing its total emissions by more than 6,000 tonnes. As a result, NTMK surpassed its own record of 2005, when total emissions for the first time fell below 100,000 tonnes. In 2006, NTMK held a leading position among ferrous metallurgy companies in minimising its adverse impact on environment.

Total atmospheric emissions of the Russian subsidiaries of Evraz's steel division gradually declined in the period 2004 to 2006 due to extensive environmental projects implemented by these subsidiaries in recent years.

05 Atmospheric emissions at VGOK decreased by 3 kilograms per tonne of sinter despite the increase in product volumes.

06 Mining division subsidiaries developed comprehensive energy-saving programmes that will make it possible to decrease substantially electricity and gas consumption.

AIR EMISSIONS

Total atmospheric emissions of the Russian subsidiaries of Evraz Group's steel division gradually declined in the period 2004 to 2006. This is due to extensive environmental projects implemented by these subsidiaries in recent years. During last three years following modernisation programme and equipment upgrades total atmospheric emissions of the mining division decreased by 9% to 249 thousand tonnes.

SOCIAL RESPONSIBILITY

HEALTH AND SAFETY PROTECTION

The health and safety performance of the personnel stands out as one of the key factors for the successful development of Evraz Group. Aware that the mining and steel industries have a history of significant health and safety risks, Evraz Group is committed to protecting the health and safety of its employees.

With this in mind, Evraz Group constantly reviews and updates its health and safety policies. All Evraz Group's subsidiaries have implemented programmes related to health and safety matters.

The main programmes on health and safety are:

01 Safety of technological processes.

02 Safety of operations exposed to fire risks.

03 Emergency protection in the regions.

04 Safety of operations, involving dangerous industrial waste.

05 Health and safety training for employees involved in railroad transportation.

Evraz Group pays considerable attention to the provision of health and safety training for employees. All employees participate in coaching and pass tests on industrial safety measures. Approximately 15% of employees participate in such coaching and tests annually. Understanding safety measures and passing corresponding tests is a mandatory requirement for all new employees, as well as senior employees assigned to new positions where safety standards differ from their prior positions.

To minimise the risks of work-related accidents and injuries, Evraz Group developed safety monitoring departments, which analyse, evaluate and mitigate potential and real risks, to eliminate the risks of accidents. Health and safety managers maintain statistics on work-related illnesses and industrial accidents, and ensure that appropriate measures are taken to improve the situation and eliminate occurrences.

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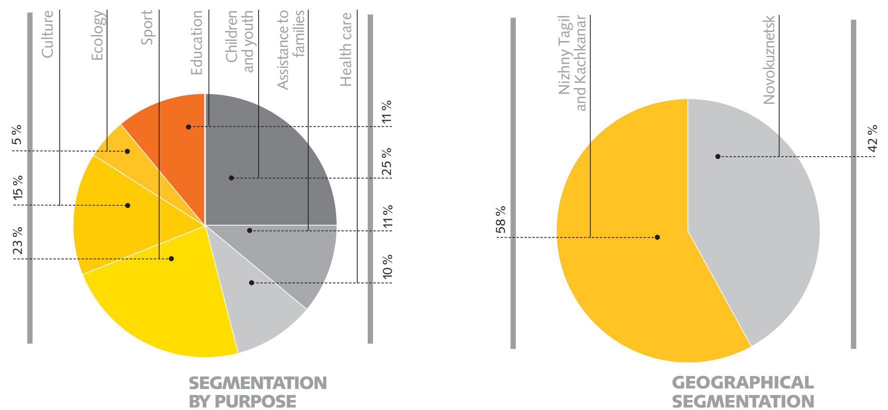
EXPENDITURES ON THE PROGRAMME "CITY OF FRIENDS—CITY OF IDEAS" IN 2006



EMPLOYEE SOCIAL PROGRAMMES

Evraz Group conducts extensive social programmes for employees. Social expenditures include training, health and welfare programmes, retirement insurance payments, incentive bonuses and other financial aid. Social expenditures at Evraz Group's steel subsidiaries account for 40–45% of salary expenses.

As part of the health and safety programme Evraz's subsidiaries provide employees with additional medical services aimed at diagnostics and preventative measures for occupational illnesses, rehabilitation in specialised medical clinics and regular medical checks. Employees can participate in a corporate health insurance scheme, 30% funded by the particular employer subsidiary.

PROMOTION OF SOCIAL INVESTMENT PROGRAMMES

Evraz Group's social charity programmes aim to maintain the sustainable development of the regions where it operates and to enhance social stability. Evraz Group constantly supports orphanages, schools and colleges and provides financial and technical support to health care and preventative-care institutions. Many of Russian Evraz Group's subsidiaries are not only the major local employers, but also the centres of social, cultural and sporting life.

During 2006 Evraz Group launched its first social initiative project "City of Friends—City of Ideas". The aim of the programme is to support promising ideas and projects that can contribute to regional welfare. In 2006, local societies and youth organisations of Nizhny Tagil, Kachkanar and Novokuznetsk competed for grants to implement development projects. Expenditures on the implementation of the programme "City of Friends—City of Ideas" totalled approximately US$200,000. The programme supports inter alia family values as a vital component for the social value structure and orphanages and implements various sporting and cultural measures.

Evraz Group also invests significantly in regional development through local charitable funds. Evraz Group set up a fund in the city of Nizhny Tagil in partnership with the city's administration. In 2006, the fund spent over US$5 million on the development of children's institutions and health care. The fund also contributed to improvements to the local social infrastructure. Similar funds are also being established in Kachkanar and Novokuznetsk.

Supporting the IFC initiative in the Chance to Work project (an international programme that helps disadvantaged people find work), Evraz Group became the first company in Russia to implement this project in the regions—in Nizhny Tagil and Kachkanar. As a result, 15 youths from orphanages underwent a course of psychological assistance, received an opportunity to undergo training and were offered employment opportunities with Evraz Group.

In 2007, Evraz Group plans to start two other projects aimed at supporting a comfortable living environment and education and involving people in public works.

analysis

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Selected Consolidated Financial Information

The selected consolidated financial information set forth below shows Evraz's historical consolidated financial information and other operating information as of 31 December 2006, 2005 and 2004 and for the years then ended. The selected consolidated financial information has been extracted without material adjustment from, and should be read in conjunction with the consolidated financial statements as of 31 December 2006, 2005 and 2004 and for the years then ended, prepared in accordance with IFRS. The selected consolidated financial information should also be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" below.

Evraz's operating results for the periods presented were significantly affected by the Company's acquisition programme. The operating results of businesses acquired are, in the majority of instances, included in Evraz's consolidated financial statements for the periods post their respective dates of acquisition. However, certain acquisitions, including Evrazruda, which was acquired in March 2005, have been the subject of a reorganisation under common control and have therefore been accounted for using the uniting of interests (pooling of interests) method. As a result, these acquisitions (including Evrazruda) have been consolidated with effect from 31 December 2001, comparable to such acquisitions having occurred at such date. Accordingly, in order to reflect the consolidation of these entities retrospectively, the presentation of Evraz's historical consolidated financial position and results of operations for the aforementioned periods differ from previously published information.

	Year ended 31 December		
millions of US$, except per share data and as noted	2006	2005	2004
Revenues	**8,292**	6,508	5,933
Cost of revenues	**(5,159)**	(4,172)	(3,514)
Amortisation of negative goodwill	**–**	–	28
Gross profit	**3,133**	2,336	2,447
Selling and distribution expenses	**(243)**	(181)	(193)
General and administration expenses	**(489)**	(467)	(347)
Other operating expenses, net	**(103)**	(106)	(70)
Profit from operations	**2,298**	1,582	1,837
Non-operating income and expense, net	**(201)**	(54)	(115)
Profit before tax	**2,097**	1,528	1,722
Income tax expense	**(638)**	(475)	(377)
Net profit	**1,459**	1,053	1,345
Net profit attributable to equity holders of the parent entity	**1,385**	918	1,180
Net profit attributable to minority interests	**74**	135	165
Basic earnings per share	**11.83**	8.14	11.00
Weighted average number of ordinary shares outstanding	**117,073,156**	112,731,997	107,204,326

Steel segment income statement data

	2006	2005	2004
Revenues[1]	**8,161**	6,221	5,809
Cost of revenues[1]	**(5,488)**	(4,316)	(3,586)
Amortisation of negative goodwill	**–**	–	18
Gross profit	**2,673**	1,905	2,241
Selling and distribution expenses	**(288)**	(202)	(182)
General and administration expenses	**(312)**	(319)	(260)
Other operating (expenses) income, net	**(107)**	(76)	(57)
Profit from operations	**1,966**	1,308	1,742

Mining segment income statement data

	2006	2005	2004
Revenues[1]	**1,147**	989	611
Cost of revenues[1]	**(708)**	(640)	(448)
Amortisation of negative goodwill	–	–	8
Gross profit	**439**	349	171
Selling and distribution expenses	**(1)**	(7)	(13)

millions of US$, except per share data and as noted	Year ended 31 December 2006	2005	2004
General and administration expenses	**(72)**	(70)	(49)
Other operating expenses, net	**(15)**	(13)	(17)
Profit from operations	**351**	259	92

Other operations income statement data

	2006	2005	2004
Revenues[1]	**604**	645	345
Cost of revenues[1]	**(376)**	(462)	(280)
Amortisation of negative goodwill	**–**	–	2
Gross profit	**228**	183	67
Selling and distribution expenses	**(84)**	(43)	(4)
General and administration expenses	**(106)**	(98)	(53)
Other operating expenses, net	**(12)**	(8)	(4)
Profit from operations	**26**	34	6

CONSOLIDATED BALANCE SHEET DATA

	As of 31 December 2006	2005	2004
Total assets	**8,522**	6,754	4,253
Equity	**4,074**	2,708	1,609
Minority interests	**176**	179	358
Long-term debt, net of current portion	**1,855**	1,515	788

	Year ended 31 December 2006	2005	2004
Net cash flows from operating activities	**2,092**	1,496	946
Net cash flows used in investing activities	**(1,577)**	(1,753)	(822)
Net cash flows (used in) from financing activities	**(341)**	607	(31)
Consolidated Adjusted EBITDA[2]	**2,652**	1,859	2,017
Steel segment Adjusted EBITDA[2]	**2,231**	1,509	1,899
Mining segment Adjusted EBITDA[2]	**415**	313	112
Other operations Adjusted EBITDA[2]	**45**	47	10
Net Debt [3]	**1,754**	1,709	1,073
Total Ratio Debt to Consolidated Adjusted EBITDA [2] [4] [5]	**1.0x**	1.3x	0.7x
Net Ratio Debt to Consolidated Adjusted EBITDA [2] [4] [5]	**0.7x**	0.9x	0.6x

Notes:

[1] Segment revenues and cost of revenues include intersegment sales and purchases.

[2] Adjusted EBITDA represents profit from operations plus depreciation and amortisation, impairment of assets and loss (gain) on dispositions of property, plant and equipment. Evraz presents Adjusted EBITDA because Evraz considers Adjusted EBITDA to be an important supplemental measure of its operating performance and Evraz believes Adjusted EBITDA is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the same industry. Adjusted EBITDA is not a measure of financial performance under IFRS and it should not be considered as an alternative to net profit as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Evraz's calculation of Adjusted EBITDA may be different from the calculation used by other companies and therefore comparability may be limited. Adjusted EBITDA has limitations as an analytical tool, and potential investors should not consider it in isolation, or as a substitute for analysis of our operating results as reported under IFRS. Some of these limitations include:

- Adjusted EBITDA does not reflect the impact of financing or financing costs on Evraz's operating performance, which can be significant and could further increase if Evraz were to incur more debt.
- Adjusted EBITDA does not reflect the impact of income taxes on Evraz's operating performance.
- Adjusted EBITDA does not reflect the impact of depreciation and amortisation on Evraz's operating performance. The assets of Evraz's businesses which are being depreciated and/or amortised will have to be replaced in the future and such depreciation and amortisation expense may approximate the cost to replace these assets in the future. By excluding this expense from Adjusted EBITDA, Adjusted EBITDA does not reflect Evraz's future cash requirements for these replacements. Adjusted EBITDA also does not reflect the impact of a loss on disposal of property, plant and equipment.

Reconciliation of Adjusted EBITDA to profit from operations is as follows:

millions of US$	Year ended 31 December 2006	2005	2004
Consolidated Adjusted EBITDA reconciliation			
Profit from operations	**2,298**	1,582	1,837
Add:	**–**	**–**	**(28)**
Amortisation of negative goodwill	–	–	(28)
Depreciation	**304**	245	196
Impairment of assets	**29**	8	1
Loss (gain) on disposal of property, plant & equipment	**21**	24	11
Consolidated Adjusted EBITDA	**2,652**	**1,859**	**2,017**
Steel segment Adjusted EBITDA reconciliation			
Profit from operations	**1,966**	1,308	1,742
Add:	**–**	–	(18)
Amortisation of negative goodwill	–	–	(18)
Depreciation	228	183	160
Impairment of assets	**22**	–	5
Loss (gain) on disposal of property, plant & equipment	**15**	18	10
Steel segment Adjusted EBITDA	**2,231**	**1,507**	**1,899**
Mining segment Adjusted EBITDA reconciliation			
Profit from operations	**351**	259	92
Add:	**–**	–	(8)
Amortisation of negative goodwill	–	–	(8)
Depreciation	**59**	50	30
Impairment of assets	**1**	–	(5)
Loss (gain) on disposal of property, plant & equipment	**4**	4	3
Mining segment Adjusted EBITDA	**415**	**313**	**112**
Other operations Adjusted EBITDA reconciliation			
Profit from operations	**26**	34	6
Add:	**–**	–	(2)
Depreciation	**17**	12	7
Impairment of assets	**–**	–	1
Loss (gain) on disposal of property, plant & equipment	**2**	2	(3)
Other operations Adjusted EBITDA	**45**	**48**	**10**

Notes:

(3) Net Debt represents long-term loans, net of current portion, plus short-term loans and current portion of long-term loans less cash and cash equivalents (excluding restricted deposits). It does not include a US$300 million bank guarantee issued by Evraz in July 2006 in favour of Raspadskaya. Net Debt is not a balance sheet measure under IFRS and it should not be considered as an alternative to other measures of financial position. Evraz's calculation of Net Debt may be different from the calculation used by other companies and therefore comparability may be limited.
Net Debt is a measure of Evraz operating performance that is not required by, or presented in accordance with, IFRS. Although Net Debt is a non-IFRS measure, it is widely used to assess liquidity and the adequacy of a company's financial structure. Evraz believes Net Debt provides an accurate indicator of its ability to meet its financial obligations, represented by gross debt, from its available cash. Net Debt allows Evraz to show investors the trend in its net financial condition over the periods presented. However, the use of Net Debt effectively assumes that gross debt can be reduced by cash. In fact, it is unlikely that Evraz would use all of its cash to reduce its gross debt all at once, as cash must also be available to pay employees, suppliers and taxes, and to meet other operating needs and capital expenditure requirements. Net Debt and its ratio to equity, or leverage, are used to evaluate Evraz financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether Evraz financial structure is adequate to achieve its business and financial targets. Evraz management monitors the Net Debt and leverage or similar measures as reported by other companies in Russia or abroad in order to assess Evraz liquidity and financial structure relative to such companies. Evraz management also monitors the trends in its Net Debt and leverage in order to optimize the use of internally-generated funds versus funds from third parties.

Net Debt has been calculated as follows:

millions of US$	As of 31 December		
	< 2006	< 2005	< 2004
Net Debt Calculation			
Add:			
Long-term loans, net of current portion	**1,855**	1,515	788
Short-term loans and current portion of long-term loans	**741**	835	578
Less:			
Cash and cash equivalents	**842**	641	293
Net Debt	**1,754**	**1,709**	**1,073**

Notes:

(4) Total Ratio Debt and Net Ratio Debt are measures of Evraz operating performance that are not required by, or presented in accordance with IFRS. Although Net Ratio Debt is a non-IFRS measure, it is widely used to assess liquidity and the adequacy of a company's financial structure. Evraz believes Net Ratio Debt provides an accurate indicator of its ability to meet its financial obligations, represented by Total Ratio Debt, from its available cash. Net Ratio Debt allows Evraz to show investors the trend in its net financial condition over the periods presented. However, the use of Net Ratio Debt effectively assumes that Total Ratio Debt can be reduced by cash. In fact, it is unlikely that Evraz would use all of its cash to reduce its Total Ratio Debt all at once, as cash must also be available to pay employees, suppliers and taxes, and to meet other operating needs and capital expenditure requirements. Net Ratio Debt and its ratio to equity, or leverage, are used to evaluate Evraz financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether Evraz financial structure is adequate to achieve its business and financial targets. Evraz management monitors the trends in its Net Ratio Debt and leverage in order to optimize the use of internally-generated funds versus funds from third parties.

(5) Total Ratio Debt and Net Ratio Debt have been calculated as follows:

millions of US$	< 2006	< 2005	< 2004
Total Ratio Debt and Net Ratio Debt Calculation			
Add:			
Long-term loans net of current portion	**1,885**	1,515	788
Finance lease liabilities	**42**	30	27
Other long-term liabilities	**45**	2	61
Short-term loans and current portion of long-term loans	**741**	835	530
Short-term loans from related parties			48
Current portion of finance lease liabilities	**11**	7	3
Current portion of other long-term liabilities	**1**		
Total Ratio Debt	**2,695**	**2,396**	**1,457**
Less:			
Cash and cash equivalents	**842**	641	293
Net Ratio Debt	**1,853**	**1,755**	**1,164**

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of Evraz's financial condition and results of operations should be read in conjunction with the consolidated financial statements for the years ended 31 December 2006 and 31 December 2005, the notes thereto and the other information included elsewhere in this Annual Report. This section contains forward looking statements that involve risks and uncertainties. Evraz's actual results may differ materially from those discussed in such forward looking statements due to various factors.

OVERVIEW

Evraz is one of the largest vertically integrated steel and mining businesses with operations based in the Russian Federation, the United States, the Czech Republic, Italy and South Africa. Evraz produced 16.1 million tonnes and 13.9 million tonnes of crude steel in 2006 and 2005, respectively, ranking the Company as the largest producer of steel and steel products in Russia, the largest producer of long products in Russia and among the 14 largest steel producers in the world. Evraz also produces significant quantities of iron ore and has equity interests in several coal producers in Russia. Most of Evraz's iron ore production is used in its steel making operations.

The Company listed global depositary receipts (GDRs), representing approximately 8.3% of its issued share capital, on the Official List of the London Stock Exchange (the LSE) on 2 June 2005, thereby raising US$422 million from new investors. Each GDR represents an interest in one-third of one share. In January 2006, Crosland Global Ltd, a former major shareholder in Evraz, placed further GDRs, equivalent to approximately 6% of Evraz's issued share capital, on the LSE. The total number of GDRs listed on the LSE represented approximately 15.33% of the Company's issued share capital as of 31 December 2006.

Evraz's principal assets comprise five integrated steel plants: NTMK, Zapsib, NKMK, Vitkovice Steel (acquired in November 2005) and Evraz Oregon Steel Mills (acquired in January 2007); a steel rolling mill: Palini e Bertoli (acquired in August 2005); three iron ore mining and processing facilities: KGOK, VGOK and Evrazruda (acquired in March 2005); coal mining assets: Mine 12 (acquired in March 2005); one of the world's leading producers of vanadium alloys and chemicals for the steel, chemical, and titanium industries: Strategic Minerals Corporation (Stratcor, acquired in August 2006); together with various trading and logistical assets. Evraz also owns significant equity interests in two coking coal producers: Raspadskaya and Yuzhkuzbassugol (acquired in December 2005). In July 2006, Evraz acquired approximately 25% of Highveld Steel and Vanadium, a leading vanadium producer. Evraz's consolidated revenues amounted to US$8,292 million for the year ended 31 December 2006, while the net profit attributable to equity holders of the parent entity totalled US$1,385 million.

REORGANISATION AND FORMATION OF THE COMPANY

Evraz Group S.A. was incorporated, under the laws of the Grand Duchy of Luxembourg, on 31 December 2004 as the holding company for Evraz's assets. On 5 April 2005, during the course of a subsequent reorganisation, 95.83% of the shares of Mastercroft (a limited liability company registered under the laws of Cyprus) which acted as Evraz's holding company prior to the establishment of the Company, were transferred to the Company in exchange for newly issued shares in the Company. This exchange of shares was accounted for in the Consolidated Financial Statements as of 31 December 2004. The Company acquired the remaining 4.17% interest in Mastercroft on 1 June 2005 for a cash consideration of US$124 million. Accordingly, Evraz Group S.A.'s effective ownership interest in its businesses as of 31 December 2004 was less than Mastercroft's historic interest but increased to the historic level following the completion of this acquisition. Mastercroft was therefore a wholly owned subsidiary of the Company as of 31 December 2006.

The Company's interests in the majority of its subsidiaries are held indirectly through its ownership of Mastercroft, exceptions being Vitkovice Steel and Palini & Bertoli S.p.A., in which another of the Company's wholly owned subsidiaries

obtained Mastercroft's former interest in January 2006 and September, respectively. Recently acquired Strategic Minerals Corporation, Highveld Steel and Vanadium and Evraz Oregon Steel Mills are owned directly by Evraz.

As referred to earlier under the heading "Selected Consolidated Financial Information", purchases of subsidiaries from parties under common control are accounted for by utilising the uniting of interests method which is equivalent to a pooling of interests method. The Company's consolidated financial statements, therefore, have been prepared on the basis that the Company existed during all the periods presented in such statements and owned these subsidiaries even if, in fact, these subsidiaries were owned by either Mastercroft or the entities under common control from which Mastercroft subsequently acquired such interests.

BUSINESS STRUCTURE

Segments

Evraz's business is divided into two principal segments:

- the steel production segment, comprising the production and sale of semi-finished and finished steel products; vanadium slag and vanadium ferroalloys; coke and coking products; and refractory products; and
- the mining segment, comprising the production, enrichment and sale of iron ore and the production of coal at Mine 12.

The mining segment does not meet the criteria of a reportable segment under IFRS, due to the fact that the majority of its revenues are earned in intersegment transactions. However, Evraz's management has designated the mining segment as a reportable segment based on the Company's plans for the further development of Evraz's mining business.

Other operations include management, logistics (including Nakhodka Sea Port) and supporting activities.

Inter-segment sales

Evraz is a vertically integrated steel and mining group. In 2006, Evraz's mining segment supplied approximately 72% of the steel segment's total iron ore requirements. The steel segment supplies grinding balls, mining uprights and coke to the mining segment for use in day-to-day operations. Evraz considers that intersegmental product sales are generally based on prices equivalent to those that could be commanded from unrelated third parties. These intercompany transactions are eliminated for the purposes of Evraz's consolidated financial statements, but not in the respective segment presentation of this data.

SUMMARY OF ACQUISITIONS

Evraz has sought to develop an integrated steel and mining business through the purchase of undervalued assets that it believes offer significant upside potential, particularly in the light of the Company's implementation of improved working practices and operational methods.

The following is a summary of the terms of Evraz's principal steel and mining acquisitions. Unless otherwise stated, each acquisition was accounted for using the "purchase method" of accounting. Accordingly, the operational results of each such acquisition are included in Evraz's consolidated income statements from the date the Company acquired control. In certain cases, where Evraz acquired its interests over a period of time, the relevant businesses were accounted for using the equity method until such interests amounted to a controlling financial interest. Evraz's investments in Raspadskaya, Yuzhkuzbassugol and Highveld are currently accounted for under the equity method.

Acquisitions / Start-ups prior to 2005

Nizhny Tagil Iron and Steel Plant

NTMK is an integrated steel plant that primarily produces railway and construction long products, pipe blanks and semi-finished products. During 1997–2004, Evraz acquired a 80.44% interest in NTMK for a total consideration of US$142.5 million. Evraz acquired a further 11.94% interest for a consideration of US$236 million and 2.62% interest for a consideration of US$79 million in 2005 and 2006, respectively. The Company's effective interest in NTMK as of 31 December 2006 amounted to 95.00%.

West Siberian Iron and Steel Plant

Zapsib is an integrated steel plant that primarily produces construction long products and semi-finished products. During 2001–2004, Evraz acquired a 94.59% interest in Zapsib for a total consideration of US$97.8 million. In 2005, Evraz acquired a further 2.08% interest in Zapsib's equity for a consideration of US$41 million. The Company's effective interest in Zapsib as of 31 December 2006 amounted to 100.00%.

Novokuznetsk Iron and Steel Plant

NKMK is an integrated steel plant that specialises in the production of rolled long metal products for the railway sector, as well as semi-finished products. NKMK, formed in May 2003, commenced steel operations in October 2003 having acquired certain property, plant and equipment from OAO Kuznetsk Iron and Steel Plant (KMK) for a consideration of US$44.7 million subsequent to the dissolution of the latter in bankruptcy proceedings in June 2003. The Company's effective interest in NKMK as of 31 December 2006 amounted to 98.75%.

Vysokogorsky Mining and Processing Integrated Works

VGOK is an iron ore mining and processing complex that produces sinter from its iron ore resources and from iron ore purchased from other producers. During 1998–2004 Evraz acquired a 87.38% interest in VGOK for a consideration of US$2.1 million. Evraz acquired a further 0.01% interest in VGOK for a consideration of US$0.01 million in 2005. The Company's effective interest in VGOK as of 31 December 2006 amounted to 93.88%.

Nakhodka Commercial Sea Port

Nakhodka Sea Port is located in the Far East of Russia from where Evraz ships the majority of its export sales. By the end of 2004, Evraz had acquired an ownership interest of 91.51% in Nakhodka Sea Port for a total consideration of US$16.6 million. In 2005 and 2006 Evraz acquired additional minority interests in Nakhodka Sea Port of 2.1% and 0.6%, respectively. The Company's effective interest in Nakhodka Sea Port as of 31 December 2006 amounted to 93.03%.

Ferrotrade Limited

Ferrotrade Limited (Ferrotrade) is an export trader that sells Evraz's steel products overseas. Ferrotrade's principal markets are Taiwan, Thailand, the USA, the Philippines, Turkey and Korea. The Company's effective interest in Ferrotrade as of 31 December 2006 amounted to 100.00%.

Raspadskaya

Raspadskaya, which produces coking coal, is one of the largest coal mines in Russia. On 10 March 2004, as part of a joint venture agreement, Evraz acquired a 50% interest in Corber Enterprises Limited (Corber), a joint venture created for the purpose of exercising joint control over the business activities of Raspadskaya, in which Corber owned 72.03% of the ordinary shares, and other subsidiaries of Corber. Evraz acquired its interest for a total consideration of US$139.7 million, including US$61.8 million in cash, the issuance of 6% interest bearing promissory notes with a nominal value of US$19.2 million due after 10 March 2006 and a transfer of 19.15% of the ordinary shares in Raspadskaya. Corber acquired a further 4.20% interest in Raspadskaya during 2004 for a consideration of US$5.5 million, and a further 0.70% interest in Raspadskaya during 2005 for US$1.3 million. On 31 May 2006, Corber acquired a 100% ownership interest in Mezhdurechenskaya Ugolnaya Company—96 (MUK-96) from Adroliv, one of Corber's shareholders, in exchange for its own newly issued 7,200 ordinary shares and 4,800 preferred shares with par value of 1 US dollar each. As part of the transaction, Corber paid to Adroliv preferred dividends of US$319 million. The total cost of the business combination, including cash consideration and fair value of equity instruments exchanged, amounted to US$771 million. On 31 May 2006, Evraz acquired 3,600 newly issued ordinary shares of Corber for cash consideration of $225 million and retained 50% ownership interest in Corber. The Company's effective interest in Raspadskaya as of 31 December 2006 amounted to 39.94%.

Kachkanarsky Ore Mining and Processing Enterprise "Vanady"

KGOK is an iron ore mining and processing complex that produces sinter, pellets and concentrate from high-vanadium iron ore. On 21 May 2004, Evraz acquired 83.59% of the ordinary shares of KGOK for a consideration of US$190.3 million and purchased restructured debts of KGOK with a fair value of RUB597.0 million (approximately US$20.6 million at the exchange rate at the nominal value being RUB1,283.0 million (approximately US$44.3 million at the date of transaction). Evraz acquired further interests in KGOK amounting to 14.04% and 0.08% of the ordinary shares during 2004 and 2005 for total consideration of US$31.3 million and US$0.8 million respectively. The Company's effective interest in KGOK as of 31 December 2006 amounted to 97.11%.

Acquisitions in 2005

Evrazruda

Evrazruda is an iron ore mining and processing complex that produces iron ore concentrate and sinter. In March 2005, Evraz acquired a 99.90% interest in Evrazruda for a consideration of US$32 million from entities under common control with Evraz and a 0.10% interest from third parties for an additional US$32,000. As noted above, this has resulted in Evrazruda being consolidated with Evraz with effect from 31 December 2001 as it existed at such date, with acquisitions by Evrazruda subsequent to 31 December 2001 being accounted for by Evraz under the purchase method. The Company's effective interest in Evrazruda as of 31 December 2006 amounted to 100.00%.

Palini e Bertoli

Palini produces customised, high-quality steel plate products and is located in northern Italy. In August 2005, Evraz acquired a 75% plus one share interest in Clama S.r.l., which owns 100% of Palini. Cash consideration for both companies amounted to US$112 million, including transaction costs of US$3 million. At the same date, Evraz and Clama's minority shareholders entered into a put and call option agreement under which Clama's minority shareholders have a put option and Evraz has a corresponding call option, exercisable in the period from 2007 to 2010, in respect of 25% less one share ownership interest in Clama. As a result, Evraz effectively acquired a 100% ownership interest in Clama with deferred consideration of US$69 million which is equal to the fair value of a financial liability payable under put option.

Vitkovice Steel

Vitkovice Steel is the largest producer of steel plates in the Czech Republic. In July 2005, Evraz was selected by the government of the Czech Republic to acquire Vitkovice Steel via a privatisation sale. In November 2005, Evraz acquired 98.96% of the shares in Vitkovice Steel for a cash consideration of CZK7,428 million (approximately US$298 million at the exchange rate on the date of the transaction). The Company's effective interest in Vitkovice Steel as of 31 December 2006 amounted to 100.00%.

Yuzhkusbassugol

Yuzhkusbassugol (YuKU), which produces coking and steam coal, is one of the largest coal mines in Russia. On 30 December 2005, Evraz acquired a 50% ownership interest in YuKU for cash consideration of US$675 million payable to Crondale Overseas Limited, an entity under common control with Evraz. Evraz determined that its ownership interest in YuKU represents the purchase of an associate.

