EVRAZ

Evraz Group S.A.
annual report
and accounts
2007

making
the world
stronger

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and accounts
2007

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the world
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EVRAZ

54

US$12,808 mln

2007

US$8,292 mln

2006

Revenues Growth, %

61

US$4,254 mln

2007

US$2,642 mln

2006

EBITDA Growth,%

At a Glance

Welcome to 2007 Annual Report of Evraz Group S.A. It has been another excellent year at Evraz Group, and we are proud to present our achievements in this Report.

OUR VALUES

Evraz Group always endeavours to demonstrate ethical behaviour.

All directors, officers and other employees of Evraz Group adhere to fundamental values worldwide:

- We respect internationally proclaimed occupational human rights
- We recognise our environmental responsibility
- We are committed to our communities
- We strive to comply with all applicable laws and regulations
- We consider all forms of fraud and corruption totally unacceptable and intolerable
- We promote open and honest public communications
- We strive to provide equal-opportunity employment
- We act with integrity
- We encourage our employees to raise concerns

OUR BUSINESS

Evraz Group includes steel works, iron ore, coal and vanadium facilities.

Our assets in Russia, Europe, North America, Asia and South Africa give us a global presence.

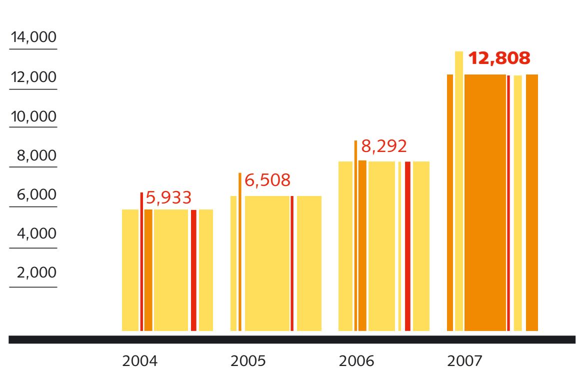
All this allows us to deliver exceptional returns to our shareholders.

OUR OBJECTIVE

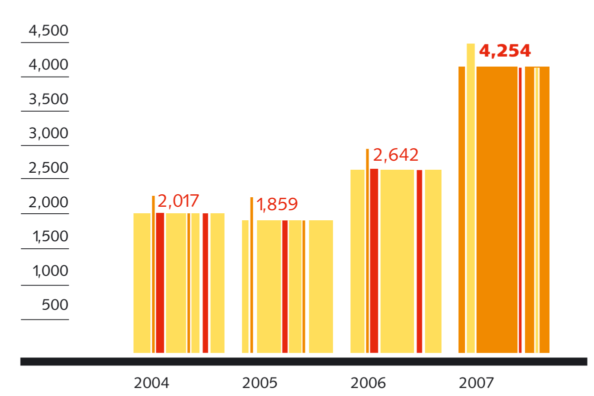
Our objective is to maintain Evraz's position as one of the most cost-efficient integrated steel producing and mining groups in the world, expanding its global presence through strategic acquisitions.

Our Results

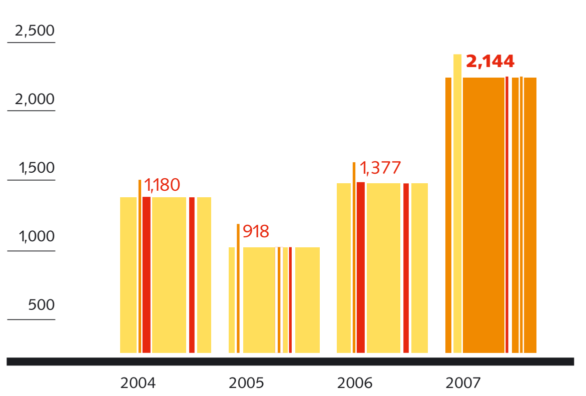
Revenues
(US$ million)



EBITDA
(US$ million)

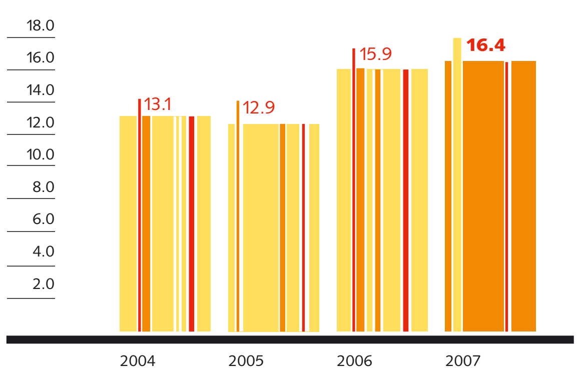


Net Profit*
(US$ million)

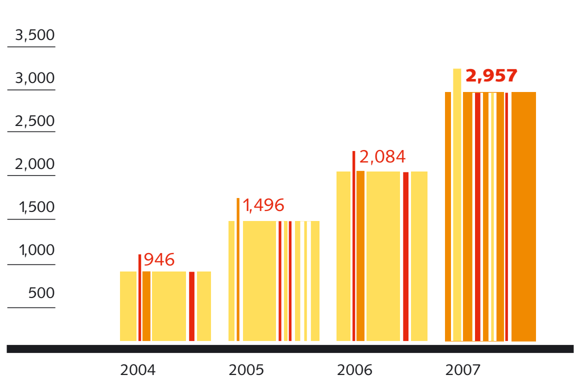


Net profit attributable to equity holders of Evraz Group S.A.

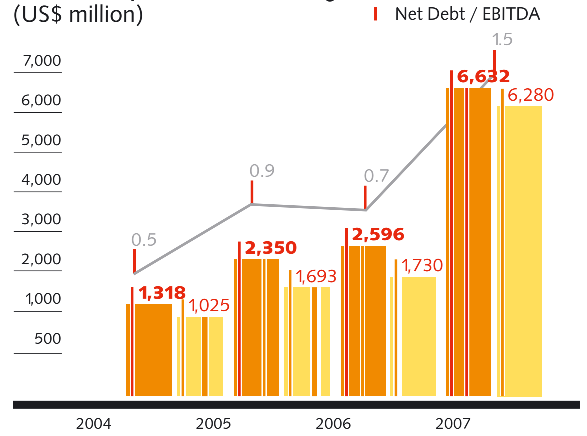
Steel Sales Volumes
(million tonnes)



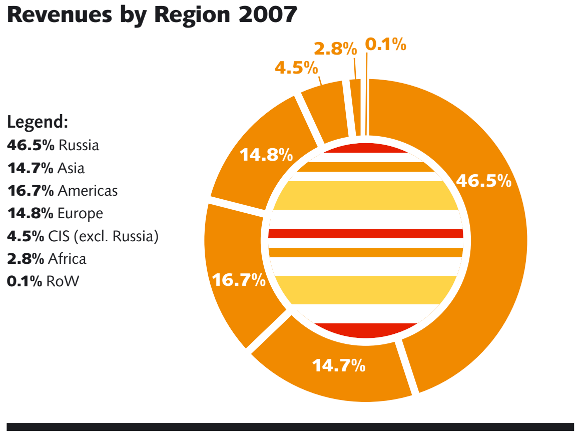
Operating Cash Flow
(US$ million)



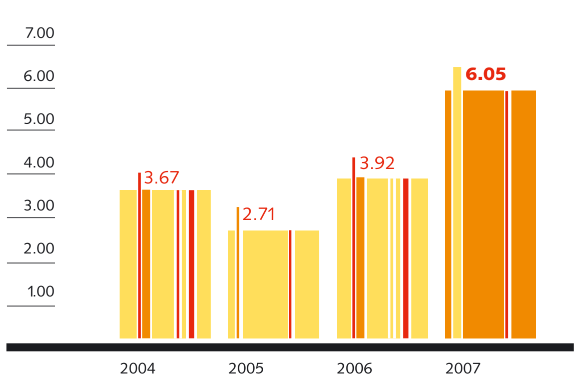
Total Debt/Net Debt
(US$ million)



Revenues by Region 2007



Earnings per GDR
(US$, 1 share = 3GDRs)



Interview with Alexander Frolov, Chairman and CEO

We are proud to report another strong financial year for Evraz Group. Together with the successful integration of our new assets and the organic growth of our existing plants we have achieved record results in our business. At the same time Evraz continued to build its global business model. We expanded our geographic reach through several milestone acquisitions in line with our strategy of a continued growth through the acquisition and the development of high-value downstream facilities.

How would you describe 2007 from the financial and operational points of view?
Evraz managed to achieve significant growth in key financial indicators in 2007 in comparison with 2006: the growing world steel markets, and in particular the booming Russian market, supported by our strong product pricing, and our improved product mix contributed to an increase in revenue to US$12,808 million, US$4,516 million or 54.5 % more than in 2006. Net profit was US$2,144 million, compared with US$1,377 million in 2006. EBITDA equalled US$4,254 million in 2007, which was 61 % higher than in 2006.

Alexander Frolov,
Chairman of the Board and CEO

V

Operational results were in line with the impressive production pace achieved in 2006: 16.4 million tonnes of crude steel and 12.6 million tonnes of pig iron were produced in 2007. This, together with the successful integration of our new assets and the organic growth of our existing plants, allowed us to record another successful financial year.

Which of the 2007 acquisitions do you consider the most important?

Our business continued to grow, and we made several significant acquisitions. The acquisition of Claymont Steel at the end of the year represents yet another substantial step in the implementation of our global strategy. It will expand our presence in North America, one of the most important steel markets globally. We laid the foundation of our American plate business by acquiring Oregon Steel Mills at the beginning of last year, and we intend to continue to strengthen it now with Claymont Steel's steel plate production.

I would also point to the acquisition of Highveld Steel and Vanadium Corporation. Through Highveld, Evraz is gaining valuable access to the expanding South African steel and construction sectors, which are driven by strong demand growth and supported by new mining, infrastructure and industrial projects. In addition, Evraz Group also becomes an important player in the worldwide vanadium market. Our current goal is to fully integrate vanadium assets into the Group.

Yet another step in the realisation of our strategy is the purchase of majority shareholdings in selected production assets in Ukraine in December, including the Sukha Balka iron ore mining and processing complex, the Dnepropetrovsk Iron and Steel Works and three coking plants. These acquisitions will allow us to increase our iron ore self-sufficiency and ensure further upstream integration. It will also create captive intra-group demand for coking coal for the surplus production of Evraz Group's coal mines in Siberia. With this transaction Evraz Group also aims to enter one of the lowest cost steel producing regions, and thus to further diversify Evraz Group's asset geography.

We also increased our ownership of Yuzhkuzbassugol, a Russian coking and steam coal producer, to 100%, established a full operative control over it, stabilised its operations which were affected by serious accidents at its two mines earlier in the year and restored rigid standards of work safety at all the mines of the Group. This transaction goes in line with our strategy to build a vertically integrated steel business self-sufficient in key raw materials – coal and iron ore.

Which projects and areas of production development are of note within the investment programme?

In 2007 we addressed a few operational issues and matters related to safety performance and environmental compliance at our Russian facilities. We completed a scheduled major reline of blast furnace No.1 at Zapsib and brought it back to the level of production at the end of last year. This was a very successful project, with the reconstruction lasting for less than four months, which is even faster than we had planned under the original tight schedule.

A second major project is the reconstruction of the converter shop at NTMK. The first converter has already been replaced. Two converters will be replaced in 2008, and one more in 2009.

We completed an important project that entailed shutting down an inefficient and highly air polluting open hearth production at NKMK. We realised a number of restructuring and cost saving initiatives at our business units including the outsourcing of non-core services and operations, including the continuing programme for the optimisation of the Group's headcount and de-bottlenecking operational processes in order to maximise existing plants' productivity, resulting in increased iron ore production at our Russian iron ore mines of an additional 3% and increased vanadium slag production at NTMK of 7%.

Evraz Group has completed the buyout of all outstanding minority common stock of its major Russian production companies. How important was this event for Evraz?

This corporate initiative was an important step in the simplification and optimisation of Evraz's ownership and management structures, making it possible for us to more effectively align all business processes and strategic management decisions within the Group. As Chairman and CEO, I am also very pleased with the fact that Evraz's management made every effort to organise and carry out the buyout process in compliance with international best practices of corporate governance.

What changes have taken place in corporate governance in 2007?

Bearing in mind our ongoing commitment to the highest standards of business conduct and corporate governance, the Board approved corporate codes and a set of internal policies governing inter alia general shareholders meetings and the activities of the Board. Moreover, based on a complete rethinking of our image, Evraz Group successfully launched a new corporate website that now offers interactive tools for investors and other stakeholders, as well as more visibility and easier navigation. These activities further enhanced the overall transparency and accountability of our business, and were greeted favourably by the investment community.

Additionally, we appointed a new independent director, Philippe Delaunois, who joined the Board in the beginning of 2007, and hired several highly qualified senior managers, strengthening our results-driven international management team even further. I am proud to note the continued realisation by Evraz Group of its extensive social programme, aimed at contributing to the wellbeing of our personnel and local communities. The Board has approved the Social Investment Guidelines, which confirms Evraz's adherence to corporate citizenship principles.

Where do you expect Evraz to be in 2008?

Despite the global challenges following on the uncertainties in the world's financial markets, Evraz is confident about its prospects for 2008.
The market outlook for steel appears robust: the global demand for steel products is growing amid capacity constraints and structurally limited supply in some regions and as a consequence steel products prices are strong. Raw materials cost increases create additional opportunities for Evraz. Being a vertically integrated producer, Evraz is largely protected from increasing costs of raw materials.

We have leveraged the operations in our key market, Russia, where we continue to grow. Our goal is to transform Evraz into a truly global business with a diversified geographic structure.

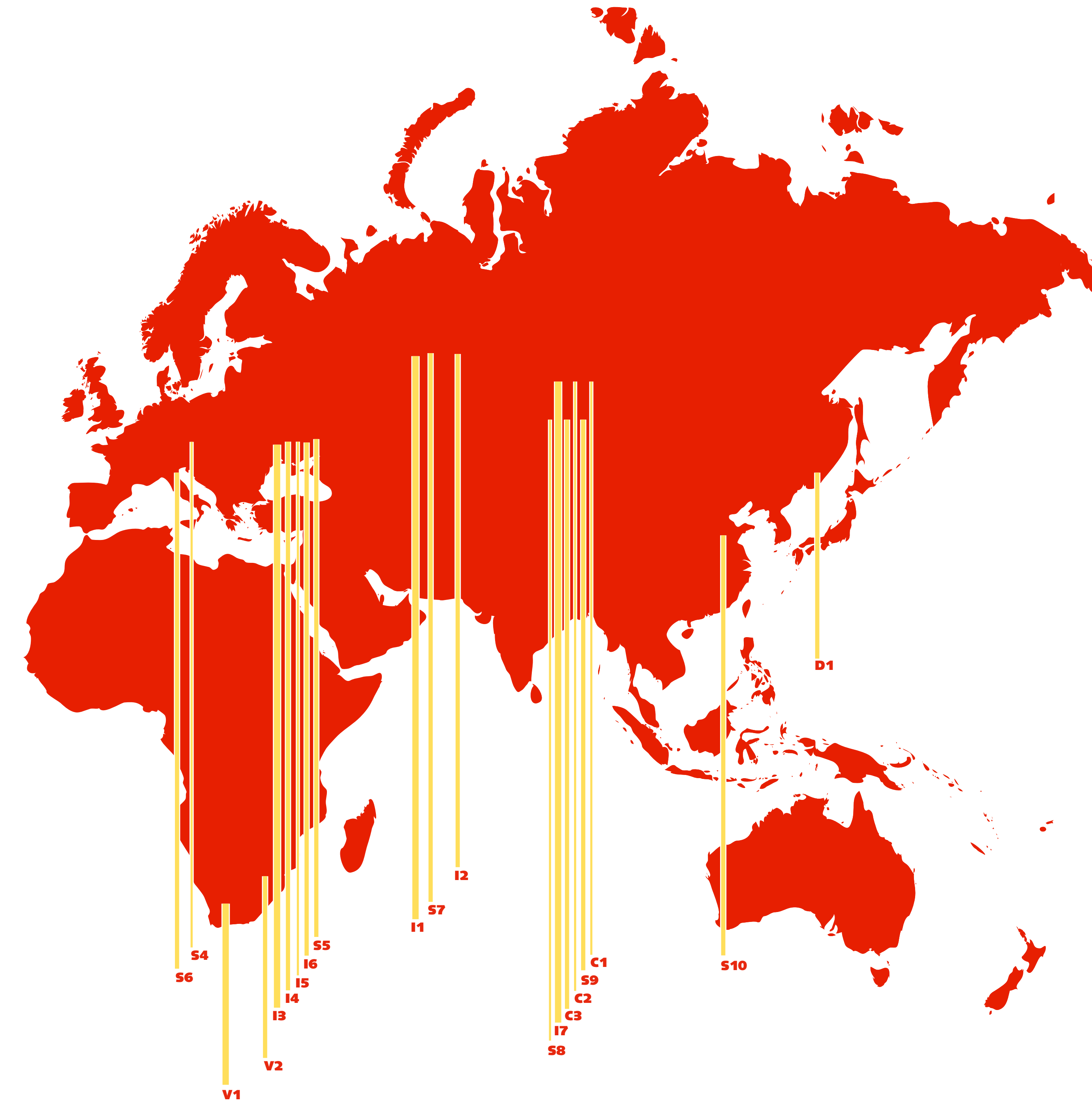
Our solid platform positions the Company for an even better performance in 2008. We strongly believe that Evraz Group will continue to increase value for our shareholders and generate outstanding results in 2008.

Our Presence in the World

Legend:
S Steel Mills
I Iron Ore Mining
C Coal Mines and Processing
V Vanadium
D Distribution

North America

S1 Evraz Oregon Steel Mills
S2 Claymont Steel
S3 IPSCO Canada
V1 Stratcor



Africa

V1 Highveld
V2 Stratcor

Europe

S4 Evraz Vitkovice Steel
S5 Dnepropetrovsk Metal Works
S6 Palini e Bertoli
S7 NTMK
I1 Kachkanarsky GOK
I2 Vysokogorsky GOK
C3 Bagley Coke
C4 Dneprodzerzhinsk Coke
C5 Dnepropetrovsk Coke
I6 Sukha Balka

Asia

S8 Zapsib
S9 NKMK
S10 Delong
I7 Evrazruda
C1 Yuzhkuzbassugol
C2 Mine 12
C3 Raspadskaya
D1 Nakhodka Sea Port

Highlights 2007

Geographical expansion along with the buyout of all outstanding minority common stock of our major Russian production companies that simplifies and optimises Evraz's ownership and management structure stand out as key events of 2007.

JANUARY

Changes to the Board

The extraordinary general meeting of shareholders, held on 18 January, approved a change to the composition of the Board. Philippe Delaunois was elected independent director of Evraz Group S.A.

Completion of the acquisition of Oregon Steel

Evraz Group S.A. announced the completion of the acquisition of Oregon Steel Mills, Inc. in the USA.

MARCH

Acquisition of 93.35% in West Siberian Heat and Power Plant

Evraz Group S.A. acquired 93.35% of shares in West Siberian Heat and Power Plant (ZapsibTETs) at the price of US$231 million. This transaction provided Evraz Group with opportunity to manage steel production costs more efficiently and also to enhance significantly the power independence of its Russian steel mills.

APRIL

The Board approves a set of new corporate documents

As part of a company-wide initiative to improve governance, the Board approved corporate codes, i.e. the Code of Corporate Governance, Code of Ethics, Code of Business Conduct and the Social Investments Guidelines.

MAY

Acquisition of 29.2% in Highveld Steel and Vanadium Corporation

Evraz Group S.A. acquired a 29.2% shareholding in Highveld Steel and Vanadium Corporation from Anglo American plc for US$238 million, thus increasing its stake in Highveld to 54.1%.

JUNE

An offer to acquire the entire share capital of Highveld

Evraz Group S.A. made a mandatory offer to acquire the entire issued share capital of Highveld Steel and Vanadium Corporation other than those shares already held by Evraz. Under South African law, Evraz was required to make such an offer to all shareholders of Highveld after its ownership position had exceeded 35%.

Completion of the acquisition of Yuzhkuzbassugol

Evraz Group S.A. completed the deal to buy out the remaining 50% stake in Yuzhkuzbassugol.

SEPTEMBER

Evraz increased its stake in Highveld to 80.9%

Evraz Group S.A. executed the option to acquire the remaining Credit Suisse shares in Highveld Steel and Vanadium Corporation. The consideration paid for the 24.9% stake was US$219 million. As a result, Evraz became the owner of 80.9% of the entire issued share capital of Highveld.

OCTOBER

Completion of the acquisition of Palini e Bertoli

Evraz Group S.A. executed a call option in respect of remaining 25% less one share in Palini e Bertoli. The consideration paid for the stake was set at approximately US$107 million.

Completion of the acquisition of Russian production subsidiaries

Evraz Group S.A. announced the completion of the buyout of all outstanding common stock of the NTMK and Zapsib steel mills, KGOK and VGOK iron ore mining and processing complexes, and the Nakhodka Commercial Sea Port (NMTP). As a result of the buyout, Zapsib, NTMK, KGOK, VGOK and NMTP have become wholly owned subsidiaries of Evraz.

Renewed blast furnace No. 1 at Zapsib starts production

Evraz brought blast furnace No. 1 at Zapsib back into production with a new capacity of 7,000 tonnes per day. The investments in this project amounted to US$110 million.

NOVEMBER

Evraz signs US$3.2 billion loan agreement

Evraz Group signed a US$3,214 million structured multi-tranche credit facility. The loan facility has an interest rate of LIBOR+1.8% and consists of a US$2,714 million 5-year tranche secured on assignment of trade receivables and a US$500 million 3-year unsecured tranche. The facility is guaranteed by Mastercroft Ltd.

Credit ratings upgrade by Moody's

Moody's Investor Service upgraded the corporate family rating of Evraz Group S.A. from Ba3 to Ba2. Moody's also upgraded the rating for the Guaranteed Notes issued by Evraz Group S.A. totalling US$750 million due in 2015 from B2 to Ba3 and the Guaranteed Notes issued by EvrazSecurities S.A. totalling US$300 million due in 2009 from Ba3 to Ba2.

S&P named Evraz among the most transparent companies in Russia

Evraz Group S.A. was ranked the 8th in the list of most transparent companies in Russia according to the "Transparency and Disclosure by Russian Companies 2007: High Turnover In the Top 10" report published by Standard and Poor's Governance Services. Evraz's disclosure of its financial and operational information yielded the maximum 80%, the best among the companies under survey.

DECEMBER

Evraz to acquire production assets in Ukraine

Evraz Group announced the signing of an agreement to acquire majority shareholdings in selected production assets in Ukraine (including a 99.25% shareholding in the Sukha Balka iron ore mining and processing complex, a 95.57% shareholding in the Dnepropetrovsk Iron and Steel Works, and three coking plants (Bagleykoks – 93.74%, Dneprkoks – 98.65%, and Dneprodzerzhinsk Coke Chemical Plant – 93.83% of outstanding shares)). Payment for the acquired assets will be made with a combination of cash and new equity.

Evraz Commenced Tender Offer to Acquire Claymont Steel

Evraz commenced a cash tender offer to purchase all outstanding shares of common stock of Claymont Steel. Following the purchase of shares in the tender offer, Claymont Steel became a subsidiary of Evraz.

56

US$2,144 mln

US$1,377 mln

2007

2006

Net Profit Growth, %

Our Business

Corporate Structure
(As of 31 December 2008)

EVRAZ GROUP

STEEL	IRON ORE	COAL	VANADIUM	SALES, SERVICES & LOGISTICS
NTMK 100%	Evrazruda 100%	Mine 12 100%	Highveld * 80.9%	Nakhodka Sea Port 100%
Zapsib 100%	KGOK 100%	Yuzhkuzbassugol 100%	Stratcor 72.8%	Ferrotrade 100%
NKMK 100%	VGOK 100%	Raspadskaya 40.0%[1]		TH EvrazHolding 100%
Palini e Bertoli 100%				TK EvrazHolding 100%
Evraz Vitkovice Steel 100%				TH EvrazResource 100%
Evraz Oregon Steel Mills 100%				ZapsibTETs 100%
Highveld* 80.9%				Metallenergofinance 100%
				EvrazEK 100%
				Sinano 100%
				Evraztrans 76.0%[2]
				Evraz Overseas 100%
				East Metals 100%

* Highveld Steel and Vanadium Corporation performs both steel and vanadium production.

[1] 40% interest in Raspadskaya is held by its management and 20% is free float.

[2] Remaining 24% in Evraztrans is held by its management.

Strategy

Evraz remains focused on its primary objective of maintaining the Company's position as one of the most cost-efficient integrated steel producing and mining groups in the world, expanding its global presence through strategic acquisitions.

Evraz Group's strategy implementation highlights were the following:

Advance long product leadership position in Russia and the CIS

- Strong growth by 69% in construction products sales in Russia and CIS
- 11% increase of rails shipments in Russia
- De-bottlenecking at Russian plants
- Acquisition of Dnepropetrovsk Metal Works in Ukraine

Expand presence in international flat and tubular markets

- Development of strong US plate business through acquisitions of Evraz Oregon Steel Mills and Claymont Steel
- Acquisition of control in Highveld
- Acquisition of a stake in Delong Holdings
- Agreement to acquire IPSCO Canada

Enhance cost leadership position

- Acquisition of ZapsibTETs to increase energy self-sufficiency
- Open hearth furnaces shutdown at NKMK
- Zapsib blast furnace No. 1 relining in 106 days in line with world best practices
- Commencement of NTMK converter shop modernisation

Complete vertical integration and grow competitive mining platform

- Acquisition of Yuzhkuzbassugol, a leading Russian coal producer
- Iron ore production up by 10%, increasing self-coverage to 88%
- Coking coal pro forma coverage of 100% of iron making needs of Russian operations
- Acquisition of Sukha Balka iron ore mine and three coke chemical plants in Ukraine

Achieve world leadership in vanadium business

- Acquisition of controlling stake in Highveld Steel and Vanadium, a global leading vanadium producer

Economic and Industry Overview

Steel

According to the International Iron and Steel Institute (IISI), world crude steel output reached 1,343.5 million tonnes for the year 2007, representing a growth of 7.5% on 2006. Among the top crude steel producers were China with 489 million tonnes (a 15.7% increase on 2006), Japan (120.2 million tonnes), the USA (97.2 million tonnes) and Russia (72.2 million tonnes). Other BRIC countries also maintained relatively high growth, with India and Brazil recording 7.3% and 9.3% increases, respectively.

According to the Boston Consulting Group, global steel production may reach 1.55 billion tonnes in 2015.

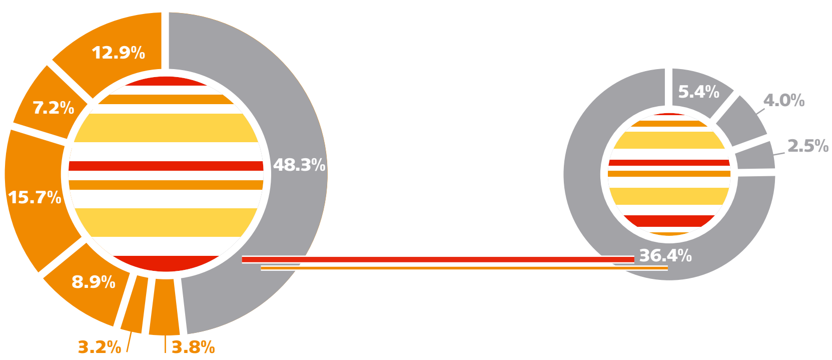
Global consumption of finished steel products was projected to increase by 6.8% to 1.20 billion tonnes in 2007, and by 6.8% in 2008, driven by high demand in Brazil, China, India, and Russia, which together accounted for about 41% of global steel consumption in 2006*. Consumption was expected to increase in 2007 and 2008 in the United States by 5.0% and 6.7%, respectively; in India by 13.7% and 11.8%, respectively; in Brazil by 15.7% and 5.1%, respectively; and in the Commonwealth of Independent States by 8.9% in 2007 and 2008.

Nevertheless, world demand growth decelerated in 2007, in line with declining consumption in North America and moderating trends in Europe**. Consumption remains robust in the rapidly expanding emerging economies. BRIC countries are leading the growth of world demand. Steel consumption in China reached 408 million tonnes in 2007, up 47 million tonnes or 13.0% from the year before. Indian consumption is also increasing at a double-digit pace, though from a much lower level of around 45 million tonnes. Brazilian steel demand is being fuelled by dynamic growth in steelusing industries such as construction, machine-building, and automotive manufacturing. In Russia, the booming oil and gas industry and growth in household income continues to stimulate demand for steel. Steel demand in these economies is expected to continue displaying strong growth in 2008, though some moderation will be felt from the global economic slowdown.

World Crude Steel Production 2007

BRIC
(48.3%)

Legend:
48.3% BRIC
3.8% South Korea
3.2% Ukraine
8.9% Japan
15.7% EU 27
7.2% USA
12.9% RoW



Legend:
36.4% China
5.4% Russia
4.0% India
2.5% Brazil

* *Source: International Iron and Steel Institute.*

** *Source: Steel Committee of Organisation for Economic Co-operation and Development (OECD).*

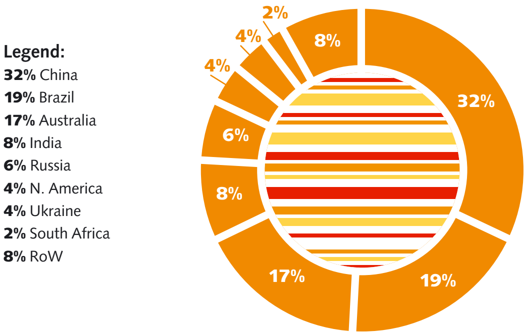
Iron Ore

World iron ore mine production rose 5.3% to 1.9 billion tonnes in 2007 (estimated by US Geological Survey). Top iron ore producers – China with 600 million tonnes, Brazil with 360 million tonnes and Australia with 320 million tonnes – accounted for 67% of world iron ore production.

Major iron ore mining companies continue to reinvest profits in mine development, but increases in capacity have not been keeping pace with demand growth, which is dominated by China. It is estimated that China increased production of mostly lower grade ores by about 40% in 2006. Estimates of Chinese imports of higher grade ores, mostly from Australia and Brazil, show an increase of about 15% compared with those of 2006, a slowdown from the 19% growth rate between 2005 and 2006.

China is also the biggest buyer of iron ore on the global market, with its imports set to reach 370 million tonnes by the end of 2007.

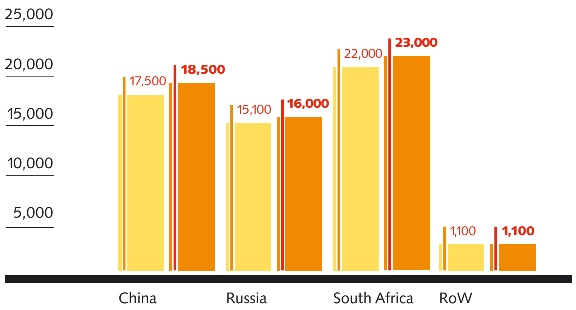
World Iron Ore Production



Source: US Geological Survey, Mineral Commodity summaries, January 2008.

International iron ore trade and production of iron ore and pig iron — key indicators of iron ore consumption — clearly show that iron ore consumption in China is the major factor on which the expansion of the international iron ore industry depends. China has become more active in pursuing overseas joint ventures, increased iron ore imports, and expanded domestic production of low-grade ores — all of which indicate continued growth of iron ore consumption.

World Vanadium Production Legend: 2006 2007
(tonnes of vanadium content)



Coal

Industry research company the McCloskey Group considered coking coal to be a rather deficient product in 2007 due to significant consumption growth. Coke production rose 8% to 540 million tonnes while coke export by sea remained at the same level of 230–235 million tonnes in 2007. The coking coal deficit in Russia was aggravated by a number of production stoppages that resulted in a decline in coal market supply.

For 2008 major steel producers have announced their expectations of a 200% year-over-year increase in coking coal price (average price in 2007 was US$95). The reason for strong increase in coal prices relates to production issues in Australia and continued strong demand from the steel industry, especially in India and Brazil, both of which are totally reliant on imported coking coals.

Vanadium

The world output of vanadium in 2007 is estimated at 58.6 thousand tonnes, an increase of 5% compared to 2006.

In 2007 vanadium pentoxide prices ranged from US$12.50 to US$18.30, averaging US$16.30 per kilogramme for the year, about 6% lower than in 2006*. Ferrovanadium prices ranged from US$28.50 to US$42.00, averaging an estimated US$37.20 per kilogramme of V for the year, about 3% lower than in 2006. Stable demand in the steel and aerospace industries and increased production of vanadium in Russia and China kept world supply and demand in balance in 2007.

The outlook for vanadium consumption through 2010 is optimistic. World consumption may show short-term fluctuations in line with steel production, but is forecast to show underlying growth of 5–6% through 2010.

* *US Geological Survey, Mineral Commodity summaries, January 2008.*

Business Overview

Evraz's principal business is divided into three main segment:

Steel segment
Produces and markets semi-finished and finished steel production, vanadium slag, coke and refractory products.

- Nizhny Tagil Iron and Steel Plant (NTMK), Russia
- West Siberian Iron and Steel Plant (Zapsib), Russia
- Novokuznetsk Iron and Steel Plant (NKMK), Russia
- Palini e Bertoli, Italy
- Evraz Vitkovice Steel, Czech Republic
- Evraz Oregon Steel Mills, USA
- Claymont Steel, USA*
- Highveld Steel and Vanadium Corporation Limited (Highveld), South Africa
- Dnepropetrovsk Metal Works, Ukraine*
- Delong Holdings Limited, China*
- IPSCO, Canada*
- Bagley Coke, Ukraine*
- Dnepropetrovsk Coke, Ukraine*
- Dneprodzerzhinsk Coke, Ukraine*

Mining segment
Produces, enriches and markets iron ore and produces coal.

- Evrazruda, Russia
- Kachkanarsky Ore Mining and Processing Enterprise (KGOK), Russia
- Vysokogorsky Ore Mining and Processing Enterprise (VGOK), Russia
- Yuzhkuzbassugol, Russia
- Mine 12, Russia
- Raspadskaya, Russia
- Sukha Balka, Ukraine*

Vanadium segment
Produces and markets ferrovanadium, Nitrovan vanadium, vanadium alloys and chemicals, long steel, ferroalloys and carbonaceous products.

- Nizhny Tagil Iron and Steel Plant (NTMK), Russia
- Strategic Minerals Corporation (Stratcor Inc. and Vametco), USA and South Africa
- Highveld, South Africa
- Nikom, Czech Republic

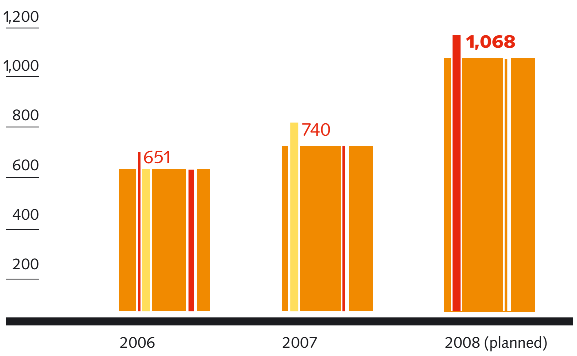
* *The acquisition was announced in 2008.*

MAKING THE WORLD STRONGER

Pavel Tatyanin
Senior Vice President,
Corporate Affairs and CFO

Consolidated Group revenues were US$12,808 million in 2007, up from US$8,292 million, an increase of 54.5%. This record level of revenues generated consolidated EBITDA of US$4,254 million, a 61% increase compared to 2006 level of US$2,642 million. Net profit attributable to equity holders of Evraz Group S.A. totalled US$2,144 million that represents a 55.7% increase compared to US$1,377 million in 2006. Higher profit margins and continuing focus on working capital management contributed a lot to the record operating cash flow of US$2,957 million, up from US$2,084 in 2006.

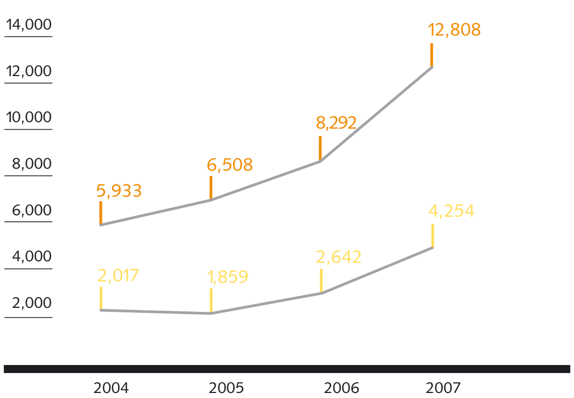
CAPEX
(US$ million)



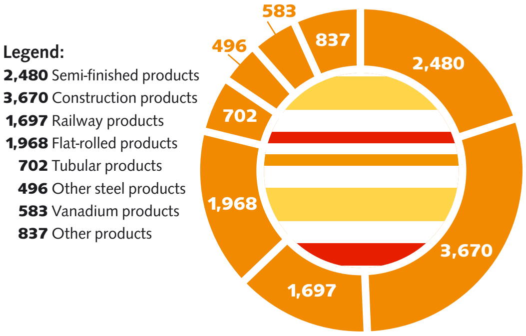
Capex

In general, Evraz's investment plans targeted increasing efficiencies at ongoing projects in 2007, including the Zapsib blast furnace reline. Total capital expenditures in 2007 were US$740 million, a 14% increase compared to 2006 level of US$651 million. This figure includes US$499 million with respect to the Steel segment and US$187 million with respect to the Mining segment.

Revenues and EBITDA Growth
(US$ million)



Steel Segment Sales by Product, 2007
(US$ million)



* Sales to third parties.

STEEL SEGMENT

Financial Performance and Production

In 2007 the Steel segment of Evraz Group showed spectacular revenue growth of 52.3% – US$12,433 million compared to US$8,161 million in 2006, generating EBITDA of US$3,585 million (up from US$2,223 million in 2006).

One of the factors promoting the Company's growth during 2007 was favourable price dynamics for steel products (with an average steel price of US$668/t), with a mix shift in favour of higher margin products. Acquisitions of Stratcor in 2006 and Evraz Oregon Steel Mills together with Highveld in 2007 also had a very positive impact on Steel segment revenue growth adding approximately US$2,760 million to Evraz's revenues in 2007. Auspicious Russian market conditions, such as the construction boom, resulted in a 37% growth in sales of Russian construction products and almost doubled construction revenues. A major trend in the product mix in 2007 was a considerable (29%) decrease in semi-finished products in favour of construction, railway and flat-rolled products.

Maxim Kuznetsov
Vice President, Metallurgy Russia

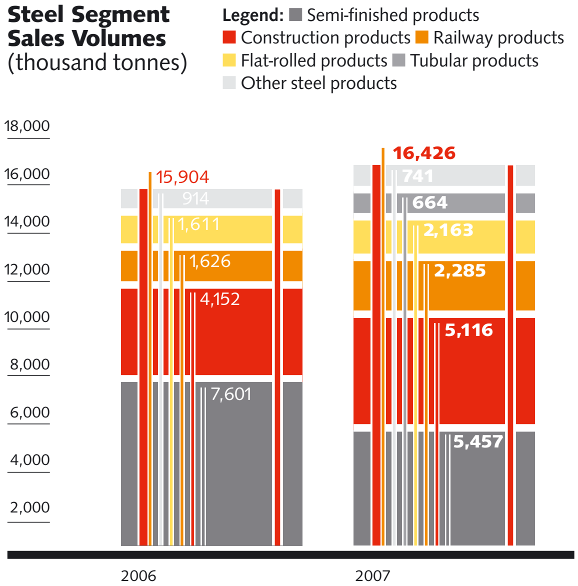
In the US market Evraz's sales jumped to US$2,140 million as a result of the Oregon Steel Mills and Stratcor acquisitions. Post-acquisition EBITDA of Evraz Oregon Steel Mills reached US$349 million, for Stratcor — US$55 million.

The proportion of revenues attributable to sales of railway products increased as a result of the acquisition of Oregon Steel Mills, which contributed 457,000 tonnes to the volumes of railway products, totalling US$379 million in revenues. Essentially, Evraz Oregon Steel Mills is the only Evraz facility producing tubular products with sales volumes in 2007 amounting to US$694 million.

Steel segment operations in Europe were supported by considerable growth of average plate and slab prices. EBITDA of Palini e Bertoli and Evraz Vitkovice Steel reached the level of US$119 and US$225 million, respectively.

Total crude steel production in 2007 was 16.4 million tonnes, with a year-on-year growth of 1.9%. Total steel sales volumes increased by 3.2% and reached 16.4 million tonnes.

Steel Segment Sales Volumes (thousand tonnes)



Every year Evraz fulfils lots of various projects dedicated to equipment reconstruction. Which of them were crucial for the Steel segment in 2007?

Maxim Kuznetsov:
The repair of blast furnace No. 1, with capex of US$140 million, was the most significant project of the Steel segment in 2007, and it was realised in full conformity with best practices of project management.

Will Evraz be capable to meet new RZD needs for railway products with regard to its perspective plans on modernisation of Russian railway system?

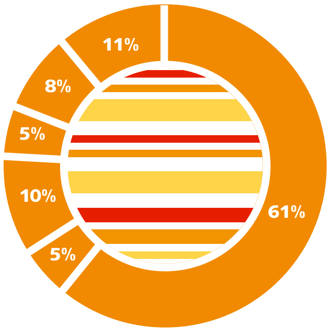
Maxim Kuznetsov:
We have no doubt that we are able to meet this RZD need since Evraz developed two-stage modernisation programme of quality improvement. Upon completion of the first stage, the quality of Evraz's railway products will fully satisfy RZD quality requirements. The second stage provides for further modernisation that will result in production of 50-metre rails (present standard length is 24 metres).

Costs

In 2007, Steel segment cost of revenues rose 50.2% to US$8,248 million compared with US$5,493 million in 2006. Among primary causes of this increase are the growth in raw materials prices and the shift in steel product mix toward higher value added products. Thus, raw material costs were 57.4% higher as a result of iron ore, coking coal, scrap and ferroalloys price increase both in Russia and overseas. Staff costs increased by 63.6% mostly due to Evraz's 2007 acquisitions, while growth of electricity and natural gas tariffs led to a 38.1% increase in energy costs.

Steel Segment Costs

Legend:
61% Raw materials
5% Transportation
10% Staff costs
5% Depreciation
8% Energy
11% Other



MAKING THE WORLD STRONGER

Giuseppe Mannina
Vice President, International Operations and Logistics

Highlights

Steel segment Highlights in 2007

In 2007, Evraz got underway several important reconstruction projects in Russia as well as in other countries where Evraz has a presence with some of them successfully finished within the year. Among them there are:

- Reline of blast furnace No. 1 at Zapsib – one of the most ambitious and successful projects in 2007. With capital expenditures of more than US$140 million, the project was fulfilled within the budget in a record-setting time of 106 days. As a result of the project, the furnace's consumption of coke decreased by 5%, and its productivity increased by 25%.

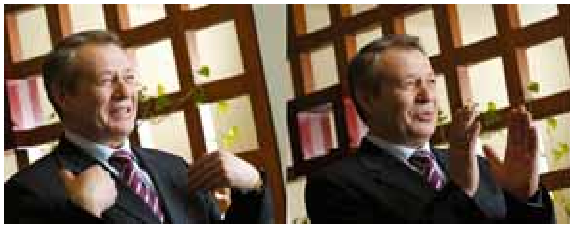
- Revamp of the oxygen-converter plant at NTMK. Evraz is in the process of improving its oxygen converters to increase their annual steel output to 4.3 million tonnes. Evraz plans to spend approximately US$320 million from 2006 through 2009 on this project, resulting in an approximate 20% increase in production capacity of the BOF shop, decreased emissions and reduced production costs. In 2007 the first one of four converters was replaced.

- Vacuum degasser at NTMK. As part of its quality upgrade programme, in 2007 Evraz commissioned a vacuum degasser at NTMK that will allow Evraz to produce high quality slabs to be supplied to Evraz's non-Russian subsidiaries.

- Reconstruction of the wheels-rolling shop at NTMK. At the end of 2007 Evraz completed the second stage of modernisation of its wheel-rolling mill at NTMK. This project included the installation of a modern heating furnace, an ultrasonic quality check system and certain other systems for strengthening and special mechanical treatment of wheels. This investment is expected to improve the quality of railway wheel production, thereby fulfilling the requirements set by Russian Railways, decrease production costs and broaden product range.

- Shutdown of the inefficient and air polluting open-hearth production at NKMK – a complex restructuring project of the facility with more than 2,500 employees.

Several projects were also approved in 2007 for non-Russian Evraz facilities. Evraz Oregon Steel Mills is going to perform an increase in the production volume of heat treated plates and an overall performance enhancement of Spiral Pipe Mill (with US$15 million in capital expenditures), while the Open Slag Bath No. 1 and Slag Crushing Plant projects are underway at Highveld Steel and Vanadium.

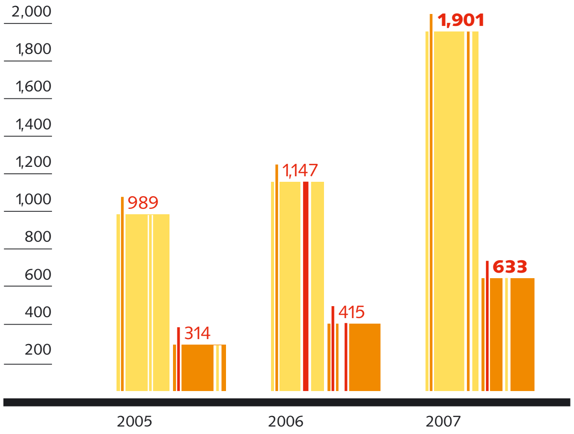


MINING SEGMENT

Financial Performance and Production

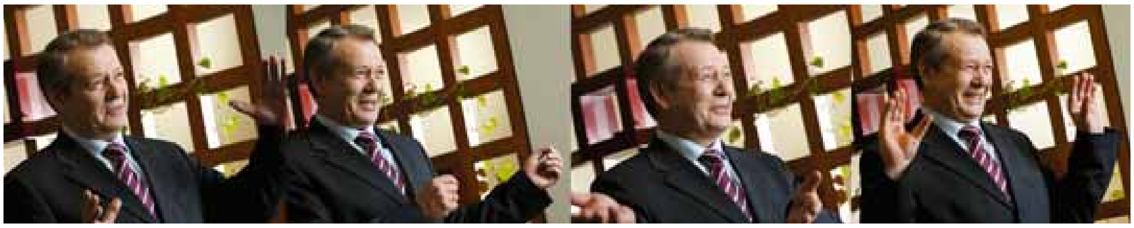
Mining segment revenues grew by 65.7% to US$ 1,901 million in 2007 reflecting mainly the growth in iron ore average prices and an increase in volumes of coal sold after the consolidation of Yuzhkuzbassugol in June 2007. The division generated EBITDA of US$633 million, 52.5% up from US$415 million in 2006. Sales volumes of iron ore showed a growth of 2.7%. Mining segment sales to the Steel segment in 2007 totalled US$1,527 million that represents 80.3% of total Mining segment sales.

Mining Segment Perfomance
(US$ million)



Vladimir Bruev
Vice President, Mining

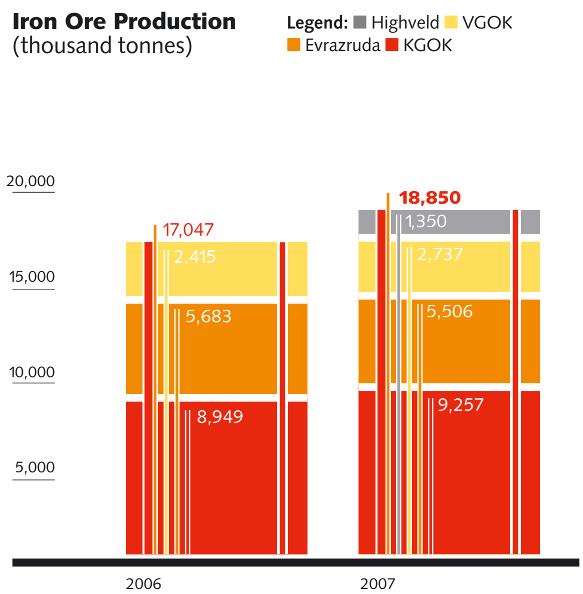
V



Total iron ore production reached 18.9 million tonnes representing a considerable increase of 10.6% in comparison with 2006.