Acquisitions in 2006

Strategic Minerals Corporation (Stratcor)

Stratcor is one of the world's leading producers of vanadium alloys and chemicals for steel and chemical industries. Stratcor has two wholly-owned subsidiaries—Stratcor, Inc. with a mill in Hot Springs, Arkansas, USA, and Vametco Minerals Corporation with a mine and a mill in Brits, South Africa. On 23 August 2006, Evraz acquired 72.84% of ordinary shares of Stratcor, including 69.00% of voting shares, for purchase consideration of US$125 million, including transaction costs of $6 million and fair value of contingent consideration amounting to US$21 million.

Highveld Steel and Vanadium Corporation Limited (Highveld)

Highveld is one of the largest steel producers in South Africa and a leading producer of vanadium products. On 13 July 2006, Evraz entered into a number of agreements for potential acquisition of a 79% ownership interest in Highveld should such a decision be made and subject to receipt of all necessary regulatory approvals. As of 31 December 2006, Evraz acquired a 24.9% ownership interest in Highveld from Anglo American plc for a cash consideration of US$216 million. On 20 February 2007, the European Commission approved the proposed acquisition of the controlling interest in Highveld, subject to certain conditions. Evraz is obliged to divest Highveld's vanadium extraction, vanadium oxides and vanadium chemicals plants located at the Vanchem site in Witbank, Republic of South Africa (collectively referred to as the Vanchem operations), along with an equity interest or a portion of the Mapoch iron and vanadium ore mine which guarantees supply of ore and slag to Vanchem operations. The divestment package also includes a ferrovanadium smelter located on the site of Highveld steel facility and Highveld's 50% shareholding in SAJV, a joint venture between Highveld and two Japanese partners which own another ferrovanadium smelter at the same site.

Evro-Aziatskaya Energy Company (EvrazEK)

EvrazEK, an energy generating company, supplies natural gas, coke-oven gas, steam and electricity to certain subsidiaries of Evraz and purchases metal products and materials from them. In 2006, Evraz acquired the entity for US$31 million.

Acquisitions in 2007

Oregon Steel Mills (OSM)

Headquartered in Portland, Oregon, OSM is one of the most diversified steel manufacturers in North America. Due to a diverse range of manufacturing capabilities it can produce over 1.5 million metric tonnes of higher margin specialty and commodity steel products (plate, coiled plate, welded and seamless pipe for oil and gas applications, structural tubing, rail and wire rod/bar) annually. Oregon Steel Mills, Inc. was publicly held since 1988 till January 2007 and its shares were traded on the New York Stock Exchange. In January 2007, following a successful tender offer by Evraz Group it became a wholly owned subsidiary of Evraz changing the name to Evraz Oregon Steel Mills, Inc. Subsequently, the OSM's securities were de-listed and registration was withdrawn from NYSE. Total cash consideration for the acquisition of 100% ownership interest in OSM amounted to US$2,271 million, including US$6 million of transaction costs.

West Siberian Heat and Power Plant (ZapsibTETs)

ZapsibTETs was built as a substation of Zapsib that at present consumes 42% of the heat and over 25% of the electricity produced by the energy plant. The technological processes of Zapsib and ZapsibTETs are closely interconnected. Zapsib supplies to ZapsibTETs coking and blast furnace gas that accounts for up to 17% of the energy plant's fuel consumption, takes part in the steam refrigeration, and gives it room for an ashes dump.

ZapsibTETs can meet up to 85% of Zapsib's electricity requirements and fully satisfy its demand for heat. On 15 March 2007, OOO InvestEnergoProject, which was acting in the interests of Evraz, was proclaimed the winner of the auction to acquire a stake in ZapsibTETs. The 93.35% stake was acquired at the price of 5,950 million roubles (approximately US$228 million at the exchange rate on the date of the transaction).

RESULTS OF OPERATIONS FOR THE YEARS ENDED 31 DECEMBER 2006 AND 2005

The following table sets out the Company's consolidated income statement data for the years ended 31 December 2006 and 31 December 2005 in absolute terms and as a percentage of revenues:

	Year ended 31 December					
	2006		2005		2006 v 2005	
millions of US$, except percentages	amount	percentage of revenues	amount	percentage of revenues	change	% change
INCOME STATEMENT DATA						
Revenues[1]	**8,292**	**100.0%**	6,508	100.0%	1,784	27.4%
Cost of revenues	**(5,159)**	**(62.2)%**	(4,172)	(64.1)%	(987)	24.0%
Gross profit	**3,133**	**37.8%**	**2,336**	**35.9%**	**797**	**34.1%**
Selling and distribution costs	**(243)**	**(2.9)%**	(181)	(2.8)%	(62)	34.3%
General and administrative expenses	**(489)**	**(5.9)%**	(467)	(7.2)%	(22)	4.7%
Other operating income and expenses, net	**(103)**	**(1.2)%**	(106)	(1.6)%	3	(2.8)%
Profit from operations	**2,298**	**27.7%**	1,582	24.3%	716	45.3%
Non-operating income and expense, net	**(201)**	**(2.4)%**	(54)	(1.0)%	(147)	272,2%
Profit before tax	**2,097**	**25.3%**	1,528	23.5%	569	37.2%
Income tax expense	**(638)**	**(7.7)%**	(475)	(7.3)%	(163)	34.3%
Net profit	**1,459**	**17.6%**	**1,053**	**16.2%**	**406**	**38.6%**
Net profit attributable to equity holders of the parent entity	1,385	16.7%	918	14.1%	467	50.9%
Net profit attributable to minority interests	74	0.9%	135	2.1%	(61)	(45.2)%

Note.

[1] Includes service revenues of US$126 million and US$121 million for the years ended 31 December 2006 and 2005, respectively. Sales of services consist primarily of heat and electricity supply, port, transportation and accounting services.

In the years ended 31 December 2006 and 2005, approximately 7.8% and 6.1%, respectively, of Evraz's revenues were generated in transactions with related parties. In addition, Evraz made significant purchases from related parties. (See "Related Party Transactions" and Note 14 to the Consolidated Financial Statements.)

Revenues

Evraz's consolidated revenues in 2006 amounted to US$8,292 million, a 27.4% increase compared to revenues of US$6,508 million in 2005. The steel segment sales accounted for the majority of the increase in revenues largely due to the growth in sales volumes of steel products. Evraz's sales volumes of steel products increased by 24.5% from 12,860 thousand tonnes in 2005 to 16,014 thousand tonnes in 2006.

The following table shows the average price trends of Evraz's principal products in 2006 and 2005 (encompassing semi-annual breakdowns of both the Russian and non-CIS export markets), which illustrates an uneven distribution of revenues during the periods under consideration:

US$ per tonne, except percentages	Year ended 31 December 2006		Year ended 31 December 2005		% change	
	2nd half	1st half	2nd half	1st half	1st half 2006 vs 1st half 2005	2nd half 2006 v 2nd half 2005
AVERAGE RUSSIAN AND CIS PRICES FOR EVRAZ'S RUSSIAN OPERATIONS PRODUCTS[1]						
Construction products						
Rebars	**480**	**380**	357	404	(5.9)%	34.5%
H-Beams	**725**	**707**	656	679	4.1%	10.5%
Channels	**505**	**452**	427	428	5.4%	18.1%
Angles	**448**	**408**	395	421	(3.2)%	13.4%
Wire rods	**422**	**376**	376	446	(15.8)%	12.2%
Wire	**511**	**419**	410	479	(12.6)%	24.6%
Railway products						
Rails	**489**	**485**	460	457	6.1%	6.4%
Wheels	**1187**	**1191**	1122	1076	10.7%	5.8%
Mining products						
Grinding balls	**465**	**445**	428	464	(4.1)%	8.6%
Semi-finished products						
Slabs	**401**	**305**	290	347	(12.2)%	38.4%
Pig Iron	**260**	**211**	200	296	(28.6)%	30.2%
Pipe blanks	**430**	**370**	378	445	(17.0)%	13.7%
Other steel products						
Plates	**539**	**446**	469	555	(19.6)%	14.9%
Rounds	**469**	**382**	377	437	(12.5)%	24.5%
Vanadium in slag	**14,049**	**16,724**	25,185	34,972	(52.2)%	(44.2)%
AVERAGE NON-CIS EXPORT PRICES FOR EVRAZ'S RUSSIAN OPERATIONS PRODUCTS[2]						
Construction products						
Rebars	**490**	**366**	366	408	(10.3)%	33.8%
Channels	**489**	**401**	411	468	(14.3)%	19.1%
Angles	**486**	**359**	469	486	(26.2)%	3.7%
Wire rods	**435**	**369**	369	425	(13.2)%	17.8%
Semi-finished products						
Billets	**411**	**350**	348	384	(8.7)%	18.0%
Slabs	**472**	**334**	342	490	(31.8)%	38.1%
Pig Iron	**332**	**266**	264	329	(19.1)%	25.9%
Other steel products						
Plates	**504**	**416**	410	525	(20.8)%	22.9%
Rounds	**543**	**561**	507	655	(14.4)%	7.1%
AVERAGE NON-CIS EXPORT PRICES FOR EVRAZ'S FOREIGN OPERATIONS PRODUCTS[3]						
Plates of Vitkovice Steel	**843**	**731**	755			11.7%
Plates of Palini	**762**	**622**	585			30.3%

Notes:

[1] Prices for sales denominated in roubles are converted into US dollars at the average monthly exchange rate of the rouble to the US dollar as stated by the CBR. Average US dollar prices are calculated as a weighted average sales prices in the relevant semi-annual period.

[2] Average price data for the years ended 31 December 2006 and 31 December 2005 relate to sales by Ferrotrade Limited.

[3] Prices for sales denominated in euros and Czech korunas are converted into US dollars at the average exchange rate to the US dollar for the period under consideration as stated by the relevant Central bank.

The following table presents Evraz's consolidated revenues by segment for 2006 and 2005:

millions of US$	Year ended 31 December			
			2006 v 2005	
	2006	2005	change	% change
REVENUES BY SEGMENT				
Steel segment				
To third parties	**8,085**	6,133	1,952	31.8%
To mining segment	**67**	77	(10)	(13.0)%
To other operations	**9**	11	(2)	(18.2)%
Total	**8,161**	**6,221**	**1,940**	**31.2%**
Mining segment				
To third parties	**121**	147	(26)	(17.7)%
To steel segment	**1,020**	836	184	22.0%
To other operations	**6**	6	0	0.0%
Total	**1,147**	**989**	**158**	**16.0%**
Other operations				
To third parties	**86**	228	(142)	(62.3)%
To steel segment	**394**	312	82	26.3%
To mining segment	**124**	105	19	18.1%
Total	**604**	**645**	**(41)**	**(6.4)%**
Eliminations	(1,620)	(1,347)	(273)	20.3%
Consolidated revenues	**8,292**	**6,508**	**1,784**	**27.4%**
% from steel segment	**97.5%**	94.2%		
% from mining segment	**1.5%**	2.3%		
% from other operations	**1.0%**	3.5%		

The following table presents the geographic breakdown of Evraz's consolidated revenues for 2006 and 2005 in absolute terms and as a percentage of total revenues:

millions of US$, except percentages	Year ended 31 December					
					2006 v 2005	
	2006	%% of total	2005	%% of total	change	% change
Russia	**4,217**	**51%**	3,905	60%	312	8%
Asia	**1,945**	**24%**	2,027	31%	(82)	(4)%
Europe	**1,410**	**17%**	318	5%	1,092	344%
CIS	**344**	**4%**	139	2%	205	148%
Americas	**340**	**4%**	87	1%	253	290%
Rest of the World	**36**	**0%**	32	0%	4	12%
Total	**8,292**	**100%**	**6,508**	**100%**	**1,785**	**27%**

Revenues from non-Russian sales increased due to a substantial growth (by 37%) of non-Russian sales volumes in 2006 compared to 2005. Acquisition of Vitkovice Steel contributed approximately 11% to the increase. Revenues from sales in Russia increased in monetary terms both due to higher steel volumes (by 13%) and higher average steel prices, however decreased as a percentage of total revenues of the Company in 2006 compared to 2005.

STEEL SEGMENT

Steel segment revenues increased by 31.2% to US$8,161 million in 2006 compared to US$6,221 million in 2005.

Steel segment revenues were affected by the increased sales volumes of steel products provided by the Russian plants in 2006, especially by a significant increase in production of Zapsib due to postponing of repair of its blast furnace No.1 to capitalise on favourable market condition, by the price dynamics for steel products noted in the price trends table above and by the acquisitions of Vitkovice Steel in November 2005 and partially of Palini in August 2005. Palini mainly re-rolls Evraz's slab and adds its mark-up to the revenue of the steel segment. Revenues of Palini and Vitkovice Steel in 2006 amounted to US$301 million (3.7% of steel segment revenues) and US$671 million (8.2% of steel segment revenues), respectively, compared to post-acquisition revenues of US$105 million (1.7% of steel segment revenues) and US$80 million (1.3% of steel segment revenues) in 2005, respectively. Revenues of Stratcor following its acquisition in August 2006 amounted to US$66 million (0.8% of steel segment revenues).

The following table shows the breakdown of Evraz's steel segment sales in 2006 and 2005, noting the contribution made by Vitkovice Steel and Palini:

	Year ended 31 December					
	2006		2005		2006 v 2005	
millions of US$, except percentages	2006	percentage of total	2005	percentage of total	change	% change
Construction products[1]	**2,126**	26.1%	1,755	28.2%	**371**	**21.2%**
of which Vitkovice Steel	**84**	1.0%	10	0.2%	**74**	**n/m**
Railway products[2]	**966**	11.8%	884	14.2%	**82**	**9.3%**
Plates	**1,069**	13.1%	365	5.9%	**704**	**n/m**
of which Palini	**292**	3.6%	105	1.7%	**187**	**n/m**
of which Vitkovice Steel	**546**	6.7%	67	1.1%	**479**	**n/m**
Mining products[3]	**143**	1.8%	121	1.9%	**22**	**18.2%**
Semi-finished products[4]	**2,860**	35.0%	2,203	35.4%	**657**	**29.8%**
Other steel products[5]	**325**	4.0%	163	2.6%	**162**	**99.4%**
of which Vitkovice Steel	**38**	0.5%	3	0.0%	**35**	**n/m**
Vanadium products[6]	**224**	2.7%	243	3.9%	**(19)**	**(7.8)%**
of which Stratcor	**66**	0.8%	n/a	n/a	**66**	**n/m**
Other products[7]	**448**	5.5%	487	7.8%	**(39)**	**(8.0)%**
Total	**8,161**	**100.0%**	**6,221**	**100.0%**	**1,941**	**31.2%**

Notes:

(1) Includes rebars, wire rods, wire, H-beams, channels and angles.

(2) Includes rails and wheels.

(3) Includes grinding balls and mine uprights.

(4) Includes billets, slabs, pig iron, pipe blanks and blooms.

(5) Includes rounds, strips and pipes.

(6) Includes vanadium alloys and vanadium slag.

(7) Includes coke and coking products, refractory products, and resale of coking coal.

The significant increase in the proportion of revenues attributable to sales of plates reflects substantially higher sales volume following the acquisitions of Vitkovice Steel in November 2005 and Palini in August 2005, both of which produce mainly high value added flat products. The new acquisitions materially changed Evraz's product mix and thus proportion of revenues from traditional product groups of Evraz.

The decline in the proportion of revenues attributable to sales of construction, mining sector and semi-finished products resulted from lower sales volumes as a percentage of total steel segment sales volume, in spite of the fact that absolute sales volumes increased by 6%, 13% and 29%, respectively, in 2006 compared to 2005. In particular, commissioning of the continuous casting machine at Zapsib at the end of 2005 provided additional slab volumes for sales during 2006. Average prices of construction, mining sector and semi-finished products increased by 14%, 4% and 1%, respectively, in 2006 compared to 2005.

The proportion of revenues attributable to sales of railway products declined due to a lower sales volume (by 5%) in 2006 compared to 2005.

Revenues from sales of other steel products (mainly rounds) increased as a proportion of steel segment sales in 2006 compared to 2005 both due to higher sales volumes and prices.

Revenues from sales of vanadium products declined in 2006 compared to 2005, in spite of the fact that Stratcor contributed about US$66 million of revenues, mainly from sales of vanadium ferroalloys, following its acquisition in August 2006. Sales of vanadium slag at NTMK declined by 36% due to a significant decrease in average prices of vanadium slag in 2006 compared to 2005.

Revenues attributable to other non-steel sales declined primarily because there were no re-sales of coking coals through the steel segment in 2006, while in 2005 such sales amounted to approximately US$129 million.

For the year ended 31 December 2006 and 2005, steel segment sales to the mining segment amounted to US$67 million and US$77 million, respectively. The decreased intersegment sales resulted from sales of assets of a subsidiary of Zapsib to the mining segment in early 2006, while in 2005 that subsidiary of Zapsib supplied raw iron ore to the mining segment.

Non-Russian sales amounted to approximately 50% of steel segment revenues in 2006, compared to 41% in 2005. The increased share of non-Russian revenues in 2006 was attributable to the substantial growth in the corresponding sales volumes (by 37%), provided by both Evraz's Russian operations and its new foreign subsidiaries Palini, Vitkovice Steel and Stratcor.

MINING SEGMENT

Mining segment revenues increased by 16.0% to US$1,147 million in 2006 compared to US$989 million in 2005. This increase largely reflected the growth in the average prices of iron ore in 2006. Sales volumes of iron ore increased by 3.2% in 2006 compared to 2005.

The following table shows the average price trends of principal mining segment's products in 2006 and 2005 with semi-annual breakdown:

US$ per tonne, except percentages	Year ended 31 December 2006 2nd half	2006 1st half	2005 2nd half	2005 1st half	% change 1st half 2006 v 1st half 2005	% change 2nd half 2006 v 2nd half 2005
AVERAGE PRICES FOR EVRAZ'S MINING SEGMENT PRODUCTS[1]						
Concentrate	**59**	**45**	37	41	10%	59%
Sinter	**75**	**54**	48	64	(16)%	56%
Pellets	**75**	**55**	48	77	(29)%	56%

Note.

[1] Prices for sales denominated in roubles are converted into US dollars at the average semi-annual exchange rate of the rouble to the US dollar as stated by the CBR.

Substantially all Evraz's mining segment sales consist of iron ore. Revenues attributable to a coal asset Mine 12 in 2006 amounted to US$27 million compared to US$20 million in 2005 following its acquisition. Evraz also holds 39.9% and 50% equity method accounted interests, respectively, in Raspadskaya and Yuzhkuzbassugol (YuKU) (acquired on 31 December 2005) coking coal mines. Revenue attributable to Raspadskaya and YuKU is therefore not consolidated in Evraz's financial statements and the Company's share of their net profits is accounted for as "Share of profits (losses) of joint ventures and associates" (see "Non-operating Income and Expense").

For the year ended 31 December 2006 and 2005, mining segment sales to the steel segment amounted to US$1,020 million (88.9% of mining segment sales) and US$836 million (84.5% of mining segment sales), respectively.

Approximately 72% of Evraz's iron ore requirements were met by the mining segment in 2006, compared to 76% in 2005, though in absolute terms supplies of iron ore from the mining segment to the steel segment slightly increased. The decrease in the proportion of iron ore sourced internally largely resulted from the substantial increase in the production of pig iron and steel products by the Russian steel plants in order to capitalize on the favourable market conditions in 2006. Mining assets utilise full capacity to produce iron ore, therefore Evraz was forced to seek additional external supply to meet the increased demand of the steel plants in iron ore, particularly from Korshunovsky GOK and Mikhailovsky GOK to the Siberian plants. Evraz's capital expenditure programme foresees the increase of production capacity of its mining assets.

Approximately 64% of Evraz's coking coal requirements were met by supplies from Raspadskaya, YuKU and Mine 12 in 2006, compared to 65% in 2005. In absolute terms supplies of coking coal from the affiliate coal assets remained almost unchanged.

Approximately 78% and 94% of third party sales in the mining segment were to customers in Russia in 2006 and 2005, respectively.

OTHER OPERATIONS

Evraz's revenues in respect of the Company's other operations segment decreased by 6.4% to US$604 million in 2006 compared to US$645 million in 2005. Revenues were largely derived from the following operations (sales figures shown below include sales made within the same segment):

Nakhodka Sea Port. Sales at Nakhodka Sea Port, which provides seaport services, amounted to US$47 million in 2006 and US$43 million in 2005. intersegment sales accounted for 45.0% and 36.5% of such revenues in 2006 and 2005, respectively.

Evraztrans acts as a railway forwarder for Evraz's steel segment. Sales at Evraztrans amounted to US$57 million in 2006 and US$91 million in 2005. The substantial decline in revenues (and cost of revenues) was attributable to the transfer of low margin railway transportation of export products to the ports to Trading House EvrazHolding. Evraztrans derives the majority of its revenues from intersegment sales. Intersegment sales accounted for 91.4% and 98.2% of Evraztrans' revenues in 2006 and 2005, respectively.

Metallenergofinance (MEF) supplies electricity and heat to Evraz's steel and mining segments and to third parties. MEF's sales amounted to US$310 million in 2006, compared to US$287 million in 2005. Intersegment sales accounted for 93.1% and 85.2% of MEF's revenues in 2006 and 2005, respectively.

Sinano Shipmanagement (Sinano) provides sea freight services to Evraz's steel segment. Sinano's sales totalled US$113 million in 2006 and US$57 million in 2005. Sinano derives substantially all of its revenues from intersegment sales, and a substantial growth in revenues of Sinano in 2006 related to the volume of freight services provided to the steel segment.

OOO EvrazHolding (EvrazHolding) provides management, accounting and other services to NTMK, Zapsib, NKMK KGOK, Evrazruda, VGOK and other Russian subsidiaries of the Company. EvrazHolding generated revenues of US$39 million and US$37 million in 2006 and 2005, respectively, from the provision of management, accounting and other services to the Company's subsidiaries and to related parties; 98.7% and 97.9% of these revenues were derived from the Company's subsidiaries in these periods, respectively.

Trading House EvrazHolding (TH EvrazHolding) is engaged in the resale of steel products/vanadium slag and iron ore from the steel and mining segments respectively to the domestic market, while also supplying materials and equipment to both segments. TH EvrazHolding's revenues attributable to the resale of ferroalloys, purchased from third parties and resold to third parties, partially for further processing and partially representing excess amounts in relation to bulk discount purchases, amounted to US$23 million and US$25 million in 2006 and 2005, respectively. These revenues were allocated to the other operations segment. Revenues from supplies to the steel and mining segments and the resale of products from these segments were allocated to the steel and mining segments, respectively.

Trading House EvrazResource (TH EvrazResource) supplies coking coal to the steel segment and resells coal, coke and chemical products to the market. In 2005, TH EvrazResource's revenues attributable to the resale of coal from Raspadskaya, YuKU and other mines to third parties amounted to US$129.0 million and were allocated to the other operations segment, while in 2006 such revenues were not material. Revenues from supplies to the steel and mining segments and the resale of steel and mining products were respectively allocated to the steel and mining segments.

Evro-Aziatskaya Energy Company (EvrazEK). EvrazEK is an energy generating company. It supplies natural gas, coke-oven gas, steam and electricity to the steel and mining segments. Following its acquisition in November 2006, EvrazEK generated revenues of US$19 million. Intersegment sales accounted for 71.39% of the revenues.

External sales in respect of the other operations segment, consisting primarily of sales of energy by MEF, the provision of port services by Nakhodka Sea Port and the revenues of TH EvrazHolding and TH EvrazResource from resale transactions, decreased from US$228 million in 2005 to US$86 million in 2006. This drop in external sales is primarily attributable to the revenues from resale of coal by TH EvrazResource, which were abandoned in 2006, and to decreased resale of electricity to third parties by MEF.

Cost of Revenues and Gross Profit

Evraz's consolidated cost of revenues amounted to US$5,159 million and US$4,172 million in 2006 and 2005, respectively. Cost of revenues as a share of consolidated revenues decreased from 64.1% to 62.2% of consolidated revenues in 2005 and 2006, respectively. This decrease is primarily attributable to the growth in steel volumes and average prices in 2006 compared to 2005, while Evraz's own iron ore production served, to a considerable extent, to shield Evraz's consolidated gross profits from the impact of increased prices of iron ore.

The table below sets forth cost of revenues and gross profit by segment for the year ended 31 December 2006 and 2005, including percentage of segment revenues:

	Year ended 31 December					
	2006		2005		2006 v 2005	
millions of US$, except percentages	amount	percentage of segment revenues	amount	percentage of segment revenues	change	% change
Steel segment						
Cost of revenues	**(5,488)**	**(67.2)%**	(4,316)	(69.4)%	(1,172)	27.2%
Raw materials	**(3,334)**		(2,594)		(740)	28.5%
Transportation	**(550)**		(440)		(110)	25.0%
Staff costs	**(483)**		(398)		(85)	21.4%
Depreciation	**(207)**		(178)		(29)	16.3%
Energy	**(457)**		(342)		(115)	33.6%
Other[1]	**(454)**		(364)		(90)	24.7%
Gross profit	**2,673**	**32.8%**	1,905	30.6%	768	40.3%
Mining segment						
Cost of revenues	**(708)**	**(61.7)%**	(640)	(64.7)%	(68)	10.6%
Raw materials	**(151)**		(164)		13	(7.9)%
Transportation	**(57)**		(42)		(15)	35.7%
Staff costs	**(177)**		(146)		(31)	21.2%
Depreciation	**(54)**		(47)		(7)	14.9%
Energy[2]	**(187)**		(154)		(33)	21.4%
Other[3]	**(82)**		(87)		5	(5.7)%
Gross profit	**439**	**38.3%**	349	35.3%	90	25.8%
Other operations						
Cost of revenues	**(376)**	**(62.3)%**	(462)	(71.6)%	86	(18.6)%
Gross profit	**228**	**37.7%**	183	28.4%	45	24.6%
Eliminations-cost of revenues	**1,413**		1,246			
Eliminations-gross profit	**(207)**		(101)			
Consolidated cost of revenues	**(5,159)**		**(4,172)**		**(987)**	**23.7%**
Consolidated gross profit	**3,133**		**2,336**		**797**	**34.1%**

Notes:

(1) Includes repairs and maintenance and auxiliary materials such as refractory products.

(2) Includes electricity, heat, natural gas and fuel used in production process, such as fuel oil.

(3) Includes auxiliary materials and repairs and maintenance.

STEEL SEGMENT

Steel segment cost of revenues increased by 27.2% from US$4,316 million to US$5,488 million in 2005 and 2006, respectively. Cost of revenues amounted to 67.2% and 69.4% of steel segment revenues for the year of 2006 and 2005, respectively.

A significant growth in volumes of steel products sold contributed to the increase in the steel segment cost of revenues in 2006 as compared to 2005. The growth in the total steel sales volumes by 25% was attributable to an organic growth in sales of the Russian operations, to the acquisitions of Vitkovice Steel and Palini in late 2005 (excluding supply of slab from Russian plants for re-rolling) and to de-stocking of Evraz's steel inventories in ports during 2006 (approximately 58%, 22% and 20% of the total growth, respectively). After its acquisition in 2005, Palini mainly rerolles slab purchased from within Evraz and hence does not directly contribute to the increase in group volumes. (See "Summary of acquisitions—Acquisitions in 2005".)

Apart from the steel sales volumes, certain items of the steel segment cost of revenues were also influenced by the acquisition of Vitkovice Steel and to a less degree of Palini as indicated below. The cost of revenues in respect of Vitkovice Steel, including intra-group profits, amounted to US$472 million and US$80 million (8.6% and 1.8% of steel segment cost of revenues) in 2006 and 2005, respectively, while the cost of revenues in respect of Palini, including intra-group profits, amounted to US$221 million and US$83 million (4.0% and 1.9% of steel segment cost of revenues) in 2006 and 2005, respectively. Most of the cost of revenues of Palini relates to the slab purchased from within Evraz.

The primary factors affecting the growth of steel segment cost of revenues in 2006 as compared to 2005 were as follows:

- Raw material costs increased by 28.5% primarily due to a significant growth in total sales volume of steel products (by 25%) and due to higher prices of iron ore and scrap purchased by the Russian plants, which on average increased by 8% and 32%, respectively, in 2006 compared to 2005. These increases were partially compensated by decreased prices of coking coal purchased by the Russian plants by approximately 18% on average in 2006 compared to 2005. Contribution of Vitkovice Steel to the growth of raw materials costs primarily relate to the volume factor, as it was acquired at the end of 2005.
- Transportation costs increased by 25.0%. A large part of these costs relates to railway tariffs in respect of the transportation of Evraz's steel products from the Russian plants to the relevant ports. The increase is mainly attributable to the growth in export sales volumes of steel products (by 37%) and related transportation costs.
- Staff costs increased by 21.4%. The acquisitions of Vitkovice Steel, Stratcor and Palini contributed approximately +8% to the increase. Wages and salaries of production staff at Russian plants rose in line with inflation.
- Depreciation costs increased by 16.3%. The acquisitions of Vitkovice Steel, Stratcor and Palini contributed approximately +13% to the increase in depreciation. The increase was also due to completion of several investment projects at the Russian plants.
- Energy costs increased by 33.6%. The acquisitions of Vitkovice Steel, Stratcor and Palini contributed substantially to the increase in energy costs (+17%) together with the increased steel production volumes, described above, and increases in electricity and natural gas tariffs at the Russian plants by 9% and 15%, respectively.
- Other costs increased by 24.7%. These costs consisted primarily of contractor services and materials for maintenance and repairs. Almost all increase is attributable to Vitkovice Steel and Stratcor.

Steel segment gross profit increased by 40.3% to US$2,673 million for the year ended 31 December 2006 compared to the year ended 31 December 2005, while gross profit margin amounted to 32.8% and 30.6% of steel segment revenues in 2006 and 2005, respectively. Gross profit margin increased over the period primarily due to increased sales volume of steel products.

MINING SEGMENT

The mining segment cost of revenues increased by 10.6% from US$640 million to US$708 million in 2005 and 2006, respectively, representing 61.7% and 64.7% of the mining segment revenues in 2006 and 2005, respectively.

The primary factors affecting the mining segment cost of revenues between the periods were:

- Raw materials costs decreased by 7.9%. Decreased costs resulted mainly from a reduction in volumes of iron ore purchased by Evrazruda as a result of acquisition of certain counterparties, from which the materials were purchased before. The 7% reduction of sinter production at VGOK further contributed to the decrease in purchases of iron ore from third parties.

- Transportation costs increased by 35.7%. The increase is mainly attributable to the increased transportation of raw iron ore between branches of Evrazruda for further processing, to the enlargement of open extraction operations at Mine 12 and to the increased internal traffic at VGOK, all of them are subject to increases in railway tariffs.
- Staff costs increased by 21.2%. Apart from increase of wages and salaries of production staff in line with inflation, there was made an additional bonus accrual made at KGOK in 2006, which also contributed to the increase. Also, certain staff expenses were reclassified from general and administrative expenses to cost of revenues in 2006 that matches with decrease staff costs in general and administrative.
- Energy costs increased by 21.4% mainly due to the growth in electricity, natural gas and heat tariffs. Production growth at KGOK by 10% also contributed to the increase in energy costs.
- Depreciation costs increased by 14.9% mainly due to additional maintenance capex at KGOK and Evrazruda.
- Other costs decreased by 5.7%. These costs consisted primarily of contractor services and materials for maintenance and repairs and certain taxes.

Mining segment gross profit increased by 25.8% to US$439 million in 2006 from US$349 million in 2005, resulting in gross profit margin of 38.3% of mining segment revenues in 2006 as compared to 35.3% in 2005. Gross profit margin of the mining segment increased, largely reflecting a growth in average prices of iron ore in 2006 compared to 2005.

OTHER OPERATIONS

The other operations segment's cost of revenues decreased by 18.6% to US$376 million in 2006, representing 62.3% of other operations revenues, compared to US$462 million, representing 71.6% of other operations revenues, in 2005. The decrease in other operations cost of revenues is attributable to the transfer of low margin railway transportation of export products to the ports from Evraztrans to TH EvrazHolding, which was allocated to the steel segment. It is also attributable to the cancellation of coking coal resale to third parties by TH EvrazResource in 2006 (see discussion of revenues).

The major components of cost of revenues at Nakhodka Sea Port are staff costs and cost of inventory; the major component of Evraztrans' cost of revenues is rent of railway cars; the major component of MEF's cost of revenues is the purchase of electricity from power generating companies; the major components of EvrazEK cost of revenues are natural gas for resale to the steel segment and natural gas and steam coal for power generation; while the major component of Sinano's cost of revenues are ship hire fees. Staff costs account for the majority of EvrazHolding's costs.

The gross profit of the other operations segment increased by 24.6% to US$228 million in 2006 compared to US$183 million in 2005. Gross profit margin amounted to 37.7% and 28.4% of other operations revenues in 2006 and 2005, respectively. The majority of the growth in gross profit of the other operations segment was provided by Sinano, which substantially increased volume of freight services provided to the steel segment.

Selling and Distribution Costs

Selling and distribution costs increased by 34.3% to US$243 million, amounting to 2.9% of consolidated revenues, in 2006 compared to US$181 million, amounting to 2.8% of consolidated revenues, in 2005. Selling and distribution costs consist largely of transportation expenses related to Evraz's selling activities.

The following table presents selling and distribution costs by segment for the year ended 31 December 2006 and 2005, including as a percentage of segment revenues:

millions of US$, except percentages	2006 amount	2006 percentage of segment revenues	2005 amount	2005 percentage of segment revenues	2006 v 2005 change	2006 v 2005 % change
SELLING AND DISTRIBUTION COSTS BY SEGMENT						
Steel segment	**(288)**	**(3.5)%**	(202)	(3.2)%	(86)	42.6%
Transportation costs	**(133)**		(98)		(35)	35.7%
Staff costs	**(23)**		(22)		(1)	4.5%
Bad debt expense	**(4)**		(5)		1	(20.0)%
Other[1]	**(128)**		(77)		(51)	66.2%
Mining segment	**(1)**	**(0.1)%**	(7)	(0.7)%	6	(85.7)%
Other operations	**(84)**	**(13.9)%**	(43)	(6.7)%	(41)	95.3%
Eliminations	**130**		71			
Total	**(243)**		**(181)**		**(62)**	**34.3%**

Note.

(1) Includes auxiliary materials such as packaging, port services and customs duties.

STEEL SEGMENT

Selling and distribution costs amounted to 3.5% and 3.2% of steel segment revenues in 2006 and 2005, respectively. The primary factors affecting the steel segment selling and distribution costs were:

- Transportation costs increased by 35.7%. The increase is primarily related to contribution of Vitkovice Steel (+25%) and Stratcor (+3%), as well as to the growth in freight services provided by third parties due to the increase in the volume of export sales.
- Staff costs increased by 4.5%.
- The bad debt expense in 2006 and 2005 related principally to obligations in respect of Tagil Energo, which purchases heat from NTMK.
- Other selling costs increased by 66.2%. The increase is mainly attributable to higher volumes of port services and sales commissions related to increased export sales of steel products in 2006. Vitkovice Steel and Stratcor contributed to the increase +18%.

MINING SEGMENT

Selling and distribution costs amounted to 0.1% and 0.7% of mining segment revenues in 2006 and 2005, respectively.

OTHER OPERATIONS

Selling and distribution costs amounted to 13.9% and 6.7% of other operations' revenues in 2006 and 2005, respectively. The increase in selling and distribution costs was largely attributable to the expansion of Sinano's business activities. Most of Sinano's costs are allocated to selling and distribution costs, which consist primarily of freight expenses, ship management services and ship hire fees. Therefore, the growth in Sinano's sales in 2006 resulted in a sharp increase in corresponding gross profits, but a moderate increase in operating profits.

General and Administrative Expenses

General and administrative expenses increased by 4.7% to US$489 million in 2006 compared to US$467 million in 2005. As a percentage of consolidated revenues, general and administrative expenses amounted to 5.9% and 7.2% in 2006 and 2005, respectively.

The following table presents general and administrative expenses by segment for the year ended 31 December 2006 and 2005 including as a percentage of segment revenues:

	Year ended 31 December					
	2006		2005		2006 v 2005	
millions of US$, except percentages	amount	percentage of segment revenues	amount	percentage of segment revenues	change	% change
GENERAL AND ADMINISTRATIVE EXPENSES BY SEGMENT						
Steel segment	**(312)**	**(3.8)%**	(319)	(5.1)%	7	(2.2)%
Staff costs	**(107)**		(102)		(5)	4.9%
Taxes, other than on income	**(64)**		(74)		10	(13.5)%
Management fees	**(22)**		(21)		(1)	4.8%
Other[1]	**(119)**		(122)		3	(2.5)%
Mining segment	**(72)**	**(6.3)%**	(70)	(7.1)%	(2)	2.9%
Staff costs	(25)		(26)		1	(3.8)%
Taxes, other than on income	(13)		(4)		(9)	225.0%
Management fees	(13)		(9)		(4)	44.4%
Other [2]	(21)		(31)		10	(32.3)%
Other operations	**(106)**	**(17.5)%**	(98)	(15.2)%	(8)	8.2%
Unallocated[3]	**(34)**		(10)			
Eliminations	**35**		30			
Total	**(489)**		**(467)**		**(22)**	**4.7%**

Notes:

[1] Includes depreciation, insurance and bank and other service costs.

[2] Includes rent, insurance, bank and other service costs and, with effect from April 2005, management fees paid to EvrazHolding.

[3] Relates principally to accounting and consulting fees.

STEEL SEGMENT

General and administrative expenses amounted to 3.8% and 5.1% of the steel segment revenues in 2006 and 2005, respectively. The primary factors affecting the changes in the steel segment general and administrative expenses were:

- Staff costs increased by 4.9%. Acquisitions of Vitkovice Steel, Stratcor and Palini contributed about US$10 million to the increase. Net of the effect of Vitkovice Steel and Palini, staff costs of the steel segment would decrease by 3%.
- Taxes, other than on income, including property, land and local taxes, decreased by 13.5%. The decrease primarily reflects a reduction in prior year's provision for tax litigations.
- Management fees charged by EvrazHolding increased by 4.8% due to the strengthening of the Russian rouble against US dollar.

Palini, Vitkovice Steel and Stratcor accounted for US$4 million, US$19 million and US$3 million of the general and administrative expenses of the steel segment in 2006 and US$2 million, US$4 million and nil in 2005, respectively.

MINING SEGMENT

General and administrative expenses amounted to 6.3% and 7.1% of mining segment revenues for the year ended 31 December 2006 and 2005, respectively.

- Staff costs decreased by 3.8%.
- Taxes, other than on income, increased by 225.0% mainly due to variances in tax expense at VGOK and KGOK. A tax benefit of US$1.2 million was recorded at VGOK in 2005 as a result of the favourable court decision on a tax litigation, while about US$4.3 million of mining tax expense was accrued at VGOK in 2006. Mining tax claims have been accrued at KGOK in 2006.
- Management fees to EvrazHolding increased by 44.4% in 2006 compared to 2005. Management fees were paid by KGOK, Mine 12, Evrazruda and VGOK to EvrazHolding since 1 April in 2005, and the whole year in 2006.
- Other costs decreased by 32.3%.

OTHER OPERATIONS

General and administrative expenses amounted to 17.5% and 15.2% of other operations segment revenues in 2006 and 2005, respectively. EvrazHolding accounted for US$87 million (82%) and US$78 million (80%) of other operations' general and administrative expenses in 2006 and 2005, respectively. Most of EvrazHolding's general and administrative costs relate to wages and salaries in respect of its employees, including Evraz's senior management

UNALLOCATED

Increase in unallocated general and administrative expenses in 2006 primarily relates to share options plans of Evraz Group S.A.

Other Operating Income and Expenses

Other operating expenses, net of other operating income, decreased by 2.8% to US$103 million in 2006, representing 1.2% of consolidated revenues, compared to US$106 million in 2005, representing 1.6% of consolidated revenues. Other operating income and expenses consist primarily of social and social infrastructure expenses, gain (loss) on the disposal of property, plant and equipment, impairment of assets and gain (loss) in respect of foreign exchange rates changes. Social and social infrastructure expenses include such items as maintenance of medical centres, recreational centres, employee holiday allowances, sponsorship of sports teams and events, charitable donations and cash assistance to retired and former employees and veterans.

The following table presents other operating income and expenses by segment for the year ended 31 December 2006 and 2005, including as a percentage of segment revenues:

	Year ended 31 December					
	2006		2005		2006 v 2005	
millions of US$, except percentages	amount	percentage of segment revenues	amount	percentage of segment revenues	change	% change
OTHER OPERATING INCOME AND EXPENSES BY SEGMENT						
Steel segment						
Social and social infrastructure maintenance expenses	**(67)**	**(0.8)%**	(62)	(1.0)%	(5)	8.1%
Loss on disposal of property, plant and equipment	**(15)**	**(0.2)%**	(18)	(0.3)%	3	
Impairment of assets	**(22)**	**(0.3)%**	0	0.0%	(22)	
Foreign exchange gain (loss)	**25**	**0.3%**	(1)	0.0%	26	
Other income (expense), net	**(28)**	**(0.3)%**	5	0.1%	(33)	
Total	**(107)**	**(1.3)%**	(76)	(1.2)%	(31)	40.8%
Mining segment						
Social and social infrastructure maintenance expenses	**(16)**	**(1.4)%**	(11)	(1.1)%	(5)	45.5%
Other income (expense), net	**1**	**0,1%**	(2)	(0.2)%	3	
Total	**(15)**	**(1.3)%**	(13)	(1.3)%	(2)	15.4%
Other operations						
Social and social infrastructure maintenance expenses	**(3)**	**(0.5)%**	(3)	(0.5)%	0	0.0%
Other income (expense), net	**(9)**	**(1.5)%**	(5)	(0.8)%	(4)	
Total	**(12)**	**(2.0)%**	(8)	(1.2)%	(4)	50.0%
Unallocated	**31**		(9)		40	
Total other operating income and expenses, net	**(103)**		(106)		3	(2.8)%

There was a moderate increase in social and social infrastructure expenses primarily due to the general inflation in Russia and strengthening of the rouble against US dollar.

Profit from Operations

Profit from operations increased by 45.3% to US$2,298 million for the year ended 31 December 2006, amounting to 27.7% of consolidated revenues, compared to US$1,582 million, amounting to 24.3% of consolidated revenues, for the year ended 31 December 2005. The increase in the share of profit from operations as a percentage of consolidated revenues is attributable to the growth in consolidated gross profit margin in 2006.

The following table presents profit from operations by segment for the year ended 31 December 2006 and 2005, including as a percentage of segment revenues:

millions of US$, except percentages	Year ended 31 December					
	2006		2005		2006 v 2005	
	amount	percentage of segment revenues	amount	percentage of segment revenues	change	% change
PROFIT FROM OPERATIONS BY SEGMENT						
Steel segment	**1,966**	**24.1%**	1,308	21.0%	658	50.3%
Mining segment	**351**	**30.6%**	259	26.2%	92	35.5%
Other operations	**26**	**4.3%**	34	5.3%	(8)	(23.5)%
Unallocated	**(3)**		(19)		16	
Eliminations	**(42)**				(42)	
Total	**2,298**	**27.7%**	**1,582**	**24.3%**	**716**	**45.3%**

STEEL SEGMENT

Steel segment profit from operations increased by 50.3% to US$1,966 million in 2006 from US$1,308 million in 2005. Profit from operations as a percentage of steel segment revenues amounted to 24.1% and 21.0% in 2006 and 2005, respectively.

MINING SEGMENT

Mining segment profit from operations increased by 35.5% to US$351 million in 2006 from US$259 million in 2005. Profit from operations as a percentage of mining segment revenues increased from 26.2% in 2005 to 30.6% to 2006. The increase in the operating profit margin resulted from higher iron ore prices on the markets in 2006 compared to 2005.

OTHER OPERATIONS

Other operations segment profit from operations decreased by 23.5% to US$26 million in 2006 compared to US$34 million in 2005. Profit from operations as a percentage of other operations segment revenues decreased from 5.3% in 2005 to 4.3% in 2006. The decrease in profit from operations largely reflected higher general and administrative expenses at EvrazHolding and foreign exchange losses at TH EvrazHolding on intersegment loans in 2006 compared to 2005.

Non-Operating Income and Expense

Non-operating income and expense includes interest income, interest expense, share of profits of associates and joint ventures, gain (loss) on extinguishment of debts and excesses of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition of such. The table below presents these items for the year ended 31 December 2006 and 2005, including as a percentage of consolidated revenues:

	Year ended 31 December					
	2006		2005		2006 v 2005	
millions of US$, except percentages	amount	percentage revenues	amount	percentage revenues	change	% change
Interest income	**27**	**0.3%**	15	0.2%	12	80.0%
Interest expense	**(228)**	**(2.7)%**	(142)	(2.2)%	(86)	60.6%
Share of profits (losses) of associates and joint ventures, net	**45**	**0.5%**	57	0.9%	(12)	(21.1)%
Gain (loss) on extinguishment of debts	**13**	**0.2%**	8	0.1%	5	62.5%
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**1**	**0.0%**	15	0.2%	(14)	(93.3)%
Other non-operating gain (loss)	**(59)**	**(0.7)%**	(7)	(0.1)%	(52)	n/m
Total	**(201)**	**(2.4)%**	**(54)**	**(0.8)%**	**(147)**	**n/m**

Interest income increased by 80.0% to US$27 million in 2006 from US$15 million in 2005, largely due to placing free cash on short-term deposit.

Interest expense increased by 60.6% to US$228 million in 2006 compared to US$142 million in 2005. The increase resulted from the issuance of Eurobonds in November 2005 (see "Liquidity and Capital Resources—Capital Resources"), as well as bank borrowings related to capital expenditures and new acquisitions.

Share of profits of associates and joint ventures in 2005 relates to income attributable to Evraz's interest in Raspadskaya, while in 2006 it relates to the income (loss) attributable to Evraz's interest in Raspadskaya, YuKU and Highveld.

Gain on extinguishment of debts amounted to US$13 million and US$8 million in 2006 and 2005, respectively, and primarily related to forgiven restructured taxes and other liabilities at Zapsib and NTMK, respectively.

Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition in 2005 primarily related to the acquisitions of Mine 12 and of the assets and the business of OOO Nizhnesaldinsky Metallurgical Plant. In 2006, it primarily related to the acquisitions of Cheremshanka and Ekont.

Other non-operating loss for the year ended 31 December 2006 included losses from divestment of Neryungriugol of about US$66 million. In 2005 they included US$10 million paid to the government of Georgia as a non-refundable prepayment for the acquisition of an ownership interest in JSC Chiaturmanganum and JSC Vartsikhe GES. The Group planned to acquire a 63.08% interest in these entities, but abandoned the project prior to completion of the acquisitions.

Income Tax Expense

Income tax expense increased by 34.3% to US$638 million in 2006 from US$475 million in 2005. Evraz's effective tax rate, defined as income tax expense as a percentage of profit before tax, slightly decreased from 31.1% in 2005 to 30.4% in 2006. The decrease in the effective tax rate is mainly due to a net deferred income tax benefit recognised in 2006 while there was a net deferred income tax expense in 2005.

Net Profit Attributable to Equity Holders of the Parent Entity

As a result of the factors set forth above, Evraz's net profit attributable to equity holders of the parent entity increased from US$918 million in 2005 to US$1,385 million in 2006.

Net Profit Attributable to Minority Interests

Net profit attributable to minority interests amounted to US$74 million and US$135 million in 2006 and 2005, respectively. The decrease in net profit attributable to minority interests largely reflected the decrease in minority shareholders' interests. Evraz's strategy is to reduce the level of minority interests in its subsidiaries.

The following table presents the Company's effective ownership interests in its major subsidiaries as of 31 December 2006 and 2005 and actual ownership interests as of 31 December 2006:

	Actual ownership interest as of 31 December	Effective ownership interest as of 31 December, %			
SUBSIDIARY	2006	2006	2005	Business activity	Location
Mastercroft	**100.00**	**100.00**	100.00	Holding Company	Cyprus
NTMK	**95.00**	**95.00**	92.38	Steel production	Russia
Zapsib	**96.68**	**100.00**	96.67	Steel production	Russia
NKMK	**100.00**	**98.75**	97.26	Steel production	Russia
Palini	**75.00**	**100.00**	75.00	Steel production	Italy
Vitkovice Steel	**100.00**	**100.00**	98.96	Steel production	Czech Republic
Stratcor	**72.84**	**72.84**	n/a	Vanadium production	USA, S.Africa
KGOK	**97.72**	**97.11**	91.98	Iron ore mining and processing	Russia
Evrazruda	**100.00**	**100.00**	100.00	Iron ore mining and processing	Russia
VGOK	**93.13**	**93.88**	85.00	Iron ore mining and processing	Russia
Mine 12	**100.00**	**100.00**	100.00	Coal mining	Russia
Ferrotrade Limited	**100.00**	**100.00**	100.00	Trading	Gibraltar
Trade House EvrazHolding	**100.00**	**100.00**	100.00	Trading	Russia
Trade House EvrazResource	**100.00**	**100.00**	100.00	Trading	Russia
Nakhodka Sea Port	**94.20**	**93.03**	91.04	Seaport services	Russia
Evraztrans	**76.00**	**76.00**	76.00	Freight-forwarding	Russia
Sinano	**100.00**	**100.00**	100.00	Freight	Cyprus
Metallenergofinance	**100.00**	**100.00**	100.00	Utilities supply	Russia

Liquidity and Capital Resources

CAPITAL REQUIREMENTS

In addition to meeting its working capital requirements, Evraz expects that repayments of outstanding debt, capital expenditure and acquisitions will represent the Company's most significant use of funds for a period of several years. The amount and term of Evraz's obligations in respect of outstanding debt is described under "Contractual obligations and commercial commitments".

Evraz's capital expenditure programme aims at the reconstruction and modernisation of its existing production facilities to reduce costs, improve process flows and expand the product range. Evraz also plans to make capital expenditures to increase the share of higher margin products it produces and sells.

In 2006, Evraz made capital expenditures of US$660 million, including US$533 million in respect of its steel segment, and US$98 million in respect of its mining segment (excluding capex related to Neryuingriugol; see discussion in "Other Non-operating Income and Expense"). Evraz's capital expenditure plans are subject to change depending, among other things, on the evolution of market conditions and the cost and availability of funds.

CAPITAL RESOURCES

Historically, Evraz has relied on cash flow provided by operations and short-term debt to finance its working capital and capital requirements. Management expects that such sources of funding will continue to be important in the future. At the same time, Evraz intends to increasingly substitute short-term debt for longer-term debt in order to better match its capital resources to its planned expenditure. Evraz does not currently make use of off-balance sheet financing arrangements.

Evraz intends to finance its capital investment programme with a mix of cash flows from operations and financing activities. Evraz seeks long-term financing (with tenures of five to seven years) both domestically and internationally, from banks and the capital markets, as well as short-term working capital loans that may be secured by pledges over plant and equipment. Purchases of equipment from major European producers have been, and are expected to continue to be, backed by European export credit agencies such as Hermes (Germany), OeKB (Austria), KUKE (Poland), SACE (Italy), ODL (Luxembourg), EximBanka SR (Slovakia) and Finnvera (Finland).

Net cash provided by operating activities amounted to US$2,092 million and US$1,496 million in 2006 and 2005, respectively. The increase in net cash provided by operating activities in 2006 was both due to increased profit margins and due to a decrease in cash used in working capital. In particular, in 2006, Evraz had an increase in operating cash flows due to reduction in balances of inventories. Cash provided by operating activities before working capital adjustments increased from US$1,406 million in 2005 to US$1,962 million in 2006.

Net cash used in investing activities totaled US$1,577 million and US$1,753 million in 2006 and 2005, respectively. Substantially all the cash used in investing activities related to purchases of property, plant and equipment, shares in subsidiaries and an interest in a joint venture.

Net cash from (used in) financing activities amounted to US$(341) million and US$607 million in 2006 and 2005, respectively.

In June 2005, Evraz listed global depositary receipts (GDRs) on the Official List of the London Stock Exchange (the LSE), representing approximately 8.3% of the Company's issued share capital, thereby raising US$422 million from new investors.

In 2005, Evraz issued US dollar denominated notes, the proceeds of which were used to finance capital expenditures and repay short-term borrowings, as follows:

- In November 2005, EvrazGroup S.A. issued notes in the aggregate principal amount of US$750 million. The notes bear interest of 8.25% per annum payable semi-annually and mature on 10 November 2015. Mastercroft guaranteed all amounts in respect of the notes. The covenants contained in the conditions of these notes impose restrictions on Evraz Group S.A. and its subsidiaries in respect of certain transactions and financial ratios and contain no restrictions in respect of dividend payments by the Company.

In 2005 and 2006, the most significant syndicated loan facilities obtained by Evraz from international banks to finance its capital requirements included:

- On 18 November 2005, Evraz incurred debt to finance its acquisition of Vitkovice Steel. Mastercroft received a US$200 million loan from Commerzbank (Prague) with a term of one year that bore interest at LIBOR plus a margin of 1.75%.
- On 1 June 2006, Evraz entered into a US$225 million credit facility agreement arranged by Natixis Banques Populaires and Bank Natixis (ZAO). The full facility amount was utilised on 6 June 2006. The facility is repayable in 42 equal monthly instalments, starting from December 2007, and bears interest at a fixed annual rate of 6.681%. The amount borrowed by Evraz under the agreement was applied towards the refinancing of a payment made by it as consideration for the 3,600 shares of Corber Enterprises Limited purchased pursuant to a share purchase agreement dated 28 April 2006.

Other financing facilities historically used by Evraz include loans from Russian and international banks, trade financing facilities and vendor financing for equipment deliveries. All financial decisions are made by the Company, irrespective of the fact that the ultimate borrowers are usually the operating subsidiaries.

LIQUIDITY

Evraz has sufficient liquidity to support its current operations and meet its current debt obligations. As the table below illustrates, Evraz had estimated liquidity, defined as cash and cash equivalents, amounts available under unrestricted credit facilities and short-term bank deposits with original maturity of more than three months, of approximately US$1,254 million as of 31 December 2006 and approximately US$1,332 million as of 31 December 2005.

Evraz's current ratio, defined as current assets divided by current liabilities, increased from 1.40 as of 31 December 2005 to 1.51 as of 31 December 2006. Evraz's corporate treasury monitors the financial requirements of Evraz's various subsidiaries and has a variety of instruments at its disposal to ensure that each subsidiary has sufficient liquidity to meet its obligations and capital requirements.

millions of US$

ESTIMATED LIQUIDITY

	2006	2005
Cash and cash equivalents[1]	**842**	641
Amount available under credit facilities[2]	**388**	675
Short-term bank deposits	**24**	16
Total estimated liquidity	**1,254**	**1,332**

Notes:

[1] Since 31 December 2006, Evraz has used or agreed to use cash in several ways other than in the ordinary course of its business. In January 2007, Evraz paid US$2,271 million for the acquisition of a 91.5% interest in OSM (see "Summary of acquisitions – Acquisitions in 2007").

[2] Total amounts available under borrowing facilities amounted to approximately US$2,338 million as of 31 December 2006 and US$716 million as of 31 December 2005. Amounts in excess of the total stated in this table consisted of facilities associated with specific capital expenditures or specific other uses (including US$1,800 million for the acquisition of OSM as of 31 December 2006).

CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table sets forth the amount of Evraz's obligations in respect of loans and borrowings as of 31 December 2006 and 31 December 2005 by period:

millions of US$	As of 31 December 2006					As of 31 December 2005				
	total	less than 1 year	1-2 years	2-5 years	more than 5 years	total	less than 1 year	1-2 years	2-5 years	more than 5 years
OBLIGATIONS IN RESPECT OF BORROWINGS										
Short-term loans and borrowings (including current portion of long-term borrowings)	**742**	**742**	**–**	**–**	**–**	839	839	–	–	–
Long-term loans and borrowings	**1,894**	**–**	**382**	**707**	**805**	1,547	–	117	612	818
Unamortised debt issue costs[1]	**(40)**	**–**	**–**	**–**	**–**	(36)	–	–	–	–
	2,596					**2,350**				

Note.

[1] Unamortised debt issue costs represent commissions and arrangement costs paid by the Company's subsidiaries in relation to the arrangement of long-term loans and the issuance of notes.

As of 31 December 2006 and 31 December 2005, Evraz had equipment with a carrying value of US$39 million and US$156 million, respectively, pledged as collateral under loans to the Company. In addition, Evraz had pledged finished goods with a carrying value of US$194 million and US$204 million as of 31 December 2006 and 31 December 2005, respectively.

As of 31 December 2006 and 31 December 2005, Evraz had incurred liabilities in respect of post-employment benefits that the Company provides to employees of certain of its subsidiaries pursuant to collective bargaining agreements of US$111 million and US$79 million, respectively. These amounts represent the present value of Evraz's defined benefit obligation less the fair value of plan assets and adjusted for unrecognised actuarial loss and past service costs, discounted to present value. Of the total liability as at 31 December 2006, approximately US$19.7 million related to NTMK, US$24.3 million to Zapsib, US$18.0 million to NKMK, US$8.2 million to KGOK, US$18.0 million to Evrazruda, US$4.5 million to Mine 12, US$1.3 million to Palini, US$1.7 million to Vitkovice Steel and US$1.4 million to Nakhodka Sea Port.

Evraz also makes defined contributions to Russia's state pension, social insurance and medical insurance at the statutory rates in force (approximately 24% as of 31 December 2006), based on gross salary payments. Evraz is only required to make these contributions as they fall due and the Company does not retain any legal or constructive obligation to pay future benefits. These contributions are expensed as incurred.

Evraz has signed contracts for the purchase of production equipment and construction works. As of 31 December 2006, the amount that remains to be paid under these contracts totalled US$414 million.

Future minimum lease payments were as follows as at 31 December 2006:

millions of US$	As at 31 December 2006		
	principal	interest	total
2007	11	5	16
2008–2011	39	8	47
2012	3	–	3
Total	53	13	66
Less: current portion	(11)	(5)	(16)
Total non-current portion	**42**	**8**	**50**

Evraz is also involved in a number of social programmes designed to support education, healthcare and the development of social infrastructure in certain towns where the Company's assets are located. In 2007, Evraz's plans to spend approximately US$104 million under these programmes.

Evraz has a constructive obligation to reduce environmental pollution and contamination in accordance with an environmental protection programme. During the period 2007 to 2012, Evraz is obligated to spend approximately US$158 million on the replacement of old machinery and equipment which will result in reduced pollution.

TAX CONTINGENCIES

The Russian government has initiated reforms of the tax system that have brought about some improvement in the tax climate. Many tax laws and related regulations have been introduced, some of which are subject to varying interpretation and inconsistent enforcement due to the fact that they are not clearly defined. Instances of inconsistent opinions between local, regional and federal tax authorities are not unusual. Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, Evraz has accrued tax liabilities based on management's best estimates. Possible liabilities, which were identified by management at the balance sheet date as those that can be subject to different interpretations of the tax laws and regulations and are not accrued in the accompanying financial statements, could total up to approximately US$29 million.

Inflation

While Evraz's revenues depend substantially on international prices for metallurgical products, its costs are closely linked to domestic cost factors. Inflation moderated in Russia during the past five years and reached 9.0% in 2006 compared with 10.9% in 2005. In 2006, overall price trends were generally positive, with steel prices growing faster than many relevant cost factors such as railway transportation charges, natural gas prices, electricity costs and the general consumer price index. During 2006, iron ore prices increased at a higher rate than steel prices, however, coking coal prices remained mostly flat and scrap prices grew approximately in line with steel prices.

The table below presents changes in Russia's consumer price index and rouble to US dollar exchange rates from 2002 through 2006:

	2002	2003	2004	2005	2006	2002 to 2006	source
Consumer Price Index, change in RUB[1]	15.1%	12.0%	11.7%	10.9%	**9.0%**	74%	Fedstat
Nominal RUB/US$ exchange rate, change[1]	(5.2%)	7.9%	6.1%	(3.6%)	**9.3%**	14.5%	CBR

Note.

[1] Represents the change from 31 December of the prior year to 31 December of the indicated year.

Seasonality

Seasonal effects have a relatively limited impact on Evraz. Nonetheless, a slowing of demand, and a consequent reduction in sales volumes, accompanied by an increase in inventories, is typically evident in the first and fourth quarters of the financial year reflecting the general reduction in economic activity associated with the New Year holiday period in Russia and elsewhere. The Russian construction market, in particular, experiences a slowdown in the winter months and export markets generally tend to slowdown during the first and second quarters of the year.

Quantitative and Qualitative Disclosures in Respect of Market Risk

OVERVIEW

In the ordinary course of its business Evraz is exposed to risks related to changes in exchange rates, interest rates, commodity prices and energy and transportation tariffs. Evraz does not currently enter into hedging or forward contracts in respect of any of these risks and does not currently plan to enter into such arrangements.

EXCHANGE AND INTEREST RATE RISK

Evraz's presentation currency is the US dollar. The measurement currency of Evraz's Russian subsidiaries is the rouble, while the measurement currencies of Evraz's subsidiaries located in other countries are the the Czech koruna in respect of Vitkovice Steel, the euro in respect of Palini and the US dollar in respect of other subsidiaries.