Aiming at gaining full self-sufficiency in raw materials, in 2007 Evraz's iron ore output covered 87% of total ore consumption while coking coal production fully covered Steel segment requirements for coal.

Iron Ore Production
(thousand tonnes)



What are the key highlights of the Mining segment in 2007?

Vladimir Bruev:

One of the Mining Division highlights is the commencement of the Izykhgol field development which is destined to compensate for retired ore facilities.

Are there any certain leaders among Mining segment plants?

Vladimir Bruev:

It is VGOK who finished 2007 with the best operational and financial results: our challenging production plan has been fulfilled, costs have been reduced, the plant structure has been optimised and staff has been cut.

Can you emphasise any strategic goals for Mining segment for the year to go?

Vladimir Bruev:

Among the top Mining segment priorities for 2008 are the integration of new Ukrainian assets and further growth of self-sufficiency in iron ore raw materials.

Costs

In 2007, Mining segment cost of revenues totalled US$1,241 million which represents a growth of 75.3% compared to US$708 million in 2006. Depreciation and transportation costs showed the most significant growth of 175.4% and 114% respectively that is mostly accounted for post-acquisition depreciation and transportation costs of Yuzhkuzbassugol.

Highlights

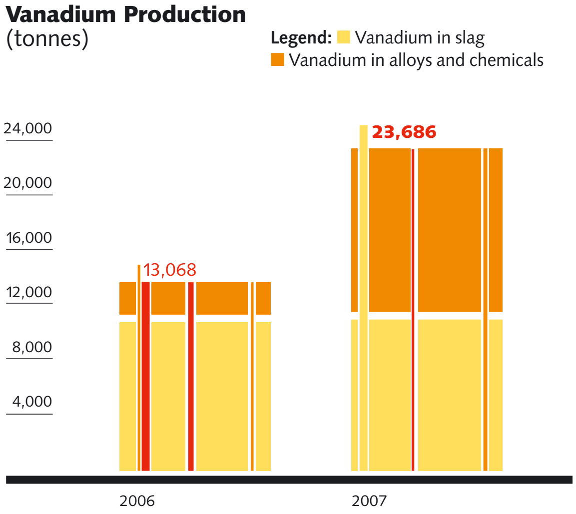
Several important reconstruction projects were realised by Evraz Group in the Mining segment in 2007 such as:

- Reconstruction of dry magnetic separation at Evrazruda subsidiaries (with capex of US$1.6 million).
- Completion of the first stage of the energy saving programme at VGOK, KGOK and Evrazruda with prospective savings of US$2 million.
- Replacement of mine-lifting equipment at Estuninskaya mine (VGOK).
- Modernisation of the crushing and concentration factory at VGOK.
- Implementation of two cascades of Sandvik Rock Processing crushing equipment at KGOK.
- Putting into operation of the modern weight measurement equipment at pellet workshop of KGOK in May 2007.
- Putting of Derrick Corporation fine screen into operation at Evrazruda.

One of the key highlights of 2007 in mining operations was the commencement of iron ore production at the Izykhgol and Burluk mines in Siberia. Another strategic event was the acquisition of a licence for the Sobstvenno-Kachkanarskoye field. Development of new fields such as Sobstvenno-Kachkanarskoye will allow Evraz to replenish retired facilities.

In July 2007, Evraz started to develop a new underground ore-bearing horizon with a capacity of 3.5 million tonnes of iron ore at the Magnetitovaya mine of VGOK.

For the year 2008 Evraz's capital expenditure programme provides for construction of the Erunakovskaya-8 new mine and reconstruction of the Alardinskaya mine in Yuzhkuzbassugol.



VANADIUM SEGMENT

Financial Performance and Production

The vanadium business contributed US$583 million to Evraz's revenues in 2007. Due to the consolidation of Stratcor and Highveld, vanadium products output totalled 11,934 tonnes* compared to 1,415 tonnes in 2006. Additionally, Russian production of vanadium slag reached 11,752 tonnes with a marginal growth of 0.8%. Sales of vanadium slag produced in Russia increased by 9% to 10,840 tonnes.

* *Of pure vanadium equivalent.*

Daniel Harris
Vice President, Vanadium

Highlights

In November 2007 Daniel Harris was appointed Vice President of Evraz Vanadium Business. With 30 years of vanadium business experience with Strategic Minerals Corporation he will form Evraz vanadium assets into one consolidated business unit. In July 2007, Walter Ballandino was appointed as Chief Executive Officer of Highveld Steel and Vanadium Corporation Limited. Mr. Ballandino has a broad international knowledge and experience related to the steel sector and is expected to contribute greatly to the further development of the vanadium production at Highveld. He succeeded Andre de Nysschen who left Highveld after three and a half years in which he led the Corporation.

The Vanadium segment also approved and realised a few projects during the reporting year. Highveld Steel and Vanadium launched a slag crushing plant and open slag bath No. 1. Stratcor projects included a new product sizing and packaging facility in the USA and new filtration circuits in South Africa.

What is essential for Evraz's Vanadium segment strategy implementation?

Daniel Harris:
At the moment, our main task is technical integration of all new assets (Stratcor, Highveld) into the Group creating maximum value for Evraz.

54

US$6.05

US$3.92

2007

2006

Earning
per GDR,%

Outlook 2008

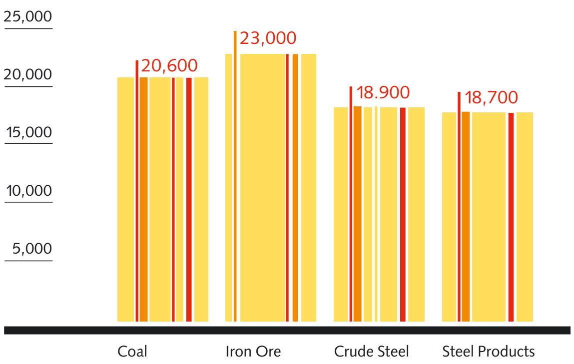
Evraz Group is confident in its ability to close successfully the three transactions announced recently, i.e. the acquisitions of Delong Holdings, of IPSCO Canada plate and tubular business and of a number of assets in Ukraine, as well as successfully integrating mentioned assets into the Group's business.

We expect that our 2008 annual crude steel and steel products output will reach 18.9 million tonnes and 18.7 million tonnes, respectively. It is anticipated that Evraz's coal companies will produce approximately 15.1 million tonnes of coal, including 10.5 million tonnes of coking coal, in 2008.

The Company will stay focused on improving operating performance and managing costs. US$1,068 million are budgeted for capital investments, including US$545 million for investment projects and US$523 million for maintenance.

In the first half of 2008 Evraz's consolidated revenues are expected to increase by 60–65% vs. US$6,023 million in the first half of 2007, and EBITDA is expected to grow to approximately US$3,050 million compared to US$2,050 million in the first half of 2007.

2008 Expected Production
(thousand tonnes)



Coal production includes 10.5 mln tonnes of coking coal, 4.6 mln tonnes of steam coal and 40% of Raspadskaya 2008F output.

Iron ore output includes Sukha Balka ¾ 2008F production.

Crude steel and steel products includes output from existing assets, impact from consolidation of Claymont Steel and ¾ of Dnepropetrovsk Metal Works 2008F output. Steel products also includes pig iron sales from Russian mills.

3.2

16.4
mln tonnes

15.9
mln tonnes

2007

2006

Steel
Sales, %

Corporate Governance

Irina Kibina
Vice President, Corporate Affairs and Investor Relations

Introduction

Evraz Group S.A. is committed to the highest standards of corporate governance and, in particular, strives to comply with the main principles of the Combined Code.

The main corporate governance objectives of Evraz Group S.A. are:

- to achieve the goal of a proper balance between entrepreneurship and control, as well as between performance and compliance with the rules and standards of corporate governance;
- to facilitate performance-driven management, but also to provide mechanisms for leadership ensuring integrity and transparency in the decision-making process;
- to encourage and enable the Board and management to pursue objectives in the best interests of Evraz Group S.A., its shareholders and other stakeholders, and particularly to create long-term value for shareholders.

First and foremost Evraz Group implements strict internal rules and procedures compliant with all rigorous legislation requirements. In 2007 Evraz Group launched a whole new set of corporate codes and internal policies. This process manifested Evraz's continuous efforts to improve its corporate governance system and rethink its approach to corporate responsibility.

Taking this into consideration, in April 2007 the Board approved the Code of Corporate Governance, the Code of Business Conduct, and the Code of Ethics, as well as the Dividend Policy, the policy governing general shareholders meetings, the policy governing the Board and the management remuneration policy later that year. These documents serve as a supplement to applicable laws and regulations and the Articles of Association.

All these documents are available via Evraz Group's website at www.evraz.com.

<< First and foremost Evraz Group implements strict internal rules and procedures compliant with all rigorous legislation requirements. In 2007 Evraz Group launched a whole new set of corporate codes and internal policies that manifested Evraz's continuous efforts to improve its corporate governance system.

Board of Directors

The members of the Board are elected by a majority vote of shareholders at the annual general meeting, and the general meeting of shareholders may revoke their mandate at any time. Directors are appointed for one-year terms and may be re-elected an unlimited number of times. In the event of a vacancy on the Board, the remaining directors may fill the vacancy on a provisional basis, with the next general meeting of shareholders to make a permanent appointment. Since 2005 the personal director's liability has been insured. This policy applies to all Board's members.

During 2007 the Board consisted of nine members, three of whom are deemed to be independent pursuant to the criteria defined by the Corporate Governance Code and in compliance with the Combined Code.

Members of the Board of Directors

As of 1 April 2008

Alexander Frolov
Chairman of the Board & CEO
Born in 1964

Member of the Remuneration Committee

Joined EvrazMetal* in 1994, and subsequently held various positions at EvrazMetal. Appointed to the Board in 2005.
Graduated with honours from the Moscow Institute of Physics and Technology in 1987, and received a Ph.D. in Physics and Mathematics in 1991 from the Moscow Institute of Physics and Technology.
A Director of OAO Raspadskaya and ZAO Raspadskaya Coal Company.

Alexander Abramov
Non-executive director
Born in 1959

Founded EvrazMetal* in 1992.

Appointed to the Board in April 2005 (Chairman of the Board and CEO until 1 January 2006; Chairman of the Board until 1 May 2006).
A Director of OOO Invest AG, CEO of Evraz Invest, a member of the Bureau of the Board of Directors and a member of the Board of Directors of the Russian Union of Industrialists and Entrepreneurs, an independent non-governmental organisation.
Graduated with honours from the Moscow Institute of Physics and Technology in 1982, and holds a Ph.D. in Physics and Mathematics.

Otari Arshba
Non-executive director
Born in 1955

Joined Evraz in 1998, and until December 2003 served as Evraz's Senior Vice President for Corporate Communications. Appointed to the Board in 2005.
A deputy of the State Duma of the RF Federal Assembly.
Graduated with distinction from the Felix Dzerzhinsky KGB Higher School, and holds a Ph.D. in political science from the Russian Academy of Government Service.

* *A company, predecessor of Evraz.*

James W. Campbell
Independent director
Born in 1949

Chairman of the Strategy Committee, member of the Remuneration Committee

Appointed to the Board in 2005.
From 1975 until 2002 served in various positions with Anglo American PLC, including various positions with Amcoal, then in the Coal division of Anglo American from 1984 through 2002. From 1999 through 2002 served as an Executive Director of Anglo American PLC; Chairman of Anglo Coal (formerly Amcoal) and AngloBase Divisions; and a non-executive director of Anglo Platinum, AngloGold and Anaconda Nickel Ltd.
A Director of Highveld Steel and Vanadium, and Chairman of Minara Resources Ltd.
Received a B.Sc. in Mathematical Physics from Queen's University, Belfast, and an M.A. in Engineering Management from Cambridge University, England.

Olga Pokrovskaya
Non-executive director
Born in 1969

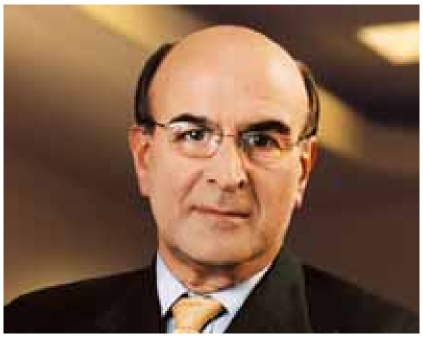
Member of the Audit Committee

Appointed to the Board in 2006.
Previously held several key finance positions in Sibneft since 1997, including serving as head of corporate finance from 2004. From 1991 until 1997 worked as a senior audit manager at Arthur Andersen.
Graduated with honours from State Financial Academy in 1991.
A Director of Highland Gold Mining Ltd.; Head of Corporate Finance, Millhouse LLC.

Philippe Delaunois
Independent director
Born in 1941

Chairman of the Remuneration Committee

Appointed to the Board in January 2007.
Had been involved in the Belgian steel industry for 35 years, starting as a field engineer in the long products mills. From 1981 till 1999 held management positions (CEO, 1987–1999) at Cockerill Sambre, a Belgian steel group.
Previously served on the boards of several Belgian and international companies, including CFE (construction and dredging), Mobistar (cellular telephones), Cumerio (copper), Shanks plc (waste management) etc.
In 1990–1993 – President of Union Wallonne des Entreprises. Honorary Consul of Austria for the Province of Hainaut and Namur. Order of Leopold (Belgium), Chevalier de la Légion d'Honneur (France).
Chairman of the Boards of CFE, Mediabel, Alcopa; a Director of Cumerio SA, Shanks plc (UK), Mobistar, ING Belgium, Suez Energie Services (France).
Received a degree in engineering from State University at Mons, Belgium, and studied business at Harvard Business School.



Terry Robinson
Independent director
Born in 1945

Chairman of the Audit Committee, member of the Strategy Committee

Appointed to the Board in 2005.
Served for 20 years at Lonrho PLC, the international mining and trading group; and the last 10 years as a main board director. Since 1998 has been variously occupied with international business recovery engagements and investment projects including natural resources in the UK, Russia, the CIS and Brazil.
Independent non-executive director of the Toronto listed Katanga Mining Limited with copper and cobalt mining operations in the DRC and until recently was Managing Director of Interactive Records Management Ltd., a private equity controlled investment.
A Fellow of the Institute of Chartered Accountants of England and Wales.

Eugene Shvidler
Non-executive director
Born in 1964

Appointed to the Board in 2006.
Worked as senior vice president of Sibneft beginning in 1995 and served as president of the company from 1998 through 2005.
A Director of Highland Gold Mining Ltd.; Head of Millhouse LLC.
Graduated from the I.M. Gubkin Moscow Institute of Oil and Gas with a masters degree in applied mathematics and holds an MBA in finance and M.Sc. in international tax from Fordham University.

Dmitry Melnikov
serves as the Secretary of the Board

Eugene Tenenbaum
Non-executive director
Born in 1964

Member of the Remuneration Committee

Appointed to the Board in 2006.
Served as the head of corporate finance for OAO Sibneft in Moscow from 1998 through 2001. Joined Salomon Brothers in 1994 as a director for corporate finance, where he worked until 1998. Prior to that, spent five years in corporate finance with KPMG in Toronto, Moscow and London, including three years (1990–1993) as national director at KPMG International in Moscow. He was an accountant in the Business Advisory Group at Price Waterhouse in Toronto from 1987 until 1989.
A Director of Highland Gold Mining Ltd.; a managing director of Millhouse Capital UK Ltd. and a director of Chelsea FC PLC.
A chartered accountant and holds a Bachelor's degree in commerce and finance from the University of Toronto.

The role of the Board

The Board is vested with broad powers to effectively lead Evraz Group S.A., map out its strategic aims and review management performance. The Board serves as the ultimate decision-making body, except on those issues expressly reserved by law or by the Articles of Association to the general shareholders' meetings.

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 is accountable to shareholders.

Board performance

The Board held 11 meetings in 2007. The directors' attendance is presented in the table below.

Going concern

Directors have access to all information necessary to exercise their duties. They receive a comprehensive monthly update, or more often, if necessary, on changes in Evraz Group's cash flow and EBITDA. Directors have the reasonable expectation that Evraz Group has adequate resources in place to continue operations for the foreseeable future. Consequently, they continue to use the going concern assumption when preparing accounts.

	Attended
Alexander Frolov	11
Alexander Abramov	8
Otari Arshba	9
James Campbell	11
Philippe Delaunois	11
Olga Pokrovskaya	11
Terry Robinson	11
Eugene Shvidler	8
Eugene Tenenbaum	10

Committees

To date, the Board has created the following standing committees: the Audit Committee, Remuneration Committee and Strategy Committee. All committees are chaired by independent directors. Committees shall consist of directors and may include external experts determined by the Board (as the Audit Committee does).

The reports of the the Remuneration Committee and the Audit Committee can be found on pages 48 and 52, respectively.

Strategy Committee

The Strategy Committee's principal responsibilities are:

- development of the strategy of Evraz Group;
- assessment of existing assets, as well as consideration of future investment in growth assets;
- technical development of management and training.

As of 1 April 2008, the Strategy Committee consisted of the following individuals: James W. Campbell (Chairman), Terry Robinson, Pavel Tatyanin and Timur Yanbukhtin.

Ivan Osadchiy served as the Committee's Secretary.

Four meetings were held by the Committee in 2007 to discuss such matters as corporate strategy, implementation of the strategic planning process, coal business strategy and railway product strategy, as well as key strategic issues of overseas assets.

As a result of deliberations, the Committee approved Evraz's corporate strategy, railway product strategy, and developed procedures for strategies preparation/update, implementation and monitoring.

Senior Management
(As of 31 December 2007)

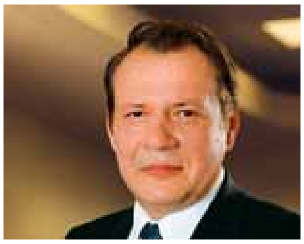
As of 31 December 2007, Evraz Group had the following senior management team:

Alexander Frolov
Chief Executive Officer
Born in 1964

Biographical details can be found in the section on the Board on page 39.

Giacomo Baizini
Vice President, Product and Resource Management
Born in 1970

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
Born in 1955

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

Natalia Cheltsova
Vice President, Legal
Born in 1974

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

Igor Gaponov
Vice President, Information Technologies
Born in 1974

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.

Daniel Harris
Vice President, Vanadium
Born in 1954

Joined Evraz Group in November 2007; previously held various positions with Strategic Minerals Corporation (USA), Vametco Minerals Corporation (South Africa). Received a B.Sc. degree in chemical engineering from the University of Nevada.

Natalia Ionova
Vice President, Human Resources
Born in 1966

Joined Evraz Group in 2006; previously held various supervisory 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
Born in 1961

Joined Evraz Group in 1993. Mr. Kachur holds a master's degree in engineering.

Irina Kibina
Vice President, Corporate Affairs and Investor Relations
Born in 1964

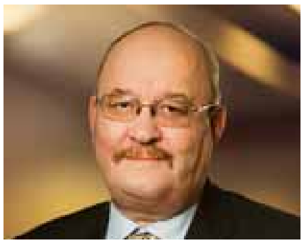
Joined Evraz Group in 2005; previously held the position of Vice President of Corporate Affairs, SUN Interbrew Ltd., and Vice Mayor of Novgorod. Received an EMBA and graduated from the Pew Program at Georgetown University.

Maxim Kuznetsov
Vice President, Metallurgy Russia
Born in 1968

Joined Evraz Group in May 2007. Previously held the position of CEO of OAO OGK-3 and OAO Volgogradenergo, held various positions with RAO UES of Russia, and until 1998 was the head of Evroazmetall International. Graduated from Moscow Institute of Physics and Technology.

Giuseppe Mannina
Vice President, International Operations and Logistics
Born in 1952

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.



Vyacheslav Pavlov
Vice President, Technical Development
Born in 1949

Joined Evraz Group in 2003 as Managing Director at NKMK. In March 2007 was appointed Vice President of Technical Development. Previously held various positions with Stal KMK and Kuznetsk Iron and Steel Plant. Graduated from Urals Polytechnic University.

Pavel Tatyanin
Senior Vice President, Corporate Affairs and Chief Financial Officer
Born in 1974

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
Born in 1964

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 the senior management

The following changes were made to the senior management of Evraz Group in 2007:

Joiners

Daniel Harris
Maxim Kuznetsov
Vyacheslav Pavlov

Departures

Andrey Mokrinsky
Alexander Sorokin

Board and Management Remuneration

Independent directors serve on the Board pursuant to agreements. These agreements have a term of one year and provide for identical terms for payment and level of compensation and reimbursement of certain expenses.

Remuneration of Evraz Group's senior management consists of:

- a fixed base salary according to the unified scale, with grades defined for all job categories;
- a variable performance-based compensation;
- a bonus paid semi-annually (for the 1st half year in an amount not exceeding 40% of the annual bonus);
- an annual bonus.

KPIs for the annual bonus depend on the particular functions of a senior manager. For vice presidents responsible for production segments (steel, mining, vanadium) the main KPIs are the following:

- EBITDA;
- net profit;
- cost per tonne of production;
- capex.

The bonus for vice presidents leading various corporate (non-production) functions depends on EBITDA, share price performance, as well as on meeting of project-related targets (so-called MBO (management by objectives)).

Senior managers are also entitled to long-term incentives, including the Evraz Stock Option Plan (ESOP) for key employees who have worked in Evraz Group for more than a year, and variable benefits depending on a job grade, e.g. life and medical insurance, cell phones, cars (the service is outsourced).

The CEO of Evraz Group is not granted any specific non-material remuneration.

Evraz Group's key management personnel totalled 48, 46 and 33 persons as at December 31, 2007, 2006 and 2005, respectively. Total compensation to these individuals consisted of the following:

US$ million	2007	2006	2005
Salary	25	18	11
Performance bonuses	20	21	12
Social security taxes	10	1	2
Share-based payments	3	11	5
Termination benefits	10	–	–
Other benefits	1	3	11
Total	**69**	**54**	**41**

Other details regarding the remuneration of directors and managers are provided in the Remuneration Committee Report below.

Remuneration Committee Report (As of 1 April 2008)

More detailed information on the remuneration policy and the committee's duties and responsibilities can be found on the Company's website in the section on corporate governance:

Articles of Association as at 23 May 2007: article 10

Corporate Governance Code: article 6.4 and 6.5

Policy governing the Board of Directors: article 6 and 7

Management Remuneration Policy

Since 19 January 2007 the Remuneration Committee consists of the following members:

Independent chairman: Philippe Delaunois

Independent director: James W. Campbell

Non-executive director: Eugene Tenenbaum

Chairman and CEO: Alexander Frolov

Vice President Human Resources: Natalia Ionova

Mr. Dmitry Melnikov, Secretary of the Board, acts as the Secretary of the Committee.

The main objectives are to attract, retain and motivate high quality senior management with a competitive package of incentives and awards linked to performance and interests of shareholders.

The Committee seeks to ensure that management are rewarded fairly, taking into account all elements of their remuneration package and in the light of the Group's performance.

The Remuneration Committee met six times in 2007.

It took a decision on the severance conditions when the former CEO resigned and left the Company.

It decided to nominate Alexander Frolov as Chairman and Chief Executive Officer and determined his contractual terms.

Mr. Frolov abstained from voting in all matters related to his package.

The Committee decided on the bonuses of the CEO-1 level for the year 2006, as well as for the chairman.

The Committee also defined the key performance indicators (KPIs) for the CEO-1 level for the year 2007. Those KPIs have been reduced to three in most cases.

The Committee defined to appoint a new CEO at Highveld and discuss his contractual terms.

Whenever necessary due to resignations or transfers, the Committee has decided on the appointment of new managers.