The rouble is not a fully convertible currency outside the territory of the Russian Federation. Within the Russian Federation, official exchange rates are determined daily by the Central Bank of the Russian Federation (the CBR). Market rates may differ from the official rates but the differences are, generally, within narrow parameters monitored by the CBR. (See "Exchange Rate Information".)

Evraz's products are typically priced in roubles in respect of Russian and CIS sales and US dollars and euros in respect of international sales. Evraz's direct costs, including raw materials, labour and transportation, are incurred in roubles in respect of Russian and CIS subsidiaries and in Czech korunas and euros for Vitkovice Steel and Palini, respectively. Other costs, such as interest expense, are incurred largely in roubles, US dollars and euros.

The mix of Evraz's revenues and costs is such that appreciation in real terms of the rouble against the US dollar tends to result in an increase in Evraz's costs relative to its revenues, while depreciation of the rouble against the US dollar in real terms tends to result in a decrease in Evraz's costs relative to its revenues. The rouble appreciated in real terms against the US dollar by 10.8% in 2005 and by 14.6% in 2006, according to the CBR. However, in recent years the effect of the real appreciation of the rouble against the US dollar has been more than offset by increased prices for Evraz's steel products, both in Russia and internationally. (See "Results of Operations for the year ended 31 December 2006 and 2005" and "Inflation".)

In addition, nominal depreciation of the rouble against the US dollar results in a decrease in the reported US dollar value of Evraz's rouble denominated assets (and liabilities) while nominal appreciation of the rouble against the US dollar results in an increase in the reported US dollar value of Evraz's rouble denominated assets (and liabilities). Moreover, nominal appreciation/depreciation of the rouble against the US dollar has a similar effect when the income statements of Evraz's Russian subsidiaries are translated into US dollars in connection with the preparation of Evraz's consolidated financial statements. The average exchange rate of the rouble against the US dollar appreciated by 1.9% and 4.1% in nominal terms in 2005 and 2006, respectively, according to the CBR.

The following table summarises Evraz's outstanding interest bearing debt, including loans and other borrowings, by currency and interest rate method as at 31 December 2006 and 31 December 2005:

	As at 31 December 2006				As at 31 December 2005				
millions of US$	US dollar-denominated	Rouble-denominated	Euro-denominated	total	US dollar-denominated	Rouble-denominated	Euro-denominated	Czech Koruna-denominated	total
Total debt, of which	2,347	**24**	**302**	**2,673**	1,978	18	353	28	2,377
Fixed-rate debt	1,489	**12**	**97**	**1,598**	1,484	9	124	–	1,617
Variable-rate debt	858	**12**	**205**	**1,075**	494	9	229	28	760

The following table summarises Evraz's currency exposure and interest rates in respect of the Company's outstanding debt as of 31 December 2006:

millions of US$	currency	2007	2008	2009	2010	after 2010	total	annual interest rate
		Expected maturity through 31 December						
Variable-rate debt:								
International banks—trade finance	USD	179	–	–	–	–	179	6.5–7.0%
Commerzbank (Prague)	USD	200	–	–	–	–	200	6.4%
ABN Amro, Societe Generale, BNP Paribas	USD	13	13	12	12	–	50	6.9%
ABN Amro	USD	207	–	–	–	–	207	6.8%
Credit Suisse	USD	–	207	–	–	–	207	7.0–8.2%
Other banks	USD	3	3	10	–	–	15	Various
Total US dollar denominated		**604**	**225**	**32**	**12**	**–**	**858**	
Gazprombank	EUR	2	2	2	1	–	7	7.3–7.4%
Transcreditbank	EUR	2	2	2	2	–	9	6.2–6.5%
Bayerische Landesbank Girozentrale	EUR	15	15	15	8	4	58	3.7–7.0%
Bank Austria Creditanstalt AG	EUR	9	–	–	–	–	9	4.5%
ABN Amro	EUR	3	3	3	2	–	10	4.3%
Commerzbank AG	EUR	3	3	3	3	11	23	3.7%
KfW	EUR	4	14	14	14	24	68	3.7–5.7%
Nordea	EUR	1	1	1	1	5	11	4.0–5.6%
BHF-BANK Aktiengesellschaft	EUR	2	2	1	1	1	6	4.4–4.7%
Other banks	EUR	1	1	1	1	–	3	Various
Total euro denominated		**42**	**43**	**43**	**32**	**45**	**205**	
Raiffeisenbank Austria	RUB	6	–	–	–	–	6	5.6–6.0%
Other banks	RUB	5	–	–	–	–	5	7.0%
Total rouble denominated		**12**	**–**	**–**	**–**	**–**	**12**	
Fixed-rate debt:								
Eurobond	USD	–	–	–	300	–	300	10.3%
Eurobond	USD	–	–	–	–	750	750	8.5%
Syndicated loans (ABN AMRO Bank N.V., BNP Paribas S.A. and SG)	USD	37	37	37	37	–	147	5.5–5.6%
Natixis Banques Populaires	USD	5	64	64	64	27	225	6.9%
Other landers	USD	25	39	3	0	0	67	Various
Total US dollar denominated		**67**	**140**	**404**	**101**	**777**	**1,489**	
Bank Austria Creditanstalt AG	EUR		9	9	9	26	52	4.4–6.8%
Societe Generale	EUR	2	2	2	2	5	15	4.0–5.0%
KfW	EUR	1	3	3	3	7	17	3.4–4.1%
BNP Paribas	EUR	2	2	2	2	7	13	4.1%
Total euro denominated		**5**	**16**	**16**	**16**	**45**	**97**	
Transcreditbank	RUB	10	–	–	–	–	10	8.0–9.0%
International Moscow Bank	RUB	–	–	–	2	–	2	8.6%
Total rouble denominated		**10**	**–**	**–**	**–**	**–**	**12**	
Total debt		**715**	**424**	**494**	**163**	**867**	**2,673**	

A hypothetical, instantaneous and simultaneous 10% appreciation of the rouble, Czech koruna and the euro against the US dollar as of 31 December 2006 would have resulted in an increase of approximately US$36 million on borrowings denominated in roubles, Czech korunas and euros held as of 31 December 2006.

COMMODITY PRICE RISK

Evraz's revenue is exposed to the market risk of price fluctuations related to the sale of its steel products. The prices of the steel products sold by Evraz both within Russia and abroad are generally determined by market forces. These prices may be influenced by factors such as supply and demand, production costs (including the costs of raw material inputs) and global and Russian economic growth. The prices of the mined products that Evraz sells to third parties are also affected by supply and demand and global and Russian economic growth. Adverse changes in respect of any of these factors may reduce the revenue that Evraz receives from the sale of its steel or mined products.

Evraz's costs are also exposed to fluctuations in prices for the purchase, processing and production of iron ore, coking coal, ferroalloys and other raw material inputs. Evraz's exposure to fluctuations in the price of iron ore and, as a result of the acquisition of Mine 12, coking coal, is limited due to its ability to obtain these products from its own production facilities. Where Evraz obtains these products from internal sources, the effect of price fluctuations is accounted for as an intersegment transfer and eliminated on consolidation. In addition, any increase in prices for coking coal sourced from Raspadskaya and YuKU (since 31 December 2005) is partially reflected as an increase in Evraz's income from affiliates.

As Evraz increases the proportion of raw materials acquired from internal sources, the Company's exposure to commodity price risk associated with the purchase and sale of these products will decline. Evraz's ongoing process of vertical integration, including the acquisitions of KGOK in 2004 and Evrazruda, Mine 12, Palini and Vitkovice Steel in 2005, together with the investment in YuKU, is an important element in the Company's drive to reduce its exposure to input and output commodity price risk.

TARIFF RISK

Evraz is also exposed to uncertainty with regard to the prices of the electricity and natural gas that it consumes in the production of steel and the mining of iron ore and coal. Prices in respect of both electricity and natural gas in Russia are currently below market prices in Western Europe and are regulated by the Government, thereby limiting Evraz's exposure to fluctuations in the cost of these products.

The Russian electricity sector is currently characterised by distinctly limited competition and regulated prices. Pricing policy is determined by the Federal Tariffs Service, a governmental agency authorised to regulate prices in respect of the power generated by regional electricity companies, power transmission, dispatch services and interregional trade, and is influenced by regional energy commissions that are authorised to regulate prices within a specific region. Power may also be purchased from the Federal Wholesale Electricity Market (FOREM). Most sellers of power on the domestic market are regional generation companies and most participants in FOREM are regional generating companies that seek to sell a power surplus to regional generating companies with supply deficits as well as industrial companies granted special access to FOREM. Evraz's subsidiary MEF has been granted such access to FOREM.

In 2006, Evraz's Russian operations purchased approximately 9,047 million kWh of electricity, representing approximately 90% of their requirements, from local subsidiaries of UES, the government controlled national holding company for the Russian power sector. The Government is currently implementing a restructuring plan for the power sector aimed at introducing competition, liberalising the wholesale electricity market and moving from regulated pricing to a market based system. Moreover, according to the Russian Energy Strategy approved by the Government in 2003, electricity tariffs for industrial users were to reach 3.2–3.6 US cents per kWh in 2006. Evraz's average cost of electricity in Russia was 2.8 US cents per kWh in 2005 and 3.1 US cents per kWh in 2006. Assuming a price of 3.6 US cents per kWh in the year ended 31 December 2006, Evraz's Russian operations would have incurred additional costs of approximately US$44 million during the period. Further electricity price increases may occur in the future as the industry is restructured and controlled to a greater extent by the private sector.

Evraz's Russian operations also purchase significant amounts of natural gas, primarily for the production of electricity and heat energy at the Company's facilities, from Gazprom's subsidiaries. Gazprom is a state controlled company and is the dominant producer and monopoly distributor of natural gas within Russia. Domestic natural gas prices are regulated by the Government and have been rising during recent years. Evraz's average price for natural gas in Russia reached RUB1,167 per thousand cubic metres in 2005 and RUB1,294 per thousand cubic metres in 2006. Despite these recent price increases, natural gas prices in Russia remain significantly below western European levels, a factor that helps to provide Evraz with a cost advantage over its competitors. In May 2004, in connection with an agreement regarding Russia's potential accession to the WTO, Russia and the EU agreed that Russia would raise domestic gas prices to US$49–57 per thousand cubic metres by 2010. Assuming a price of US$57 per thousand cubic metres in 2006, Evraz's Russian operations would have incurred additional costs of approximately US$29 million in the period.

Evraz is also exposed to fluctuations in transportation costs. Transportation costs influence Evraz's financial results directly as a component of raw material costs and the costs of transporting finished products to Nakhodka Sea Port or another designated off-take location. Although Evraz's customers in Russia generally pay the transportation costs of steel and mined products from the production site to the delivery location, the prices that Evraz receives may be adversely affected by transportation costs to the extent that Evraz must be able to reduce the prices that it can charge customers for its products in order to ensure that its products remain competitive with those of other producers that may be located closer to customers and are therefore less impacted by increases in transportation costs. In recent years, the Government has indexed railway tariffs in line with inflation and Evraz expects this policy to continue in the immediate future. Consequently, Evraz does not currently expect fluctuations in railway tariffs to have a significant impact on margins.

Trend Information

OPERATIONAL OUTLOOK

Evraz's primary strategy is to retain the Company's position as one of the most cost-effective integrated steel producing and mining groups in the world. Evraz's management believes that the ability to produce low-cost steel products is essential to ensure the competitiveness of its plants. In the short to medium-term, Evraz intends to realise synergies from the integration of recent acquisitions by rationalising production across its plants and making selective investments in improved production technology including the increasing use of continuous casting in steel production, ongoing blast furnace refurbishments and closure of open hearth furnace production facilities. The management of Evraz expects to continue to expand its business both vertically and horizontally.

Evraz's future revenues will primarily be determined by the steel price environment. However, Evraz's investment plans, which are targeted to increase operational efficiency, will facilitate a shift in product mix towards higher margin products and will also result in a moderate increase in output, all of which is likely to have a positive effect on Evraz's operating results. Evraz expects that increases in steel production as a result of the acquisitions of Vitkovice Steel and OSM will be partially offset by a gradual shutdown of inefficient open hearth furnaces at Evraz's plants.

Inventories were lower at the end of 2006 than at the end of 2005 by 11%. The management of Evraz will continue to focus on working capital management and ongoing improvements in efficiency.

Most of Evraz's investment programme is designed to increase the efficiency of the Company's production facilities and to reduce cost of production per tonne. Evraz's mining segment currently supplies approximately 72% of the steel segment's iron ore requirements. Evraz's requirements for coking coal can be fully covered by purchases from affiliated parties, including Raspadskaya and YuKU, which are accounted for under the equity method. Investment in an expansion of power generation capacity at NTMK is planned in order to significantly reduce the latter's dependence on external sources of electricity by 2007. These factors are expected to mitigate the impact of increasing costs in respect of raw materials.

Evraz expects other domestic cost factors, such as salaries, construction materials and natural gas, to continue growing in line with inflation in Russia in respect of its Russian subsidiaries and in line with inflation in Italy and the Czech Republic for Palini and Vitkovice Steel respectively. Evraz also expects the recent acquisitions of Palini, Vitkovice Steel, Stratcor and OSM to make a positive impact on the Company's top line and bottom line performance.

Consolidated Financial Statements
Year Ended December 31, 2006

Independent Auditors' Report

The Shareholders and Board of Directors
Evraz Group S.A.

We have audited the accompanying consolidated financial statements of Evraz Group S.A. (the "Group"), which comprise the consolidated balance sheet as at December 31, 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to *Note 1* to the consolidated financial statements. A significant part of the Group's transactions were made with related parties including, but not limited to, associates and a joint venture.

Ernst & Young LLC

April 25, 2007

Consolidated Income Statement

in millions of US$, except for per share information	notes	2006	2005*	2004
		Year ended December 31,		
Revenue				
Sale of goods		**8,166**	6,387	5,795
Rendering of services		**126**	121	138
		8,292	6,508	5,933
Cost of revenue	*5*	**(5,159)**	(4,172)	(3,514)
Amortisation of negative goodwill	*4*	–	–	28
Gross profit		**3,133**	2,336	2,447
Selling and distribution costs	*5*	**(243)**	(181)	(193)
General and administrative expenses	*5*	**(489)**	(467)	(347)
Social and social infrastructure maintenance expenses		**(86)**	(76)	(47)
Loss on disposal of property, plant and equipment		**(21)**	(24)	(11)
Impairment of assets		**(29)**	(8)	(1)
Foreign exchange gains/(losses), net		**48**	(5)	1
Other operating income/(expenses), net		**(15)**	7	(12)
Profit from operations		**2,298**	1,582	1,837
Interest income		**27**	15	10
Interest expense		**(228)**	(142)	(105)
Share of profits/(losses) of joint ventures and associates	*8*	**45**	57	43
Gain/(loss) on extinguishment of debts, net	*14, 22*	**13**	8	(140)
Gain/(loss) on financial assets and liabilities, net	*4, 5*	**13**	–	57
Loss on sale of minority interest	*16*	–	–	(35)
Loss on assets held for sale	*9*	**(72)**	–	–
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	*4*	**1**	15	54
Other non-operating gains/(losses), net	*5*	–	(7)	1
Profit before tax		**2,097**	1,528	1,722
Income tax expense	*6*	**(638)**	(475)	(377)
Net profit		**1,459**	**1,053**	**1,345**
Attributable to:				
Equity holders of the parent entity		**1,385**	918	1,180
Minority interests		**74**	135	165
		1,459	**1,053**	**1,345**
Earnings per share:				
basic, for profit attributable to equity holders of the parent entity, US$;	*16*	**11.83**	8.14	11.00
diluted, for profit attributable to equity holders of the parent entity, US$.	*16*	**11.74**	8.13	11.00

* The amounts shown here do not correspond to the 2005 financial statements and reflect adjustments made in connection with the completion of initial accounting as detailed in Notes 4 and 8.

The accompanying notes form an integral part of these consolidated financial statements.

EVRAZ

Consolidated Balance Sheet

in millions of US$	notes	2006	2005*	2004
		December 31,		
ASSETS				
Non-current assets				
Property, plant and equipment	*7*	**3,712**	3,071	2,399
Goodwill/(negative goodwill)	*4*	**104**	67	(363)
Investments in joint ventures and associates	*8*	**1,499**	906	197
Restricted deposits at banks	*10*	**12**	8	9
Other non-current assets	*11*	**273**	58	16
		5,600	4,110	2,258
Current assets				
Inventories	*12*	**855**	964	808
Trade and other receivables	*13*	**637**	429	366
Loans receivable		**19**	–	8
Receivables from related parties	*14*	**54**	90	89
Income tax receivable		**51**	16	12
Other taxes recoverable	*15*	**334**	461	386
Short-term investments and notes receivable		**25**	19	22
Restricted deposits at banks	*10*	**–**	24	11
Cash and cash equivalents	*10*	**842**	641	293
		2,817	2,644	1,995
Assets classified as held for sale	*9*	**105**	–	–
		2,922	2,644	1,995
Total assets		**8,522**	**6,754**	**4,253**

* The amounts shown here do not correspond to the 2005 financial statements and reflect adjustments made in connection with the completion of initial accounting as detailed in Notes 4 and 8.

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The accompanying notes form an integral part of these consolidated financial statements.

in millions of US$	notes	December 31, 2006	2005*	2004
EQUITY AND LIABILITIES				
Equity				
Parent shareholders' equity				
Issued capital	16	**318**	316	–
Additional paid-in capital	16	**531**	547	319
Legal reserve	16	**28**	22	–
Accumulated profits		**2,758**	1,751	1,126
Translation difference		**439**	72	164
		4,074	2,708	1,609
Minority interests		**176**	179	358
		4,250	2,887	1,967
Non-current liabilities				
Long-term loans	17	**1,855**	1,515	788
Deferred income tax liabilities	6	**295**	265	214
Finance lease liabilities	18	**42**	30	27
Post-employment benefits	19	**111**	79	53
Provisions	21	**38**	14	21
Amounts payable under put options for shares of subsidiaries	4	**–**	67	–
Other long-term liabilities	22	**45**	2	48
		2,386	1,972	1,151
Current liabilities				
Trade and other payables	23	**528**	447	297
Short-term loans and current portion of long-term loans	17	**741**	835	530
Payables to related parties	14	**176**	315	118
Income tax payable		**66**	70	55
Other taxes payable	24	**96**	189	130
Current portion of finance lease liabilities	18	**11**	7	3
Provisions	21	**8**	15	–
Amounts payable under put options for shares of subsidiaries	4	**175**	–	–
Dividends payable by the parent entity to its shareholders		**38**	3	–
Dividends payable by the Group's subsidiaries to minority shareholders		**24**	14	2
		1,863	1,895	1,135
Liabilities directly associated with assets classified as held for sale	9	**23**	–	–
		1,886	1,895	1,135
Total equity and liabilities		**8,522**	**6,754**	**4,253**

* The amounts shown here do not correspond to the 2005 financial statements and reflect adjustments made in connection with the completion of initial accounting as detailed in Notes 4 and *8*.

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Cash Flow Statement

in millions of US$	notes	2006	2005*	2004
		Year ended December 31,		
Cash flows from operating activities				
Net profit		**1,459**	1,053	1,345
Adjustments to reconcile net profit to net cash flows from operating activities:				
Amortisation of negative goodwill	*4*	–	–	(28)
Depreciation, depletion and amortisation	*5*	**304**	245	196
Deferred income tax (benefit)/expense	*6*	**(25)**	2	(67)
Loss on disposal of property, plant and equipment		**21**	24	11
Impairment of assets		**29**	8	1
(Gain)/loss on extinguishment of debts	*14, 22*	**(13)**	(8)	140
Loss on sale of minority interest	*16*	**–**	–	35
Foreign exchange (gains)/losses, net		**(48)**	5	(1)
Share of (profits)/losses from associates and joint ventures		**(45)**	(57)	(43)
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition		**(1)**	(15)	(54)
(Gain)/loss on financial assets and liabilities, net	*4, 5*	**(13)**	–	(57)
Loss on assets held for sale	*9*	**72**	–	–
Other non-operating (gains)/losses	*5*	**–**	6	(2)
Interest income		**(27)**	(15)	(10)
Interest expense		**228**	142	105
Bad debt expense		**4**	8	25
Share-based payments	*20*	**17**	8	–
		1,962	1,406	1,596
Changes in working capital:				
Inventories		**208**	(14)	(277)
Trade and other receivables		**(156)**	54	(253)
Receivables from/payables to related parties		**(17)**	13	(4)
Taxes recoverable		**109**	(101)	(198)
Other assets		**(1)**	(3)	–
Trade and other payables		**108**	70	18
Taxes payable		**(127)**	55	57
Other liabilities		**6**	16	7
Net cash flows from operating activities		**2,092**	**1,496**	**946**

* The amounts shown here do not correspond to the 2005 financial statements and reflect adjustments made in connection with the completion of initial accounting as detailed in Notes 4 and 8.

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The accompanying notes form an integral part of these consolidated financial statements.

in millions of US$	notes	Year ended December 31, 2006	2005*	2004
Cash flows from investing activities				
Issuance of loans receivable to related parties		**–**	(202)	(6)
Proceeds from repayment of loans issued to related parties, including interest		**6**	206	15
Issuance of loans receivable		**(20)**	(38)	(4)
Proceeds from repayment of loans receivable, including interest		**3**	45	5
Purchases of subsidiaries, net of cash acquired		**(113)**	(312)	(225)
Purchases of minority interests		**(96)**	(415)	(48)
Purchase of interest in associates/joint venture		**(736)**	(400)	(62)
Restricted deposits at banks in respect of investing activities		**(207)**	–	–
Short-term deposits at banks		**18**	16	7
Purchases of property, plant and equipment		**(660)**	(695)	(534)
Proceeds from disposal of property, plant and equipment		**10**	8	4
Dividends and advances in respect of future dividends received		**212**	30	–
Other investing activities, net		**6**	4	26
Net cash flows used in investing activities		**(1,577)**	**(1,753)**	**(822)**
Cash flows from financing activities				
Proceeds from issuance of share capital, net of transaction costs of US$0, US$22 and US$0, respectively	*16*	**–**	399	30
Proceeds from exercise of share options	*20*	**26**	–	–
Contributions from Crosland Limited	*16*	**–**	131	–
Payments to entities under common control for the transfer of ownership interest in subsidiaries		**–**	(33)	(61)
Proceeds from loans provided by related parties		**8**	9	418
Repayment of loans provided by related parties, including interest		**–**	(62)	(647)
Net (repayment)/proceeds from bank overdraft credit lines, including interest		**(1)**	(136)	203
Proceeds from loans and promissory notes		**708**	1,305	2,560
Repayment of loans and promissory notes, including interest		**(684)**	(418)	(2,230)
Restricted deposits at banks in respect of financing activities		**23**	(11)	5
Dividends paid by the parent entity to its shareholders		**(352)**	(524)	(56)
Dividends paid by the Group's subsidiaries to minority shareholders		**(40)**	(11)	–
Payments under finance leases, including interest		**(19)**	(12)	(10)
Proceeds from sale-leaseback		**–**	–	22
Payments under Settlement Agreements, including interest, and purchases of debts in subsidiaries		**(2)**	(8)	(243)
Payments of restructured taxes, including interest		**(8)**	(22)	(22)
Net cash flows from/(used in) financing activities		**(341)**	**607**	**(31)**
Effect of foreign exchange rate changes on cash and cash equivalents		**27**	(2)	4
Net increase in cash and cash equivalents		201	348	97
Cash and cash equivalents at beginning of year		**641**	293	196
Cash and cash equivalents at the end of the year		**842**	**641**	**293**
Supplementary cash flow information:				
Cash flows during the year:				
Interest paid;		**211**	122	86
Income taxes paid.		**656**	477	442

* The amounts shown here do not correspond to the 2005 financial statements and reflect adjustments made in connection with the completion of initial accounting as detailed in Notes 4 and 8.

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

millions of US$	notes	issued capital	additional paid-in capital	legal reserve	accumulated profits	translation difference	total	minority interests	total equity
		Attributable to equity holders of the parent entity							
At December 31, 2005 (as previously reported)		**316**	**547**	**22**	**1,738**	**72**	**2,695**	**190**	**2,885**
Adjustments to provisional values	*4, 8*	–	–	–	13	–	13	(11)	2
At December 31, 2005 (as adjusted)		**316**	**547**	**22**	**1,751**	**72**	**2,708**	**179**	**2,887**
Effect of exchange rate changes		–	–	–	–	367	367	23	390
Total income and expense for the year recognised directly in equity		**–**	**–**	**–**	**–**	**367**	**367**	**23**	**390**
Net profit		–	–	–	1,385	–	1,385	74	1,459
Total income and expense for the year		**–**	**–**	**–**	**1,385**	**367**	**1,752**	**97**	**1,849**
Exercise of share options	*16, 20*	2	24	–	–	–	26	–	26
Acquisition of minority interests in existing subsidiaries	*4*	–	1	–	(42)	–	(41)	(56)	(97)
Minority interests arising on acquisition of subsidiaries	*4*	–	–	–	–	–	–	48	48
Derecognition of minority interests in subsidiaries	*4*	–	–	–	(64)	–	(64)	(42)	(106)
Acquisition of minority interest by an associate	*16*	–	1	–	–	–	1	–	1
Sale of shares in a joint venture's subsidiary	*16*	–	58	–	–	–	58	–	58
Reorganisation of ownership structure within a joint venture		–	–	–	(1)	–	(1)	–	(1)
Allocation of losses of prior periods to minority shareholders		–	–	–	5	–	5	–	5
Share-based payments	*20*	–	17	–	–	–	17	–	17
Appropriation of net profit to legal reserve		–	–	6	(6)	–	–	–	–
Dividends declared by the parent entity to its shareholders	*16*	–	(117)	–	(270)	–	(387)	–	(387)
Dividends declared by the Group's subsidiaries to minority shareholders	*16*	–	–	–	–	–	–	(50)	(50)
At December 31, 2006		**318**	**531**	**28**	**2,758**	**439**	**4,074**	**176**	**4,250**

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The accompanying notes form an integral part of these consolidated financial statements.

millions of US$	notes	issued capital	additional paid-in capital	legal reserve	accumulated profits	translation difference	total	minority interests	total equity
		Attributable to equity holders of the parent entity							
At December 31, 2004		–	319	–	1,126	164	1,609	358	1,967
Change in accounting policies: derecognition of negative goodwill	2	–	–	–	378	–	378	12	390
At January 1, 2005		**–**	**319**	**–**	**1,504**	**164**	**1,987**	**370**	**2,357**
Effect of exchange rate changes		–	–	–	–	(92)	(92)	(13)	(105)
Total income and expense for the year recognised directly in equity		**–**	**–**	**–**	**–**	**(92)**	**(92)**	**(13)**	**(105)**
Net profit		–	–	–	918	–	918	135	1,053
Total income and expense for the year		**–**	**–**	**–**	**918**	**(92)**	**826**	**122**	**948**
Issue of share capital, net of transaction costs	16	24	376	–	–	–	400	–	400
Issue of share capital in exchange for shares in Mastercroft	16	292	(292)	–	–	–	–	–	–
Acquisition of minority interests in existing subsidiaries	4	–	2	–	(131)	–	(129)	(287)	(416)
Acquisition of minority interests by a joint venture	16	–	3	–	–	–	3	–	3
Minority interests arising on acquisition of subsidiaries	4	–	–	–	–	–	–	3	3
Contributions from Crosland Limited	16	–	131	–	–	–	131	–	131
Share-based payments	20	–	8	–	–	–	8	–	8
Appropriation of net profit to legal reserve		–	–	22	(22)	–	–	–	–
Dividends declared by the parent entity to its shareholders	16	–	–	–	(518)	–	(518)	(6)	(524)
Dividends declared by the Group's subsidiaries to minority shareholders	16	–	–	–	–	–	–	(23)	(23)
At December 31, 2005		**316**	**547**	**22**	**1,751**	**72**	**2,708**	**179**	**2,887**

* The amounts shown here do not correspond to the 2005 financial statements and reflect adjustments made in connection with the completion of initial accounting as detailed in Notes 4 and 8.

millions of US$	notes	issued capital	additional paid-in capital	legal reserve	accumulated profits	translation difference	total	minority interests	total equity
		Attributable to equity holders of the parent entity							
At December 31, 2003		**139**	**1**	**–**	**157**	**70**	**367**	**192**	**559**
Effect of exchange rate changes		–	–	–	–	94	94	20	114
Total income and expense for the year recognised directly in equity		**–**	**–**	**–**	**–**	**94**	**94**	**20**	**114**
Net gains on available-for-sale financial assets removed from equity recognised in net profit		–	–	–	(1)	–	(1)	–	(1)
Net profit		–	–	–	1,180	–	1,180	165	1,345
Total income and expense for the year		**–**	**–**	**–**	**1,179**	**94**	**1,273**	**185**	**1,458**
Issue of share capital	16	30	–	–	–	–	30	–	30
Decrease in share capital due to the Group's reorganisation	16	(169)	292	–	(123)	–	–	–	–
Acquisition of minority interests in existing subsidiaries	16	–	20	–	(12)	–	8	(103)	(95)
Acquisition of minority interests by a joint venture	8	–	6	–	–	–	6	–	6
Minority interest arising on acquisition of a subsidiary		–	–	–	–	–	–	36	36
Sale of minority interest	16	–	–	–	(13)	–	(13)	48	35
Distributions to entities under common control	16	–	–	–	(4)	–	(4)	–	(4)
Dividends declared by the parent entity to its shareholders	16	–	–	–	(58)	–	(58)	–	(58)
At December 31, 2004		**–**	**319**	**–**	**1,126**	**164**	**1,609**	**358**	**1,967**

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. CORPORATE INFORMATION

These consolidated financial statements were authorised for issue in accordance with a resolution of the directors on April 25, 2007.

Evraz Group S.A. ("Evraz Group" or "the Company") is a limited liability company registered under the laws of Luxembourg on December 31, 2004. The registered address of Evraz Group is 1, Allee Scheffer L-2520, Luxembourg.

Evraz Group, together with its subsidiaries (the "Group"), is involved in production and distribution of steel and related products. In addition, the Group owns and operates certain mining assets. The Group's steel production and mining facilities are mainly located in the Russian Federation. The Group is one of the largest steel producers in the Russian Federation.

Prior to August 3, 2006, Evraz Group's parent was Crosland Global Limited ("CGL" or the "Parent"), an entity under control of Mr. Alexander Abramov. On August 3, 2006, CGL transferred all its ownership interest in Evraz Group to Lanebrook Limited (Cyprus) which became the ultimate controlling party from that date.

The Group was formed through a reorganisation in which 95.83% of the shares in Mastercroft Limited ("Mastercroft"), a limited liability company registered in Cyprus, directly owned by Crosland Limited ("Crosland"), the parent of CGL, were contributed into Evraz Group in April 2005. As the Group has been formed through a reorganisation of entities under common control, these consolidated financial statements have been prepared using the pooling of interests method and, as such, the financial statements have been presented as if the transfers of the Group's interest in Mastercroft had occurred from January 1, 2002.

The major subsidiaries included in the consolidated financial statements of Evraz Group were as follows at December 31:

Subsidiary	actual ownership interest, % 2006	Effective ownership interest, % 2006	2005	2004	business activity	location
OAO Nizhny Tagil Iron & Steel Plant	95.00	95.00	92.38	77.09	Steel production	Russia
OAO West-Siberian Iron & Steel Plant	96.68	100.00	96.67	90.65	Steel production	Russia
OAO Novokuznetsk Iron & Steel Plant	100.00	98.75	97.26	89.97	Steel production	Russia
Vitkovice Steel a.s.	100.00	100.00	98.96	–	Steel production	Czech Republic
OAO Kachkanarsky Mining-and-Processing Integrated Works	97.72	97.11	91.98	80.68	Ore mining and processing	Russia
OAO Evrazruda	100.00	100.00	100.00	99.90	Ore mining	Russia
Ferrotrade Limited	100.00	100.00	100.00	95.83	Trading	Gibraltar
OOO Trade House EvrazHolding	100.00	100.00	100.00	95.83	Trading	Russia

Actual ownership interest in subsidiaries differs from the effective ownership interest due to the existence of minority interests in subsidiaries that hold ownership interests in other subsidiaries as well as due to the derecognition of minority interests for which minority shareholders hold put options (Note 4).

The Group consolidates certain subsidiaries in which it has no ownership interest.

The Group has currently exercisable potential voting rights in OOO EvrazHolding ("EvrazHolding"), a limited liability company registered in Russia, Caplink Limited ("Caplink") and Velcast Limited ("Velcast"), limited liability companies registered in Cyprus, and OOO Slab Continuous Casting Machine, a subsidiary of Caplink registered in Russia, which require consolidation under IAS 27 "Consolidated and Separate Financial Statements".

In addition, the Group consolidates EvrazSecurities S.A. ("EvrazSecurities"), a special purpose entity registered in Luxembourg, under the provisions of Interpretation SIC-12 "Consolidation—Special Purpose Entities". In 2003 and 2004, EvrazSecurities issued $175 million and $300 million guaranteed notes due on September 25, 2006 and August 3, 2009, respectively, listed on the Luxembourg stock exchange. Mastercroft and certain of its subsidiaries guaranteed EvrazSecurities' liabilities under the notes.

Controlling Interests in Subsidiaries Transferred to the Group by Entities under Common Control

In 2004, the Group acquired controlling interests in Pamplune S.A., OOO Metallenergofinance, OAO Large-Diameter Pipe Plant and OOO Evraztrans from entities under common control with the Group. Controlling interest in OAO Evrazruda was transferred to the Group by an entity under common control with the Group in the year ended December 31, 2005. The Group applied the pooling of interests method with respect to these acquisitions and presented its consolidated financial statements as if the transfers of controlling interests in the subsidiaries had occurred from the beginning of the earliest period presented or, if later, the date of acquisition of the subsidiary by the transferring entity.

In the years ended December 31, 2006, 2005 and 2004, approximately 8%, 7% and 9% of the Group's revenues, respectively, were generated in transactions with related parties. In addition, a certain part of the Group's purchases was made in transactions with related parties including, but not limited to, Corber, a joint venture, and ZAO Yuzhkuzbassugol, an associate, which are the Group's major coal suppliers. For detailed information related to such activities refer to Note 14.

At December 31, 2006, the Group employed approximately 110,000 employees, excluding joint venture's and associates' employees.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Group companies maintain their accounting records and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the country in which the particular subsidiary is resident. The financial statements are based on the statutory accounting records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS. The principal adjustments relate to (1) expense and revenue recognition, (2) valuation of unrecoverable assets, (3) depreciation and valuation of property, plant and equipment, (4) accounting for income taxes, (5) use of fair values and (6) business combinations.

The consolidated financial statements have been prepared under historical cost convention, except as disclosed in the accounting policies below. Exceptions include, but are not limited to, property, plant and equipment at the date of transition to IFRS accounted for at deemed cost, available for sale investments and assets classified as held for sale measured at fair value and post-employment benefits measured at present value.

Certain reclassifications have been made to the prior years financial statements to conform to the current year presentation.

FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS 1)

The Group early adopted and applied IFRS 1 in the preparation of its first consolidated financial statements in accordance with IFRS for the year ended December 31, 2003. The Group's transition date to IFRS is January 1, 2002. Prior to this date, in past business combinations, the Group acquired certain subsidiaries, which were not previously consolidated. For such subsidiaries the Group adjusted the carrying amounts of the subsidiaries' assets and liabilities to the amounts that IFRS would require in the separate subsidiaries' balance sheets. The deemed cost of goodwill/negative goodwill was determined as the difference at the date of transition to IFRS between: (i) the parent's interest in those adjusted carrying amounts; and (ii) the cost in the parent's separate financial statements of its investment in the subsidiary. In addition, the Group elected under IFRS 1 to account for property, plant and equipment in its subsidiaries at deemed cost being the fair value of property, plant and equipment at the date of transition to IFRS and to recognise all cumulative actuarial gains and losses at the date of transition to IFRS.

CHANGES IN ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the previous financial year except that the Group has adopted those new/revised standards mandatory for financial years beginning on or after January 1, 2006. The changes in accounting policies result from adoption of the following new or revised standards:

- IAS 19 (amended) "Employee benefits";
- IAS 21 (amended) "The Effects of Changes in Foreign Exchange Rates";
- IAS 39 (amended) "Financial Instruments: Recognition and Measurement";
- IFRIC 4 "Determining whether an Arrangement contains a Lease";
- IFRIC 5 "Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds".

The adoption of the amendments to the International Financial Reporting Standards, mandatory for annual periods beginning on or after January 1, 2006, did not significantly affect the Group's results or financial position. The principal effects of these changes in policies are discussed below.

IAS 19 "Employee Benefits"

As of January 1, 2006, the Group adopted the amendments to IAS 19. As a result, additional disclosures have been made providing information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. This change has not had a recognition or measurement impact, as the Group chose not to apply the new option offered to recognise actuarial gains and losses outside of the income statement.

IAS 21 "The Effects of Changes in Foreign Exchange Rates"

As of January 1, 2006, the Group adopted the amendments to IAS 21. As a result, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements regardless of the currency in which the monetary item is denominated. This change did not have an effect on the financial statements.

IAS 39 "Financial Instruments: Recognition and Measurement"

Amendment for financial guarantee contracts changed the scope of IAS 39 to require financial guarantee contracts that are not considered to be insurance contracts to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 "Revenue". This amendment resulted in a recognition of additional liabilities of $2 million in respect of guarantees issued by Evraz Group S.A. in favour of OAO Raspadskaya (Notes 8 and 25).

IFRIC 4 "Determining Whether an Arrangement contains a Lease"

The Group adopted IFRIC Interpretation 4 as of January 1, 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This change in accounting policy has not had an impact on the Group's financial statements.

IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"

IFRIC 5 explains how to treat expected reimbursements from funds set up to meet the costs of decommissioning assets or in undertaking environmental restoration or rehabilitation. This change in accounting policy has not had a significant impact on the Group's financial statements.

The Group has not applied the following IFRSs and IFRIC Interpretations that have been issued but are not yet effective:

- IFRS 7 "Financial Instruments: Disclosures";
- IFRS 8 "Operating Segments";
- IAS 1 (amended) "Presentation of Financial Statements";
- IFRIC 8 "Scope of IFRS 2";
- IFRIC 10 "Interim Financial Reporting and Impairment";
- IFRIC 11 "IFRS 2—Group and Treasury Share Transactions".

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's results of operations and financial position in the period of initial application. The adoption of IFRS 7 will significantly affect the disclosures relating to financial instruments as presented in the notes to the financial statements.

Significant Accounting Judgements and Estimates

ACCOUNTING JUDGEMENTS

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

- The Group determined that the substance of the relationship between the Group and EvrazSecurities S.A., a special purpose entity (Note 1), indicates that EvrazSecurities S.A. is controlled by the Group.
- The Group determined that options to acquire ownership interests in OOO EvrazHolding, Caplink and Velcast (Note 1) represent potential voting rights which provide the Group with the power to exercise control over these subsidiaries.
- The Group determined that purchases of production complexes of OOO Kuznetsky Mining-and-Processing Integrated Works, OAO Sheregeshskoye Rudoupravlenie, OAO Irbinskoye Rudoupravlenie and OOO Nizhnesaldinsky Metallurgical Plant are, in substance, business combinations (Note 4).
- The Group determined that the forthcoming sale of Neryungriugol does not constitute a discontinued operation (Note 9).
- At July 1, 2006, following the changes in the Russian legislation, minority interests in West-Siberian Iron and Steel Plant and Kachkanarsky Mining-and-Processing Integrated Works were derecognised (Note 4).

ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, 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.

Impairment of Property, Plant and Equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. In 2006, the Group recognised an impairment loss of $20 million (2005 and 2004: $7 million and $2 million, respectively). More details are provided in Note 7.

The determination of impairments of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and, ultimately, the amount of any impairment.

Useful Lives of Items of Property, Plant and Equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period.

In 2005, the change in estimates of useful lives of property, plant and equipment resulted in an additional depreciation expense of approximately $33 million. No such changes took place in the year ended December 31, 2006

Fair Values of Assets and Liabilities Acquired in Business Combinations

The Group is required to recognise separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in a business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques which require considerable judgement in forecasting future cash flows and developing other assumptions.

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at December 31, 2006, 2005 and 2004 was $104 million, $67 million and $0, respectively. More details are provided in Note 4.

Site Restoration Provisions

The Group reviews site restoration provisions at each balance sheet date and adjusts them to reflect the current best estimate in accordance with IFRIC 1 "Changes in Existing Decommissioning, Restoration and Similar Liabilities". The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the balance sheet date based on the requirements of the current legislation of the country where the respective operating assets are located. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Considerable judgement is required in forecasting future site restoration costs. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision when there is sufficient objective evidence that they will occur.

In 2006, as a result of a change in the discount rate used to calculate the present value of restoration provision, the related provision was increased by $16 million (Notes 7 and 21).

Post-Employment Benefits

The Group uses actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, expected rate of return on plan assets, etc.).

In addition, post-employment benefit obligations were calculated taking into consideration that certain of the Group's subsidiaries plan to discontinue to pay lump-sum amounts at retirement date after 2008-2009 (Note 19).

Allowances

The Group makes allowances for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As of December 31, 2006, 2005 and 2004, allowances for doubtful accounts have been made in the amount of $63 million, $60 million and $35 million, respectively (Notes 13 and 14).

The Group makes an allowance for obsolete and slow-moving raw materials and spare parts. As of December 31, 2006, 2005 and 2004, the allowance for the obsolete and slow-moving items was $13 million, $21 million and $8 million, respectively (Note 12). In addition, certain finished goods of the Group are carried at net realisable value. Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of the period.

Litigations

The Group exercises judgment in measuring and recognising provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgement is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or with the support of outside consultants. Revisions to the estimates may significantly affect future operating results.

Current Taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. In Russia the periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. More details are provided in Note 25.

Deferred Income Tax Assets

Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilisation of deferred tax assets must be reduced, this reduction will be recognised in the income statement.

Foreign Currency Transactions

The presentation currency of the Group is the US dollar because the presentation in US dollar is convenient for the major current and potential users of the consolidated financial statements.

The functional currency of the Group's subsidiaries located in the Russian Federation is the Russian rouble (the "rouble"). The functional currency of the subsidiaries located in other countries is the US dollar, euro, Czech koruna and South African rand. As at the reporting date, the assets and liabilities of the subsidiaries with the functional currency other than the US dollar, are translated into the presentation currency at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a subsidiary with the functional currency other than the US dollar, the deferred cumulative amount recognised in equity relating to that particular subsidiary is recognised in the income statement.

Transactions in foreign currencies in each subsidiary of the Group are initially recorded in the functional currency at the rate ruling at the date of the transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange ruling at the balance sheet date. All resulting differences are taken to the income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Basis of Consolidation

Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than 50% of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. 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 inter-company transactions, balances and unrealised gains on transactions between group 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.

Acquisition of Subsidiaries

The purchase method of accounting was used to account for the acquisition of subsidiaries by the Group except for acquisitions made prior to the date of transition to IFRS, which were accounted for in accordance with IFRS 1, as described above.

Prior to March 31, 2004, in accordance with IAS 22 "Business Combinations", identifiable assets and liabilities acquired in a business combination were measured initially at the aggregate of:

(a) the fair value of the identifiable assets and liabilities acquired as at the date of acquisition to the extent of the acquirer's interest obtained in the acquisition; and
(b) the minority's proportion of the pre-acquisition carrying amounts of the identifiable assets and liabilities of the subsidiary.

Beginning March 31, 2004, in accordance with IFRS 3 "Business Combinations", identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree's identifiable assets, liabilities and contingent liabilities and the cost of the combination. If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Group accounts for the combination using those provisional values. The Group recognises any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date.

Minority interest is that portion of the profit or loss and net assets of subsidiaries attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent. Minority interests at the balance sheet date represents the minority shareholders' portion of the pre-acquisition carrying amounts (for business combinations for which the agreement date is before March 31, 2004) or the fair values (for business combinations for which agreement date is on or after March 31, 2004) of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination. Minority interests are presented in the consolidated balance sheet within equity, separately from the parent's shareholders' equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary. Any additional losses are allocated to the Group unless there is a binding obligation of the minority to fund the losses.

For the identifiable assets, liabilities and contingent liabilities initially accounted for at provisional values, the carrying amount of identifiable asset, liability or contingent liability that is recognised or adjusted as a result of completing the initial accounting is calculated as if its fair value or adjusted fair value at the acquisition date had been recognised from that date. Goodwill or any gain recognised when the acquired interest in net fair values of the identifiable assets, liabilities and contingent liabilities exceeds the cost of their acquisition is adjusted from the acquisition date by an amount equal to adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognised or adjusted.

Comparative information presented for the periods before the completion of initial accounting for the acquisition is presented as if the initial accounting had been completed from the acquisition date.

Increases in ownership interests in subsidiaries

Increases in ownership interests in subsidiaries prior to January 1, 2004 were accounted for using the purchase method.

Effective January 1, 2004, the differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases is either added to additional paid-in capital, if positive, or charged to accumulated profits, if negative, in the accompanying consolidated financial statements.

Purchases of Controlling Interests in Subsidiaries from Entities under Common Control

Purchases of controlling interests in subsidiaries from entities under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these financial statements at the historical cost of the controlling entity (the "Predecessor"). Related goodwill inherent in the Predecessor's original acquisition is also recorded in the financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in the consolidated financial statements as an adjustment to the shareholders' equity.

These financial statements, including corresponding figures, are presented as if a subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

Investments in Associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method of accounting and are initially recognised at cost including goodwill. Subsequent changes in the carrying value reflect the post acquisition changes in the Group's share of net assets of the associate and goodwill impairment charges, if any. The Group's share of its associates' profits or losses is recognised in the income statement and its share of movements in reserves is recognised in equity. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obligated to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Interest in a Joint Venture

The Group's interest in its joint venture is accounted for under the equity method of accounting whereby an interest in jointly controlled entities is initially recorded at cost and adjusted thereafter for post-acquisition changes in the Group's share of net assets of the joint venture. The income statement reflects the Group's share of the results of operations of the joint venture.

Property, Plant and Equipment

The Group's property, plant and equipment, except for the items acquired prior to December 31, 2001, are stated at purchase or construction cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing part of plant and equipment when that cost is incurred and recognition criteria are met. As described under Basis of Preparation above, the items of property, plant and equipment acquired prior to January 1, 2002 were accounted for at deemed cost being their fair value at January 1, 2002.

The Group's property, plant and equipment include mining assets, which consist of mineral reserves, mine development and construction costs and capitalised site restoration costs. Mineral reserves represent tangible assets acquired in business combinations. Mine development and construction costs represent expenditures incurred in developing access to mineral reserves and preparations for commercial production, including sinking shafts and underground drifts, roads, infrastructure, buildings, machinery and equipment.

At each balance sheet date management makes an assessment to determine whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is the higher of an asset's fair value less cost to sell 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 income statement. An impairment loss recognised for an asset in previous years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Land is not depreciated. Depreciation of property, plant and equipment, except for mining assets, is calculated on a straight-line basis over the estimated useful lives of the assets. The useful lives of items of property, plant and equipment and methods of their depreciation are reviewed, and adjusted as appropriate, at each fiscal year-end. The table below presents the useful lives of items of property, plant and equipment:

years	useful lives	weighted average useful life
Buildings and constructions	15–60	43
Machinery and equipment	4–45	16
Transport and motor vehicles	7–20	13
Other assets	3–15	5

The Group determines the depreciation charge separately for each significant part of an item of property, plant and equipment.

Depletion of mining assets including capitalised site restoration costs is calculated using the units-of-production method based upon proved developed mineral reserves.

Maintenance costs relating to items of property, plant and equipment are expensed as incurred. Major renewals and improvements are capitalised, and the replaced assets are derecognised.

The Group has the title to certain non-production and social assets, primarily buildings and facilities of social infrastructure, which are carried at their recoverable amount of zero. The costs to maintain such assets are expensed as incurred.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised from the commencement of the lease term at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to interest expense.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets, which are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Emission Rights

One of the Group's subsidiaries participates in the programme for emission reduction established by Kyoto protocol. Emission rights (allowances) for each compliance period (one year) are issued at the beginning of year, actual emissions are verified after the end of year.

Allowances, whether issued by government or purchased, are accounted for as intangible assets in accordance with IAS 38 "Intangible Assets". Allowances that are issued for less than fair value are measured initially at their fair value.

When allowances are issued for less than fair value, the difference between the amount paid and fair value is recognised as a government grant. Initially the grant is recognised as deferred income in the balance sheet and subsequently recognised as income on a systematic basis over the compliance period for which the allowances were issued, regardless of whether the allowances are held or sold.

As emissions are made, a liability is recognised for the obligation to deliver allowances equal to emissions that have been made. This liability is a provision that is within the scope of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and it is measured at the best estimate of the expenditure required to settle the present obligation at the balance sheet date being the present market price of the number of allowances required to cover emissions made up to the balance sheet date.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in the carrying amount of the investments in associates. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised but is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit or the group of cash generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operations within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. As described in Changes in Accounting Policies above, in accordance with the transitional provisions of IFRS 3, on January 1, 2005 the Group ceased to recognise negative goodwill in the consolidated balance sheet.

Negative goodwill which arose from business combinations where the agreement date was prior to March 31, 2004 was presented in the same balance sheet classification as goodwill. To the extent that negative goodwill related to expectations of future losses and expenses that were identified in the Group's plan for the acquisition and could be measured reliably, but which did not represent identifiable liabilities, that portion of negative goodwill was recognised in the income statement when the future losses and expenses were recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, was recognised in the income statement over the remaining weighted average useful life of depreciable and amortisable assets acquired; negative goodwill in excess of the fair values of those assets was recognised in the income statement immediately.

Negative goodwill relating to business combinations where the agreement date is on or after March 31, 2004 is recognised in the income statement.

Investments

The Group classified its investments into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity and available-for-sale. When investments are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its investments after initial recognition.

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as held for trading and included in the category "financial assets at fair value through profit or loss". Investments which are included in this category are subsequently carried at fair value; gains or losses on such investments are recognised in income.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Non-derivative financial assets with fixed or determinable payments and fixed maturity that the management has the positive intent and ability to hold to maturity are classified as held-to-maturity. Held-to-maturity investments are carried at amortised cost using the effective yield method.

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in 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 on a regular basis. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Reversals of impairment losses in respect of equity instruments are not recognised in the income statement. Impairment losses in respect of debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

For investments that are actively traded in organised financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument, which is substantially the same, discounted cash flow analysis or other valuation models.

All purchases and sales of financial assets under contracts to purchase or sell financial assets that require delivery of the asset within the time frame generally established by regulation or convention in the market place are recognised on the settlement date i.e. the date the asset is delivered by/to the counterparty.

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis and includes expenditure incurred in acquiring inventories and bringing them to their existing location and condition. The cost of finished goods and work in progress includes an appropriate share of production overheads based on normal operating capacity, but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

Accounts Receivable

Accounts receivable, which generally are short term, are recognised and carried at the original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Value Added Tax

The tax authorities permit the settlement of sales and purchases value added tax ("VAT") on a net basis.

Prior to 2006, most of the Group subsidiaries located in Russia followed cash method for the recognition of VAT payable. Under the cash method, VAT was payable to tax authorities upon collection of receivables from customers. VAT on purchases, which have been settled at the balance sheet date, was deducted from the amount payable. In addition, VAT related to sales which had not been settled at the balance sheet date (VAT deferred) was also included in VAT payable.

Starting from 2006, all the Group's subsidiaries located in Russia apply accrual method for VAT recognition, under which VAT becomes payable upon invoicing and delivery of goods or rendering services as well upon receipt of prepayments from customers. VAT on purchases, even not settled at the balance sheet date, is deducted from the amount of 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 tax purposes.

Cash and Cash Equivalents
Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Borrowings
Borrowings are initially recognised at the fair value of consideration received, net of directly attributable transaction costs. After initial recognition borrowings are measured at amortised cost using the effective interest rate method; any difference between the amount initially recognised and the redemption amount is recognised as interest expense over the period of the borrowings. Borrowing costs are expensed as incurred.

Equity
Share Capital
Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

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.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

Provisions for site restoration costs are capitalised in mining assets within property, plant and equipment.

Employee Benefits
Social and Pension Contributions
Defined contributions are made by the Group to the Russian Federation state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force (approximately 24%), based on gross salary payments. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due. These contributions are expensed as incurred.

Post-Employment Benefits
The Group companies provide pensions and other post-employment benefits to their employees in accordance with collective bargaining agreements. The entitlement to these benefits is usually conditional on both the employee remaining in service up to retirement age and the completion of a minimum service period. Other post-employment benefits consist of various compensations and non-monetary benefits. The amount of the benefits is stipulated in the collective bargaining agreements and/or in the plan documents.

The liability recognised in the balance sheet in respect of post-employment benefits is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the benefits is determined by discounting the estimated future cash outflows using interest rates of high-quality government 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 obligations.

Actuarial gains and losses are recognised as income or expense when the cumulative unrecognised actuarial gains or losses for each individual plan exceed 10% of the higher of defined benefit obligation and the fair value of plan assets. The excess of cumulative actuarial gains or losses over the 10% of the higher of defined benefit obligation and the fair value of plan assets are recognised over the expected average remaining working lives of the employees participating in the plan.

The past service cost is recognised as an expense on a straight line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognised immediately. The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly.

Other Costs

The Group incurs employee costs related to the provision of benefits such as health services, kindergartens and other services. These amounts principally represent an implicit cost of employment and, accordingly, have been charged to cost of sales.

Share-based Payments

In 2005 and 2006, the Group adopted share option plans, under which certain directors, senior executives and employees of the Group receive remuneration in the form of share-based payment transactions, whereby they render services as consideration for equity instruments ('equity-settled transactions').

The cost of equity-settled transactions with non-executive directors and employees is measured by reference to the fair value of options at the date on which they are granted. The fair value is determined using the Black-Scholes-Merton model, further details of which are given in Note 20. In valuing equity-settled transactions, no account is taken of any conditions, other than conditions of remaining in service up to the vesting date.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity (additional paid-in capital), over the period in which service conditions are fulfilled, ending on the date on which the relevant persons become fully entitled to the award ('the vesting date'). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest. Once a share-settled transaction has vested no further accounting entries are made to reverse the cost already charged, even if the instruments that are the subject of the transaction are subsequently forfeited or, in the case of options, are not exercised. In this case, the Group makes a transfer between different components of equity.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification, which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (Note 16).

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

When goods are sold or services are rendered in exchange for dissimilar goods or services, the revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred. The following specific recognition criteria must also be met before revenue is recognised:

Sale of Goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Rendering of Services

Revenue is recognised when services are rendered.

Interest

Interest is recognised using the effective interest method.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

Rental Income

Rental income is accounted for on a straight-line basis over the lease term on ongoing leases.

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred Income Tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. 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, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that 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. SEGMENT INFORMATION

The Group's primary reporting format is business segments and its secondary format is geographical segments. The Group's major business segments are steel production and mining. Steel production segment includes production of steel and related products at five iron and steel mills. Mining segment includes ore and coal mining and enrichment. The mining segment does not meet the criteria of a reportable segment under IFRS, because the majority of revenues of the mining segment are earned in intersegment transactions. Despite this fact, management has designated the mining segment as a reportable segment based on the future plans to develop this business segment.

In 2004—2006, intersegment operations were made at prevailing market prices at the dates of transactions.

The following tables present revenue and profit information and certain asset and liability information regarding business segments for the years ended December 31, 2006, 2005 and 2004:

millions of US$	steel production	mining	other operations	eliminations	total
YEAR ENDED DECEMBER 31, 2006					
Revenue					
Sales to external customers	8,085	121	86	–	8,292
Intersegment sales	76	1,026	518	(1,620)	–
Total revenue	**8,161**	**1,147**	**604**	**(1,620)**	**8,292**
Result					
Segment result	**1,966**	**351**	**26**	**(42)**	**2,301**
Unallocated expenses					(3)
Profit from operations					**2,298**
Share of profits/(losses) of joint ventures and associates	22	23	–		45
Other income/(expenses), net					(246)
Income tax expense					(638)
Net profit					**1,459**
Assets and liabilities					
Segment assets	4,860	1,043	273		6,176
Investments in joint ventures and associates	238	1,261	–		1,499
Unallocated assets					847
Total assets					**8,522**
Segment liabilities	1,623	183	125		1,931
Unallocated liabilities					2,341
Total liabilities					**4,272**
Other segment information					
Additions to property, plant and equipment	517	133	34		684
Property, plant and equipment acquired in business combinations	123	3	40		166
Depreciation, depletion and amortisation	(229)	(63)	(16)		(308)
Impairment of assets	(23)	(1)	–		(24)

millions of US$	steel production	mining	other operations	eliminations	total
YEAR ENDED DECEMBER 31, 2005					
Revenue					
Sales to external customers	6,133	147	228	–	6,508
Intersegment sales	88	842	417	(1,347)	–
Total revenue	**6,221**	**989**	**645**	**(1,347)**	**6,508**
Result					
Segment result	**1,308**	**259**	**34**	**–**	**1,601**
Unallocated expenses					(19)
Profit from operations					**1,582**
Share of profits/(losses) of joint ventures and associates	1	56	–		57
Other income/(expenses), net					(111)
Income tax expense					(475)
Net profit					**1,053**
Assets and liabilities					
Segment assets	4,270	949	204		5,423
Investments in joint ventures and associates	2	904	–		906
Unallocated assets					425
Total assets					**6,754**
Segment liabilities	1,518	181	128		1,827
Unallocated liabilities					2,040
Total liabilities					**3,867**
Other segment information					
Additions to property, plant and equipment	611	125	37		773
Property, plant and equipment acquired in business combinations	308	10	–		318
Depreciation, depletion and amortisation	(191)	(54)	(13)		(258)
Impairment of assets	–	(1)	–		(1)
YEAR ENDED DECEMBER 31, 2004					
Revenue					
Sales to external customers	5,726	116	91	–	5,933
Intersegment sales	83	495	254	(832)	–
Total revenue	**5,809**	**611**	**345**	**(832)**	**5,933**
Result					
Segment result	**1,742**	**92**	**6**	**–**	**1,840**
Unallocated expenses					(3)
Profit from operations					**1,837**
Share of profits/(losses) of joint ventures and associates	–	43	–		43
Other income/(expenses), net					(158)
Income tax expense					(377)
Net profit					**1,345**
Assets and liabilities					
Segment assets	3,028	780	163		3,971
Investments in joint ventures and associates	1	195	1		197
Unallocated assets					85
Total assets					**4,253**
Segment liabilities	1,112	213	108		1,433
Unallocated liabilities					853
Total liabilities					**2,286**
Other segment information					
Additions to property, plant and equipment	488	48	97		633
Property, plant and equipment acquired in business combinations	–	532	–		532
Depreciation, depletion and amortisation	(164)	(31)	(6)		(201)
Impairment of assets	–	–	(1)		(1)

Substantially all the additions to the Group's property, plant and equipment related to the Russian operations of the Group.

Distribution of the Group's revenues by geographical area based on the location of customers for the years ended December 31 was as follows:

millions of US$	2006	2005	2004
Russia	**4,217**	3,905	3,288
Taiwan	**572**	522	807
Thailand	**465**	477	458
Italy	**379**	113	24
Iran	**292**	203	195
USA	**289**	87	8
Czech Republic	**263**	24	–
Kazakhstan	**259**	80	37
Philippines	**194**	198	215
Turkey	**188**	40	20
Germany	**184**	34	–
Korea	**149**	166	213
China	**98**	176	339
Vietnam	**89**	211	213
Other countries	**654**	272	116
	8,292	**6,508**	**5,933**

Carrying amounts of the Group's assets by geographical area in which the assets are located at December 31 were as follows:

millions of US$	2006	2005	2004
Russia	**5,674**	4,997	3,418
Luxembourg	**720**	310	–
Czech Republic	**451**	444	–
Gibraltar	**445**	488	627
Italy	**368**	334	–
USA	**267**	–	–
Cyprus	**252**	80	79
South Africa	**236**	–	–
Switzerland	**51**	43	70
Malta	**34**	37	39
Belgium	**16**	12	10
Panama	**8**	9	10
	8,522	**6,754**	**4,253**

4. ACQUISITIONS AND INCREASES OF OWNERSHIP INTERESTS IN SUBSIDIARIES

Nizhny Tagil Iron and Steel Plant

In the years ended December 31, 2006, 2005 and 2004, the Group acquired minority interests in Nizhny Tagil Iron and Steel Plant (2.62%, 11.94% and 6.09% ownership interest, respectively) for cash consideration of $79 million, $236 million and $48 million, respectively. The excess of the amounts of consideration over the carrying value of minority interest acquired amounting to $37 million, $75 million and $8 million, respectively, was charged to accumulated profits.

West-Siberian Iron and Steel Plant

In the years ended December 31, 2005 and 2004, the Group acquired minority interests in West-Siberian Iron and Steel Plant ("Zapsib") (2.08% and 1.23% ownership interest, respectively) for cash consideration of $41 million and $9 million, respectively. In the years ended December 31, 2005 and 2004, the excess of the amounts of consideration over the carrying values of minority interests acquired amounting to $23 million and $4 million, respectively, was charged to accumulated profits, and the excess of the carrying values of minority interests acquired over consideration amounting to $0 and

$0.6 million, respectively, was included in additional paid-in capital. Purchases of minority interests in 2006 had no significant impact on the Group's financial statements.