Given the expansion of the group through worldwide acquisitions, the Committee has begun to consider the general strategies which should be followed by the Company's subsidiaries.

The Committee has also begun to consider the future long-term incentive plan for top management.

As far as the remuneration of the independent directors is concerned, the Chairman of the Board is responsible and makes recommendations on the amount of their remuneration to the annual general meeting of shareholders.

A director's remuneration consists of an annual salary of US$150,000 and a payment for Committee's membership (US$30,000) or chairmanship (US$50,000). Mr. Arshba is not entitled to any remuneration as a member of the Russian Parliament.

In 2005 Evraz Group introduced a long-term incentive programme for independent directors.

Under the 2006 arrangement, the option must be exercised within one year after the 14th day after the announcement of Evraz Group's results for the previous financial year; otherwise it lapses.

The table below provides details regarding the options granted as at 31 December 2007.

Name of director	Date of grant	Date from which exercisable	Granted, GDR	Option price, US$ per GDR	Exercised, GDR	Expiry date
James W. Campbell	7 June 2005	25 May 2006	55,173	14.5	-	3 June 2008
	21 June 2006	10 May 2007	36,714	21.79	-	9 May 2008
Terry Robinson	7 June 2005	25 May 2006	55,173	14.5	55,173 (19.02.2007)	3 June 2008
	21 June 2006	10 May 2007	36,714	21.79	36,714 (23.01.2008)	9 May 2008

Philippe Delaunois who was appointed on 19 January 2007 does not participate in this programme.

It should be noted that the Remuneration Committee, which usually meets before the Board's meeting, always presents its conclusion to the Board for final approval.

Risk Management

The Group's business and investment activities result in exposure to a wide variety of business risks, material and not so material. Certain risks are inherent in the nature and jurisdiction of the Group's business sector activities, and other risks are related to fluctuations in the global economy and other risks largely outside management control and power.

In respect of risk management, the Group's executives seek to have management capability in their goal to ensure oversight, transparency, management consideration and action through an Enterprise Risk Management process (ERM). The ERM process is a structured and coordinated entity-wide governance approach to identify, quantify, respond to, and monitor the consequences of potential events. This includes both internal and external risks. This process is consistent with the LSE, Turnbull Guidance on Internal Control and as the basis for a risk management process.

The ERM process has the support of the Board, the Audit Committee and management.

At this time, the initial phase of the ERM process has largely involved the Group's senior management in defining key risk elements, the process and risk management accountability or ownership of the senior management for the key risk areas. The Group is making progress in identifying middle and junior management who will share accountability with senior management for unit or business elements of the Group's key risks profile. The primary business objective is to develop a risk management framework which has at its centre a strong group-wide risk management culture, supported by an enterprise-wide set of policies and procedures.

This partnership is designed to ensure that there is an ongoing alignment of business strategies and performance delivery with the Group's risk appetite.

We apply the following core principles in the identification, monitoring and management of risk throughout the organisation:

- Risks are identified, documented, assessed, monitored, tested and the risk profile communicated to the relevant risk management team on a regular basis.

- Business management and the risk management team are primarily responsible for ERM and accountable for all risks assumed in their operations.

- The Board and Audit Committee have an oversight role, to determine that appropriate risk management processes are in place and that these processes are adequate and effective.

- The Board is responsible for assessing the optimum balance of risk through the alignment of business strategy and risk appetite on an enterprise-wide basis.

In 2007, the Group's management identified, assessed and documented the key business or enterprise risks, together with agreed judgements as to enterprise impact and probability, providing the framework for the ERM process.

The Group's key business risk areas are defined and managed under the following framework:

//external compliance (including environment);

//reputation;

//operational;

//financial;

//human resources;

//political;

//market volatility; and

//cost competitiveness.

Internal Control

The Company, through its governance policies, continues to refine the process by which the effectiveness of the system of internal control can be regularly reviewed as required by provision C.2.1 of the Combined Code. The process enables the Board of Directors and the Audit Committee to assess the system of internal controls being operated in order to manage significant risks (including social, environmental, safety and ethical risks) throughout the year.

This process has the normal limitations, in that any such process can only manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The internal auditor of Evraz attended the meetings of the Audit Committee and addressed, as necessary, any reported deficiencies of internal control as required by audit committee members. The Audit Committee engages with executive management during the year to monitor the management of risks. Deficiencies that occurred and management's response to them were considered by the Audit Committee during the year.

The annual audit programme in 2007 incorporated the work of existing and local internal audit teams in respect of assignments and priorities agreed by the Audit Committee and the work of newly acquired subsidiaries, largely acting according to the defined audit programmes of previous management.

In 2007, the Internal Audit team was augmented and restructured on a regional basis, reflecting the widening geographic spread and the introduction of common internal audit practices throughout the Group. Also, with key elements of the Group's enterprise risk now having fuller definition, the rolling six-month internal audit of internal control has been amended to incorporate the increasing audit time commitment to internal audit under the ERM approach.

In 2007, the Internal Audit team met with Evraz's external auditor and agreed to coordinate their efforts to avoid duplication of procedures performed during the audits. The intention was expressed on both sides that during 2008 the Internal Audit team and Evraz's auditor will review the existing Internal Audit scope, approach and audit documentation to identify work that can be used by Evraz's auditors in their audit of the financial statements.

Audit Committee Report
(As of 1 April 2008)

This report of the Audit Committee to the shareholders of Evraz Group S.A. covers the Committee's activities since the last report as at 24 April 2007 to 31 January 2008.

Following up on the key priorities identified in earlier reports of the Audit Committee, the Company has made significant progress in establishing Turnbull compliant, Enterprise Risk Management processes and procedures, including the initiation of a group-wide risk register. In addition, significant financial process improvements have been initiated to deliver earlier closing and publication of interim and final accounts and a detailed fraud incident and analysis reporting process has been instigated. These initiatives have been delivered within the dynamic acquisition growth environment since the Company's listing, leading to enhanced internal audit functionality and scope.

The Audit Committee has had an oversight role and a leadership function in these internal control enhancements.

Role of the Committee

The Board has delegated to the Committee the responsibility for oversight over Evraz Group's financial controls and reporting, oversight over the planning, process and reports of appropriate reviews of the Group's financial and operational internal controls and the risk management systems conducted by an internal audit function that is wholly independent of management and reports to the Audit Committee (as provided in the Group's internal audit charter).

The Committee is also responsible for managing the Company's relationship with the Company's external auditor.

In relation to these responsibilities, the Committee has:

- reviewed its board mandate;
- reviewed the form, content and integrity of the Company's and Group's published financial statements (within the period of this report the interim results to 30 June 2007), including the 2007 press release;
- monitored and reviewed arrangements to ensure the objectivity, scope and effectiveness of both the external and internal audit functions, including the proposed and respective programmes of audit work, the quality and independence of provision of the respective audit functions and of the costs or fees for the separate audit functions; and
- after these reviews, the Audit Committee recommended to the Board that the external auditors be reappointed.

The Composition of the Committee
During the period the members of the Audit Committee were:

- Terry Robinson (Chairman) a financially qualified, independent non-executive director;

- Olga Pokrovskaya, a financially qualified, non-executive director;

- John Heywood, a financially qualified, the Evraz's Board nominated member (not being a Evraz's director) of the Audit Committee. In addition to the papers of the Audit Committee, John also receives copies of all Board's minutes and has access to all Board's papers.

The composition of the Audit Committee is not compliant with the Combined Code, since the members of the Committee are not drawn wholly from the Board's independent non-executive directors. The Board continues to ensure independence through a rigorous regard of the Audit Committee's mandate and independent authority.

Report of the Committee's Activity in 2007
Meetings and attendance: four meetings were held during the 9-month period, which all Audit Committee's members attended. In addition, there was a special Audit Committee meeting attended by the Company's senior executives together with the Group's chief executive, at which a review of the response to the Group-wide Enterprise Risk Management questionnaire was performed and, through a working Group session, the structure, ownership and management action for the Group's risk register and score card was established. This working Committee meeting did not include Olga Pokrovskaya.

The external auditor, Ernst & Young, internal auditors, the Group's Senior Vice President and Chief Financial Officer attended all four regular meetings. In addition, senior members of the Group's finance team, the Group Vice President Evraz Metallurgy, the Group's IT Vice President, the Group's Vice President of Corporate Affairs and Investor Relations, the director of taxes of Evraz and various senior members of the Group's operational management team were present at various meetings of the Committee.

The principal issues considered during the period from 24 April 2007 to 31 January 2008 were:

- Review of the external auditor's management letter following their full year audit for 2006, together with the Company's management response and intended action.

- Review of the interim financial results and accounts presentation.

- In connection with the review of the full year and interim accounts, the Committee carefully enquired as to related-party transactions. These transactions have been materially reduced and the Company continues to make the objective of reducing related-party transactions to a level of immateriality a priority.

- Review of the scope and process for the Group-wide Enterprise Risk Management questionnaire and the subsequent executive response.

- Maintaining oversight over the Group's Fast close project intended to introduce modified, robust and comprehensive financial consolidation processes for earlier closing of the Group's IFRS accounts.

- Review of the Group's tax management processes.

- Review of the Group's incidences of fraud and activity in hand to manage and reduce such future incidences.

- Review of the actions instigating the Group's whistleblowing facility.

- Review of the revised manning, organisation and internal audit programme of the internal audit function to increase its scope to accommodate the expanded Group's operations through acquisitions.

- Review of the internal audit report on the effectiveness and process in delivering monthly management information and Board's reports.

- Review of the Group's plans for the consolidation and rationalisation of the Group's IT infrastructure; given the numerous legacy IT platforms in existence through acquisitions.

In addition, the Audit Committee reviewed and discussed all the programmed internal audit reports concerned with the business and financial internal controls and processes; in particular, the Audit Committee reviewed the Group's treasury function report, the report on the greatly expanded Vanadium operational unit and initial reviews of the functional internal controls at acquired subsidiaries.

The Committee has met with the external auditors, management and with the internal audit team separately for individual discussions.

Non-audit Services

As reported in previous years, it is the Group's policy to engage accountancy firms for due diligence work in connection with acquisitions and for tax advice. The Committee has given prior written approval to all such engagements and mandate fees where such engagements have involved the Company's external auditor.

In 2007, the audit fees on the interim review and year-end audit approved by the Committee were US$4.35 million, and non-audit fees were US$1.2 million.

Audit Committee Self-assessment

The Audit Committee has conducted a self-assessment questionnaire.

External Auditor

Ernst & Young continues to serve as Evraz Group S.A. external auditor for the fifth consecutive year. According to internal procedures, the Lead Audit Partner will be rotated starting from 1 January 2008.

Share Capital

Evraz Group S.A. shareholders	% of shares as of 31 December 2007
Lanebrook Limited	72.9
BNY (Nominees) Limited (free float)	27.1
Total	**100**

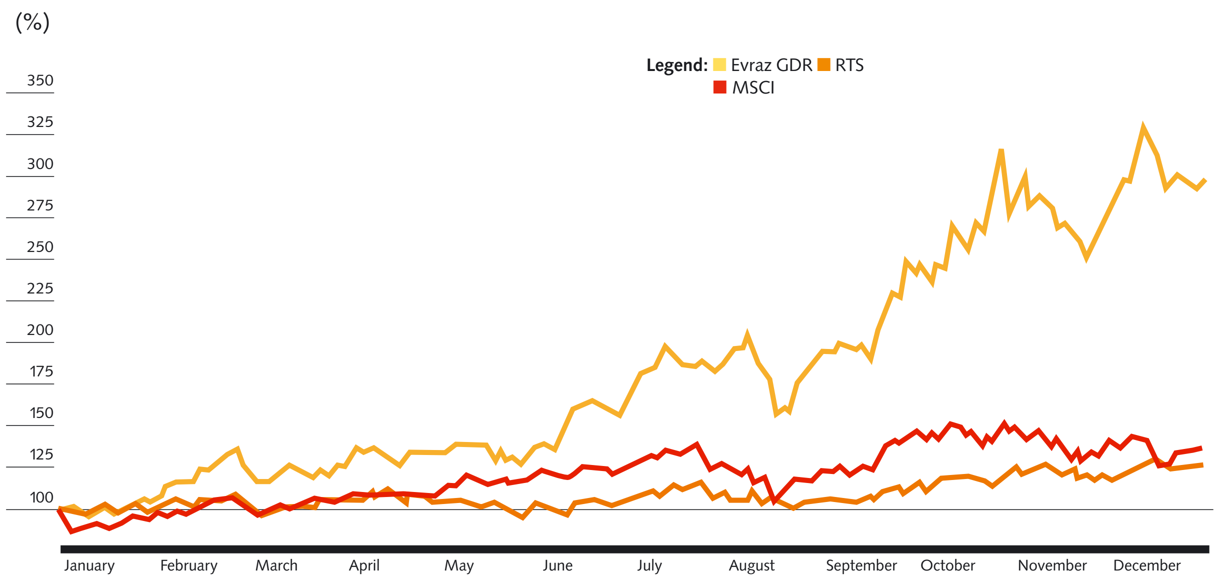
The subscribed share capital of Evraz Group S.A. is fixed at €236,619,306.

As of 31 December 2007, the total number of shares issued by Evraz Group S.A. amounted to 118,309,653 shares with a nominal value of €2 each. 96,210,081 global depositary receipts (GDRs), representing 27.1% of issued share capital, are listed and traded on the London Stock Exchange under the symbol EVR. Each GDR represents an interest in one-third of a share.

Evraz Group management is not aware of any other shareholder or shareholders which own more than 5% of share capital.

Evraz Group S.A. expects any current or potential shareholder who envisages acquiring by whatever means, directly or indirectly, more than 5% of the shares issued by Evraz Group S.A. to inform the Chairman of the Board.

We are proud to mention that investors trust grew even further last year. In the course of 2007, Evraz's GDRs demonstrated exceptional results and appreciated three times, outperforming both the MSCI index and FTSE-250 growth rate.



18,850 mln tonnes

17,047 mln tonnes

2007

2006

Iron Ore Production,%

Sustainable Development

Overview

Irina Kibina
Vice President, Corporate Affairs and Investor Relations

2007 was a year of successful economic, ecological and social growth for Evraz Group. We are on a straight and perspective way to further development, based on sustainability principles now.

We act in strict compliance with all applicable laws, regulations and professional standards and make every effort to identify how these may vary by local conditions. The structuring of our valuable experience allows us to organise the system of various risks evaluation, assessment and mitigation and gives the perspective of sustainable growth not for our Company only but for the whole industry as well.

As an international and multinational company, we adhere to crucial international standards, principles and best practices. Evraz endeavours to uphold widely recognised principles of human rights and fully endorses the provisions of the Universal Declaration of Human Rights, especially those which are relevant to it as a corporate entity.

Additionally Evraz is committed to the relevant provisions of:

- the UN Global Compact;
- the UN Convention against Corruption;
- the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions; and
- the EU Convention on the Fight against Corruption Involving Officials of the European Communities or Officials of Member States.

We rigorously stick to the concept of conducting business in an ethical and responsible fashion. In April 2007, the Board approved the Code of Business Conduct and the Code of Ethics designed to ensure that Evraz meets the highest ethical standards in its business.

The Code of Ethics declares the core principles of responsible business, such as respect and observance of human rights, safe work conditions, open and honest communication with communities and government.

The Code of Business Conduct embodies the primary principles which Evraz Group and its employees and stakeholders seek to uphold. Being a guiding statement of principle, this Code implements the framework for effective and ethical operation, sets the principles of both external and internal stakeholders relationships, discloses the principles designed to ensure sustainable development.

The codes implementation has already started from November 2007 in all Russian subsidiaries and abroad.

<<
The year 2007 was a breakout in terms of approach to ethics, business conduct and corporate responsibility. As a result of successful implementation of the corporate codes, Evraz Group operates in compliance with the highest principles of ethical behaviour and business conduct.

Our People

All of our accomplishments to date would not have been possible without the dedication and hard work of our talented employees. Together we will definitely continue to grow as one of the largest global steel companies.

The Code of Ethics, adopted by the Board in 2007, declares respect of everyone's right to free choice of employment and supports the elimination of all forms of forced, compulsory and child labour. Evraz will not employ forced or compulsory labour or employ any persons under legal working age.

Evraz operates on the principle of equal opportunity employment based on ability and without regard to age, race, gender, religion, disability, national or social origin, trade union membership, marital status, sexual orientation or political views. Evraz's policy does not tolerate any forms of discrimination or harassment. The scope of our production activity compels us to pay particular attention to geographical and national specificity. But all subsidiaries' independent projects and management policies adhere to the mainstream of corporate strategy.

Evraz strives to be the employer of choice. Our success depends on more than 127,000 people all over the world. Together we stand for innovation and development, trying to operate on the principles of efficiency, safety and responsibility.

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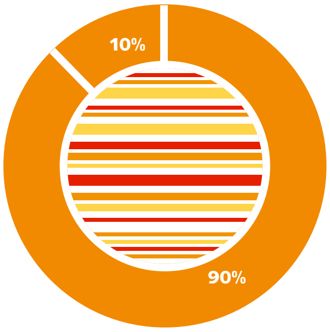
In 2007, we conducted an analysis of our staff quality, identified and assessed personnel related risks, including the risk of highly qualified employees lack and the risk of inefficient middle-level management. Upon this assessment we developed a programme on such risks mitigation that is to be implemented in the course of 2008.

Geographical Breakdown of Evraz Group's Employees, 2007*



Includes only production facilities.

Natalia Ionova
Vice President, Human Resources

Considerable changes took place in the number of employees of Russian subsidiaries in 2007. This was due to the realisation of the outsourcing programme as a step of our strategic plan. The outsourcing programme aims to:

- make our business activities more effective and transparent;

- make our staff costs more comprehensible and lower through specialisation of subsidiaries on auxiliary and support processes.

In 2007, the programme involved 23,089 employees, 12,793 of them employed at the wholly owned support subsidiaries, and 10,296 of them – outside the Group.

Our initiative for outsourcing and implementation of the personnel optimisation programme is based on the experience of our non-Russian subsidiaries, like Palini e Bertoli and Evraz Oregon Steel Mills.

High Level of Health and Safety Standards

Steel and mining industries are fraught with a high level of industrial injuries, and a number of operational life cycle stages involve difficult and risky work conditions. Due to this fact, occupational health and safety matters are of the highest priority for corporate management and our key stakeholders.

All Evraz Group's subsidiaries develop and introduce occupational health and safety policies, pursuant to the requirements of Russian legislation and international certificate standards like OHSAS 18000.

Two-way Dialogue

As one of the main groups of stakeholders, our employees are involved in an active discussion of corporate culture. The rollout of any new policy or guidelines includes a number of activities, such as a series of employees meetings held at each Evraz's site to discuss what the new policies mean for the business. In addition, the rollout is supported by various internal communications including newsletters and information posted on the Company's and subsidiary's intranet sites. Special posters and brochures devoted to the policies are also distributed to employees.

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Our labour policy is based on the principle of open two-way communication: Evraz Group provides its employees with possibilities for professional and personal development through progressive education, medical and retirement arrangements, social programmes, a competitive level of remuneration and non-material incentives. But, in return, we expect our employees to be high-level professionals, proactive and responsible people.

Professional Education

Evraz pays special attention to education and professional skills training programmes, as well as mastering allied trade, because of the middle and elementary education levels of almost half of its employees. The most important professional education projects are aimed at production engineers of the steelmaking, blast-furnace production, rolling, coking, repair and electromechanical services. As part of the quality monitoring system for the purpose, the Company attracts skilled specialists from first-rate training centres to teach the courses at the plants.

Evraz also provides education possibilities to temporary employees and working pensioners.

We realise the necessity for training and professional development of our personnel. Evraz estimates and tries to effectively control the risks of a lack of qualified employees and the risks of inefficient personnel management.

In September 2007 two regional personnel training centres in Siberia and the Urals were established on the foundation of existing training centres of subsidiaries. The project is aimed at raising the quality of educational programmes, optimising educational expenses, developing and systematising unified educational and professional skills standards, and extra financing of training centres.

The heads of Evraz's Personnel Departments regularly render assistance to educational institutions. For example, Evraz took part in financing 1/3 of the governmental grant programme, which is part of the "Education" National project supported by the President of the Russian Federation. This grant was awarded to College No. 19 in Novokuznetsk that won an all-Russian contest.

The College trains professionals in rare metallurgy professions that Evraz's subsidiaries are very interested in.

The effectiveness of the project will lead to a considerable reduction in expenses connected with training professionals to use modern equipment.

In Russia 42,731 employees participated in the professional education programmes in 2007.

Social Responsibility

Employee Social Programmes

Close cooperation with our internal and external stakeholders had an essential effect on the social policy development processes. When developing our internal social programmes, we try to take into consideration such important factors as:

- geographic and national differentiation;
- work experience (almost half of Evraz Group employees possess over 10 years of experience, and 25% of employees – over 20 years of experience);
- regional development peculiarities, such as demographic matters.

Evraz performs the following corporate social insurance programmes:

- voluntary retirement insurance programmes;
- voluntary medical insurance programmes;
- voluntary accident and occupational illness insurance programmes;
- mortgage programmes.

Evraz Group operates strictly in compliance with all applicable international, national and local labour laws and regulations, regardless of the region where a particular subsidiary is located.

With 90% of its employees working in Russia, Evraz Group implemented various social programmes which exceed local legislation requirements.

In 2005, the Company developed and introduced a retirement benefits programme, which was a novelty for the subsidiaries, but became prevalent among employees. The pension plan is carried out on a principle of matching employees' contributions, and provides for a unified system of management of retirement benefits governed by the National Metallurgist's Private Pension and Social Security Fund.

We provide a healthy and safe work environment and make every effort to identify, evaluate and mitigate potential health and safety risks. We believe that safety is a responsibility that is shared by everyone, and seek to improve our health and safety systems. Our employees are provided with all necessary safety equipment and are trained regularly to raise their awareness of safe behaviour and to ensure their familiarity with all safety procedures and protocols.

The Company's partners in the sphere of social insurance are chosen on a tender basis. Russian medical insurance and accident and occupational illness insurance programmes are realised in cooperation with reliable local insurance companies.

Voluntary medical insurance programmes are financed through co-financing, 37% of the insurance coverage is financed by the employer and 63% – by the employee. In 2007, the total amount of Evraz Group's payments totalled US$517,600.

Voluntary accident and occupational illness insurance programmes are financed at the expense of the employer; the amount of insurance coverage is up to the double annual salary of the employee.

Bearing in mind that healthy living conditions are the basis of the region's stable economic and demographic development, Evraz Group continued to implement its corporate mortgage programmes, which cover half of an employee's interest payments. In 2007, the mortgage programme had 1,034 participants, which is 616 people more than in 2006. The total amount of financing was US$949,900.

Evraz strives to demonstrate its respect and value for individuals by making direct and meaningful social investments in local communities. All of the Group's social investments are made on a voluntary basis. They are aimed at strengthening and further developing Evraz's business and community partnerships.

We strongly believe that we can make a positive difference in the lives of the people in the communities in which our companies operate. We remain committed to investing in local community projects and developing long lasting partnerships with local communities and governments.

Corporate charitable programmes address social and political issues relevant to the business. They try to effectively meet social goals and stakeholder expectations for bettering living conditions in the regions where the Company's plants, facilities and offices are located. The main aim of our social investments is to create long-term competitive benefits.

The coordination and management of local social programmes is provided through local charitable foundations established by Evraz Group in 2007 and managed by their supervisory boards. Each year Evraz Group approves the Social Investment Programme, which sets out the social investment priorities and budgets for the year ahead.

Evraz Group has organised two corporate charity funds: in Siberia and in the Urals.

Evraz pays special and sincere attention to the prosperity of children and young people in its regions of operation. We are truly convinced that investments in the development of youth will provide our country with a healthy and talented generation, eager to make the economy function effectively.

In 2007, the funds in Siberia and the Urals began to realise several projects in this area. The most important of them are "City of Friends – City of Ideas", "Yards" and "The Beloved Children".