In 2006, the new regulations were introduced in the Russian Federation in respect of the companies in which a controlling shareholder owns not less than 95% of the share capital as of July 1, 2006. These amendments obliged a controlling shareholder to acquire the company's shares in case when the minority shareholders are willing to sell their stakes. On the other hand, a controlling shareholder can initiate a forced disposal of the shares held by minority shareholders.

At July 1, 2006, the Group had a 96.68% ownership interest in Zapsib. At this date, the Group derecognised minority interests of $26 million and accrued a liability to minority shareholders in the amount of $64 million. The liability was measured based on the highest price for the shares during the period of six months up to the date of its recognition as required by the regulations. The excess of the amount of the liability over the carrying value of the derecognised minority interests amounting to $38 million was charged to accumulated profits.

Vysokogorsky Mining-And-Processing Integrated Works

In 2006, the Group acquired a 7.61% minority interest in Vysokogorsky Mining-and-Processing Integrated Works for cash consideration of $14 million. The excess of the amount of consideration over the carrying value of minority interest acquired amounting to $5 million was charged to accumulated profits.

Nakhodka Trade Sea Port

In 2006 and 2005, the Group acquired minority interests in Nakhodka Trade Sea Port (0.6% and 2.1%, respectively). These transactions had no significant impact on the Group's financial statements.

Kachkanarsky Mining-And-Processing Integrated Works

On May 21, 2004, the Group acquired 83.59% of the ordinary shares in Kachkanarsky Mining-and-Processing Integrated Works ("KGOK") for $190 million. In addition, as part of the acquisition cost, the Group purchased restructured debts of KGOK with a fair value of $21 million for $44 million. As a result, the financial position and the results of operations of KGOK were included in the Group's consolidated financial statements beginning May 21, 2004.

The table below sets forth the fair values of KGOK's identifiable assets, liabilities and contingent liabilities at the date of acquisition:

millions of US$	May 21, 2004
Property, plant and equipment	337
Other non-current assets	5
Inventories	17
Accounts and notes receivable	66
Cash	2
Total assets	**427**
Non-current liabilities	36
Deferred income tax liabilities	68
Current liabilities	67
Total liabilities	**171**
Net assets	**256**
Fair value of net assets attributable to 83.59% ownership interest	214
Purchase consideration	214

Cash flow on acquisition was as follows:

millions of US$	
Net cash acquired with the subsidiary	2
Cash paid	(213)
Net cash outflow	**(211)**

KGOK's net profit for the period from May 21, 2004 to December 31, 2004 amounted to $58 million.

Subsequent to the acquisition date, in 2004, the Group acquired an additional 14.04% ownership interest in KGOK for $31 million. The excess of the carrying value of minority interest over the amount of consideration amounting to $11 million was recorded in additional paid-in capital.

Subsequent purchases of additional minority interests in KGOK (0.01% and 0.08% in 2006 and 2005, respectively) had no significant impact on the Group's financial statements.

In 2006, the new regulations were introduced in the Russian Federation in respect of the companies in which a controlling shareholder owns not less than 95% of the share capital as of July 1, 2006.

At July 1, 2006, the Group had a 97.72% nominal ownership interest in KGOK. At this date, the Group derecognised minority interests of $16 million and accrued a liability to minority shareholders in the amount of $42 million. The liability was measured based on the highest price for the shares during the period of six months up to the date of its recognition as required by the regulations. The excess of the amount of the liability over the carrying value of the derecognised minority interests amounting to $26 million was charged to accumulated profits.

In addition, the Group recognised a gain from the change in the fair value of the liability to minority shareholders and included $12 million in gain/(loss) on financial assets and liabilities in the consolidated income statement for the year ended December 31, 2006.

Kuznetsky Mining-And-Processing Integrated Works

In February 2004, the Group acquired a production complex from OOO Centerprom-MT for $8 million. The production complex consisted of items of property, plant and equipment, which were previously owned by OOO Kuznetsky Mining-and-Processing Integrated Works ("KuzGOK"). The production complex acquired represented a business and was accounted for as a business combination in accordance with IAS 22. Identifiable assets and liabilities of the production complex were measured at fair value on the date of acquisition. In September 2004, the Group acquired a 100% ownership interest in KuzGOK, for $1. KuzGOK had licenses for iron ore reserves being mined using the assets of the production complex acquired.

The financial position and results of operations of the production complex and KuzGOK were included in the Group's consolidated financial statements beginning February 19, 2004 and September 30, 2004, as the Group exercised control over their operations since these dates.

For accounting purposes, the acquisitions of the production complex and ownership interest in KuzGOK were accounted for as a single business combination. The table below sets forth the fair values of identifiable assets and liabilities of the production complex and KuzGOK at the dates of acquisitions:

millions of US$	February 19, 2004	September 30, 2004	total
Property, plant and equipment	88	8	96
Inventories	–	3	3
Accounts and notes receivable	–	20	20
Total assets	**88**	**31**	**119**
Non-current liabilities	2	1	3
Deferred income tax liabilities	19	–	19
Current liabilities	–	52	52
Total liabilities	**21**	**53**	**74**
Net assets/(liabilities)	**67**	**(22)**	**45**
Purchase consideration	8	–	8
Total goodwill/(negative goodwill)	**(59)**	**22**	**(37)**

Cash flow on acquisition was as follows:

millions of US$	
Net cash acquired with the subsidiary	–
Cash paid	(8)
Net cash outflow	**(8)**

The acquired production complex was vertically integrated into the Group. As a result, it is impracticable for the Group to disclose the acquiree's profit or loss for the period from February 19, 2004 to December 31, 2004.

Through December 31, 2004, the amount of negative goodwill was amortised over the remaining average useful life of identifiable depreciable assets acquired (20 years). On January 1, 2005, the Group ceased recognition of negative goodwill in the balance sheet (Note 2).

Sheregeshskoye and Irbinskoye Ore Deposits

In July 2004, the Group acquired production complexes of OAO Sheregeshskoye Rudoupravlenie ("Sheregeshskoye Ore Deposit") and OAO Irbinskoye Rudoupravlenie ("Irbinskoye Ore Deposit") on open auctions for cash considerations of $3 million and $3 million, respectively. The production complexes acquired represent businesses and therefore their acquisitions were accounted for as business combinations in accordance with IFRS 3. Identifiable assets, liabilities and contingent liabilities of the production complexes were measured at fair value on the dates of acquisitions.

The financial position and results of operations of Sheregeshskoye and Irbinskoye Ore Deposits were included in the Group's consolidated financial statements from July 30, 2004, as the Group exercised control over their operations from that date.

The table below sets forth the fair values of Sheregeshskoye Ore Deposit's identifiable assets, liabilities and contingent liabilities at the date of acquisition:

millions of US$	July 30, 2004
Property, plant and equipment	38
Inventories	1
Total assets	**39**
Non-current liabilities	1
Deferred income tax liabilities	10
Total liabilities	**11**
Net assets	**28**
Purchase consideration	3
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition recognised in the income statement	**(25)**

The table below sets forth the fair values of Irbinskoye Ore Deposit's identifiable assets, liabilities and contingent liabilities at the date of acquisition:

millions of US$	July 30, 2004
Property, plant and equipment	37
Inventories	1
Accounts and notes receivable	3
Total assets	**41**
Non-current liabilities	2
Deferred income tax liabilities	10
Total liabilities	**12**
Net assets	**29**
Purchase consideration	3
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition recognised in the income statement	**(26)**

Cash flow on acquisition was as follows:

millions of US$	
Net cash acquired with the subsidiary	–
Cash paid	(6)
Net cash outflow	**(6)**

The acquired production complexes were vertically integrated into the Group. As a result, it is impracticable for the Group to disclose the acquirees' profit or loss for the period from July 30, 2004 to December 31, 2004.

Mastercroft

On June 1, 2005, the Group acquired a 4.17% ownership interest in Mastercroft for cash consideration of $124 million. The excess of the amount of consideration over the carrying value of that minority interest amounting to $32 million was charged to accumulated profits.

LDPP

On June 30, 2005, the Group acquired an additional minority interest of 30.10% in OAO Large Diameter Pipe Plant ("LDPP") for cash consideration of $13 million. The excess of the amount of the carrying value of minority interest over consideration amounting to $1 million was included in additional paid-in capital.

Palini & Bertoli S.P.A.

On August 11, 2005, the Group acquired a 75% plus one share ownership interest in Clama S.r.l. ("Clama"). Clama owns 100% of the share capital of Palini & Bertoli S.p.A. ("Palini"), an Italian rolling mill. Cash consideration for both companies amounted to $112 million, including transaction costs of $3 million.

At the same date, the Group and Clama's minority shareholders entered into a put and call option agreement under which Clama's minority shareholders have a put option and the Group has a corresponding call option, exercisable in the period from 2007 to 2010, in respect of 25% less one share ownership interest in Clama. The exercise price of the option is dependent upon Clama's future consolidated earnings. As a result, the Group effectively acquired a 100% ownership interest in Clama with deferred consideration of $69 million which is equal to the fair value of a financial liability payable under put option.

The financial position and the results of operations of both Clama and Palini were included in the Group's consolidated financial statements beginning August 11, 2005.

At December 31, 2005, the acquisition of Palini was accounted for based on provisional values as at the date of authorisation of issue of financial statements for the year ended December 31, 2005 the subsidiary has not completed valuation of assets in accordance with IFRS 3. In 2006, the Group finalised its purchase price allocation on the acquisition of Palini. As a result, the Group recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities as at August 11, 2005 and recognised a financial liability payable under the put option in the amount of $69 million. Identifiable assets, liabilities and contingent liabilities of the acquiree and the resulting goodwill which as follows:

millions of US$	initial estimation of fair values	final estimation of fair values
Property, plant and equipment	47	166
Deferred tax asset	4	–
Inventories	52	52
Accounts and notes receivable	64	64
Total assets	**167**	**282**
Non-current liabilities	1	2
Deferred income tax liabilities	9	49
Current liabilities	121	121
Total liabilities	**131**	**172**
Net assets	**36**	**110**
Fair value of net assets attributable to 75% plus one share ownership interest	27	–
Fair value of net assets attributable to 100% ownership interest	–	110
Purchase consideration	119	181
Goodwill as of August 11, 2005	**92**	**71**
Translation difference	(7)	(4)
Goodwill as of December 31, 2005	**85**	**67**

The 2005 comparative information has been restated to reflect these adjustments.

Cash flow on acquisition was as follows:

millions of US$	
Net cash acquired with the subsidiary	–
Cash paid	(113)
Net cash outflow	**(113)**

In 2006, the Group paid $2 million of the purchase consideration outstanding at December 31, 2005.

Clama's consolidated net profit for the period from August 11, 2005 to December 31, 2005 amounted to $7 million.

The goodwill of €57 million comprises the fair value of expected synergies arising from the acquisition and a customer list, which is not separately recognised. The customer list is not separable and therefore does not meet the criteria for recognition as an intangible asset under IAS 38 "Intangible assets".

Vitkovice Steel

On November 14, 2005, the Group acquired a 98.96% ownership interest in Vitkovice Steel ("Vitkovice"), a rolling mill, located in the Czech Republic, for cash consideration of $298 million, including transaction costs of $15 million. As a result, the financial position and the results of operations of Vitkovice were included in the Group's consolidated financial statements beginning November 14, 2005.

At December 31, 2005, the acquisition of Vitkovice was accounted for based on provisional values. In 2006, the Group finalised its purchase price allocation on the acquisition of Vitkovice, but no adjustments were required to the amounts initially recognised. The identifiable assets, liabilities and contingent liabilities as at November 14, 2005 were as follows:

millions of US$	November 14, 2005
Property, plant and equipment	130
Deferred tax asset	3
Other non-current assets	25
Inventories	97
Accounts and notes receivable	110
Other current assets	2
Cash	89
Total assets	**456**
Non-current liabilities	1
Current liabilities	145
Total liabilities	**146**
Net assets	**310**
Fair value of net assets attributable to 98.96% ownership interest	307
Purchase consideration	298
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition recognised in the income statement	**(9)**

Cash flow on acquisition was as follows:

millions of US$	
Net cash acquired with the subsidiary	89
Cash paid	(289)
Net cash outflow	**(200)**

In 2006, the Group paid $9 million of the purchase consideration outstanding at December 31, 2005.

Vitkovice's consolidated net loss for the period from November 14, 2005 to December 31, 2005 amounted to $4 million.

In 2006, the Group acquired the remaining minority interests in Vitkovice (1.04%) for cash consideration of $3 million. The excess of the amount of the carrying value of minority interest over consideration amounting to $1 million was included in additional paid-in capital.

Strategic Minerals Corporation

On August 23, 2006, the Group acquired 72.84% of ordinary shares of Strategic Minerals Corporation ("Stratcor"), including 69.00% of voting shares, for purchase consideration of $125 million, including transaction costs of $6 million and fair value of contingent consideration amounting to $21 million. Stratcor, headquartered in Danbury, Connecticut, USA, is one of the world's leading producers of vanadium alloys and chemicals for steel and chemical industries. Stratcor has two wholly-owned subsidiaries—Stratcor, Inc. with a mill in Hot Springs, Arkansas, USA, and Vametco Minerals Corporation with a mine and a mill in Brits, South Africa.

As a result, the financial position and the results of operations of Stratcor were included in the Group's consolidated financial statements beginning August 23, 2006. The acquisition of Stratcor was accounted for based on provisional values as the subsidiary, as of the date of authorisation of issue of these financial statements, has not completed purchase price allocation in accordance with IFRS 3 "Business Combinations". The table below sets forth the fair values of Stratcor's consolidated identifiable assets, liabilities and contingent liabilities at the date of acquisition:

millions of US$	August 23, 2006
Property, plant and equipment	123
Other non-current assets	3
Inventories	51
Accounts and notes receivable	31
Cash	39
Total assets	**247**
Deferred income tax liabilities	22
Non-current liabilities	41
Current liabilities	50
Total liabilities	**113**
Net assets	**134**
Fair value of net assets attributable to 72.84% ownership interest	97
Purchase consideration	125
Goodwill	**28**

Under the share purchase agreement, the Group will pay earn out and synergy payments during the period from 2007 to 2019. The payments depend on the deviation of the average prices for vanadium pentoxide from certain levels and the amounts payable for each year are limited to maximum amounts. Liabilities under earn out and synergy payments were recognised at fair value which was determined based on expected amounts to be paid, their timing and applicable discount rate.

Cash flow on acquisition was as follows:

millions of US$	
Net cash acquired with the subsidiary	39
Cash paid	(102)
Net cash outflow	**(63)**

For the period from August 23, 2006 to December 31, 2006 Stratcor incurred net loss amounting to $1 million.

Under the Black Economic Empowerment Programme, realised by the South-African government in accordance with the Mineral and Petroleum Resources Development Act and the Broad-Based Socio Economic Empowerment Charter for the South African Mining Industry, the Group has a commitment to sell a 11% ownership interest in the South-African subsidiary of Stratcor to historically disadvantaged communities not later than April 2014.

Other Acquisitions

In 2005, the Group purchased a 100% ownership interest in OOO Mine 12 ("Mine 12") and OAO Zapadno-Sibirskoye Geologicheskoye Upravlenie ("ZSGU"). In addition, the Group acquired the assets and the business of OOO Nizhnesaldinsky Metallurgical Plant. The excess of fair value of identifiable assets, liabilities and contingent liabilities acquired over consideration amounting to $6 million was included in the income statement. Goodwill of $1 million was determined as impaired and included in impairment of assets in the income statement for the year ended December 31, 2005.

In 2006, the Group purchased 100% ownership interest in OOO Evro-Aziatskaya Energy Company, OOO Evrazteknika, OOO Ekont and OOO Cheremshanka, all located in the Russian Federation, from the entities under control of an ultimate principal shareholder. The total cash consideration amounted to $34 million. The excess of fair value of identifiable assets, liabilities and contingent liabilities acquired over consideration amounting to $1 million was included in the income statement. Goodwill of $1 million arising on the acquisition of Evro-Aziatskaya Energy Company was recorded in the consolidated balance sheet as of December 31, 2006.

Disclosure of Other Information in Respect of Business Combinations

It is impracticable to determine revenues and net profit of the combined entity for each year presented on the assumption that all business combinations effected during each year had occurred at the beginning of the respective year.

It is impracticable to determine the carrying amounts of each class of the acquirees' assets, liabilities and contingent liabilities, determined in accordance with IFRS, immediately before the combination, because the acquirees did not prepare financial statements in accordance with IFRS before acquisitions.

Negative Goodwill

The table below presents a reconciliation of the carrying amount of negative goodwill at December 31, 2005 and 2004:

millions of US$	gross book value	accumulated amortisation	total
At December 31, 2003	**(393)**	**45**	**(348)**
Negative goodwill recognised on acquisitions	(37)	–	(37)
Amortisation	–	28	28
Translation difference	(6)	–	(6)
At December 31, 2004	**(436)**	**73**	**(363)**
Change in accounting policies: derecognition of negative goodwill	436	(73)	363
At January 1, 2005	**–**	**–**	**–**

In 2004, the Group applied IFRS 3 "Business Combinations" to the accounting for business combinations, for which the agreement date was on or after March 31, 2004. In accordance with the transitional provisions of IFRS 3, on January 1, 2005, the Group ceased to recognise negative goodwill in the consolidated balance sheet. The carrying amount of negative goodwill at December 31, 2004 that arose from business combinations, for which the agreement date was before March 31, 2004, or interests in a jointly controlled entity obtained before March 31, 2004 and accounted for by applying the equity method was derecognised at January 1, 2005, with a corresponding adjustment of $390 million to the opening balance of accumulated profits and minority interest (Notes 4 and 8).

Goodwill

The table below presents movement in the carrying amount of goodwill during the years ended December 31, 2006 and 2005.

millions of US$	notes	carrying amount
At December 31, 2004		**–**
Goodwill recognised on acquisitions of subsidiaries	*4*	72
Impairment of goodwill	*4*	(1)
Translation difference		(4)
At December 31, 2005 (as adjusted)		**67**
Goodwill recognised on acquisitions of subsidiaries	*4*	29
Translation difference		8
At December 31, 2006		**104**

At December 31, 2006, the carrying value of goodwill relates to the acquisition of Clama and Palini in 2005 and Stratcor and Evro-Aziatskaya Energy Company in 2006.

In respect of Palini the recoverable amount of goodwill as of December 31, 2006 was based on value in use determined based on future cash flow analysis covering a ten-year period and a discount rate of 11.6% per annum. For periods beyond this ten year projection a zero terminal value was assumed.

Cash flow projections have been estimated by extrapolating the budget for 2007 using a growth rate of 2% per annum representing the expected inflationary increase. The budget is based on the expected commodity price of steel plates of €530 per ton.

The above mentioned goodwill will not be impaired unless the above noted assumptions substantially change.

5. REVENUES AND EXPENSES

Cost of revenues, distribution costs, administrative expenses and social infrastructure maintenance expenses include the following for the years ended December 31:

millions of US$	2006	2005	2004
Cost of inventories recognised as expense	**2,900**	2,509	2,300
Staff costs, including social security taxes	**909**	769	592
Depreciation, depletion and amortisation	**304**	245	196

Gain on Financial Assets

Gain on financial assets in the year ended December 31, 2004 represents a gain on re-measurement of 19.145% of shares in ZAO Raspadskaya to fair value. This gain was realised when the shares were contributed into a joint venture (Note 8).

Other Non-Operating Loss

Other non-operating loss for the year ended December 31, 2005 includes $10 million paid to the government of Georgia as a non-refundable prepayment for the acquisition of ownership interest in JSC Chiaturmanganum and JSC Vartsikhe GES. The Group planned to acquire a 63.08% interest in these entities, but abandoned the project.

6. INCOME TAXES

Major components of income tax expense for the years ended December 31 were as follows:

millions of US$	2006	2005	2004
Current income tax expense	**(661)**	(466)	(444)
Adjustment in respect of income tax of previous years	**(2)**	(7)	–
Deferred income tax (expense)/benefit			
Relating to origination and reversal of temporary differences	**25**	(2)	67
Income tax expense reported in the consolidated income statement	**(638)**	**(475)**	**(377)**

In 2004—2006, the Group's income was subject to tax at 24% in the Russian Federation, 10% in Cyprus, and 24% and 11.6% (depending on the type of income) in Switzerland. The income tax rates in the Czech Republic were 24% in 2006 and 26% in 2005. Italian subsidiary was taxed at a 37.25% effective rate. The South African subsidiary and associate were taxed at 29% in 2006. Effective income tax rate in respect of the subsidiary located in the USA was 37%. Ferrotrade Limited (Gibraltar) has a Taxation Exemption Certificate under which it is currently liable to tax at the fixed annual amount of £225. This certificate is valid through 2010.

The major part of income taxes is paid in the Russian Federation. A reconciliation of income tax expense applicable to profit before income tax using the Russian statutory tax rate of 24% to income tax expense as reported in the Group's consolidated financial statements for the years ended December 31 is as follows:

millions of US$	2006	2005	2004
Profit before income tax	**2,097**	1,528	1,722
At the Russian statutory income tax rate of 24%	**(503)**	(367)	(413)
Adjustment in respect of income tax of previous years	**(2)**	(7)	–
Effect of non-deductible expenses and other non-temporary differences	**(103)**	(37)	(42)
Effect of the difference in tax rates on dividend income from associates and joint ventures	**10**	11	–
Tax on dividends distributed by the Group's subsidiaries to parent company	**(45)**	(44)	–
Effect of the difference in tax rates in countries other than the Russian Federation	**7**	6	60
Deferred income tax provided for undistributed earnings of the Group's subsidiaries	**(11)**	(18)	(16)
Share of profits in joint ventures and associates	**(1)**	3	10
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**–**	4	13
Gain on financial assets	**3**	–	14
Benefit from previously unrecognised tax losses	**6**	–	–
Change in allowance for deferred tax asset	**1**	(26)	(3)
Income tax expense reported in the consolidated income statement	**(638)**	**(475)**	**(377)**

Deferred income tax assets and liabilities and their movements for the years ended December 31 were as follows:

millions of US$	2006	reclassification to assets held-for-sale	change recognised in income statement	change due to business combinations	translation difference	2005	change recognised in income statement	change due to business combinations	translation difference	2004
Deferred income tax liabilities:										
Property, plant and equipment	**316**	–	**(17)**	**29**	**26**	278	3	56	(9)	228
Liabilities under the Settlement Agreements	**–**	–	**(1)**	**–**	**–**	1	(12)	–	(1)	14
Undistributed earnings of subsidiaries	**11**	–	**(7)**	**–**	**–**	18	2	–	–	16
Other	**45**	–	**10**	**14**	**4**	17	–	3	(1)	15
	372	–	**(15)**	**43**	**30**	314	(7)	59	(11)	273
Deferred income tax assets:										
Tax losses available for offset	**36**	(2)	**3**	**6**	**1**	28	26	–	–	2
Accrued liabilities	**40**	–	**6**	**6**	**3**	25	3	1	1	20
Accounts receivable	**12**	(1)	**(3)**	**–**	**2**	14	4	–	(2)	12
Other	**31**	(5)	**3**	**6**	**2**	25	(16)	9	1	31
	119	(8)	**9**	**18**	**8**	92	17	10	–	65
Valuation allowance	**(31)**	–	**1**	**(3)**	**–**	(29)	(26)	–	–	(3)
	88	(8)	**10**	**15**	**8**	63	(9)	10	–	62
Net deferred income tax asset	**11**	**(8)**	**3**	**–**	**2**	**14**	**8**	**3**	**–**	**3**
Net deferred income tax liability	**295**	**–**	**(22)**	**28**	**24**	**265**	**10**	**52**	**(11)**	**214**

As of December 31, 2006, 2005 and 2004, deferred income taxes have been provided for in respect of undistributed earnings of the Group's subsidiaries amounting to $255 million, $465 million and $273 million, respectively, as management intended to dividend these amounts. Management does not intend to distribute other accumulated earnings in the foreseeable future.

At December 31, 2006, the Group has not recognised a deferred tax liability and deferred tax asset in respect of temporary differences of $3,177 million and $353 million, respectively. These differences are associated with investments in subsidiaries and were not recognised as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

The current tax rate for dividend income in respect of the Group's subsidiaries varies from 0% to 10%.

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, except for the companies registered in Cyprus

where group relief can be applied. As of December 31, 2006, the unused tax losses carry forward approximated to $170 million. The Group recognised deferred tax asset of $8 million in respect of unused tax losses. Deferred tax asset in the amount of $28 million has not been recorded as it is not probable that sufficient taxable profits will be available in the foreseeable future to offset these losses. Tax losses of $146 million for which deferred tax asset was not recognised arose in companies registered in Luxembourg, Cyprus and Russia. Losses in the amount of $130 million are available indefinitely for offset against future taxable profits of the companies in which the losses arose and $16 million will expire during 2012—2016.

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following as of December 31:

millions of US$	2006	2005	2004
Cost:			
Land	**62**	58	53
Buildings and constructions	**1,239**	823	663
Machinery and equipment	**2,270**	1,689	1,277
Transport and motor vehicles	**259**	186	144
Mining assets	**364**	315	284
Other assets	**83**	64	46
Assets under construction	**482**	670	499
	4,759	3,805	2,966
Accumulated depreciation, depletion and amortisation:			
Buildings and constructions	**(150)**	(99)	(71)
Machinery and equipment	**(754)**	(534)	(440)
Transport and motor vehicles	**(55)**	(31)	(13)
Mining assets	**(37)**	(34)	(14)
Other assets	**(43)**	(28)	(19)
	(1,039)	(726)	(557)
Government grants:			
Machinery and equipment, net	**(8)**	(8)	(10)
	3,712	**3,071**	**2,399**

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of $117 million, $127 million and $137 million as of December 31, 2006, 2005 and 2004, respectively.

The movement in property, plant and equipment for the year ended December 31, 2006 was as follows:

millions of US$	land	buildings and constructions	machinery and equipment	transport and motor vehicles	mining assets	other assets	assets under construction	total
At December 31, 2005, cost, net of accumulated depreciation and government grants	58	724	1,147	155	281	36	670	3,071
Reclassifications	–	(12)	10	3	8	(1)	(8)	–
Additions	–	1	4	25	17	4	633	684
Assets acquired in business combination	8	58	67	3	24	1	5	166
Assets put into operation	3	289	408	54	–	9	(763)	–
Disposals	–	(5)	(12)	(2)	–	(1)	(10)	(30)
Depreciation & depletion charge	–	(46)	(204)	(25)	(21)	(12)	–	(308)
Impairment loss	–	(1)	(2)	–	–	–	(17)	(20)
Disposal of assets due to sale of a subsidiary	–	(1)	(4)	(21)	–	–	(1)	(27)
Assets held for disposal	(15)	–	(25)	–	(21)	–	(87)	(148)
Change in site restoration provision	2	1	–	–	13	–	–	16
Translation difference	6	81	119	12	26	4	60	308
At December 31, 2006, cost, net of accumulated depreciation and government grants	**62**	**1,089**	**1,508**	**204**	**327**	**40**	**482**	**3,712**

The movement in property, plant and equipment for the year ended December 31, 2005 was as follows:

millions of US$	land	buildings and constructions	machinery and equipment	transport and motor vehicles	mining assets	other assets	assets under construction	total
At December 31, 2004 cost, net of accumulated depreciation and government grants	53	592	827	131	270	27	499	2,399
Reclassifications	–	17	(17)	–	–	–	–	–
Additions	1	–	5	18	17	4	728	773
Assets acquired in business combination	13	80	200	2	9	8	6	318
Assets put into operation	1	107	366	27	19	10	(530)	–
Disposals	(1)	(13)	(18)	(2)	–	(1)	(11)	(46)
Depreciation & depletion charge	–	(35)	(179)	(18)	(15)	(11)	–	(258)
Change in site restoration provision	–	–	–	–	(9)	–	–	(9)
Impairment loss	(7)	–	–	–	–	–	–	(7)
Translation difference	(2)	(24)	(37)	(3)	(10)	(1)	(22)	(99)
At December 31, 2005, cost, net of accumulated depreciation and government grants	**58**	**724**	**1,147**	**155**	**281**	**36**	**670**	**3,071**

The movement in property, plant and equipment for the year ended December 31, 2004 was as follows:

millions of US$	land	buildings and constructions	machinery and equipment	transport and motor vehicles	mining assets	other assets	assets under construction	total
At December 31, 2003, cost, net of accumulated depreciation and government grants	26	235	649	16	163	18	243	1,350
Additions	21	5	6	85	10	3	503	633
Assets acquired in business combination	4	322	53	25	96	1	31	532
Assets put into operation	–	33	222	11	–	12	(278)	–
Disposals	–	(3)	(4)	(1)	–	–	(22)	(30)
Depreciation & depletion charge	–	(29)	(145)	(9)	(10)	(8)	–	(201)
Impairment loss	–	–	–	–	(2)	–	–	(2)
Translation difference	2	29	46	4	13	1	22	117
At December 31, 2004, cost, net of accumulated depreciation and government grants	**53**	**592**	**827**	**131**	**270**	**27**	**499**	**2,399**

As of December 31, 2006, 2005 and 2004, certain items of production equipment with an approximate carrying value of $39 million, $156 million and $96 million, respectively, were pledged to banks as collateral against loans to the Group (Note 17).

8. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

Investments in joint ventures and associates were as follows as of December 31:

millions of US$	business activity	percentage holding	2006	2005	2004
Investment in a joint venture:					
Corber Enterprises Limited	Coal mining	50.00%	**577**	229	195
Investments in associates:					
ZAO Yuzhkuzbassugol	Coal mining	50.00%	**679**	675	–
Highveld Steel and Vanadium Corporation Limited	Steel and vanadium products production	24.90%	**236**	–	–
Other associates			**7**	2	2
			1,499	**906**	**197**

The Group accounted for investments in joint ventures and associates under the equity method.

Corber Enterprises Limited

On March 10, 2004, as part of a joint venture agreement, the Group acquired a 50% ownership interest in Corber Enterprises Limited ("Corber"), a joint venture created for the purpose of exercising joint control over economic activities of Raspadskaya Mining Group and other Corber's subsidiaries. At the date of acquisition, Corber owned 72.03% of ordinary shares in ZAO Raspadskaya, one of the largest coal mines in the Russian Federation. The Group's consideration in exchange for the ownership interest in Corber was $140 million including a cash payment of $62 million, the issuance of 6% interest-bearing promissory notes of Mastercroft Mining Limited, the Group's subsidiary, with total nominal value of $19 million payable not earlier than March 10, 2006 and a contribution of 88,016 (19.15%) ordinary shares in ZAO Raspadskaya with a carrying value of $59 million.

The table below sets forth the fair values of Corber's identifiable assets, liabilities and contingent liabilities at the date of acquisition:

millions of US$	March 10, 2004
Mineral reserves	270
Other property, plant and equipment	177
Other non-current assets	1
Inventories	11
Accounts and notes receivable	33
Other current assets	1
Cash	6
Total assets	**499**
Non-current liabilities	17
Deferred income tax liabilities	82
Current liabilities	27
Total liabilities	**126**
Minority interests	**37**
Net assets	**336**
Fair value of net assets attributable to 50% ownership interest	168
Negative goodwill	**(28)**
Purchase consideration	140

On May 31, 2006, Corber acquired a 100% ownership interest in Mezhdurechenskaya Ugolnaya Company–96 ("MUK–96") from Adroliv, one of the Corber's shareholders, in exchange for Corber's newly issued 7,200 ordinary shares and 4,800 preferred shares with par value of $1 each. Under the terms of the acquisition, preferred dividends of $318 million were paid by Corber to Adroliv in respect of Corber's acquisition of MUK 96.

MUK-96, an open joint stock company registered in the Russian Federation, is mainly involved in coal mining. MUK-96 holds a 99% ownership interest in ZAO Razrez Raspadsky ("Razrez Raspadsky"). Razrez Raspadsky is involved in rendering mining services, including open pit mine works at Raspadskaya mine in the Kemerovo region, the Russian Federation. Prior to the acquisition of MUK-96, one of the Corber's subsidiaries acquired a 1% ownership interest in Razrez Raspadsky for cash consideration of $2 million.

The total cost of the business combination, including cash consideration and fair value of equity instruments exchanged, amounted to $770 million.

The table below sets forth the fair values of identifiable assets, liabilities and contingent liabilities of MUK-96 and Razrez Raspadsky at the date of acquisition:

millions of US$	May 31, 2006
Mineral reserves	897
Other property, plant and equipment	77
Inventories	4
Accounts and notes receivable	17
Cash	34
Total assets	**1,029**
Non-current liabilities	18
Deferred income tax liabilities	218
Current liabilities	23
Total liabilities	**259**
Net assets	**770**
Purchase consideration	770

In order to retain its 50% ownership interest in Corber, on May 31, 2006, the Group acquired from Adroliv 3,600 newly issued ordinary shares of Corber for cash consideration of $225 million.

The table below sets forth Corber's assets and liabilities as of December 31:

millions of US$	2006	2005	2004
Mineral reserves	**1,148**	246	267
Other property, plant and equipment	**474**	299	235
Other non-current assets	**9**	4	1
Inventories	**27**	18	12
Accounts and notes receivable	**365**	83	63
Cash	**56**	42	48
Total assets	**2,079**	*692*	*626*
Non-current liabilities	**52**	26	43
Deferred income tax liabilities	**296**	77	80
Current liabilities	**363**	113	35
Total liabilities	**711**	216	158
Minority interests	**216**	18	24
Net assets	**1,152**	458	444

The table below sets forth Corber's income and expenses:

millions of US$	year ended December 31, 2006	year ended December 31, 2005	from March 10, to December 31, 2004
Revenue	**472**	549	364
Cost of revenue	**(271)**	(330)	(212)
Other expenses, including income taxes	**(116)**	(103)	(65)
Net profit	**85**	116	87
Attributable to:			
Equity holders of the parent entity	**79**	113	84
Minority interests	**6**	3	3
Net profit	**85**	116	87
Share of profits attributable to the Group	**39**	56	42
Amortisation of negative goodwill	**–**	–	1
Group's share of profits of the joint venture	**39**	**56**	**43**

millions of US$	notes	carrying amount
Investment at March 10, 2004		**140**
Share of profit		43
Translation difference		6
Additional paid-in capital in respect of acquisition of minority interests	*16*	6
Investment at December 31, 2004		**195**
Change in accounting policies: derecognition of negative goodwill	2	27
Investment at January 1, 2005		**222**
Share of profit		56
Dividends paid		(44)
Translation difference		(8)
Additional paid-in capital in respect of acquisition of minority interests	16	3
Investment at December 31, 2005		**229**
Additional investments		225
Share of profit		39
Reorganisation of ownership structure within a joint venture		(1)
Sale of shares in a subsidiary to minority shareholders	*16*	58
Cost of guarantee issued to a joint venture		2
Translation difference		25
Investment at December 31, 2006		**577**

ZAO Yuzhkuzbassugol

On December 30, 2005, the Group acquired a 50% ownership interest in ZAO Coal Company Yuzhkuzbassugol ("Yuzhkuzbassugol") for cash consideration of $675 million payable to Crondale Overseas Limited ("Crondale"), an entity under common control with the Group (Note 14). Yuzhkuzbassugol, a closed joint stock company, is a vertically integrated group being one of the largest coal producers in Russia. The Group determined that its ownership interest in Yuzhkuzbassugol represents the purchase of an associate and accounted for the investment under the equity method.

At December 31, 2005, the acquisition of Yuzhkuzbassugol was accounted for based on provisional values as at the date of authorisation of issue of financial statements for the year ended December 31, 2005 the associate has not completed preparation of IFRS financial statements. In 2006, the Group finalised its purchase price allocation on the acquisition of an ownership interest in Yuzhkuzbassugol. As a result, the Group recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities as at December 30, 2005, which were as follows:

millions of US$	initial estimation of fair values	final estimation of fair values
Mineral reserves	1,225	1,106
Other property, plant and equipment	615	615
Investment in an associate	7	146
Other non-current assets	14	14
Inventories	42	42
Accounts and notes receivable	81	81
Other current assets	1	1
Cash	12	12
Total assets	**1,997**	**2,017**
Non-current liabilities	106	120
Deferred income tax liabilities	313	295
Current liabilities	238	238
Total liabilities	**657**	**653**
Minority interests	**15**	**14**
Net assets	**1,325**	1,350
Fair value of net assets attributable to 50% ownership interest	663	675
Goodwill	**12**	–
Purchase consideration	675	675

The 2005 comparative information has been restated to reflect these adjustments.

The table below sets forth Yuzhkuzbassugol's assets and liabilities as of December 31, 2006:

millions of US$	2006
Mineral reserves	1,161
Other property, plant and equipment	658
Investment in an associate	152
Other non-current assets	40
Inventories	27
Accounts and notes receivable, net	71
Other current assets	6
Cash	18
Total assets	**2,133**
Non-current liabilities	216
Deferred income tax liabilities	294
Current liabilities	255
Total liabilities	**765**
Minority interests	**9**
Net assets	**1,359**

The table below sets forth Yuzhkuzbassugol's income and expenses for the year ended December 31, 2006:

millions of US$	2006
Revenue	595
Cost of revenue	(482)
Other expenses, including income taxes	(170)
Net loss	**(57)**
Attributable to:	
Equity holders of the parent entity	(54)
Minority interests	(3)
Net loss	**(57)**
Group's share of loss of the associate	**(28)**

The movement in investments in Yuzhkuzbassugol during 2006 was as follows:

millions of US$	notes	carrying amount
IInvestment at December 31, 2005		**663**
Adjustment to provisional values		12
Investment at January 1, 2006		**675**
Share of loss		(28)
Dividends paid		(32)
Translation difference		63
Additional paid-in capital in respect of acquisition of minority interests	*16*	1
Investment at December 31, 2006		**679**

Highveld Steel and Vanadium Corporation Limited

On July 13, 2006, the Group acquired a 24.9% ownership interest in Highveld Steel and Vanadium Corporation Limited ("Highveld") for cash consideration of $216 million, including $10 million of transaction costs. In addition, the Group has options to increase this stake to 79% within the next 24 months should such a decision be made and subject to receipt of all necessary regulatory approvals. Highveld is one of the largest steel producers in the South Africa and a leading producer of vanadium products. The total consideration for the acquisition of 79% ownership interest in Highveld will approximate $656 million.

The Group determined that its ownership interest in Highveld represents an investment in an associate and accounted for it under the equity method. The acquisition of a 24.9% ownership interest in Highveld was accounted for based on provisional values as the associate, as of the date of authorisation of issue of these financial statements, had not completed valuation of assets in accordance with IFRS 3.

The table below sets forth the provisional fair values of Highveld's consolidated identifiable assets, liabilities and contingent liabilities at the date of acquisition:

millions of US$	July 13, 2006
Mineral reserves	241
Other property, plant and equipment	306
Assets held for sale	285
Other non-current assets	32
Inventories	50
Accounts and notes receivable	112
Cash	78
Total assets	**1,104**

millions of US$	July 13, 2006
Non-current liabilities	30
Deferred income tax liabilities	172
Current liabilities	273
Total liabilities	**475**
Net assets	**629**
Fair value of net assets attributable to 24.9% ownership interest	157
Purchase consideration	216
Goodwill	**59**

The table below sets forth Highveld's assets and liabilities as of December 31, 2006:

millions of US$	2006
Mineral reserves	254
Other property, plant and equipment	383
Assets held for sale	294
Other non-current assets	16
Inventories	52
Accounts and notes receivable	133
Cash	60
Total assets	**1,192**
Non-current liabilities	44
Deferred income tax liabilities	185
Current liabilities	**260**
Total liabilities	489
Net assets	**703**

Assets held for sale represent the businesses which the Group is obliged to divest in order to proceed with the transaction (Note 28).

The table below sets forth Highveld's income and expenses for the period from acquisition to December 31, 2006:

millions of US$	from July 13, to December 31, 2006
Revenue	481
Cost of revenue	(371)
Other expenses, including income taxes	**(23)**
Net profit	**87**
Group's share of profits of the associate	**22**

The movement in investments in Highveld during 2006 was as follows:

millions of US$	carrying amount
Investment at July 13, 2006	**216**
Share of profit	22
Dividends paid	(9)
Translation difference	7
Investment at December 31, 2006	**236**

Other Associates

In 2006, the Group's share in profits of other associates amounted to $7 million.

9. ASSETS HELD FOR SALE

Assets held for sale are mostly represented by OAO Neryungriugol ("Neryungriugol"), a subsidiary, which the Group intends to dispose of in April 2007. In addition, these assets include a few small subsidiaries involved in non-core activities (construction business, trading activity and recreational services), certain assets located at one of the Group's steel subsidiaries and a parcel of land, which are expected to be sold in 2007.

Neryungiugol was included in the mining segment of the Group's operations. The Group recognised a $66 million impairment loss of Neryungriugol's assets based on intended disposal terms and included it in loss on assets held for sale in the consolidated income statement for the year ended December 31, 2006. Other losses on assets held for sale relate to OOO Nikomogneupor, the Group's subsidiary involved in the production of refractory materials, which was sold in November 2006.

In addition, in 2006, the Group recognised an impairment loss of $5 million for write-down of land to fair value which was included in impairment of assets in the consolidated income statement for the year ended December 31, 2006.

The major classes of assets and liabilities of the disposal group measured at the lower of carrying amount and fair value less costs to sell at December 31, 2006 were as follows:

millions of US$	December 31, 2006
Land	5
Other property, plant and equipment	71
Other non-current assets	9
Current assets	20
Assets classified as held for sale	**105**
Liabilities directly associated with assets classified as held for sale	**23**
Net assets classified as held for sale	**82**

10. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS AT BANKS

Cash and cash equivalents were denominated in the following currencies as of December 31:

millions of US$	2006	2005	2004
Roubles	**110**	96	65
US dollars	**665**	407	227
Euros	**36**	75	1
Czech koruna	**19**	62	–
South African rands	**9**	–	–
Other	**3**	1	–
	842	**641**	**293**

The above cash and cash equivalents mainly consist of cash at banks.

Restricted deposits at banks were as follows as of December 31:

millions of US$	2006	2005	2004
Deposits to secure bank loans	8	25	18
Other	**4**	7	2
	12	32	20
Less: deposits with current maturities	**–**	**(24)**	**(11)**
	12	**8**	**9**

In 2006, the deposits earned interest at an average rate of 5% per annum. The deposits are mainly denominated in US dollars.

11. OTHER NON-CURRENT ASSETS

Other non-current assets were as follows as of December 31:

millions of US$	notes	2006	2005	2004
Deposit to secure call option for the Highveld's shares	*8*	**207**	–	–
Prepayments for purchases of subsidiaries		**6**	–	–
Deferred income tax assets	*6*	**11**	14	3
Long-term input VAT		**19**	16	4
Emission rights		**3**	10	–
Other		**27**	18	9
		273	**58**	**16**

Deposit to secure call option for the Highveld's shares does not earn interest and matures upon the completion of the transaction.

12. INVENTORIES

Inventories consisted of the following as of December 31:

millions of US$	2006	2005	2004
Raw materials and spare parts, at cost	**422**	434	390
Work-in-progress, at cost	**106**	115	63
Finished goods:			
– at cost	**334**	282	327
– at net realisable value	**6**	154	36
	868	985	816
Allowance for obsolete and slow-moving items	**(13)**	(21)	(8)
	855	**964**	**808**

As of December 31, 2006, 2005 and 2004, certain items of inventory with an approximate carrying amount of $194 million, $204 million and $336 million, respectively, were pledged to banks as collateral against loans provided to the Group (Note 17).

13. TRADE AND OTHER RECEIVABLES

Trade and other receivables consisted of the following as of December 31:

millions of US$	2006	2005	2004
Trade accounts receivable	**586**	403	275
Prepayments	**86**	60	80
Other receivables	**28**	21	39
	700	484	394
Allowance for doubtful accounts	**(63)**	(55)	(28)
	637	**429**	**366**

14. RELATED PARTY DISCLOSURES

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

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Amounts owed by/to related parties at December 31 were as follows:

	Amounts due from related parties			Amounts due to related parties		
millions of US$	2006	2005	2004	2006	2005	2004
Corber	—	14	—	151	—	—
Crondale	—	—	—	—	275	—
EvrazInvest	—	—	—	—	—	46
Evrazmetall-Centre	**1**	6	21	—	9	—
Evrazmetall-Sibir	**18**	36	22	—	19	—
Evrazmetall-Ural	**11**	5	—	—	—	—
Ferrotranstrade	—	2	25	—	—	4
Goroblagodatskoye Ore Mine	—	4	8	—	—	2
Marteck Shipping	—	—	—	—	—	8
Raspadsky Ugol	—	—	—	**3**	—	—
Sojitz Noble Alloys Corp.	—	—	—	**8**	—	—
Yuzhkuzbassugol	—	—	3	**7**	—	—
Other entities	**24**	28	17	**7**	12	26
Liabilities to entities under common control for transfers of ownership interests in subsidiaries	—	—	—	—	—	32
	54	95	96	**176**	315	118
Less: allowance for doubtful accounts	—	(5)	(7)	—	—	—
	54	**90**	**89**	**176**	**315**	**118**

Transactions with related parties were as follows for the years ended December 31:

	Sales to related parties			Purchases from related parties		
millions of US$	> 2006	> 2005	> 2004	> 2006	> 2005	> 2004
Evrazmetall-Centre	**141**	100	106	**–**	–	–
Evrazmetall-Chernozemie	**53**	18	–	**–**	–	–
Evrazmetall-Povolzhie	**62**	22	–	**–**	–	–
Evrazmetall-Severo-Zapad	**45**	20	–	**–**	–	–
Evrazmetall-Sibir	**146**	123	103	**–**	–	–
Evrazmetall-Ural	**150**	67	–	**–**	–	–
Evro-Aziatskaya Energy Company	**23**	14	–	**104**	75	–
Ferrotrade & Co.	**–**	–	124	**–**	–	–
Ferrotranstrade	**–**	–	46	**–**	1	3
KMK- Energo	**–**	–	6	**–**	2	52
Kuznetsk Coal Company	**–**	–	10	–	–	–
Marteck Shipping	**–**	–	7	**–**	40	98
PromKhimProduct	**–**	–	84	**–**	–	1
Raspadsky Ugol	**–**	–	–	**80**	147	80
Sojitz Noble Alloys Corp.	**18**	–	–	**1**	–	–
Steel of KMK	**–**	–	22	**–**	–	70
Yuzhkuzbassugol	**12**	26	–	**279**	426	287
Other entities	**14**	10	32	**59**	38	63
	664	**400**	**540**	**523**	**729**	**654**

Corber is the Group's joint venture (Note 8). At December 31, 2006, amounts due to Corber represented advances received from the entity in respect of dividends to be declared in 2007. At December 31, 2005, amounts due from Corber represented dividends receivable from the entity in respect of 2005.

Crosland Global Limited ("CGL") was the Company's parent up to August 3, 2006 (Note 1). In 2005, the Company provided a $200 million short-term loan to CGL which bore interest of 4.25% per annum. The loan was fully repaid in 2005.

Crondale is an entity under control of an ultimate principal shareholder of the Group. At December 31, 2005, accounts payable to Crondale represented the Group's liabilities for the purchase of 50% share in Yuzhkuzbassugol payable by January 31, 2006 (Note 8). In January 2006, the Group fully repaid its liabilities to Crondale.

OOO EvrazInvest ("EvrazInvest") is an entity under control of an ultimate principal shareholder of the Group. In 2004, amounts due to EvrazInvest represented short-term loans borrowed by the Group at the interest rate ranging from 2.7% to 7.6%.

OOO Evrazmetall-Centre, OOO Evrazmetall-Sibir, OOO Evrazmetall-Ural, OOO Evrazmetall-Povolzhie, OOO Evrazmetall-Severo-Zapad, OOO Evrazmetall-Chernozemie, the entities under control of an ultimate principal shareholder of the Group, purchase steel products from the Group. In 2006, the Group sold approximately 7% of volume of steel products to these entities. The transactions were made on terms equivalent to those that prevail in arm's length transactions.

OOO Evro-Aziatskaya Energy Company ("EvrazEK"), an energy generating company, was an entity under common control. In 2006, the Group acquired the entity (Note 4). EvrazEK supplies natural gas, steam and electricity to certain subsidiaries of the Group and purchases metal products and materials from the Group companies.

Ferrotrade & Co. is an entity under control of an ultimate principal shareholder of the Group. Prior to 2004, Ferrotrade & Co. exported the Group's products from Russia. At the end of 2003, Ferrotrade & Co. discontinued entering into new sales contracts and sold all of its inventories to Ferrotrade Limited, the Group's newly established wholly owned subsidiary. In 2004, the Group sold to Ferrotrade & Co. 467,479 metric tonnes of steel products for $124 million.

In addition, in 2004, the Group received from Ferrotrade & Co. loans in the amount of $348 million and repaid $585 million. The loans bore interest at an average rate of 4.25% per annum. In 2004, the Group recognised a loss of $9 million arising from the change in terms of the loan facility amounting $120 million provided by Ferrotrade & Co. This loss was included in loss on extinguishment of debts in the accompanying consolidated income statement for the year ended December 31, 2004.

OAO Ferrotranstrade ("Ferrotranstrade"), an entity under control of an ultimate principal shareholder of the Group, acts as the Group's sales agent. In 2004, the Group also sold its steel products to Ferrotranstrade. In 2007, Ferrotranstrade ceased to be a related party with the Group.

KMK-Energo, an entity under control of an ultimate principal shareholder of the Group, supplied electricity to certain subsidiaries of the Group. In 2006, KMK-Energo was liquidated and ceased to be a related party with the Group.

OOO Kuznetsk Coal Company ("Kuznetsk Coal Company"), an entity under common control with the Group, purchased metal products, inventory and services from the Group and sold coke and coal to the Group. In June 2004, Kuznetsk Coal Company ceased to be a related party with the Group.

Marteck Shipping Limited ("Marteck Shipping"), an entity under control of an ultimate principal shareholder of the Group, provided freight services to the Group. At the end of 2005, Marteck Shipping discontinued entering into new shipping contracts and the business was assumed by the Group. The transactions were made at prevailing market prices at the dates of transactions.

OOO PromKhimProduct ("PromKhimProduct"), an entity under common control with the Group, purchased coke from the Group. In 2004, PromKhimProduct ceased to be a related party with the Group.

OOO Raspadsky Ugol ("Raspadsky Ugol"), a subsidiary of the Group's joint venture, sells coal to the Group. Raspadsky Ugol represents approximately 12% of volume of the Group's coal purchases. In 2006, coal was sold at prevailing market prices at the dates of transactions.

ZAO SEAR MF ("SEAR MF") is an entity under control of an ultimate principal shareholder of the Group. At December 31, 2003 and 2002, Zapsib owed $2 million and $4 million, respectively, to SEAR MF under the Settlement Agreement. In 2004, the Group repaid these liabilities to SEAR MF. The difference between cost and carrying value of the debts amounting to $11 million was included in loss on extinguishment of debts in the accompanying consolidated income statement for the year ended December 31, 2004.

Sojitz Noble Alloys Corp. ("Sojitz"), a Japanese trade house, is a minority shareholder of Stratcor, the Group's subsidiary. Sojitz exercises a significant influence over Stratcor. In 2006, Sojitz acted as a sales agent of Stratcor. At December 31, 2006, other long-term liabilities (Note 22) include a $14 million financial liability in respect of the fixed cumulative preferred dividends of $1 million per year payable to Sojitz.

OOO Steel of Kuznetsk Steel Plant ("Steel of KMK") was an entity under common control with the Group. In 2004, Steel of KMK provided tolling services related to processing of pig iron to the Group and the Group provided services and sold metal products to Steel of KMK. Steel of KMK ceased to be a related party in July 2004.

Yuzhkuzbassugol, the Group's associate, sells coal to the Group. In 2005, the Group sold coal to processing mills of Yuzhkuzbassugol. The entity provides approximately 50% of volume of the Group's coal purchases. In 2006, the transactions were made at prevailing market prices at the dates of transactions.

The balances of amounts due to related parties as of December 31, 2004 include liabilities to entities under common control for transfers of ownership interests in subsidiaries. As described in Note 1, ownership interests in certain subsidiaries were transferred to the Group in transactions with entities under common control with the Group. The Group included its investments in entities under common control made during 2005 in liabilities to entities under common control for transfers of ownership interests in subsidiaries as of December 31, 2004.

COMPENSATION TO KEY MANAGEMENT PERSONNEL

Key management personnel totalled 46, 33 and 22 persons as at December 31, 2006, 2005 and 2004, respectively. Total compensation to key management personnel were included in general and administrative expenses in the accompanying income statement and consisted of the following:

millions of US$	notes	2006	2005	2004
Salary		**18**	11	4
Performance bonuses		**21**	12	5
Social security taxes		**1**	2	1
Share-based payments	*20*	**11**	5	–
Other benefits		**3**	11	26
		54	**41**	**36**

15. OTHER TAXES RECOVERABLE

Taxes recoverable were denominated in roubles and consisted of the following as of December 31:

millions of US$	2006	2005	2004
Input VAT	264	384	325
Other taxes	70	77	61
	334	**461**	**386**

Input VAT, representing amounts payable or paid to suppliers, is recoverable from the tax authorities via offset against VAT payable to the tax authorities on the Group's revenue or direct cash receipts from the tax authorities. Management periodically reviews the recoverability of the balance of input value added tax and believes it is fully recoverable within one year.

16. EQUITY

SHARE CAPITAL

As described in Note 1, Evraz Group was formed through a series of transactions between entities under common control with the Group. Prior to the reorganisation of the Group, in which 95.83% of Mastercroft shares were contributed into Evraz Group, share capital of the Group comprised the share capital of Mastercroft.

Share Capital of Mastercroft

At December 31, 2003, the authorised and issued share capital of Mastercroft comprising 300,019,666 ordinary shares of $1 each was paid up to $139 million.

In the year ended December 31, 2004, Mastercroft called up for payment an additional $30 million and received this amount from Crosland.

In January 2005, prior to the completion of the Group's reorganisation, Mastercroft called up for payment the remaining $131 million for shares issued in 2003 and received this amount from Crosland.

As Mastercroft is a subsidiary of Evraz Group at December 31, 2006, 2005 and 2004, the share capital of Mastercroft is eliminated on consolidation.

Share Capital of Evraz Group

number of shares	< 2006	< 2005	< 2004
Authorised			
Ordinary shares of €2 each	**157,204,326**	157,204,326	15,500
Issued and fully paid			
Ordinary shares of €2 each	**117,499,606**	116,904,326	15,500

As of December 31, 2004, Evraz Group issued 15,500 ordinary shares with par value of €2 each, which resulted in the share capital of €31,000 ($42 thousand at the exchange rate as of December 31, 2004). As of December 31, 2004, these shares were fully paid. On April 5, 2005, Evraz Group issued additional 107,204,325 ordinary shares with a par value of €2 each in exchange for the contribution of 95.83% of Mastercroft shares. On the same date, the share capital of Evraz Group was reduced by the cancellation of 15,499 ordinary shares with par value of €2 each. As the consideration for these additional shares issued subsequent to year end has been accounted for in the consolidated financial statements as at December 31, 2004, the April 5, 2005 issue of shares resulted in a capitalisation of reserves within equity.

On May 17, 2005, the Group's shareholders resolved to increase authorised share capital to €314,408,652 represented by 157,204,326 shares with par value of €2 each.

On June 7, 2005, 29,100,000 global depositary receipts, representing additionally issued 9,700,000 shares with par value of €2 each (totalling $24 million at the exchange rate as of June 7, 2005) were placed on the London Stock Exchange for $422 million. Share premium arising on the share issue amounted to $376 million, net of transaction costs of $22 million.

In the year ended December 31, 2006, some of the share options granted under the Company's Incentive Plan were exercised. The Company issued 595,280 shares with par value of €2 each and received $26 million in cash from the Plan's participants. Share premium of $24 million arising on the transaction was included in additional paid-in capital.

Shareholders of Evraz Group are entitled to standard rights provided under the laws of Luxembourg to shareholders of stock companies ("société anonyme"). These rights comprise the right to vote at the shareholders meetings and the right to receive dividends.

EARNINGS PER SHARE

Earnings per share are calculated by dividing the net income attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all the potential dilutive ordinary shares into ordinary shares.

As the number of shares has increased as a result of the reorganisation of the Group in transactions between entities under common control, the earnings per share for the years ended December 31, 2005 and 2004 have been calculated based on the assumption that the number of shares issued on April 5, 2005 was outstanding from the beginning of the earliest period presented.

In 2005 and 2006, share options granted to participants of the Group's Incentive Plans (Note 20) had a dilutive effect. The Group has no other potential dilutive ordinary shares.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	> 2006	> 2005	> 2004
Weighted average number of ordinary shares for basic earnings per share	**117,073,156**	112,731,997	107,204,326
Effect of dilution: share options	**829,804**	132,141	–
Weighted average number of ordinary shares adjusted for the effect of dilution	**117,902,960**	**112,864,138**	**107,204,326**
Profit for the year attributable to equity holders of the parent, US$ million	**1,385**	918	1,180
Basic earnings per share	**11.83**	**8.14**	**11.00**
Diluted earnings per share	**11.74**	**8.13**	**11.00**

LEGAL RESERVE

According to the Luxembourg Law, the Company is required to create a legal reserve of 10% of share capital per the Luxembourg statutory accounts by annual appropriations which should be not less than 5% of the annual net profit per statutory financial statements. The legal reserve can be used only in case of a bankruptcy.

ACQUISITIONS OF MINORITY INTERESTS BY A JOINT VENTURE

In 2005 and 2004, Corber, the Group's joint venture, acquired additional 1.43% and 4.20% ownership interests, respectively, in Raspadskaya, Corber's subsidiary, for cash consideration of $1 million and $6 million, respectively. The 50% of excess of the carrying value of acquired minority interest over the amount of consideration paid by the joint venture amounting to $3 million and $6 million, respectively, was recorded in additional paid-in capital (Note 8).

ACQUISITIONS OF MINORITY INTERESTS BY AN ASSOCIATE

In 2006, Yuzhkuzbassugol, the Group's associate, acquired an additional 13% ownership interest in OAO Kuznetskpogriztrans, Yuzhkuzbassugol's subsidiary, for cash consideration of $1 million. The 50% of excess of the carrying value of acquired minority interest over the amount of consideration paid by the associate amounting to $1 million was recorded in additional paid-in capital (Note 8).

SALE OF SHARES IN A JOINT VENTURE'S SUBSIDIARY

In November 2006, Corber sold 18% shares in Raspadskaya to public investors for cash consideration of $273 million. The 50% of the excess of the amount of consideration over 18% of the net assets of Raspadskaya at the date of the sale amounting to $58 million was included in additional paid-in capital (Note 8).

SALE OF MINORITY INTEREST

On August 6, 2004, Crosland sold 12,500,000 shares (4.17%) of Mastercroft to a minority shareholder for $13 million. The Group charged the amount received by Crosland, Mastercroft's parent prior to reorganisation, to accumulated profits as a distribution to shareholders. Difference between the carrying value of that minority interest and the amount of consideration amounting to $35 million was recognised by the Group as a loss on sale of minority interest in the accompanying income statement for the year ended December 31, 2004.

ACQUISITIONS OF MINORITY INTERESTS IN SUBSIDIARIES

In 2006, 2005 and 2004, the Group acquired minority interests in certain subsidiaries (Note 4). The excess of acquired minority interests over the consideration amounting to $1 million, $2 million and $20 million, respectively, was recorded as additional paid-in capital and the excess of consideration over the carrying value of minority interests amounting to $42 million, $131 million and $12 million, respectively, was charged to accumulated profits.

ALLOCATION OF LOSSES OF PRIOR PERIODS TO MINORITY SHAREHOLDERS

Prior to 2006, losses of the minority in Caplink (Note 1) exceeded the minority interest in Caplink's consolidated equity. These losses were allocated to the Group due to the minority had no any obligations to cover losses. In 2006, Caplink reported profits and the Group recovered losses in the amount of $5 million.

DISTRIBUTIONS TO ENTITIES UNDER COMMON CONTROL

In 2004, the Group's distributions to entities under common control were $4 million, representing dividends payable to an entity under common control, which were declared prior to the transfer of ownership interest in a subsidiary to the Group.

DIVIDENDS

On November 19, 2004, directors of Mastercroft approved distribution of dividends in the amount of $58 million, which represents $0.19 of dividends per share.

On January 13, 2005, directors of Mastercroft approved distribution of dividends of $131 million to Crosland and other shareholders registered as of December 31, 2004, which represents $0.44 of dividends per share.