Social Investment Programmes

In order to systematise our activities in the sphere of social investment projects, in April 2007 the Board approved the Social Investments Guidelines which set the following main priority areas for investment:

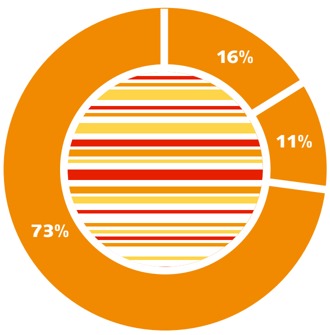
- Youth: initiatives and projects which assist in the development of young people.

- Education: enabling individuals of all ages to gain new knowledge, abilities and skills.

- Citizenship: fostering favourable neighbourhood values and safe environments in local communities.

Social Investment by Area, 2007

Legend:
16% Youth
11% Education
73% Citizenship



“City of Friends – City of Ideas”

The programme “City of Friends – City of Ideas” was launched by Evraz in September 2006 in three Russian cities where Evraz has operations. It is aimed at encouraging young people to start up community projects. For the first competition, approximately 350 community project ideas were submitted to a special screening committee. The committee reviewed the ideas and chose 26 for funding. The projects that were awarded grants included plans to build sports grounds, create employment opportunities for the disabled, set up youth centres, and various ecological initiatives.

In May 2007 Evraz announced a second “City of Friends—City of Ideas” competition. This competition will once again encourage young people to promote educational and ecological initiatives, as well as develop support programmes for socially disadvantaged groups.

In 2007, the contest budget doubled to US$234,600.

The development of local communities was implemented through a number of activities on acquisition of equipment, maintenance of social institutions, and building of a church and schools to support the **“Kachkanar – My Native Town”** project.

The slogan of the volunteer project in 2007 in Novokuznetsk was **“The Town Needs You”**. The idea is to join the efforts of different non-commercial funds, municipal and private educational, medical, social, cultural, and sports institutions of Novokuznetsk.

The grant budget amounted to US$97,700.

“Yards”

We fulfil our yards redevelopment project in Novokuznetsk with the cooperation of the local government. This charity initiative has redeveloped 50 yards in different parts of the town to make it possible for people to live in modern and comfortable conditions.

The project financing in 2007 was US$3.5 million.

Evraz’s social policy prohibits the Group from supporting organisations and programmes designed to influence legislation or elect candidates to state or local public offices. In addition, Evraz Group doesn’t invest in political, military, religious, or governmental organisations and projects.

In 2008, Evraz Group plans to launch similar social programmes in the Czech Republic and the USA.

“The Beloved Children”

As a part of all-Russian campaign “Charity instead of seasonal greetings”, this project aims to provide information and to organise assistance for children with infantile cerebral paralysis and their parents in Novokuznetsk, Nizhny Tagil and Kachkanar.

The main priority of our investment is to assist the children’s integration into society, creating possibilities for their physical, psychological, intellectual, emotional and creative development and growth. The project will give an opportunity for 397 children to have individual convalescent facilities.

The project will continue through 2008, with a total two-year budget of US$195,500.

Environmental Protection

Evraz Group's assets are located in different regions all over the world. Understanding that its performance has a great impact on ecosystems, Evraz Group is on the way to develop sound environmental management system.

The Code of Ethics declares the principle of reducing the impact of Evraz's operations on the environment and striving to develop our business without compromising the needs of future generations. It represents a significant step for us in assessing our climate change challenges and application of safe and pollution-free technologies.

As Evraz Group strives to support innovations and technical progress, many of the Group's subsidiaries are involved in in-house research activities cooperate with the local research institutes.

In May 2007, we established a centralised Department of Environmental and Health Protection in order to create a system of environmental control at all subsidiaries in order to discover, monitor and limit environmental and health risks. The main objectives of the initiative are the creation of a significant environmental impact register in order to manage and mitigate the main groups of ecological risks.

The key principles of Evraz Group's environmental policy are based on Russian and international experience and best practice and include:

- compliance with legislative requirements;
- harmful impacts prevention and decrease;
- development of safe production;
- efficient use of environmental assets;
- efficient ecological risks management;
- development of ecological education;
- active partnership and open dialogue with Company's stakeholders.

Our main targets in the sphere of environmental protection are based on the particularities of the mining and steel industry, as it is considered to be potentially dangerous and harmful for the environment. They include the following:

- decrease in wastes and emissions;
- application of ecological industrial engineering;
- atmospheric emissions and waste water purification, disposal and decontamination;
- waste processing.

Technology in Action

Every Evraz subsidiary has its own long-term environmental programmes aimed at water and air conservation, waste processing and other nature conservation measures. In 2007 the total amount of expenses on environmental projects equalled US$120 million.

Development and realisation of various innovative technological programmes allow us to improve the technology of a blast-furnace production process. It results in the decrease of silicon in the cast iron, which causes a decrease in coke consumption and an increase in blast furnace productivity. The new technology also permits us to decrease waste generation by 30%. Today the percentage of waste utilisation equals 20–95% per year depending on the subsidiary.

Zapsib specialists have developed an advanced technology for processing waste tires in the oxygen converter. This achievement earned the "National Environmental Award" in the nomination of "Town ecology (Clean town)".

Development of ore-bearing deposits involves considerable water consumption. Evraz Group's subsidiaries withdraw water from surface and subsoil springs. In 2007 the water consumption of Russian subsidiaries equaled 314,931 thousand cubic metres, a 2,521 cubic metres decrease compared to 2006.

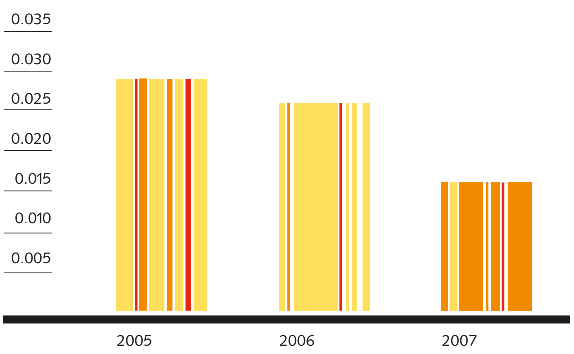
The most important part of improvement of technology processes is the consistent decrease in water consumption, which has the goal of creating a closed water-supply cycle as at Palini e Bertoli and Evraz Vitkovice Steel.

In order to decrease waste emissions, Evraz's subsidiaries use filters at the tailings dam. Our environmental policy also stipulates measures to improve the water reuse system, putting a splash block into operation, and implementation of innovative technologies. The significant decrease in air emissions was observed in the Steel segment and amounted to 7.6% in spite of growing business geography.

As a responsible citizen, Evraz Group will continue its efforts to measure and minimise its environmental impact and contribute to sustainable development of the regions in which the Company operates. Evraz Group strives to develop modern ecological management systems. Among Evraz's subsidiaries NTMK, Zapsib, Evraz Vitkovice Steel and Highveld Steel obtained ISO14001 certification.

Air Emissions per Tonne, Steel Segment
(kg)

Air Emissions per Tonne, Mining Segment
(kg)



Information for Shareholders

Dialogue with Shareholders and Investors

The Board is responsible for ensuring a successful dialogue with shareholders. The Chairman regularly discusses the governance and strategy of Evraz Group S.A. with major shareholders and ensures that other directors, in particular non-executive directors, have an understanding of the views of major shareholders.

Presentations given by Evraz Group to the investor community are available at www.evraz.com.

Dividends

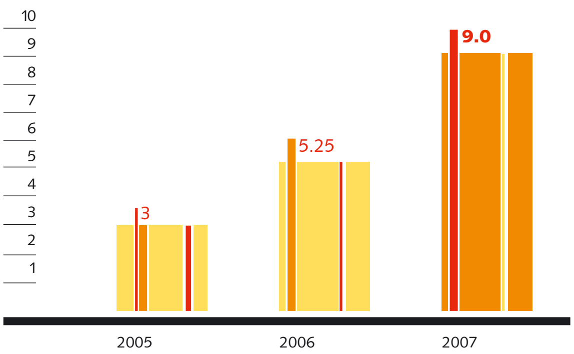
Evraz Group S.A. has a dividend policy in place that was approved by the Board in July 2007.

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

Evraz Group S.A. strives to pay dividends of at least 25% of its consolidated annual net income, as calculated under IFRS, throughout the business cycle.

The Board has recommended that the annual general meeting approve a year-end dividend of US$4.20 per common share or of US$1.40 per GDR for the year ended 31 December 2007, payable to shareholders on the share register record date of 14 May 2008. When added to the interim dividend this will make a total dividend for the year of US$9.00 per common share, or US$3.00 per GDR.

Dividend per Share
(US$)



Annual General Meeting

The 2008 annual meeting will be held in Luxembourg, at a place to be specified in the convening notices, on 15 May 2007 at 12:00.

Resolutions to approve the reappointment of Ernst & Young LLC as external auditor will be submitted to the Annual General Meeting. Ernst & Young LLC has expressed its willingness to continue an office and the Audit Committee and the Board have recommended that they be reappointed.

Financial Calendar

Evraz Group S.A. financial calendar for the second half of 2008 looks as follows:

15 JULY
Publication of Q2 2008 Operational Results

29 AUGUST
Publication of 2008 Interim Results

15 OCTOBER
Publication of Q3 2008 Operational Results

14 NOVEMBER
Publication of the 2nd Interim Management Statement

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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 2007, 2006 and 2005 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 2007, 2006 and 2005 and for the years then ended, prepared in accordance with IFRS. IFRS differs in certain significant respects from US GAAP. 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 certain acquisitions. These acquisitions include the following: Mine 12 in March 2005; Palini in August 2005; Vitkovice Steel in November 2005; Yuzhkuzbassugol in which Evraz acquired a 50% stake in December 2005 and the remaining 50% stake in June 2007; Highveld in which Evraz acquired a 24.9% stake in July 2006, increasing it to 80.9% in September 2007; Stratcor in which Evraz acquired a 72.84% stake in August 2006 and Oregon Steel in January 2007. 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 principally Evrazruda (as defined below), which was acquired in March 2005, represent reorganisations under common control and are therefore accounted for using the uniting of interests method (pooling of interests). As a result, these acquisitions (including the acquisition of Evrazruda) are consolidated with effect from the beginning of the first period presented as if they had occurred at such date. Accordingly, as a result of these acquisitions, the presentation of Evraz's historical consolidated financial condition and results of operations for all periods following such acquisitions differs from this information as previously published, in order to reflect the retrospective consolidation of these entities. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions".

Consolidated Income Statement Data

millions of US dollars, except share and per share data and as noted — Year ended December 31,	2007	2006	2005
Revenues	12,808	8,292	6,508
Cost of revenues	(7,875)	(5,163)	(4,172)
Gross profit	**4,933**	**3,129**	**2,336**
Selling and distribution expenses	(539)	(243)	(181)
General and administration expenses	(681)	(494)	(467)
Other operating expenses, net	(190)	(94)	(106)
Profit from operations	**3,523**	**2,298**	**1,582**
Non operating income and expense, net.	(322)	(211)	(54)
Profit before tax	**3,201**	**2,087**	**1,528**
Income tax expense	(984)	(637)	(475)
Net profit	**2,217**	**1,450**	**1,053**
Net profit attributable to equity holders of the parent entity	**2,144**	**1,377**	**918**
Net profit attributable to minority interests	73	73	135
Basic earnings per share	18.16	11.76	8.14
Diluted earnings per share	18.02	11.68	8.13
Weighted average number of ordinary shares outstanding	118,076,909	117,073,156	112,731,997
Steel segment income statement data			
Revenues(1)	12,433	8,161	6,221
Cost of revenues(1)	(8,248)	(5,493)	(4,316)
Gross profit	**4,185**	**2,668**	**1,905**
Selling and distribution expenses	(554)	(288)	(202)
General and administration expenses	(432)	(316)	(319)
Other operating (expenses) income, net	**(130)**	**(102)**	**(76)**
Profit from operations	**3,069**	**1,962**	**1,308**
Mining segment income statement data			
Revenues(1)	1,901	1,147	989
Cost of revenues(1)	(1,241)	(708)	(640)
Gross profit	**660**	**439**	**349**
Selling and distribution expenses	(26)	(1)	(7)
General and administration expenses	(130)	(73)	(70)
Other operating expenses, net	(46)	(14)	(13)
Profit from operations	**458**	**351**	**259**
Other operations income statement data			
Revenues(1)	838	604	645
Cost of revenues(1)	(592)	(376)	(462)
Gross profit	**246**	**228**	**183**
Selling and distribution expenses	(63)	(84)	(43)
General and administration expenses	(152)	(106)	(98)
Other operating expenses, net	(1)	(12)	(8)
Profit from operations	**30**	**26**	**34**

SELECTED CONSOLIDATED FINANCIAL INFORMATION

millions of US dollars, except share and per share data and as noted — Year ended December 31,	2007	2006	2005
Consolidated Balance Sheet Data (at period end)			
Total assets	16,380	8,510	6,754
Equity attributable to equity holders of the parent entity	5,986	4,066	2,708
Minority interests	371	169	179
Long term debt, net of current portion	4,653	1,855	1,515
Consolidated Cash Flows Data			
Net cash flows from operating activities	2,957	2,084	1,496
Net cash flows used in investing activities	(5,636)	(1,569)	(1,753)
Net cash flows from (used in) financing activities	2,135	(341)	607
Other Measures			
Consolidated Adjusted EBITDA[(2)]	4,254	2,642	1,859
Steel segment Adjusted EBITDA[(2)]	3,585	2,223	1,509
Mining segment Adjusted EBITDA[(2)]	633	415	314
Other operations Adjusted EBITDA[(2)]	70	45	48
Net Debt[(3)]	6,280	1,730	1,693
Selected Ratios			
Total Ratio Debt to Consolidated Adjusted EBITDA[(2)(4)]	1.6x	1.0x	1.3x
Net Ratio Debt to Consolidated Adjusted EBITDA[(2)(4)]	1.5x	0.7x	0.9x

Notes:

[(1)] Segment revenues and cost of revenues include inter-segment sales and purchases.

[(2)] Adjusted EBITDA represents profit from operations plus depreciation, depletion and amortisation, impairment of assets and loss (gain) on disposal 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, depletion 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, depletion 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 dollars — Year ended December 31,	2007	2006	2005
Consolidated Adjusted EBITDA reconciliation			
Profit from operations	3,523	2,298	1,582
Add:			
Depreciation, depletion and amortisation	698	303	245
Impairment of assets	7	20	8
Loss (gain) on disposal of property, plant & equipment	26	21	24
Consolidated Adjusted EBITDA	**4,254**	**2,642**	**1,859**
Steel segment Adjusted EBITDA reconciliation			
Profit from operations	3,069	1,962	1,308
Add:			
Depreciation and amortisation	496	227	183
Impairment of assets	4	19	—
Loss (gain) on disposal of property, plant & equipment	16	15	18
Steel segment Adjusted EBITDA	**3,585**	**2,223**	**1,509**
Mining segment Adjusted EBITDA reconciliation			
Profit from operations	458	351	259
Add:			
Depreciation, depletion and amortisation	165	59	50
Impairment of assets	2	1	1
Loss (gain) on disposal of property, plant & equipment	8	4	4
Mining segment Adjusted EBITDA	**633**	**415**	**314**
Other operations Adjusted EBITDA reconciliation			
Profit from operations	30	26	34
Add:			
Depreciation and amortisation	37	17	12
Impairment of assets	1	—	—
Loss (gain) on disposal of property, plant & equipment	2	2	2
Other operations Adjusted EBITDA	**70**	**45**	**48**

(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 and short term bank deposits (excluding restricted deposits). 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's 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 a useful 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's financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether Evraz's financial structure is adequate to achieve its business and financial targets. Evraz's management monitors the Net debt and leverage or similar measures as reported by other companies in Russia or abroad in order to assess Evraz's liquidity and financial structure relative to such companies. Evraz's management also monitors the trends in its Net debt and leverage in order to optimise the use of internally-generated funds versus funds from third parties.

Net Debt has been calculated as follows:

millions of US dollars — Year ended December 31,	2007	2006	2005
Net Debt Calculation			
Add:			
Long-term loans, net of current portion	4,653	1,855	1,515
Short-term loans and current portion of long-term loans	1,958	741	835
Short-term loans from related parties	21		
Less:			
Short term bank deposits	(25)	(24)	(16)
Cash and cash equivalents	(327)	(842)	(641)
Net Debt	**6,280**	**1,730**	**1,693**

[(4)] *Total Ratio Debt and Net Ratio Debt have been calculated as follows :*

millions of US dollars — Year ended December 31,	2007	2006	2005
Total Ratio Debt and Net Ratio Debt calculation			
Add:			
Long-term loans net of current portion	4,653	1,855	1,515
Finance lease liabilities	54	42	30
Other long-term liabilities	56	47	2
Short-term loans and current portion of long-term loans	1,958	741	835
Restructured taxes payable	–	–	7
Short-term loans from related parties	21	–	–
Current portion of finance lease liabilities	15	11	7
Current portion of other long-term liabilities	27	1	–
Total Ratio Debt	**6,784**	**2,697**	**2,396**
Less:			
Short term bank deposits	(25)	(24)	(16)
Cash and cash equivalents	(327)	(842)	(641)
Net Ratio Debt	**6,432**	**1,831**	**1,739**

Total Ratio Debt and Net Ratio Debt are measures of Evraz's 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 a useful 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's financial structure is adequate to achieve its business and financial targets. Evraz's management monitors the trends in its Net Ratio debt and leverage in order to optimise the use of internally-generated funds versus funds from third parties.

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 as of 31 December 2007, 2006 and 2005 and for the years then ended, the notes thereto and the other information included elsewhere in this 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 a large vertically integrated steel, mining and vanadium businesses with operations in the Russian Federation, Europe, the United States, Canada and South Africa and interests in China. Evraz produced approximately 16.4 million tonnes and 16.1 million tonnes of crude steel in 2007 and 2006, respectively. Management estimates that Evraz ranks as one of the top three producers of steel and steel products by volume in Russia, is the largest Russian producer of long products such as beams, rebars and rails, by volume, and is among the 16 largest steel producers in the world by volume. Evraz also produces significant quantities of iron ore and coal (after its acquisition of Yuzhkuzbassugol in June 2007). Most of Evraz's iron ore and coking coal products are used in its steel making operations. Evraz also sold 22,100 tonnes of vanadium equivalent in 2007.

Evraz listed GDRs, representing approximately 8.3% of its issued share capital, on the Official List of the London Stock Exchange 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 Limited ("CGL"), a former major shareholder in the Company, placed further GDRs, equivalent to approximately 6% of the Company's issued share capital, on the London Stock Exchange. The total number of GDRs listed on the LSE represented approximately 27.1% of Evraz's issued share capital as of 31 December 2007.

Evraz's principal assets at 31 January 2008 comprised seven integrated steel plants: NTMK, Zapsib, NKMK, Evraz Vitkovice Steel (acquired in November 2005), Evraz Oregon Steel Mills (acquired in January 2007), Highveld Steel and Vanadium Corporation (acquisition completed in September 2007), which is also a leading vanadium producer and Claymont Steel (acquired in January 2008); a steel rolling mill, Palini e Bertoli (acquired in August 2005); three iron ore mining and processing facilities: Evrazruda, KGOK and VGOK; two coal mining assets: Mine 12 and Yuzhkuzbassugol (acquired in June 2007); one of the world's leading producers of vanadium alloys and chemicals for the steel, chemical, and titanium industries, Strategic Minerals Corporation (acquired in August 2006); Nikom (acquired in December 2007), a ferrovanadium producer; and various trading and logistical assets including Nakhodka Sea Port and Evraztrans. Evraz also owns a 40% equity interest in coking coal producer Raspadskaya. In 2007, Evraz's consolidated revenues amounted to US$12,808 million and profit from operations totalled US$3,523 million.

Since 2005, Evraz has made a number of significant acquisitions, as a result of which its asset base has increased substantially, as have the geographic scope of its assets and operations and the international diversity and magnitude of its revenues, among other changes in its business. Accordingly, Evraz believes that its results of operations and financial condition in 2005 are of relatively low comparative utility, compared to an analysis of its results of operations and financial condition for more recent periods. Thus, only a summary discussion of certain line items in a comparison of 2006 to 2005 is provided herein.

Reorganisation and Formation of the Company

The Company was incorporated, under the laws of the Grand Duchy of Luxembourg, on 31 December 2004 as the holding company for Evraz's assets. Prior to 3 August 2006, the Company's parent was CGL, an entity under control of Mr. Alexander Abramov. On 3 August 2006, CGL transferred all its ownership interest in the Company to Lanebrook Limited (Cyprus) which became the ultimate controlling party from that date.

The Company 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 the Company in April 2005. As Evraz has been formed through a reorganisation of entities under common control, its 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 Evraz's interest in Mastercroft had occurred from the beginning of the earliest period presented.

The Company's interests in the majority of its subsidiaries are held indirectly through its ownership of Mastercroft, exceptions being Palini e Bertoli, Evraz Vitkovice Steel, Evraz Oregon Steel Mills, Claymont Steel, Highveld and Stratcor which are owned directly by the Company. Claymont Steel is a wholly-owned subsidiary of Evraz Oregon Steel Mills and Nikom is a wholly-owned subsidiary of Evraz Vitkovice Steel.

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; and coke and coking products; and
- the mining segment, comprising the production, enrichment and sale of iron ore and coal.

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 inter-segment transactions. However, Evraz's management has designated the mining segment as a reportable segment based on Evraz's plans for the further development of its mining business.

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

Inter-segment sales

Evraz is a vertically integrated steel and mining group. In 2007, Evraz's mining segment supplied approximately 77% and 94% of the total iron ore and coal requirements, respectively, of Evraz's Russian steel making operations. The coal supplies include purchases from Yuzhkuzbassugol (prior to its acquisition by Evraz in June 2007) and Raspadskaya. (See "—Summary of Acquisitions" below). The steel segment supplies grinding balls, mining uprights and coke to the mining segment for use in operations. Evraz considers that inter-segmental product sales are generally based on prices equivalent to those that could be commanded from unrelated third parties. These inter-company transactions are eliminated for the purposes of Evraz's consolidated financial statements but not in the respective segment presentation of these 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 light of Evraz'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 Evraz 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 investment in Raspadskaya is currently accounted for under the equity method.

Summary of Acquisitions (Continued)

Acquisitions/start-ups prior to 2006

- Nizhny Tagil Iron and Steel Plant ("NTMK"). NTMK is an integrated steel plant that primarily produces railway and construction long products, pipe blanks and semi-finished products. During 1997–2005, Evraz acquired a 92.38% interest in NTMK for a total consideration of US$379 million. Evraz acquired a further 2.62% interest for a consideration of US$79 million in 2006. Evraz's effective interest in NTMK as of 31 December 2007 amounted to 100.00%.

- West Siberian Iron and Steel Plant ("Zapsib"). Zapsib is an integrated steel plant that primarily produces construction long products and semi-finished products. During 2001–2005, Evraz acquired a 96.67% interest in Zapsib for a total consideration of US$139 million. Evraz's effective interest in Zapsib as of 31 December 2007 amounted to 100.00%.

- Novokuznetsk Iron and Steel Plant ("NKMK"). 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 KMK for a consideration of US$45 million subsequent to the dissolution of the latter in bankruptcy proceedings in June 2003. Evraz's effective interest in NKMK as of 31 December 2007 amounted to 100.00%.

- Vysokogorsky Mining and Processing Integrated Works ("VGOK"). 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 1998-2005, Evraz acquired an 87.39% interest in VGOK for a consideration of $2 million. Evraz's effective interest in VGOK as of 31 December 2007 amounted to 100.00%.

- Nakhodka Commercial Sea Port. The 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 2005, Evraz had acquired an ownership interest of 93.61% in Nakhodka Sea Port for a total consideration of US$17 million. In 2006, Evraz acquired additional minority interests in Nakhodka Sea Port of 0.6%. Evraz's effective interest in Nakhodka Sea Port as of 31 December 2007 amounted to 100.00%.