Dividends declared by Evraz Group S.A. were as follows:

	Date of declaration	To holders registered at	Dividends declared, millions of US$	US$ per share
Interim for 2005	27/07/2005	31/05/2005	200	1.87
Interim for 2005	24/11/2005	24/11/2005	193	1.65
Final for 2005	20/06/2006	20/06/2006	158	1.35
Interim for 2006	14/11/2006	14/11/2006	229	1.95

Luxembourg Corporate Law of August 10, 1915 prohibits distribution of interim dividends during six months after the close of the preceding financial year or before the shareholders' approval of the annual statutory accounts relating to that financial year.

The final dividends for 2005 were distributed from accumulated profits to the extent that distributable amounts were available as of December 31, 2005. Distributable profits were determined based on separate financial statements of Evraz Group S.A. prepared in accordance with the statutory requirements. The amount of $117 million representing the excess of declared dividends over the Company's distributable accumulated profits as of December 31, 2005 reduced additional paid-in capital.

In addition, in 2006 and 2005, certain subsidiaries of the Group declared dividends. The share of minority shareholders in those dividends was $50 million and $23 million, respectively. In 2004, no dividends were declared by the Group's subsidiaries to their minority shareholders.

17. LOANS AND BORROWINGS

Short-term and long-term loans and borrowings were as follows as of December 31:

millions of US$	2006	2005	2004
Bank loans	**1,556**	1,132	799
8.25 per cent notes due 2015	**750**	750	–
10.875 per cent notes due 2009	**300**	300	300
8.875 per cent notes due 2006	**–**	175	175
Bearer coupon debt securities	**–**	–	36
Unamortised debt issue costs	**(40)**	(36)	(11)
Interest payable	**30**	29	19
	2,596	**2,350**	**1,318**

As of December 31, 2006, 2005 and 2004, total interest bearing loans and borrowings consisted of short-term loans and borrowings in the amount of $608 million, $500 million and $379 million, respectively, and long-term loans and borrowings in the amount of $1,998 million, $1,857 million, $931 million, respectively, including the current portion of long-term liabilities of $104 million, $310 million and $132 million, respectively.

In 2006, average annual interest rates were 7.12% and 6.64% for short-term loans denominated in roubles and US$, respectively, and 8.55%, 8.28% and 5.64% for long-term loans denominated in roubles, US$ and euros, respectively.

In 2005, average annual interest rates were 8.2%, 6.1%, 4.1% and 2.8% for short-term loans denominated in roubles, US$, euros and Czech koruna, respectively, and 12.5%, 8.7%, 5.9% for long-term loans denominated in roubles, US$ and euros, respectively.

In 2004, average annual interest rates were 11.1%, 5.0% and 5.0% for short-term loans denominated in roubles, US$ and euros, respectively, and 14.8%, 8.8%, 5.9% for long-term loans denominated in roubles, US$ and euros, respectively.

The liabilities are denominated in the following currencies:

millions of US$	2006	2005	2004
Roubles	**24**	18	78
US dollars	**2,308**	1,987	1,094
Euros	**304**	354	157
Czech koruna	**–**	27	–
Unamortised debt issue costs	**(40)**	(36)	(11)
	2,596	**2,350**	**1,318**

The liabilities are contractually repayable after the balance sheet date as follows:

millions of US$	2006	2005	2004
Less than one year	**742**	839	530
Between one year and two years	**382**	117	290
Between two years and five years	**707**	613	467
After five years	**805**	817	42
Unamortised debt issue costs	**(40)**	(36)	(11)
	2,596	**2,350**	**1,318**

Some of the loan agreements and terms and conditions of guaranteed notes provide for certain covenants in respect of Evraz Group S.A. and its subsidiaries. The covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness and profitability.

The Group pledged its rights under some export contracts as collateral under the loan agreements. All proceeds from sales of steel pursuant to these contracts can be used to satisfy the obligations under the loan agreements in the event of a default.

At December 31, 2006, 2005 and 2004, the Group had equipment with a carrying value of $39 million, $156 million and $96 million, respectively, pledged as collateral under the loan agreements. In addition, the Group pledged finished goods with a carrying value of $194 million, $204 million, $336 million as of December 31, 2006, 2005 and 2004, respectively.

In addition, as of December 31, 2006, 98.96% shares of Vitkovice Steel, representing 5.3% of the consolidated assets and 8.1% of the consolidated revenues of the Group, were pledged as collateral under the bank loan.

Guaranteed Notes

In September and December 2003, EvrazSecurities issued notes amounting to $175 million. The notes bore interest of 8.875% per annum payable semi-annually and matured on September 25, 2006. Mastercroft Limited, Ferrotrade Limited, Zapsib, NTMK, NKMK and KGOK, the Group's subsidiaries, jointly and severally, guaranteed the due and punctual pay-

ments of all amounts in respect of the notes except that NKMK's and KGOK's liabilities were limited to $138 million and $202 million, respectively. On September 25, 2006, EvrazSecurities repaid all its liabilities under the guaranteed notes.

In August and September 2004, EvrazSecurities issued notes amounting to $300 million. The notes bear interest of 10.875% per annum payable semi-annually and mature on August 3, 2009. Mastercroft Limited, Ferrotrade Limited, Zapsib, NTMK, NKMK and KGOK jointly and severally, guaranteed the due and punctual payments of all amounts in respect of the notes except that the liability of Zapsib and NTMK, each, is subject to a limit of $300 million and KGOK's liabilities are limited to $202 million.

In November 2005, Evraz Group S.A. issued notes amounting to $750 million. The notes bear interest of 8.25% per annum payable semi-annually and mature on November 10, 2015. Mastercroft Limited unconditionally and irrevocably guaranteed the due and punctual payments of all amounts in respect of the notes.

Bearer Coupon Debt Securities

On December 6, 2002, Financial Company EvrazHolding, the Group's subsidiary, issued 1,000,000 of bearer coupon bonds with a par value of 1,000 roubles each. These securities were issued at par value and matured on December 5, 2005. Interest payments on the coupons were due semi-annually from the date of issuance. First coupon bore interest of 17.70% per annum; second coupon bore 16.50% per annum; third and fourth coupons bore 15.00% per annum; fifth and sixth coupons bore 12.50% per annum. The liabilities under the bonds were accounted for at amortised cost in the accompanying consolidated financial statements. In December 2005, the Group repaid its liabilities under the debt securities.

Unamortised Debt Issue Costs

Unamortised debt issue costs represent agent commission and arrangement costs paid by the Group in relation to the arrangement of loans and issue of notes.

Unutilised Borrowing Facilities

As of December 31, 2006, the Group had unutilised borrowing facilities in the amount of $2,428 million.

18. FINANCE LEASE LIABILITIES

The Group has several lease agreements under which it has an option to acquire the leased assets at the end of lease term ranging from 2 to 7 years. The estimated remaining useful life of leased assets varies from 4 to 22 years.

The leases were accounted for as finance leases in the consolidated financial statements. The carrying value of the leased assets was as follows as at December 31:

millions of US$	2006	2005	2004
Machinery and equipment	**10**	3	5
Transport and motor vehicles	**75**	52	29
	85	**55**	**34**

The leased assets are included in property, plant and equipment in the consolidated balance sheet (Note 7).

Future minimum lease payments were as follows at December 31, 2006:

millions of US$	principal	interest	total
2007	11	5	16
2008–2011	39	8	47
2012–2013	3	–	3
	53	**13**	**66**
Less: current portion	(11)	(5)	(16)
	42	**8**	**50**

In the years ended December 31, 2006, 2005 and 2004, the average interest rates under the finance lease liabilities were 10.4%, 12.5% and 9.3%.

The finance lease liabilities are denominated in the following currencies at December 31:

millions of US$	2006	2005	2004
Roubles	1	–	17
US dollars	31	37	13
Euros	21	–	–
	53	**37**	**30**

19. POST-EMPLOYMENT BENEFITS

In 2006, the Russian subsidiaries of the Group continued to provide regular lifetime pension payments and lump-sum amounts payable at the retirement date. These benefits generally depend on years of service, level of compensation and amount of pension payment under the collective bargaining agreements. Other post-employment benefits consist of different compensations and certain non-cash benefits. The Group pays the benefits when they fall due for payment.

In 2006, the Group started the process of changing the system of post-employment benefits at its certain Russian subsidiaries and it is planned that lifetime pension payments will be cancelled for employees retiring after January 1, 2008 and lump-sum amounts payable at the retirement date will be stopped during 2009–2010. These benefits are planned to be replaced by new defined benefit plans under which the contributions have to be made to a separately administred non-state pension fund. Under the new plan, the Group matches 100% of the employees' contributions to the fund up to 4% of their monthly salary. The Group's contributions become payable at the participants' retirement dates.

In addition, defined benefit pension plans and a defined contribution plan are maintained by the subsidiaries located in the USA, Italy and the Czech Republic.

The components of net benefit expense recognised in the consolidated income statement for the years ended December 31, 2006, 2005 and 2004 and amounts recognised in the consolidated balance sheet as of December 31, 2006, 2005 and 2004 for the post employment benefits are as follows:

Net Benefit Expense (recognised in cost of sales and general and administrative expenses)

millions of US$	2006	2005	2004
Current service cost	(4)	(2)	(5)
Interest cost on benefit obligation	(7)	(5)	(3)
Expected return on plan assets	1	–	–
Net actuarial (gains)/losses recognised in the year	3	–	–
Past service cost	(10)	(22)	(4)
Net benefit expense	**(17)**	**(29)**	**(12)**

millions of US$	2006	2005	2004
Actual return on plan assets	**2**	**–**	**–**

Benefit Liability

millions of US$	2006	2005	2004
Benefit obligation	**125**	81	52
Plan assets	**(24)**	–	–
	101	81	52
Unrecognised net actuarial gains/ (losses)	**(12)**	(2)	3
Unrecognised past service cost	**22**	–	(2)
Benefit liability	**111**	**79**	**53**

Movements in Benefit Obligation

millions of US$	2006	2005	2004
At January 1	**81**	52	29
Interest cost on benefit obligation	**7**	5	3
Current service cost	**4**	2	5
Past service cost	**(12)**	22	6
Change in liability due to business combinations	**36**	6	11
Benefits paid	**(7)**	(8)	(3)
Actuarial (gains)/losses on benefit obligation	**8**	5	(1)
Translation difference	**8**	(3)	2
At December 31	**125**	**81**	**52**

Changes in the Fair Value of Plan Assets

millions of US$	2006	2005	2004
At January 1	**–**	–	–
Change in plan assets due to business combinations	**21**	–	–
Expected return on plan assets	**1**	–	–
Contributions by employer	**8**	–	–
Benefits paid	**(7)**	–	–
Actuarial gains/(losses) on plan assets	**1**	–	–
Translation difference	**–**	–	–
At December 31	**24**	**–**	**–**

The following table is a summary of the present value of the benefit obligation, fair value of the plan assets and experience adjustments for the current year and previous four annual periods.

millions of US$	2006	2005	2004	2003	2002
Defined benefit obligation	**125**	81	52	29	19
Plan assets	**24**	–	–	–	–
(Deficit)/surplus	**(101)**	**(81)**	**(52)**	**(29)**	**(19)**
Experience adjustments on plan liabilities	**11**	–	–	–	–
Experience adjustments on plan assets	**–**	–	–	–	–

The principal assumptions used in determining pension obligations for the Group's plans are shown below:

	2006	2005	2004
Discount rate	5.75–6.75%	8.0%	8.0%
Future benefits increases	5.00–7.75%	5.0%	4.2%

20. SHARE-BASED PAYMENTS

On April 25, 2005 and September 5, 2006, the Group adopted Incentive Plans under which certain members of the Board of Directors, senior executives and employees ("participants") may acquire shares of the Company. The exercise price of the options granted on June 15, 2005 under the Incentive Plan 2005 is fixed at $27.75 and $43.5 per share. Share options granted on September 5, 2006 under the Incentive Plan 2006 can be exercised for $65.37 per share.

The options become exercisable from eight months to three years from the grant date as follows:

	incentive plan 2006	incentive plan 2005
December 15, 2005	–	63,685
June 15, 2006	–	555,170
May 11, 2007	99,282	–
June 15, 2007	–	750,000
May 11, 2008	148,904	–
June 15, 2008	–	1,250,000
May 11, 2009	248,183	–
	496,369	**2,618,855**

The plans are administrated by the Board of Directors of the Company. The Board of Directors has the right to accelerate vesting of the grant. In the event of a participant's employment termination, all options granted to that participant, whether vested or not, expire on termination date. All options granted to the participants, whether vested or not, become immediately exercisable in the event of a change in the controlling shareholder.

The Group accounted for its share options at fair value pursuant to the requirements of IFRS 2 "Share-based Payment". The weighted average fair value of options granted during 2006 and 2005 was $14.15 and $10.88 per share, respectively. The fair value of these options was estimated at the date of grant using the Black-Scholes-Merton option pricing model with the following assumptions:

	incentive plan 2006	incentive plan 2005
Dividend yield (%)	4–6	6–8
Expected volatility (%)	45.37	55.00
Risk-free interest rates (%)	5.42–5.47	4.36–4.59
Expected life of options (years)	0.7–2.7	0.5–3

The industry average volatility has been used for valuation of the share options granted in 2005, while for the share options granted in 2006 the historical volatility has been taken. The expected volatility reflects the assumption that it is indicative of future trends which may not necessarily be the actual outcome.

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options during the years.

	No. 2006	WAEP 2006	No. 2005	WAEP 2005
Outstanding at January 1	**2,567,131**	**43.10**	**–**	**–**
Granted during the year	496,369	65.37	2,618,855	43.10
Forfeited during the year	(137,955)	43.50	(51,724)	43.50
Exercised during the year:				
by issue of shares	(595,280)	43.50	–	–
by sale of shares by the Company's parent	(63,685)	27.75	–	–
Outstanding at December 31	**2,266,580**	**48.29**	**2,567,131**	**43.10**
Vested at December 31	813,915	43.50	63,685	27.75
Exercisable at December 31	592,876	43.50	63,685	27.75

The weighted average share price at the dates of exercise was $69.92.

In 2006, the vesting date of the share options held by certain participants resigned from the Group was accelerated. There have been no other modifications or cancellations to the plans during 2006 or 2005.

The revised time schedule of exercise of the share options outstanding at December 31, 2006 is presented below:

	incentive plan **2006**	incentive plan **2005**
Immediately exercisable	–	592,876
May 11, 2007	233,886	–
June 15, 2007	–	579,645
May 11, 2008	98,432	–
June 15, 2008	–	597,690
May 11, 2009	164,051	–
	496,369	**1,770,211**

The weighted average remaining contractual life of the share options outstanding as at December 31, 2006 and 2005 was 0.82 and 1.68 years, respectively.

In the years ended December 31, 2006 and 2005, compensation expense arising from the share option plans amounted to $17 million and $8 million, respectively.

21. PROVISIONS

In the years ended December 31, 2006, 2005 and 2004, the movement in provisions was as follows:

millions of US$	site restoration costs	legal claims	other provisions	total
At December 31, 2003	**14**	**–**	**–**	**14**
Additional provisions	–	1	–	1
Change in provisions due to business combinations	5	–	–	5
Translation difference	1	–	–	1
At December 31, 2004	**20**	**1**	**–**	**21**
Additional provisions	–	4	2	6
Increase from passage of time	3	–	–	3
Effect of change in estimated costs and timing	(9)	–	–	(9)
Change in provisions due to business combinations	–	–	9	9
Translation difference	(1)	–	–	(1)
At December 31, 2005	**13**	**5**	**11**	**29**

millions of US$	site restoration costs	legal claims	other provisions	total
At December 31, 2005	**13**	**5**	**11**	**29**
Additional provisions	1	4	4	9
Increase from passage of time	2	–	–	2
Effect of change in the discount rate	16	–	–	16
Change in provisions due to business combinations	4	–	–	4
Utilised in the year	–	(6)	(10)	(16)
Translation difference	1	–	1	2
At December 31, 2006	**37**	**3**	**6**	**46**

SITE RESTORATION COSTS

Under the legislation, mining companies and steel mills have obligations to restore mining and certain other sites. As of December 31, 2006, 2005 and 2004, the Group accrued a provision for site restoration costs in the amount of $37 million, $13 million and $20 million, respectively. The liabilities were measured based on estimates of restoration costs which are expected to be incurred in the future discounted at the annual rate of 8.5% in 2006. In 2005 and 2004, the discount rates varied from 17.6% to 20.9% and from 15.5% to 19.0%, respectively.

22. OTHER LONG-TERM LIABILITIES

Other long-term liabilities consisted of the following as of December 31:

millions of US$	notes	2006	2005	2004
Earn out and synergy payments	*4*	**21**	–	–
Dividends payable under cumulative preference shares of a subsidiary to a related party	*14*	**14**	–	–
Employee income participation plans and compensations		**9**	–	–
Liabilities under the Settlement Agreements		**–**	–	4
Restructured taxes		**–**	7	36
Promissory notes payable	*8*	**–**	–	20
Other liabilities		**2**	2	1
		46	**9**	**61**
Less: current portion	*23*	**(1)**	(7)	(13)
		45	**2**	**48**

Other long-term liabilities were denominated in the following currencies as of December 31:

millions of US$	2006	2005	2004
Roubles	**2**	7	40
US dollars	**44**	–	20
Other	**–**	2	1
	46	**9**	**61**

Liabilities Under The Settlement Agreements

In 1997—2000, certain of the Group's subsidiaries, which were under the bankruptcy proceedings, entered into restructuring agreements with its creditors (the "Settlement Agreements").

In 2004, the subsidiaries repaid most of the liabilities under the Settlement Agreements. Loss arising from the repayment of liabilities under the Settlement Agreements was included in loss extinguishment of debts in the amount of $41 million in the accompanying consolidated income statement for year ended December 31, 2004.

In addition, at the beginning of 2004 the Group had long-term obligations to City Capital, Inc. ("City Capital") and Ocstar Holding, Inc. ("Ocstar Holding") for the purchase of liabilities under the Settlement Agreements. Long-term accounts payable were recognised at amortised cost which was determined as of the dates the amounts became payable based on the expected amounts to be paid, their expected timing and applicable discount rates.

In 2004, the Group repaid all its liabilities to City Capital and Ocstar. The difference between the carrying value of the liabilities as of the date of repayment and the nominal amount repaid to City Capital and Ocstar amounting to $80 million was included in loss on extinguishment of debts in the accompanying consolidated income statement for the year ended December 31, 2004.

Restructured Taxes

Restructured taxes payable represent tax liabilities restructured in accordance with State restructuring programme. In 2001—2003, certain of the Group's subsidiaries agreed with the tax authorities to restructure their liabilities under social insurance taxes, road users' tax, other taxes and related fines and penalties.

Restructured taxes payable were carried at amortised cost being the present value of liabilities determined based on the future cash payments discounted at the prevailing market rates at the date of each restructuring or a business combination, whichever was later.

In 2005, the tax authorities approved the forgiveness of certain restructured tax-related fines and penalties. The gain on the forgiveness of the tax-related fines and penalties of $14 million was included in gain on extinguishment of debts in the consolidated income statement for the year ended December 31, 2005. Loss arising from the early repayment of restructured taxes of $2 million was included in loss extinguishment of debts in the consolidated income statement for the year ended December 31, 2005.

In 2006, the Group fully repaid its outstanding liabilities under restructuring agreements.

23. TRADE AND OTHER PAYABLES

Trade and other payables consisted of the following as of December 31:

millions of US$	notes	2006	2005	2004
Trade accounts payable		**308**	249	116
Advances from customers		**67**	43	55
Long-term promissory notes with current maturities		**–**	21	–
Promissory notes payable on demand		**–**	–	15
Accrued payroll		**93**	78	57
Termination benefits		**13**	–	–
Other long-term obligation with current maturities	*22*	**1**	7	13
Other payables		**46**	49	41
		528	**447**	**297**

24. OTHER TAXES PAYABLE

Taxes payable were mainly denominated in roubles and consisted of the following as of December 31:

millions of US$	2006	2005	2004
Social insurance taxes	**27**	22	20
VAT and related fines and penalties	**27**	138	84
Property tax	**12**	6	5
Land tax	**10**	–	–
Personal income tax	**8**	6	6
Other taxes, fines and penalties	**12**	17	15
	96	**189**	**130**

25. COMMITMENTS AND CONTINGENCIES

Operating Environment of the Group

Whilst there have been improvements in the Russian economic situation, such as an increase in gross domestic product and a reduced rate of inflation, Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

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 are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on the management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Possible liabilities, which were identified by management at the balance sheet date as those that can be subject to different interpretations of the tax laws and other regulations and are not accrued in the accompanying financial statements could be up to approximately $29 million.

Guarantees

On July 7, 2006, the Group guaranteed the liabilities of OAO Raspadskaya, Corber's subsidiary, under a $300 million loan agreement with Natexis Banques Populaires. The loan bears interest of LIBOR plus 0.85% per annum and matures on June 30, 2007. The Group recognised a fair value of the guarantee as a liability in the amount of $2 million (Note 8).

Contractual Commitments

At December 31, 2006, the Group had contractual commitments for the purchase of production equipment and construction works for an approximate amount of $414 million.

Contingent Liability Under Agreements for the Purchase of Shares in Highveld

In the case when the Group decides not to exercise the call option for the shares of Highveld or if regulatory approvals are not obtained for the sale of the shares to the Group (Note 8), the current owners can exercise a put option or sell the shares to third parties at market price. The Group is obliged to pay to the sellers cash settlement amount being the difference between put option amount and proceeds from a third party, net of transaction costs.

Social Commitments

The Group is involved in a number of social programmes aimed to support education, health care and social infrastructure development in towns where the Group's assets are located. In 2007, the Group plans to spend approximately $104 million under these programmes.

Environmental Protection

In the course of the Group's operations, the Group may be subject to environmental claims and legal proceedings. The quantification of environmental exposures requires an assessment of many factors, including changing laws and regulations, improvements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation, preliminary findings and the length of time involved in remediation or settlement. Management believes that any pending environmental claims or proceedings will not have a material adverse effect on its financial position and results of operations.

The Group has a constructive obligation to reduce environmental polutions and contaminations in the future in accordance with an environmental protection programme. In the period from 2007 to 2012, the Group is obligated to spend approximately $158 million for replacement of old machinery and equipment which will result in reduction of polution.

Legal Proceedings

The Group has been and continues to be the subject of legal proceedings, none of which has had, individually or in aggregate, a significant effect on the Group's operations or financial position.

The Group, together with several other corporations and individuals, acts as a defendant in a civil action related to bankruptcy proceedings at KGOK that occurred between 1999 and 2003, prior to the Group's acquisition of KGOK. This law suit was filed in November 2004 in the United States District Court for the District of Delaware (the "District Court"). The plaintiffs seek damages in excess of $500 million.

On April 26, 2005, the plaintiffs filed another suit with the Delaware Chancery Court against the same defendants, including the Group, based on the same factual allegations. However, in October 2005, the Chancery Court granted the defendant's motion to stay the action pending the developments of the litigation between the parties in the District Court. In April 2006, the District Court dismissed the claim based on a decision that the plaintiffs' claim arises from the conduct of business in Russia and, therefore, the Russian jurisdiction is an adequate forum for the plaintiffs' claim. Upon getting such a decision in the District Court, the plaintiffs filed an appeal on that decision.

Despite the attempts of the plaintiffs to continue the proceeding in the Chancery Court, management expects that the Chancery Court will uphold the position of the District Court and dismiss the claim. Consequently, management believes that the ultimate resolution of the lawsuit will not have a significant impact on the financial position of the Group. Therefore, no provision is recognised in the financial statements in respect of this case.

In addition, the Group is involved in several litigations that may have an impact on the assets of Vitkovice Steel, the Group's subsidiary acquired in 2005 (Note 4). Accounts receivable of Vitkovice Steel include 409 million Czech koruna ($19 million at the exchange rate as of December 31, 2006) due from OSINEK, the former parent company of Vitkovice Steel. This amount is under dispute between OSINEK and VYSOKE PECE Ostrava, a.s. Management believes that this receivable will be recovered.

26. FINANCIAL RISKS

Foreign Exchange Risk

The Group exports production and attracts a substantial amount of long-term borrowings denominated in euros or US$.

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations. However, management believes that the Group is secured from foreign exchange risks as foreign currency denominated sales are used to cover repayment of foreign currency denominated borrowings.

Interest Rate Risk

The Group borrows on both a fixed and variable rate basis and has other interest-bearing liabilities such as finance lease liabilities, obligations under cumulative preference shares of one of the Group's subsidiary. The table below summarises the Group's outstanding interest-bearing debt as of December 31, 2006:

millions of US$	< 2006
Fixed-rate debt	1,598
Variable-rate debt	1,075
	2,673

The Group incurs interest rate risk on loans. The table below summarises the Group's outstanding variable-rate debt by the year of repayment as of December 31, 2006:

millions of US$	< 2006
2007	655
2008	266
2009	65
2010	45
2011	20
2012	15
2013	7
2014	2
	1,075

Credit Risk

Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and trade accounts receivable.

To manage this credit risk, the Group maintains its available cash, mainly in US$, in international banks, Russian affiliates of international banks and Russian major banks. Management periodically reviews the creditworthiness of the banks in which it deposits cash.

The Group constantly monitors the status of accounts receivable collection and the credit worthiness of the customers. In addition, the Group requires prepayments from certain customers.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, consisting of cash, short-term and long-term investments, short-term accounts receivable and payable, short-term and long-term loans receivable and payable, promissory notes, and restructured taxes approximate their fair value.

As of December 31, 2006, the fair value of the notes issued by EvrazSecurities with a carrying amount of $314 million was equal to $330 million. The fair value of the notes issued by Evraz Group S.A. with a carrying amount of $740 million was equal to $776 million. The fair value of the notes and bonds was determined based on market quotations.

27. NON-CASH TRANSACTIONS

Investing and financing transactions that did not require the use of cash or cash equivalents were as follows in the years ended December 31:

millions of US$	notes	2006	2005	2004
Liabilities for purchases of property, plant and equipment		**20**	28	15
Liabilities for purchases of shares in subsidiaries and other entities		**6**	11	44
Fair value of ordinary shares of ZAO Raspadskaya given in consideration for an acquisition of an interest in a joint venture	8	**–**	–	59
Liabilities for purchase of interest in associates/joint ventures		**–**	296	19
Loans paid by banks to suppliers in respect of operating activities		**–**	–	86
Loans paid by banks to vendors for property, plant and equipment		**11**	37	55

28. SUBSEQUENT EVENTS

Purchase of Oregon Steel Mills

On January 12, 2007, the Group acquired 32,470,867 shares of Oregon Steel Mills, Inc. ("OSM") through a tender offer, representing approximately 90.65% of the outstanding ordinary shares of OSM. OSM, located in the United States, produces plates, pipes and rails.

Following the acquisition of the controlling interest in OSM, the company was merged with the Group's wholly owned subsidiary and untendered shares were converted into the right to receive $63.25 in cash which is the same price per share paid during the tender offer.

Total cash consideration for the acquisition of a 100% ownership interest in OSM amounts to approximately $2,271 million. In January 2007, the Group utilised a short-term bridge loan facility of $1,800 million to finance the acquisition of OSM. As a result, the Group's current liabilities exceeded its current assets by approximately $960 million at the acquisition date. The Group's management plans to re-finance this short-term loan with long-term debt.

In addition to the information disclosed in respect of this acquisition, IFRS 3 "Business Combinations" requires the Group to disclose the amounts to be recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities. It is impracticable for the Group to disclose this information because the acquired subsidiary has not completed purchase price allocation in accordance with IFRS 3 "Business Combinations".

West-Siberian Heat and Power Plant

On March 15, 2007, OOO InvestEnergoProject, which was acting in the interests of the Group, was proclaimed the winner of the auction to acquire a stake in OAO West-Siberian Heat and Power Plant ("ZapsibTETs"). The 93.35% stake was acquired at the price of 5,950 million roubles (approximately $228 million at the exchange rate as of March 15, 2007). ZapsibTETs has a nominal capacity of 1,307.5 Gcal/hour of heat and 600 MW of electricity. As of the date of the issuance of these financial statements the ownership rights for ZapsibTETs have not been transferred to the Group.

Approval of Acquisition of Highveld by the European Commission

On February 20, 2007, the European Commission approved the proposed acquisition of the controlling interest in Highveld (Note 8), subject to certain conditions. The Group is obliged to divest Highveld's vanadium extraction, vanadium oxides and vanadium chemicals plants located at the Vanchem site in Witbank, Republic of South Africa (collectively referred to as the Vanchem operations) along with an equity interest or a portion of the Mapoch iron and vanadium ore mine which guarantees supply of ore and slag to Vanchem operations. The divestment package also includes a ferrovanadium smelter located on the site of Highveld steel facility and Highveld's 50% shareholding in SAJV, a joint venture between Highveld and two Japanese partners which own another ferrovanadium smelter at the same site.

The Group is obliged to complete the divestment process by November 20, 2007. If any of the assets to be disposed of are not sold by that date, the divestiture trustee approved by the European Commission will arrange a sale with no minimum price.

In addition, the Group committed to maintain and strengthen the existing feedstock supply relationships with Vanadium-Tula, Chussovskoy Metallurgical Plant, both located in Russia, and Treibacher (Austria)—the major consumers of the feedstock sold by the Group and Highveld.

At present, the Group is in the process of obtaining the regulatory approvals by the South African competition authorities.

Sale of Neryungriugol

On April 25, 2007, the Group completed the sale transaction of Neryungriugol (Note 9).

Offer to Acquire Minority Interests In the Group's Subsidiaries

In March 2007, the Group made an offer to minority shareholders of its three subsidiaries (Nizhny Tagil Iron and Steel Plant, Vysokogorsky Mining-and-Processing Integrated Works and Nakhodka Trade Sea Port) to sell their stakes to the Group (5.0%, 5.0% and 5.6%, respectively). The total purchase consideration for the ownership interests to be acquired amounts to 4,487 million roubles (approximately $174 million at the exchange rate as of April 25, 2006).

Accident at Ulyanovskaya Mine

On March 19, 2007, there was a methane gas explosion at the Ulyanovskaya coal mine which killed 110 miners. Operations at the mine have been stopped since that date.

Ulyanovskaya coal mine is operated by Yuzhkuzbassugol, the Group's associate. The mine represents approximately 13.5% of Yuzhkuzbassugol's total production. Ulyanovskaya produced approximately 2 million mt of coking coal concentrate annually and the Group consumed 54% of its products.

The net book value of production assets related to this mine amounted to $57 million as of December 31, 2006. The total estimated damage, including casualty compensations, costs of mine recovery works and lost profits, approximates $49 million.

Management of Yuzhkuzbassugol plans to resume production at the mine from July 2007. While the mine is closed, the Group will make up for any shortfall by diverting supply from Raspadskaya.

Borrowings

Subsequent to December 31, 2006, the Group signed bank loan agreements for $83 million.

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