- Ferrotrade Limited ("Ferrotrade") and East Metals S.A. ("East Metals"). Ferrotrade Limited and East Metals are export traders that sell Evraz's steel products overseas. The principal markets of the traders are South-East Asia, North America and the Middle East. Evraz's effective interest in both Ferrotrade and EastMetals S.A. as of 31 December 2007 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 owned the remaining interest. Evraz acquired its interest for a total consideration of US$140 million. Corber acquired a further 4.90% interest in Raspadskaya during 2004–2005 for a total consideration of US$6.8 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 US$1 each. As part of the transaction, Corber paid to Adroliv preferred dividends of US$318 million. The total cost of the business combination, including cash consideration and fair value of equity instruments exchanged, amounted to US$770 million. On 31 May 2006, Evraz acquired 3,600 newly issued ordinary shares of Corber for cash consideration of US$225 million and retained its 50% ownership interest in Corber. Evraz's effective interest in Raspadskaya as of 31 December 2007 amounted to 40.00%.

- Kachkanarsky Ore Mining and Processing Enterprise "Vanady" ("KGOK"). 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 date of the transaction), the nominal value being RUB1,283.0 million (approximately US$44.3 million at the date of the transaction). Evraz acquired further interests in KGOK amounting to 14.12% of the ordinary shares during 2004–2005 for a total consideration of US$32 million. Evraz's effective interest in KGOK as of 31 December 2007 amounted to 100.00%.

- 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 thousand. 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. Evraz's effective interest in Evrazruda as of 31 December 2007 amounted to 100.00%.

- Palini e Bertoli ("Palini"). 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 time, Evraz and Clama's minority shareholders entered into a put and call option agreement under which Clama's minority shareholders had a put option and Evraz had 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 a put option.

- Evraz Vitkovice Steel ("Vitkovice Steel"). Vitkovice Steel is the largest producer of steel plates in the Czech Republic. In November 2005, Evraz acquired 98.96% of the shares in the former Vitkovice Steel for a cash consideration of CZK7,428 million (approximately US$298 million at the exchange rate on the date of the transaction). Evraz's effective interest in Vitkovice Steel as of 31 December 2007 amounted to 100.00%.

- Yuzhkuzbassugol. Yuzhkuzbassugol, 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 Yuzhkuzbassugol for cash consideration of US$675 million payable to Crondale Overseas Limited ("Crondale"), an entity under common control with Evraz. (See "– Acquisitions in 2007").

- Mine 12. Mine 12, a coal producer located in the Kemerovo region near Zapsib and NKMK, was acquired by Evraz in March 2005.

Acquisitions in 2006

- Strategic Minerals Corporation ("Stratcor"). Stratcor is one of the world's leading producers of vanadium alloys and chemicals for the steel, chemical and titanium 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 the ordinary shares of Stratcor, including 69.00% of the voting shares, for a purchase consideration of US$125 million, including transaction costs of US$6 million and fair value of contingent consideration amounting to US$21 million.

- Highveld Steel and Vanadium Corporation (" Highveld"). Highveld is one of the largest steel producers in South Africa and a leading producer of vanadium products. On 13 July 2006, Evraz acquired a 24.9% ownership interest in Highveld from Anglo American plc for a cash consideration of US$216 million, including US$10 million of transaction costs. In addition, Evraz entered into share option agreements with the major shareholders of Highveld to increase this stake to 79% within the next 24 months (subject to receipt of all necessary regulatory approvals), should the Board of Directors choose to do so. See "—Acquisitions in 2007".

Summary of Acquisitions / Acquisitions in 2006 (Continued)

- 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 a 100% interest in the entity for US$34 million.

Acquisitions in 2007

- Evraz Oregon Steel Mills ("Oregon Steel"). Headquartered in Portland, Oregon, United States, Oregon Steel 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 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 rods and bars) annually. From 1988 to January 2007, Oregon Steel Mills, Inc. was publicly-held, and its shares were traded on the New York Stock Exchange (the "NYSE"). In January 2007, following a successful tender offer by the Company, it became a wholly-owned subsidiary of the Company and changed its name to Evraz Oregon Steel Mills. Subsequently, Oregon Steel's securities were delisted from the NYSE and deregistered. Total cash consideration for the acquisition of 100% ownership interest in Oregon Steel amounted to US$2,276 million, including $10 million of transaction costs. Evraz's effective interest in Oregon Steel as of 31 December 2007 amounted to 100.00%.

- West Siberian Heat and Power Plant ("ZapsibTETs"). ZapsibTETs was built as a substation of Zapsib, which at present consumes 42% of the heat and over 25% of the electricity produced by ZapsibTETs. The technological processes of Zapsib and ZapsibTETs are closely interconnected. Zapsib supplies ZapsibTETs with coking and blast furnace gas, 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 3 May 2007, Evraz acquired a 93.33% ownership interest in ZapsibTETs for cash consideration of 5,945 million Roubles (US$231 million at the exchange rate as of the date of the transaction) in addition to US$1 million in transaction costs. In accordance with Russian legislation, on 12 November 2007, Evraz commenced the buyout of minority shares and completed the transaction in January 2008. Evraz's effective interest in ZapsibTETs as of 31 December 2007 amounted to 100.00%.

- Highveld. 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 of Highveld's Vanchem Operations (see "Overview of Evraz—General") along with an equity interest in the Mapochs Mine, which guarantees supply of ore to the Vanchem Operations. The divestment package also includes a ferrovanadium smelter located on the site of the 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. On 26 April 2007, Evraz obtained the regulatory approvals of the South African competition authorities and the share options became exercisable. As a result, the financial position and results of operations of Highveld were included in Evraz's consolidated financial statements beginning 26 April 2007 as the Company effectively exercised control over Highveld's operations since that date. On 4 May 2007, the Company exercised its option and acquired a 29.2% ownership interest in Highveld for cash consideration of US$238 million from Anglo American plc. In addition, the Company paid transaction costs amounting to US$2 million.

  In accordance with applicable South African legislation, an acquiror, which purchases 35% of the acquiree's share capital, is obliged to offer to minority shareholders to sell their holdings. On 4 June 2007, the Company made an offer to acquire the entire share capital of Highveld, other than those shares already held by the Company, at a price of $11.40 per share. On 16 July 2007, the Company increased the offer price from the South African rands equivalent of $11.40 per share to 93 South African rands (US$13.03 at the exchange rate as of 4 June 2007) which represented an approximately 14% increase to the previous offer price. As a result of this offer, the Company acquired 1,880,750 shares of Highveld (1.91% of the share capital) for 175 million South African rands (US$25 million at the exchange rates as of the dates of the transactions).

On 28 September 2007, the Credit Suisse option for the acquisition of a 24.9% ownership interest in Highveld was exercised by the Company for US$219 million. As of 31 December 2007, the Company's effective interest in Highveld amounted to 80.92%.

- Yuzhkuzbassugol. On 8 June 2007, Evraz acquired an additional 50% ownership interest in Yuzhkuzbassugol for cash consideration of US$871 million, including transaction costs of US$9 million, thereby increasing its ownership interest in Yuzhkuzbassugol to 100%.

- Nikom, a.s. On 20 December 2007, Evraz acquired 100% in Nikom, a.s., a ferrovanadium producer located in the Czech Republic, for cash consideration of US$43 million.

Buyout of Minority Interests in Subsidiaries in 2007

- In August 2007, in accordance with Russian legislation, Evraz announced a mandatory buyout of the minority interests in its five Russian subsidiaries (NTMK, Zapsib, KGOK, VGOK and Nakhodka Sea Port). The mandatory offers to buy out the minority shareholders commenced on 14 August 2007 and were valid for 45 days. As a result of the offers, Evraz owns 100% of NTMK, Zapsib, KGOK, VGOK and Nakhodka Sea Port.

Acquisitions in 2008

- Claymont Steel. Claymont Steel is a plate producer located in the United States. On 16 January 2008, Evraz acquired approximately 93.4% of the outstanding ordinary shares of Claymont Steel through a tender offer. Following the acquisition of shares in Claymont Steel, the company was merged with Evraz's wholly owned subsidiary, Titan Acquisition Sub, Inc., and untendered shares were converted into the right to receive $23.50 in cash, which was the same price per share as the tender offer price. Total cash consideration for the acquisition of a 100% ownership interest in Claymont Steel amounted to approximately US$422 million.

Current Acquisitions

- For a description of Evraz's ongoing acquisitions, see "Description of Business—Overview".

Factors Affecting Evraz's Results of Operations

In the period under review from 1 January 2005 through 31 December 2007, the primary factors affecting Evraz's results of operations were:

- Improved prices for steel products both in Russia and on export markets.

- The impact of acquisitions and start-ups (see "—Summary of Acquisitions"). In particular, in the steel segment, the acquisitions of Oregon Steel and Highveld in 2007 made a substantial contribution. In the mining segment, the acquisition of a controlling interest in Yuzhkuzbassugol in June 2007 had the greatest impact.

- Increases in the volume of products sold (see "Description of Business—Steel Business—Products" and "Description of Business—Steel Business—Marketing and Distribution"), resulting mainly from the acquisitions segment. A shift toward higher margin products within the steel segment also positively impacted Evraz's results of operations.

- Improvements in margins, as sales prices increased faster than costs, which grew mainly as a result of acquisitions and inflation. While raw materials prices increased significantly during the period under review, the growth in Evraz's own iron ore production shielded it to a considerable extent. In addition, the expansion of Evraz's mining operations enables it to benefit from the favourable conditions in raw materials markets by capturing additional margin through increased sales to third parties.

Results of Operations for the Years Ended 31 December 2007 and 2006

The following table sets out the Company's consolidated income statement data for the years ended 31 December 2007, 2006 and 2005 in absolute terms and as a percentage of revenues as well as year-on-year comparisons for 2007 and 2006 and 2006 and 2005:

millions of US dollars, except percentages	2007 Amount	2007 Percentage of revenues	2006 Amount	2006 Percentage of revenues	2007 v 2006 Change	2007 v 2006 % change	2005 Amount	2005 Percentage of revenues	2006 v 2005 Change	2006 v 2005 % change
	Year ended 31 December									
Income statement data										
Revenues[1]	12,808	100.0%	8,292	100.0%	4,516	54.5%	6,508	100.0%	1,784	27.4%
Cost of revenues	(7,875)	(61.5)%	(5,163)	(62.3)%	(2,712)	52.5%	(4,172)	(64.1)%	(991)	23.8%
Gross profit	**4,933**	**38.5%**	**3,129**	**37.7%**	**1,804**	**57.7%**	**2,336**	**35.9%**	**793**	**33.9%**
Selling and distribution costs	(539)	(4.2)%	(243)	(2.9)%	(296)	121.8%	(181)	(2.8)%	(62)	34.3%
General and administrative expenses	(681)	(5.3)%	(494)	(6.0)%	(187)	37.9%	(467)	(7.2)%	(27)	5.8%
Other operating income and expenses, net	(190)	(1.5)%	(94)	(1.1)%	(96)	102.1%	(106)	(1.6)%	12	(11.3)%
Profit from operations	**3,523**	**27.5%**	**2,298**	**27.7%**	**1,225**	**53.3%**	**1,582**	**24.3%**	**716**	**45.3%**
Non-operating income and expenses, net	(322)	(2.5)%	(211)	(2.5)%	(111)	(52.6)%	(54)	(0.8)%	(157)	290.7%
Profit before tax	**3,201**	**25.0%**	**2,087**	**25.2%**	**1,114**	**53.4%**	**1,528**	**23.5%**	**559**	**36.6%**
Income tax expense	(984)	(7.7)%	(637)	(7.7)%	(347)	54.5%	(475)	(7.3)%	(162)	34.1%
Net profit	**2,217**	**17.3%**	**1,450**	**17.5%**	**767**	**52.9%**	**1,053**	**16.2%**	**397**	**37.7%**
Net profit attributable to equity holders of the parent entity	2,144	16.7%	1,377	16.6%	767	55.7%	918	14.1%	459	50.0%
Net profit attributable to minority interests	73	0.6%	73	0.9%	0	0.0%	135	2.1%	(62)	(45.9)%

[1] *Includes service revenues of US$229 million, US$126 million and US$121 million for the years ended 31 December 2007, 2006 and 2005, respectively. Sales of services consist primarily of heat and electricity supply and port, transportation, steel coating and accounting services.*

Revenues

Evraz's consolidated revenues in 2007 amounted to US$12,808 million, a 54.5% increase compared to revenues of US$8,292 million in 2006. The steel segment sales accounted for the majority of the increase in revenues largely due to the growth in average prices of steel products and the contribution of the new subsidiaries Oregon Steel, Highveld and Stratcor. For a more detailed discussion, see "—Steel segment". Evraz's sales volumes of steel products increased to 16.4 million tonnes in 2007 from 15.9 million tonnes in 2006.

There was a 12% reduction (or approximately 1.8 million tonnes) in total steel sales volumes of the Russian operations. Sales volumes in Russia increased by 9% (or approximately by 0.6 million tonnes), while export sales volumes of the Russian operations (mainly semi-finished products) decreased by 31% (or approximately by 2.4 million tonnes) due to a number of factors apart from the reallocation of the sales volumes to the Russian market. First, there was a significant (approximately 0.6 million tonnes) de-stocking of inventories in ports in 2006, while changes in inventories in 2007 were significantly lower (approximately 0.1 million tonnes). Other factors contributing to the decrease in export steel sales volumes of the Russian operations were a closure of inefficient open hearth furnaces and a related blast furnace at NKMK in April 2007 (which led to a decrease of approximately 0.7 million tonnes of crude steel in 2007 as compared with 2006) and a maintenance shutdown of a blast furnace at Zapsib in June–October 2007 (which led to a decrease of approximately 0.8 million tonnes of crude steel in 2007 as compared with 2006). These decreases in export sales volumes of the Russian operations were almost fully compensated by post-acquisition steel sales volumes of high value-added products at Oregon Steel and Highveld (approximately 1.7 million and 0.5 million tonnes, respectively).

The following table shows the average price trends of Evraz's principal products in 2007, 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 dollars per tonne	Year ended 31 December 2007 2nd half	2007 1st half	2006 2nd half	2006 1st half	2005 2nd half	2005 1st half
Average Russian prices for Evraz's Russian operations products[(1)]						
Construction products						
Rebars	609	607	480	380	357	404
H-Beams	1,031	972	725	707	656	679
Channels	762	654	505	452	427	428
Angles	687	585	448	408	395	421
Wire rods	569	546	422	376	376	446
Wire	657	624	511	419	410	479
Railway products						
Rails	624	591	489	485	460	457
Wheels	1,427	1,293	1,187	1,191	1,122	1,076
Flat-rolled products						
Plates	624	602	539	446	469	555
Semi-finished products						
Slabs	491	425	401	305	290	347
Pig Iron	344	308	260	211	200	296
Pipe blanks	577	522	430	370	378	445
Other steel products						
Grinding balls	689	567	465	445	428	464
Rounds	613	538	469	382	377	437
Vanadium in slag	15,083	15,337	14,049	16,724	25,185	34,972

Continued on the next page

Results of Operations for the years ended 31 December 2007 and 2006 / Revenues (Continued)

US dollars per tonne	2007 2nd half	2007 1st half	2006 2nd half	2006 1st half	2005 2nd half	2005 1st half
	Year ended 31 December					
Average export prices for Evraz's Russian operations products[2]						
Construction products						
H-beams	597	486	490	366	366	408
Rebars	587	486	490	366	366	408
Wire rods	508	446	435	369	369	425
Semi-finished products						
Billets	530	429	411	350	348	384
Slabs	541	457	472	334	342	490
Pig Iron	404	351	332	266	264	329
Flat-rolled products						
Plates	605	510	504	416	410	525
Average prices for Evraz's non-Russian operations products[3]						
Flat-rolled products						
Vitkovice Steel – plates	950	929	843	731	755	
Palini – plates	891	821	762	622	585	
Oregon Steel – commodity plates	840	866				
Oregon Steel – speciality plates	2,033	1,289				
Tubular products						
Oregon Steel – large diameter pipes	1,386	1,344				
Vanadium products						
Stratcor – Vanadium in alloys	38,387	36,751	38,502			

(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 relates to sales by Ferrotrade Limited and Eastmetals S.A.

(3) Prices for sales denominated in euro, korunas and rands 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 2007, 2006 and 2005:

millions of US dollars, except percentages	2007	2006	2007 v 2006		2005	2006 v 2005	
	Year ended 31 December						
Revenues by segment							
Steel segment							
To third parties	12,278	8,085	4,193	51.9%	6,133	1,952	31.8%
To mining segment	102	67	35	52.2%	77	(10)	(13.0)%
To other operations	53	9	44	488.9%	11	(2)	(18.2)%
Total	**12,433**	**8,161**	**4,272**	**52.3%**	**6,221**	**1,940**	**31.2%**
Mining segment							
To third parties	369	121	248	205.0%	147	(26)	(17.7)%
To steel segment	1,527	1,020	507	49.7%	836	184	22.0%
To other operations	5	6	(1)	(16.7)%	6	0	0.0%
Total	**1,901**	**1,147**	**754**	**65.7%**	**989**	**158**	**16.0%**
Other operations							
To third parties	161	86	75	88.4%	228	(142)	(62.3)%
To steel segment	504	394	110	27.9%	312	82	26.3%
To mining segment	173	124	49	39.5%	105	19	18.1%
Total	**838**	**604**	**234**	**38.7%**	**645**	**(41)**	**(6.4)%**
Eliminations	(2,364)	(1,620)	(744)	45.9%	(1,347)	(273)	20.3%
Consolidated revenues	**12,808**	**8,292**	**4,516**	**54.5%**	**6,508**	**1,784**	**27.4%**
% from steel segment	95.8%	97.5%			94.2%		
% from mining segment	2.9%	1.5%			2.3%		
% from other operations	1.3%	1.0%			3.5%		

Results of Operations for the years ended 31 December 2007 and 2006 / Revenues (Continued)

The following table presents the geographic breakdown of Evraz's consolidated revenues in 2007, 2006 and 2005 (based on the location of the customer) in monetary terms and as a percentage of total revenues:

millions of US dollars, except percentages	2007 Amount	2007 Percentage of total	2006 Amount	2006 Percentage of total	2007 v 2006 Change	2007 v 2006 Percentage Change	2005 Amount	2005 Percentage of total
	Year ended 31 December							
Russia	5,952	46.4%	4,217	50.9%	1,735	41.1%	3,905	60.0%
Americas	2,140	16.7%	340	4.1%	1,800	529.4%	87	1.4%
Europe	1,894	14.8%	1,410	17.0%	484	34.3%	318	4.9%
Asia	1,882	14.7%	1,945	23.5%	(63)	(3.2)%	2,027	31.1%
CIS	575	4.5%	344	4.1%	231	67.2%	139	2.1%
Africa	353	2.8%	20	0.2%	333	n/m	—	—
Rest of the World	12	0.1%	16	0.2%	(4)	(25.0)%	32	0.5%
Total	**12,808**	**100.0%**	**8,292**	**100.0%**	**4,516**	**54.5%**	**6,508**	**100.0%**

Revenues from sales outside Russia increased in monetary terms and as a proportion of total revenues in spite of a significant reduction in export sales volumes of semi-finished products from Russian operations to Asian markets. The main drivers of the growth of revenues outside Russia were sales of high value-added steel products by Oregon Steel in North America, increased prices for plates in Europe and sales of vanadium products worldwide by Stratcor and Highveld. Revenues from sales in Russia increased in monetary terms both due to higher steel volumes (an increase of 8%) diverted from export markets to capitalise on substantial growth in the Russian construction market, and due to higher average steel prices in 2007 compared to 2006.

Steel segment

Steel segment revenues increased by 52.3% to US$12,433 million in 2007 compared to US$8,161 million in 2006.

Steel segment revenues were affected by the improved sales mix of the Russian operations in favour of higher margin products sold on the domestic market, by the positive price dynamic for steel products noted in the price trends table above and by the acquisitions of Stratcor in August 2006, Oregon Steel in January 2007 and Highveld in May 2007. Post-acquisition revenues of Oregon Steel and Highveld, excluding intra-segment sales, amounted to US$1,911 million (15.4% of steel segment revenues) and US$661 million (5.3% of steel segment revenues), respectively. Revenues of Stratcor in 2007 amounted to US$188 million (1.5% of steel segment revenues) against US$66 million (0.8% of steel segment revenues) in 2006. Therefore, approximately US$1,512 million of the increase in steel segment revenues was due to organic growth and approximately US$2,760 million was due to acquisitions.

The following table shows the breakdown of Evraz's steel segment sales in 2007, 2006 and 2005, noting the contribution made by Oregon Steel, Highveld and Stratcor:

millions of US dollars, except percentages	2007 Amount	2007 Percentage of total	2006 Amount	2006 Percentage of total	2007 v 2006 Change	2007 v 2006 Percentage Change	2005 Amount	2005 Percentage of total
	Year ended 31 December							
Construction products[1]	3,670	29.5%	2,100	25.7%	1,570	74.8%	1,755	28.2%
of which Oregon Steel	*173*	*1.4%*	–	–	*173*	–	–	–
of which Highveld	*164*	*1.3%*	–	–	*164*	–	–	–
Railway products[2]	1,697	13.7%	961	11.8%	736	76.6%	884	14.2%
of which Oregon Steel	*377*	*3.0%*	–	–	*377*	–	–	–
of which Highveld	*15*	*0.1%*	–	–	*15*	–	–	–
Flat-rolled products[3]	1,968	15.8%	1,073	13.2%	895	83.4%	365	5.9%
of which Oregon Steel	*490*	*3.9%*	–	–	*490*	–	–	–
of which Highveld	*173*	*1.4%*	–	–	*173*	–	–	–
Tubular products[4]	702	5.6%	8	0.1%	694	n/m	–	–
of which Oregon Steel	*694*	*5.6%*	–	–	*694*	–	–	–
Semi-finished products[5]	2,480	20.0%	2,857	35.0%	(377)	(13.2)%	2,203	35.4%
Other steel products[6]	496	4.0%	460	5.6%	36	7.8%	284	4.6%
Vanadium products[7]	583	4.7%	222	2.7%	361	162.6%	243	3.9%
of which Stratcor	*188*	*1.5%*	*66*	*0.8%*	*122*	*184.8%*	*n/a*	*n/a*
of which Highveld	*227*	*1.8%*	–	–	*227*	–	–	–
Other products[8]	837	6.7%	480	5.9%	357	74.4%	487	7.8%
of which Oregon Steel	*170*	*1.4%*	–	–	*170*	–	–	–
of which Highveld	*63*	*0.5%*	–	–	*63*	–	–	–
TOTAL	**12,433**	**100.0%**	**8,161**	**100.0%**	**4,272**	**52.3%**	**6,221**	**100.0%**

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

(2) Includes rails and wheels.

(3) Includes plates and coils.

(4) Includes large diameter, ERW, seamless pipes and casing.

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

(6) Includes rounds, grinding balls, mine uprights and strips.

(7) Includes vanadium in alloys and chemicals and vanadium in slag.

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

An increase in the proportion of revenues attributable to sales of construction products reflects substantially higher sales volumes of the construction products on the Russian market, complemented by the additional sales volumes in North America and South Africa following the acquisitions of Oregon Steel in January 2007 and Highveld in May 2007.

The proportion of revenues attributable to sales of railway products increased as a result of the acquisition of Oregon Steel, which made a significant contribution to the volumes of railway products.

The proportion of revenues attributable to sales of tubular products also increased as a result of the acquisition of Oregon Steel, because substantially all of the tubular products of Evraz are produced at Oregon Steel facilities.

The proportion of revenues attributable to sales of flat-rolled products increased due to higher sales prices for plate in Europe in 2007 compared to 2006 and additional sales volumes provided by Oregon Steel and Highveld following their acquisitions.

A significant decline in the proportion of revenues attributable to sales of semi-finished products resulted from substantially lower sales volumes of semis sold by the Russian operations to the export markets (see above discussion on consolidated revenues) and allocation of production capacities in favour of higher margin construction and railway products, as well as the additional re-rolling of slab produced by the Russian operations at Oregon Steel.

Revenues from sales of other steel products decreased as a proportion of steel segment revenues in 2007 compared to 2006 mainly due to lower volumes of rounds sold in the Russian market in favour of construction products.

The proportion of revenues attributable to sales of vanadium products increased in 2007 compared to 2006 as a result of the acquisitions of Stratcor and Highveld, both of which are important producers in the global vanadium market. Sales of vanadium slag in 2007 by Evraz's Russian operations remained approximately at the same level as in 2006.

Revenues attributable to other non-steel sales increased as a proportion of steel segment sales. The increase in the proportion was provided by post-acquisition sales of ferroalloys at Highveld (this business was sold in 2007) and post-acquisition sales of scrap, freight and steel coating services at Oregon Steel. Russian operations also contributed to the increase in other revenues due to higher sales of coke and chemical products.

For 2007 and 2006, steel segment sales to the mining segment amounted to US$102 million and US$67 million, respectively.

Revenues from sales in Russia amounted to approximately 46% of steel segment revenues in 2007, compared to 50% in 2006. While steel segment revenues in Russia increased to US$5,672 million in 2007 from US$4,034 million in 2006, this increase was offset by the acquisition of Oregon Steel, Highveld and Stratcor, resulting in an overall decrease in the shares of revenues from sales in Russia.

Mining segment

Mining segment revenues increased by 65.7% to US$1,901 million in 2007 compared to US$1,147 million in 2006. This increase largely reflected the growth in the average prices of iron ore in 2007 and a sharp increase in volumes of coal sold by the mining segment after the acquisition due to the consolidation of Yuzhkuzbassugol since June 2007. Sales volumes of iron ore also increased by 2.7% in 2007 compared to 2006.

The following table shows the average price trends of the mining segment's iron ore products in 2007, 2006 and 2005 with semi-annual breakdowns:

US dollars per tonne, except percentages	2nd half 2007	1st half 2007	2nd half 2006	1st half 2006	2nd half 2007 vs 1st half 2006 (% change)	2nd half 2007 vs 1st half 2007 (% change)	2nd half 2005	1st half 2005
	Year ended 31 December						Year ended 31 December	
Average prices for Evraz's mining segment products[1]								
Concentrate	70	68	59	45	55.6%	2.9%	37	41
Sinter	86	83	75	54	59.3%	3.6%	48	64
Pellets	86	84	75	55	56.4%	2.4%	48	77

(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.

Prior to the acquisition of Yuzhkuzbassugol in June 2007, substantially all of Evraz's mining segment sales consisted of iron ore. Revenues attributable to the coal asset Mine 12 in 2007 amounted to US$40 million compared to US$27 million in 2006. Post-acquisition revenues of Yuzhkuzbassugol amounted to US$283 million. Evraz also holds a 40.0% interest in Raspadskaya coking coal mine (accounted for on an equity basis). Revenue attributable to Raspadskaya is therefore not consolidated in Evraz's financial statements, and the Company's share of its net profits is accounted for as "Share of profits (losses) of joint ventures and associates". See "—Non-operating income and expense".

For 2007 and 2006, mining segment sales to the steel segment amounted to US$1,527 million (80.3% of mining segment sales) and US$1,020 million (88.9% of mining segment sales), respectively.

Approximately 77% of Evraz's iron ore requirements were met by the mining segment in 2007, compared to 72% in 2006. About 58% of Evraz's coking coal requirements were met by supplies from Raspadskaya, Yuzhkuzbassugol and Mine 12 in 2007, compared to 64% in 2006. The decrease in proportion of coal supplies from the mining segment and affiliates primarily resulted from the interruptions in production of Yuzhkuzbassugol following the accidents at two mines in the first six months of 2007 before its acquisition by Evraz.

Approximately 51% and 78% of third party sales in the mining segment were to customers in Russia in 2007 and 2006, respectively. The increase in the share of third party sales outside Russia is mainly attributable to the sales of iron ore by KGOK and the post-acquisition sales of coking coal by Yuzhkuzbassugol.

Other operations

External sales in respect of the other operations segment, consisting primarily of sales of energy by MEF, EvrazEK and ZapsibTETs and the provision of port services by Nakhodka Sea Port, increased to US$161 million in 2007 from US$86 million in 2006. This increase in external sales is primarily attributable to the sales revenues of new companies EvrazEK and ZapsibTETs.

Cost of revenues and gross profit

Evraz's consolidated cost of revenues amounted to US$7,785 million and US$5,163 million in 2007 and 2006, respectively. Cost of revenues as a share of consolidated revenues decreased from 62.3% in 2006 to 61.5% in 2007. This decrease was

Results of Operations for the years ended 31 December 2007 and 2006 / Cost of revenues and gross profit (Continued)

primarily attributable to margin growth with respect to steel products due to both positive price and product mix improvements in 2007 compared to 2006, while Evraz's own iron ore and coal production served, to a considerable extent, to shield Evraz's consolidated gross profits from the impact of increased raw materials prices.

The effect of strengthening of the Russian rouble against the US dollar contributed slightly to the increase in costs of the Russian operations in 2007 as compared to 2006.

The table below sets forth cost of revenues and gross profit by segment for 2007, 2006 and 2005, including percentage of segment revenues:

	Year ended 31 December									
	2007		2006		2007 v 2006		2005		2006 v 2005	
millions of US dollars, except percentages	Amount	Percentage of segment revenues	Amount	Percentage of segment revenues	Change	% change	Amount	Percentage of segment revenues	Change	% change
Steel segment										
Cost of revenues	(8,248)	(66.3)%	(5,493)	(67.3)%	(2,755)	50.2%	(4,316)	(69.4)%	(1,177)	27.3%
Raw materials	*(5,107)*	*(41.1)%*	*(3,244)*	*(39.8)%*	*(1,863)*	*57.4%*	*(2,594)*	*(41.7)%*	*(650)*	*25.1%*
Transportation	*(429)*	*(3.5)%*	*(493)*	*(6.0)%*	*64*	*(13.0)%*	*(440)*	*(7.1)%*	*(53)*	*12.0%*
Staff costs	*(792)*	*(6.4)%*	*(484)*	*(5.9)%*	*(308)*	*63.6%*	*(398)*	*(6.4)%*	*(86)*	*21.6%*
Depreciation	*(386)*	*(3.1)%*	*(209)*	*(2.6)%*	*(177)*	*84.7%*	*(178)*	*(2.9)%*	*(31)*	*17.4%*
Energy	*(631)*	*(5.1)%*	*(457)*	*(5.6)%*	*(174)*	*38.1%*	*(342)*	*(5.5)%*	*(115)*	*33.6%*
Other[1]	*(903)*	*(7.3)%*	*(606)*	*(7.4)%*	*(297)*	*49.0%*	*(364)*	*(5.9)%*	*(242)*	*66.5%*
Gross profit	4,185	33.7%	2,668	32.7%	1,517	56.9%	1,905	30.6%	763	40.1%
Mining segment										
Cost of revenues	(1,241)	(65.3)%	(708)	(61.7)%	(533)	75.3%	(640)	(64.7)%	(68)	10.6%
Raw materials	*(189)*	*(9.9)%*	*(119)*	*(10.4)%*	*(70)*	*58.8%*	*(164)*	*(16.6)%*	*45*	*(27.4)%*
Transportation	*(122)*	*(6.4)%*	*(57)*	*(5.0)%*	*(65)*	*114.0%*	*(42)*	*(4.2)%*	*(15)*	*35.7%*
Staff costs	*(317)*	*(16.7)%*	*(169)*	*(14.7)%*	*(148)*	*87.6%*	*(146)*	*(14.8)%*	*(23)*	*15.8%*
Depreciation	*(157)*	*(8.3)%*	*(57)*	*(5.0)%*	*(100)*	*175.4%*	*(47)*	*(4.8)%*	*(10)*	*21.3%*
Energy[2]	*(226)*	*(11.9)%*	*(173)*	*(15.1)%*	*(53)*	*30.6%*	*(154)*	*(15.6)%*	*(19)*	*12.3%*
Other[3]	*(230)*	*(12.1)%*	*(133)*	*(11.6)%*	*(97)*	*72.9%*	*(87)*	*(8.8)%*	*(46)*	*52.9%*
Gross profit	660	34.7%	439	38.3%	221	50.3%	349	35.3%	90	25.8%
Other operations										
Cost of revenues	(592)	(70.6)%	(376)	(62.3)%	(216)	57.4%	(462)	(71.6)%	86	(18.6)%
Gross profit	246	29.4%	228	37.7%	18	7.9%	183	28.4%	45	24.6%
Eliminations-cost of revenues	*2,206*		*1,414*		*792*	*56.0%*	*1,246*		*168*	*13.5%*
Eliminations-gross profit	*(158)*		*(206)*		*48*	*(23.3)%*	*(101)*		*(105)*	*104.0%*
Consolidated cost of revenues	**(7,875)**		**(5,163)**		**(2,712)**	**52.5%**	**(4,172)**		**(991)**	**23.8%**
Consolidated gross profit	**4,933**		**3,129**		**1,804**	**57.7%**	**2,336**		**793**	**33.9%**

(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

The steel segment's cost of revenues increased by 50.2% to US$8,248 million in 2007 from US$5,493 million in 2006. Cost of revenues amounted to 66.3% and 67.3% of steel segment revenues for 2007 and 2006, respectively.

The growth in prices of raw materials and the change in steel product mix in favour of higher value added products both in the Russian market and due to the acquisitions of Oregon Steel, Highveld and Stratcor contributed to the increase in the steel segment cost of revenues in monetary terms in 2007 as compared to 2006.

The cost of revenues in respect of Oregon Steel (January-December 2007), including intra-group profits, amounted to US$1,486 million (18.0% of steel segment cost of revenues), in respect of Highveld (May–December 2007) amounted to US$452 million (5.5% of steel segment cost of revenues) and in respect of Stratcor amounted to US$125 million (1.5% of steel segment cost of revenues).

The primary factors affecting the growth of steel segment cost of revenues in 2007 as compared to 2006 were as follows:

- Raw material costs increased by 57.4% in part due to higher prices of iron ore, coking coal, scrap and ferroalloys purchased by the Russian operations and higher prices of pig iron, scrap and ferroalloys at Vitkovice Steel. Approximately half of the increase was attributable to the contribution of new non-Russian subsidiaries Oregon Steel, Highveld and Stratcor.

- Transportation costs decreased by 13.0%. 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, which declined due to the reduction in export sales volumes of steel products from Russia and related transportation costs. This decline was partly compensated by the contribution of about US$34 million of additional transportation costs at the new subsidiaries Oregon Steel and Highveld.

- Staff costs increased by 63.6%. A substantial majority of the increase was attributable to the new subsidiaries Oregon Steel, Highveld and Stratcor. Wages and salaries of production staff at Russian operations rose approximately by 15% in accordance with the trade union agreement and due to appreciation of the rouble against the US dollar.

- Depreciation costs increased by 84.7%. A substantial majority of the increase was attributable to the new subsidiaries Oregon Steel, Highveld and Stratcor. The increase was also due to completion of several investment projects at the Russian operations and Vitkovice Steel.

- Energy costs increased by 38.1%. A substantial majority of the increase was attributable to the new acquisitions of Oregon Steel, Highveld and Stratcor. The remainder of the increase was mainly attributable to the increase of energy costs at the Russian operations due to increases in electricity and natural gas tariffs and to appreciation of the rouble against the US dollar.

- Other costs increased by 49.0%. These costs consisted primarily of contractor services and materials for maintenance and repairs. The total increase was attributable to the acquisitions of Oregon Steel, Highveld and Stratcor.

- Steel segment gross profit increased by 56.9% to US$4,185 million for 2007 from US$2,668 million in 2006, while gross profit margin amounted to 33.7% and 32.7% of steel segment revenues in 2007 and 2006, respectively. Gross profit margin increased over the period primarily due to increased prices and a better sales mix of steel products.

Mining segment
The mining segment's cost of revenues increased by 75.3% to US$1,241 million in 2007 from US$708 million in 2006, representing 65.3% and 61.7% of the mining segment revenues in 2007 and 2006, respectively.

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

- Raw materials costs increased by 58.8%. Most of this increase was attributable to the cost of coal purchased from Raspadskaya for resale. The rest was attributable to the increased prices for raw iron ore, grinding balls, limestone and other materials purchased by the mining segment and increased volumes of sinter produced by VGOK from purchased iron ore.

- Transportation costs increased by 114.0%. A substantial majority of the increase was attributable to post-acquisition transportation costs at Yuzhkuzbassugol. The rest of the increase was attributable to the transportation of raw iron ore between branches of Evrazruda for further processing, the enlargement of open extraction operations at Mine 12 and the increased internal traffic at VGOK, all of which were subject to increases in railway tariffs, and to appreciation of the rouble against the US dollar.

- Staff costs increased by 87.6%. A majority of the increase was attributable to post-acquisition staff costs of Yuzhkuzbassugol. The rest of the increase was mainly attributable to wages and salaries of production staff, which rose in accordance with the trade union agreement, and to appreciation of the rouble against the US dollar.

- Depreciation costs increased by 175.4%. A substantial majority of the increase was attributable to post-acquisition depreciation of Yuzhkuzbassugol. The rest of the increase was attributable to purchases of new equipment at Evrazruda, KGOK and VGOK.

- Energy costs increased by 30.6% primarily due to the growth in electricity, natural gas and heat tariffs and due to an increase in production volumes of iron ore. Post-acquisition energy costs of Yuzhkuzbassugol contributed less than half of the increase.

- Other costs increased by 72.9%. These costs consisted primarily of contractor services and materials for maintenance and repairs and certain taxes. A substantial majority of the increase was attributable to post-acquisition costs of Yuzhkuzbassugol. The rest of the increase was attributable to appreciation of the rouble against the US dollar.

- Mining segment gross profit increased by 50.3% to US$660 million in 2007 from US$439 million in 2006, resulting in gross profit margin of 34.7% of mining segment revenues in 2007 as compared to 38.3% in 2006. Gross profit increased mainly due to higher prices of iron ore. Gross profit margin decreased due to consolidation of Yuzhkuzbassugol, which had gross profit margin of approximately 1% due to closure of certain mines and repair works after accidents in March and May 2007.

Other operations
The other operations segment's cost of revenues increased by 57.4% to US$592 million in 2007, representing 70.6% of other operations revenues, compared to US$376 million, representing 62.3% of other operations revenues, in 2006. In 2007, the new subsidiaries EvrazEK and ZapsibTETs contributed US$148 million (25.0% of the segment cost of revenues) and US$59 million (10.0% of the segment cost of revenues), respectively, to the other operations segment cost 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 the rental 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's cost of revenues are natural gas for resale to the steel segment and natural gas and steam coal for power generation. The major components of ZapsibTETs' cost of revenues are steam coal for power generation, depreciation and staff costs. 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 7.9% to US$246 million in 2007 from US$228 million in 2006. In 2007, the new subsidiary EvrazEK contributed US$14.5 million (5.9% of the segment's gross profit) and the new subsidiary ZapsibTETs reduced the other operations segment's gross profit by US$7.0 million.

Gross profit margin amounted to 29.4% and 37.7% of the other operations revenues in 2007 and 2006, respectively. The decrease in gross profit margin was mainly due to decreased operations of Sinano, which substantially reduced the volume of freight services provided to the steel segment. While the contribution of the new subsidiary EvrazEK compensated for the decrease in Sinano's gross profit in monetary terms, the gross profit margin of the new subsidiaries were substantially lower than the gross profit margin of Sinano. This resulted in a lower gross profit margin for the other operations segment as a whole.

Selling and distribution costs

Selling and distribution costs increased by 121.8% to US$539 million (4.2% of consolidated revenues) in 2007, compared to US$243 million (2.9% of consolidated revenues) in 2006, primarily due to the integration of Oregon Steel and Highveld. 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 2007, 2006 and 2005, including as a percentage of segment revenues:

millions of US dollars, except percentages	2007 Amount	2007 Percentage of segment revenues	2006 Amount	2006 Percentage of segment revenues	2007 v 2006 Change	2007 v 2006 % change	2005 Amount	2005 Percentage of segment revenues	2006 v 2005 Change	2006 v 2005 % change
	Year ended 31 December									
Selling and distribution costs by segment										
Steel segment	**(554)**	**(4.5)%**	**(288)**	**(3.5)%**	**(266)**	**92.4%**	**(202)**	**(3.2)%**	**(86)**	**42.6%**
Transportation costs	*(273)*	*(2.3)%*	*(130)*	*(1.6)%*	*(143)*	*110.0%*	*(98)*	*(1.6)%*	*(32)*	*32.7%*
Staff costs	*(54)*	*(0.4)%*	*(30)*	*(0.4)%*	*(24)*	*80.0%*	*(22)*	*(0.4)%*	*(8)*	*36.4%*
Bad debt expense	*(5)*	*0.0%*	*(4)*	*0.0%*	*(1)*	*25.0%*	*(5)*	*(0.1)%*	*1*	*(20.0)%*
Amortisation of intangibles	*(91)*	*(0.7)%*	*–*	*–*	*(91)*	*–*	*–*	*–*	*–*	*–*
Other[1]	*(131)*	*(1.1)%*	*(124)*	*(1.5)%*	*(7)*	*5.6%*	*(77)*	*(1.2)%*	*(47)*	*61.0%*
Mining segment	**(26)**	**(1.4)%**	**(1)**	**(0.1)%**	**(25)**	**–**	**(7)**	**(0.7)%**	**6**	**(85.7)%**
Other operations	**(63)**	**(7.5)%**	**(84)**	**(13.9)%**	**21**	**(25.0)%**	**(43)**	**(6.7)%**	**(41)**	**95.3%**
Eliminations	104		130		(25)		71		59	83.1%
Total	**(539)**		**(243)**		**(296)**	**121.8%**	**(181)**		**(62)**	**34.3%**

[1] *Includes auxiliary materials such as packaging, port services and customs duties.*

Results of Operations for the years ended 31 December 2007 and 2006 / Selling and distribution costs (Continued)

Steel segment
Selling and distribution costs amounted to 4.5% and 3.5% of the steel segment's revenues in 2007 and 2006, respectively. The primary factors affecting the steel segment selling and distribution costs between the periods were as follows:

- Transportation costs increased by 110.0%. A substantial majority of the increase is attributable to post-acquisition transportation costs at Oregon Steel and Highveld. The rest of the increase is attributable to railroad expenses at Russian mills due to the presence of new terms in sales contracts with respect to transportation in the CIS and to appreciation of the rouble against the US dollar.

- Staff costs increased by 80.0%. The increase is attributable to the acquisition of new subsidiaries Oregon Steel, Stratcor and Highveld.

- Bad debt expense in 2007 and 2006 related principally to obligations in respect of a municipality that purchases heat from NTMK.

- Amortisation of intangible assets in 2007 was attributable to customer relationships, tradenames and trade marks at the new subsidiaries Oregon Steel and Highveld (US$63 million and US$28 million, respectively).

- Other selling costs increased by 5.6%. The increase was fully attributable to the new subsidiary Stratcor (mainly sales commissions).

Mining segment
Selling and distribution costs amounted to 1.4% and 0.1% of mining segment revenues in 2007 and 2006, respectively. The increase in selling and distribution costs of the mining segment was primarily attributable to the transportation costs related to export sales of iron ore to CIS countries in 2007, while in 2006 such sales were immaterial. The increase was also due to a bad debt expense of US$4 million with respect to Yuzhkuzbassugol and Evrazruda and transportation costs of US$6 million at Yuzhkuzbassugol.

Other operations
Selling and distribution costs amounted to 7.5% and 13.9% of other operations' revenues in 2007 and 2006, respectively. The decrease in selling and distribution costs was largely attributable to the reduction of Sinano's business activities due to lower export sales volumes of the Russian operations in 2007 as compared to 2006. 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.

General and administrative expenses
General and administrative expenses increased by 37.9% to US$681 million in 2007 compared to US$494 million in 2006. As a percentage of consolidated revenues, general and administrative expenses amounted to 5.3% and 6.0% in 2007 and 2006, respectively.

The following table presents general and administrative expenses by segment for 2007, 2006 and 2005, including as a percentage of segment revenues:

millions of US dollars, except percentages	2007 Amount	2007 Percentage of segment revenues	2006 Amount	2006 Percentage of segment revenues	2007 v 2006 Change	2007 v 2006 % change	2005 Amount	2005 Percentage of segment revenues	2006 v 2005 Change	2006 v 2005 % change
	Year ended 31 December									
General and administrative expenses by segment										
Steel segment	**(432)**	**(3.5)%**	**(316)**	**(3.9)%**	**(116)**	**36.7%**	**(319)**	**(5.1)%**	**3**	**(0.9)%**
Staff costs	*(156)*	*(1.3)%*	*(110)*	*(1.3)%*	*(46)*	*41.8%*	*(102)*	*(1.6)%*	*(8)*	*7.8%*
Taxes, other than on income	*(83)*	*(0.7)%*	*(65)*	*(0.8)%*	*(18)*	*27.7%*	*(74)*	*(1.2)%*	*9*	*(12.2)%*
Management fees	*(23)*	*(0.2)%*	*(22)*	*(0.3)%*	*(1)*	*4.5%*	*(21)*	*(0.3)%*	*(1)*	*4.8%*
Other(1)	*(170)*	*(1.4)%*	*(119)*	*(1.5)%*	*(51)*	*42.9%*	*(122)*	*(2.0)%*	*(3)*	*2.5%*
Mining segment	**(130)**	**(6.8)%**	**(73)**	**(6.4)%**	**(57)**	**78.1%**	**(70)**	**(7.1)%**	**(3)**	**4.3%**
Staff costs	*(56)*	*(2.9)%*	*(25)*	*(2.2)%*	*(31)*	*124.0%*	*(26)*	*(2.6)%*	*1*	*(3.8)%*
Taxes, other than on income	*(19)*	*(1.0)%*	*(13)*	*(1.1)%*	*(6)*	*46.2%*	*(4)*	*(0.4)%*	*(9)*	*225.0%*
Management fees	*(18)*	*(0.9)%*	*(13)*	*(1.1)%*	*(5)*	*38.5%*	*(9)*	*(0.9)%*	*(4)*	*44.4%*
Other(2)	*(37)*	*(1.9)%*	*(22)*	*(1.9)%*	*(15)*	*68.2%*	*(31)*	*(3.1)%*	*9*	*(29.0)%*
Other operations	**(152)**	**(18.1)%**	**(106)**	**(17.5)%**	**(46)**	**43.4%**	**(98)**	**(15.2)%**	**(8)**	**8.2%**
Unallocated(3)	(23)		(33)		10	(30.3)%	(10)		(23)	230.0%
Eliminations	56		34		22	64.7%	30		4	13.3%
Total	**(681)**		**(494)**		**(187)**	**37.9%**	**(467)**		**(27)**	**5.8%**

(1) Includes depreciation, insurance and bank and other service costs.

(2) Includes rent, insurance, bank and other service costs.

(3) Relates principally to accounting and consulting fees.

Steel segment

General and administrative expenses amounted to 3.5% and 3.9% of the steel segment's revenues in 2007 and 2006, respectively. The primary factors affecting the changes in the steel segment's general and administrative expenses between the periods were as follows:

- Staff costs increased by 41.8%. A substantial majority of the increase was attributable to the new subsidiaries Oregon Steel, Highveld and Stratcor. The rest of the increase was primarily attributable to the appreciation of the rouble against the US dollar at the Russian operations.
- Taxes, other than on income, including property, land and local taxes, increased by 27.7%. The increase primarily reflected higher property, land and pollution taxes at the Russian operations.
- Management fees charged by EvrazHolding increased by 4.5% mainly due to the strengthening of the rouble against the US dollar.
- Other general and administrative expenses increased by 42.9% due to contributions of the new subsidiaries Oregon Steel and Stratcor.

The new subsidiaries Oregon Steel, Highveld and Stratcor accounted for US$51 million (12%), US$31 million (7%) and US$8 million (2%) of the general and administrative expenses of the steel segment, respectively, in 2007.

Mining segment

General and administrative expenses amounted to 6.8% and 6.4% of mining segment revenues for 2007 and 2006, respectively. The primary factors affecting the changes in the mining segment general and administrative expenses between the periods were as follows:

- Staff costs increased by 124.0%. Nearly all of the increase was attributable to new subsidiaries, including Yuzhkuzbassugol. The rest of the increase was primarily attributable to appreciation of the rouble against the US dollar.
- Taxes, other than on income, increased by 46.2% mainly due to the post-acquisition contribution of Yuzhkuzbassugol.
- Management fees to EvrazHolding increased by 38.5%.
- Other expenses increased by 68.2% mainly due to the contribution of post-acquisition costs at Yuzhkuzbassugol and the outsourcing of accounting services to the other operations segment in 2007.

Other operations

General and administrative expenses amounted to 18.1% and 17.5% of the other operations segment's revenues in 2007 and 2006, respectively. EvrazHolding accounted for US$99 million (65%) and US$87 million (82%) of the other operations' segment's general and administrative expenses in 2007 and 2006, respectively. Most of EvrazHolding's general and administrative costs relate to wages and salaries in respect of its employees, including Evraz's senior management.

New subsidiaries EvrazEK and ZapsibTETs accounted for US$10 million (7%) and US$4 million (3%), respectively, of the general and administrative expenses of the other operations segment in 2007. Newly created subsidiary OUS which provides accounting services to other Evraz companies in Russia accounted for US$12 million (8%) of general and administrative expenses.

Unallocated

The increase in unallocated general and administrative expenses in 2007 is primarily attributed to the additional costs related to the acquisitions of new subsidiaries.

Other operating income and expenses

Other operating expenses, net of other operating income, increased by 102.1% to US$190 million in 2007, representing 1.5% of consolidated revenues, compared to US$94 million in 2006, representing 1.1% 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 changes in foreign exchange rates. Social and social infrastructure expenses include such items as maintenance of medical centres, recreational centres and employee holiday allowances and the sponsorship of sports teams and athletic and charitable events.

The following table presents other operating income and expenses by segment for 2007, 2006 and 2005, including as a percentage of segment revenues:

millions of US dollars, except percentages	2007 Amount	2007 Percentage of segment revenues	2006 Amount	2006 Percentage of segment revenues	2007 v 2006 Change	2007 v 2006 % change	2005 Amount	2005 Percentage of segment revenues	2006 v 2005 Change	2006 v 2005 % change
	Year ended 31 December									
Other operating income and expenses by segment										
Steel segment										
Social and social infrastructure maintenance expenses	(51)	(0.4)%	(67)	(0.8)%	16	(23.9)%	(62)	(1.0)%	(5)	8.1%
Loss on disposal of property, plant and equipment	(16)	(0.1)%	(15)	(0.2)%	(1)	6.7%	(18)	(0.3)%	3	(16.7%)
Impairment of assets	(4)	0.0%	(19)	(0.2)%	15	(78.9)%	–	–	(19)	–
Foreign exchange gain (loss)	(50)	(0.4)%	25	0.3%	(75)	(300.0)%	(1)	(0.0)%	26	(2,600)%
Other income (expense), net	(9)	(0.1)%	(26)	(0.3)%	17	(65.4)%	5	0.1%	(31)	(620.0)%
Total	**(130)**	**(1.0)%**	**(102)**	**(1.2)%**	**(28)**	**27.5%**	**(76)**	**(1.2)%**	**(26)**	**34.2%**
Mining segment										
Social and social infrastructure maintenance expenses	(24)	(1.3)%	(15)	(1.3)%	(9)	60.0%	(11)	(1.1)%	(4)	36.4%
Other income (expense), net	(22)	(1.1)%	1	0.1%	(23)	(2,300.0)%	(2)	(0.2)%	3	(150.0)%
Total	**(46)**	**(2.4)%**	**(14)**	**(1.2)%**	**(32)**	**228.6%**	**(13)**	**(1.3)%**	**(1)**	**7.7%**
Other operations										
Social and social infrastructure maintenance expenses	(3)	(0.4)%	(4)	(0.7)%	1	(25.0)%	(3)	(0.5)%	(1)	33.3%
Other income (expense), net	2	0.3%	(8)	(1.3)%	10	(125.0)%	(5)	(0.7)%	(3)	60.0%
Total	**(1)**	**(0.1)%**	**(12)**	**(2.0)%**	**11**	**91.7%**	**(8)**	**(1.2)%**	**(4)**	**50.0%**
Unallocated	(13)		34		(47)	(138.2)%	(9)		13	477.8%
Total other operating income and expenses, net	**(190)**		**(94)**		**(96)**	**102.1%**	**(106)**		**12**	**(11.3)%**

Total social and social infrastructure expenses decreased by 9.3% in 2007 compared to 2006, while an increasing portion of social expenses were paid by the mining segment due to a re-allocation of such expenses from the steel segment.

Profit from operations

Profit from operations increased by 53.3% to US$3,523 million for 2007, amounting to 27.5% of consolidated revenues, compared to US$2,298 million, amounting to 27.7% of consolidated revenues, for 2006. The modest decrease in the share of profit from operations as a percentage of consolidated revenues was attributable to a significant decrease in the operating profit margin of the mining segment, due to the lower profit margin of Yuzhkuzbassugol, the effect of which was largely offset by a moderate increase in the operating profit margin of the steel segment.

Results of Operations for the years ended 31 December 2007 and 2006 / Profit from operations (Continued)

The following table presents segment results for 2007, 2006 and 2005, including as a percentage of segment revenues:

millions of US dollars, except percentages	Year ended 31 December 2007 Amount	2007 Percentage of segment revenues	2006 Amount	2006 Percentage of segment revenues	2007 v 2006 Change	2007 v 2006 % change	2005 Amount	2005 Percentage of segment revenues	2006 v 2005 Change	2006 v 2005 % change
Segment Result										
Steel segment	3,069	24.7%	1,962	24.0%	1,107	56.4%	1,308	21.0%	654	50.0%
Mining segment	458	24.1%	351	30.6%	107	30.5%	259	26.2%	92	35.5%
Other operations	30	3.6%	26	4.3%	4	15.4%	34	5.3%	(8)	(23.5)%
Unallocated	(36)		(1)		(37)	3,700.0%	(19)		20	(105.3)%
Eliminations	2		(42)		44	(104.8)%	–		(42)	–
Total	**3,523**	**27.5%**	**2,298**	**27.7%**	**1,225**	**53.3%**	**1,582**	**24.3%**	**716**	**45.3%**

Steel segment
Steel segment result increased by 56.4% to US$3,069 million in 2007 from US$1,962 million in 2006. Segment result as a percentage of steel segment revenues amounted to 24.7% and 24.0% in 2007 and 2006, respectively.

The new subsidiaries Oregon Steel, Highveld and Stratcor contributed US$183 million, US$125 million and US$44 million, respectively, to the result of the steel segment in 2007.

Mining segment
Mining segment result increased by 30.5% to US$458 million in 2007 from US$351 million in 2006. Segment result as a percentage of mining segment revenues decreased from 30.6% in 2006 to 24.1% in 2007. The decrease in the margin resulted from the lower gross profit margin of Yuzhkuzbassugol.

Other operations
Other operations segment result increased by 15.4% to US$30 million in 2007 compared to US$26 million in 2006. Segment result as a percentage of other operations segment revenues decreased to 3.6% in 2007 from 4.3% in 2006. The increase in result of the other operations segment in monetary terms is mainly attributable to the contribution of a new subsidiary, EvrazEK, and additional profits earned by Evraztrans on new railcars acquired in 2007.

Non-operating income and expense
Non-operating income and expense include interest income, interest expense, share of profits (losses) of associates and joint ventures and gain (loss) on financial assets and liabilities. The table below presents these items for 2007, 2006 and 2005, including as a percentage of consolidated revenues.

millions of US dollars, except percentages	2007		2006		2007 v 2006		2005		2006 v 2005	
	Year ended 31 December									
	Amount	Percentage of segment revenues	Amount	Percentage of segment revenues	Change	% change	Amount	Percentage of segment revenues	Change	% change
Interest income	41	0.3%	27	0.3%	14	51.9%	15	0.2%	12	80.0%
Interest expense	(409)	(3.2)%	(229)	(2.8)%	(180)	78.6%	(142)	(2.2)%	(87)	61.3%
Share of profits (losses) of associates and joint ventures, net	88	0.7%	40	0.5%	48	120.0%	57	0.9%	(17)	(29.8)%
Gain/(loss) on financial assets and liabilities, net	(71)	(0.6)%	26	0.3%	(97)	(373.1)	8	0.1%	18	225.0%
Loss on disposal groups classified as held for sale	6	0.1%	(77)	(0.8)%	83	(107.8)%	–	–	(77)	–
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	19	0.1%	1	0.0%	18	1,800%	15	0.2%	(14)	(93.3)%
Other non-operating gain (loss), net	4	0.1%	1	0.0%	3	300%	(7)	(0.1)%	8	(114.3)%
Total	**(322)**	**(2.5)%**	**(211)**	**(2.5)%**	**(111)**	**52.6%**	**(54)**	**(0.8)%**	**(157)**	**290.7%**

Interest income increased by 51.9% to US$41 million in 2007 from US$27 million in 2006, largely due to more efficient cash management on short-term deposit.

Interest expense increased by 78.6% to US$409 million in 2007 compared to US$229 million in 2006. The increase primarily resulted from additional borrowings in 2007. See "—Liquidity and Capital Resources—Capital Resources".

Share of profits of associates and joint ventures in 2007 and 2006 mainly relates to income (loss) attributable to Evraz's interest in Raspadskaya (US$82 million and US$39 million, respectively), Yuzhkuzbassugol prior to Evraz's acquisition of a controlling stake (US$(10) million and US$(28) million, respectively) and Highveld prior to Evraz's acquisition of a controlling stake (US$20 million and US$17 million, respectively).

Loss on financial assets and liabilities amounted to US$71 million in 2007 compared to a gain of US$26 million in 2006 and related to the re-measurement of the liability to minority shareholders for Highveld shares (US$34 million), a change in the value of the option for the acquisition of a 24.9% ownership interest in Highveld (US$16 million) and a change in the value of the call option in respect of 25% less one share ownership interest in Clama/Palini (US$21 million). See "—Summary of Acquisitions—Acquisitions in 2007—Highveld" and "—Summary of Acquisitions—Acquisitions/start-ups prior to 2006—Palini".

Income tax expense

Income tax expense increased by 54.5% to US$984 million in 2007 from US$637 million in 2006. Evraz's effective tax rate, defined as income tax expense as a percentage of profit before tax, increased slightly to 30.7% in 2007 from 30.5% in 2006 due to the higher share of profits generated by Evraz outside Russia in countries with statutory tax rates generally exceeding the corporate tax rate in Russia.

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 to US$2,144 million in 2007 from US$1,377 million in 2006.

Results of Operations for the years ended 31 December 2007 and 2006 (Continued)

Net profit attributable to minority interests

Net profit attributable to minority interests amounted to US$73 million as a share of total net profit in each of 2007 and 2006. Net profit attributable to minority interests as a share of total net profit decreased to 3.3% in 2007 from 5.0% in 2006. The decrease in net profit attributable to minority interests as a share of total net profit 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 2007 and 2006 and actual ownership interests as of 31 December 2007:

Subsidiary	Actual ownership interest as of 31 December 2007	Effective ownership interest as of 31 December, % 2007	2006	Business activity	Location
Mastercroft	100.00	100.00	100.00	Holding Company	Cyprus
NTMK	100.00	100.00	95.00	Steel production	Russia
Zapsib	100.00	100.00	100.00	Steel production	Russia
NKMK	100.00	100.00	98.75	Steel production	Russia
Palini	100.00	100.00	100.00	Steel production	Italy
Vitkovice Steel	100.00	100.00	100.00	Steel production	Czech Republic
Oregon Steel	100.00	100.00	–	Steel production	USA
Highveld	80.92	80.92	24.90	Steel and vanadium production	S.Africa
Stratcor	72.84	72.84	–	Vanadium production	USA S.Africa
Nikom	100.00	100.00	–	Ferrovanadium production	Czech Republic
KGOK	100.00	100.00	97.11	Iron ore mining and processing	Russia
Evrazruda	100.00	100.00	100.00	Iron ore mining and processing	Russia
VGOK	100.00	100.00	85.00	Iron ore mining and processing	Russia
Yuzhkuzbassugol	100.00	100.00	50.00	Coal mining	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	100.00	100.00	93.03	Seaport services	Russia
Evraztrans	76.00	76.00	76.00	Freight forwarding	Russia
Sinano	100.00	100.00	100.00	Freight	Cyprus
ZapsibTETs	97.79	100.00	–	Utilities supply	Russia
EvrazEK	100.00	100.00	–	Utilities supply	Russia
Metallenergofinance	100.00	100.00	100.00	Utilities supply	Russia

Summary Results of Operations for the Years Ended 31 December 2006 and 2005

Revenues increased by US$1,784 million, or 27.4%, from 2005 to 2006. This increase reflected both acquisitions, principally Vitkovice Steel, and organic growth in revenue. Organic revenue growth reflected both an increase in volumes of products sold and an overall increase in average sales prices, as prices for Evraz's products generally declined from the first half of 2005 to the second half of 2005 but then increased during 2006. In geographic terms, revenue from sales to customers located in Russia decreased from 60.0% in 2005 to 50.9% in 2006, primarily due to international acquisitions. Notwithstanding this decrease, a substantial majority of Evraz's consolidated EBITDA in 2006 resulted was derived from sales to customers located in Russia.

Cost of revenues increased by only 23.8% from 2005 to 2006, and as a result gross profit increased by 33.9%.

Profit from operations grew by 45.3% from 2005 to 2006, primarily due to a decrease of 11.3% in other operating expenses and to the fact that the increase of 5.8% in general and administrative expenses was considerably smaller than the percentage increase in gross profit. The decrease in other operating expenses reflects primarily foreign exchange gains in 2006.

Non-operating expenses increased by 290.7%, primarily due to increased interest expense. As a result, the increase of 36.6% in profit before tax was smaller than the percentage increase in profit from operations. Evraz's effective tax rate decreased slightly, from 31.1% in 2005 to 30.5% in 2006. As a result, net profit increased by 37.7%, from US$1,053 million in 2005 to US$1,450 million in 2006.

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. See "—Contractual obligations and commercial commitments" for a description of the amount and term of Evraz's obligations in respect of outstanding debt. Evraz's capital expenditure programme is aimed 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 2007, Evraz made capital expenditures of approximately US$740 million, including US$499 million in respect of its steel segment and US$187 million in respect of its mining segment. In 2007, Evraz also paid approximately US$4,752 million for acquisitions (net of cash acquired) of new subsidiaries and US$423 million for purchases of minority interests.

For 2008, Evraz has budgeted capital expenditures of approximately US$1,068 million, of which US$649 million, US$386 million and US$33 million are allocated for capital expenditures in the steel segment, mining segment and logistics, respectively. These amounts do not include planned or anticipated expenditures for businesses acquired or to be acquired. Evraz's capital expenditure plans are subject to change depending, among other things, on acquisitions (existing and potential), the evolution of market conditions and the cost and availability of funds.

Before year end 2007, Evraz made a cash prepayment to Lanebrook in the amount of US$1.06 billion in connection with the planned acquisition of the Ukrainian assets; in January 2008 Evraz acquired 100% of the outstanding ordinary shares of Claymont Steel for total cash consideration of approximately US$442 million; and in February 2008 Evraz purchased an approximately 10% stake in Delong Holdings for approximately US$150 million.

Evraz expects to pay approximately US$614 million for the acquisition of an interest of 51.05% in Delong Holdings and to incur additional expenditures to the extent that in accordance with Singapore law it makes a mandatory cash tender offer to Delong Holdings' shareholders in Singapore. In addition, Evraz expects to pay US$4,025 million (subject to certain closing adjustments) for the acquisition of certain IPSCO businesses from SSAB, of which Evraz expects to recover US$1,200 million in 2008 pursuant to its back-to-back agreement with TMK relating to certain IPSCO businesses in the United States and a further US$500 million in 2009 pursuant to its option agreement with TMK relating to the remainder of the IPSCO businesses in the United States. Certain banks, including ABN AMRO Bank N.V. and CALYON, are parties to a commitment letter and related agreements (the "IPSCO Bridge Commitment") pursuant to which they have agreed to provide an acquisition bridge facility in the amount of US$2,100 million in connection with the pending acquisition of IPSCO Canada. Under the IPSCO Bridge Commitment, the commitments of the lenders will be reduced by an amount equal to the proceeds of the offer and sale of the Notes. See "Subscription and Sale". It is possible that Evraz may be required to complete its purchase of certain of the assets of IPSCO Canada from SSAB under circumstances in which TMK is not required to complete its purchase from Evraz of certain IPSCO businesses in the United States pursuant to the back-to-back agreement relating to such business or its purchase of the remaining IPSCO businesses in the US pursuant to the option agreement relating to such businesses. The conditions to TMK's obligations to buy are that (a) Evraz shall be in compliance with its obligations, (b) the closing of Evraz's purchase of certain assets of IPSCO Canada shall have occurred without waiver of material conditions by Evraz, (c) the transactions shall not be prevented by law or order, or be the subject of an action by a governmental authority seeking to prevent them, and (d) waiting periods under antitrust laws shall have expired and required approvals shall have been obtained. There is thus a risk that Evraz could be required to complete its purchase of the IPSCO businesses in circumstances where TMK would be excused from completing its purchases of certain IPSCO businesses in the United States – for example if TMK is prevented by law from completing such purchase but Evraz is not so prevented from completing its purchase of IPSCO Canada. If Evraz is required to complete its purchase of certain of the assets of IPSCO Canada under circumstances in which TMK either is not required to or fails to complete its purchase of IPSCO businesses in the United States, Evraz may need to secure up to US$1.7 billion in additional financing to complete its purchase of IPSCO Canada.

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 any off-balance sheet financing arrangements.

Evraz intends to finance its capital investment programme and its acquisitions 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$2,957 million, US$2,084 million and US$1,496 million in 2007, 2006 and 2005, respectively. The increase in net cash provided by operating activities was primarily due to increased profit and new acquisitions in 2007 and primarily due to increased profit in 2006. Cash provided by operating activities before working capital adjustments increased to US$3,264 million in 2007 from US$1,943 million in 2006 and US$1,422 million in 2005. Working capital movement in 2007 was largely driven by new businesses, while in 2006 it was due to a large destocking.

Net cash used in investing activities totalled US$5,636 million, US$1,569 million and US$1,753 million in 2007, 2006 and 2005, respectively. The significant increase in 2007 was due to an increase of US$4,639 million relating to purchase of subsidiaries, net of cash acquired, which reflected principally the acquisitions of Oregon Steel and Highveld. In 2006 and 2007, net cash used in investing activities was relatively balanced between purchases of subsidiaries, minority interests and interests in associates/joint ventures on the one hand and purchases of property, plant and equipment and intangible assets on the other.

Net cash from (used in) financing activities amounted to US$2,135 million, US$(341) million and US$607 million in 2007, 2006 and 2005, respectively. The increase in 2007 as compared to 2006 reflected principally the receipt of US$4,515 million in proceeds from loans and promissory notes, which were partially offset by US$1.635 million in cash used for repayment of loans and promissory notes (including interest). The decrease in 2006 as compared to 2005 resulted primarily from decreases in net cash from loans and promissory notes and in proceeds from issuance of share capital.

In 2007 and 2006, the most significant syndicated loan facilities entered into by Evraz with international banks to finance its requirements included the following:

- On 1 June 2006, Evraz entered into a US$225 million credit facility arranged by Natexis Banques Populaires and Bank Natexis (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.

- In November 2006, Evraz entered into a US$1,800 million credit facility arranged by UBS AG. The full facility amount was utilised in January 2007 and was applied towards the financing of a payment made as consideration for the 32,470,867 shares of Oregon Steel Mills, Inc. The facility was repaid in full on 23 November 2007.

- On 11 September 2006, Evraz entered into a US$207 million credit facility arranged by ABN Amro and Commerzbank AG. The full facility amount was utilised on 13 June 2007, is secured with sales proceeds of Vitkovice Steel, and bears interest at LIBOR plus a margin of 0.85%. The facility is repayable in 17 equal quarterly installments, beginning in June 2008. This credit re-finances the US$207 million bridge facility agreement arranged in January 2006 by the same banks for the acquisition of Vitkovice Steel.

- On 22 November 2007, Evraz entered into a US$3,214 million credit facility arranged by ABN Amro Bank N.V., Barclays Capital, The Bank of Tokyo-Mitsubishi UFJ, BNP Paribas (Suisse) SA, Calyon, Commerzbank AG, Deutsche Bank AG, ING Bank N.V., Sumitomo Mitsui Banking Corp. and UBS. The full facility amount was utilised on 6 December 2007. The facility consists of (i) Tranche A of US$2,714 million secured with sales proceeds of East Metals S.A. and repayable in 17 equal quarterly installments, starting from November 2008, and (ii) unsecured Tranche B of US$500 million repayable in 12 equal quarterly installments, starting from February 2008. Both tranches bear interest at the rate of applicable LIBOR plus a margin of 1.8%. The facility was utilised for the re-financing of the US$1,800 million bridge facility borrowed in January 2007 for the acquisition of Oregon Steel and partial financing of the new acquisitions in the US and Ukraine. The credit facility contains covenants that relax restrictions on Evraz and its subsidiaries in respect of certain transactions and financial ratios.

Liquidity

As the table below illustrates, Evraz had estimated liquidity, defined as cash and cash equivalents, available under unrestricted credit facilities and short-term bank deposits with original maturity of more than three months, of approximately US$1,215 million as of 31 December 2007 and approximately US$1,254 million as of 31 December 2006.

Liquidity and Capital Resources / Liquidity (Continued)

Evraz's current ratio, defined as current assets divided by current liabilities, decreased to 1.1 as of 31 December 2007 from 1.5 as of 31 December 2006. The decline in the current ratio mainly resulted from increases in short-term loans and current portion of long-term loans.

The reduction in cash balances was mainly due to the cash payments for the purchase of shares in Highveld, Yuzhkuzbassugol, ZapsibTETs and partially for the acquisition of Oregon Steel. See "—Summary of Acquisitions". 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 dollars	2007	2006
	As at 31 December	
Estimated liquidity		
Cash and cash equivalents[1]	327	842
Amount available under credit facilities[2]	863	388
Short-term bank deposits	25	24
Total estimated liquidity	**1,215**	**1,254**

[1] Since 31 December 2007, Evraz has used or agreed to use or expects to use cash in several ways other than in the ordinary course of business. In the first quarter of 2008, Evraz paid US$422 million for the acquisition of Claymont and US$165 million for the acquisition of interest in Delong Holdings (see "—Summary of Acquisitions") and also paid dividends in the amount of US$80 million. During 2008, Evraz expects to pay an additional US$614 million for shares of Delong Holdings and may be required to pay additional amounts in connection with a mandatory cash tender offer for Delong Holdings shares. Moreover, Evraz expects to pay US$4.0 billion for certain IPSCO businesses, of which it expects to recover US$1.2 billion in 2008 through its back-to-back agreements with TMK and US$0.5 billion in 2009 pursuant to its option agreement with TMK. See "Description of Business—Overview".

[2] Total amounts available under borrowing facilities amounted to approximately US$863 million as of 31 December 2007 and US$2,428 million as of 31 December 2006. Evraz has also entered into the IPSCO Bridge Commitment. See "Subscription and Sale". Amounts in excess of the total stated in this table consisted of facilities associated with specific capital expenditures or specific other uses.

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 2007 and 31 December 2006 by period:

millions of US dollars	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
	As at 31 December 2007					As at 31 December 2006				
Obligations in respect of borrowings										
Short-term loans and borrowings (including current portion of longterm borrowings)	1,958	1,958	–	–	–	741	741	–	–	–
Long-term loans and borrowings (excluding current portion of long-term borrowings)	4,735	–	1,360	2,570	805	1,895	–	383	707	805
Unamortised debt issue costs[1]	(82)	–	–	–	–	(40)	–	–	–	–
	6,611					**2,596**				

[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.

Subsequent to 31 December 2007, Evraz signed bank loan agreements for US$618 million.

As of 31 December 2007 and 31 December 2006, Evraz had equipment with a carrying value of US$121 million and US$39 million, respectively, pledged as collateral under loans to the Company. In addition, Evraz had pledged finished goods with a carrying value of US$415 million and US$194 million as of 31 December 2007 and 31 December 2006, respectively.

As of 31 December 2007 and 31 December 2006, Evraz had incurred liabilities in respect of postemployment benefits that the Company provides to employees of certain of its subsidiaries pursuant to collective bargaining agreements of US$291 million and US$117 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.

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 2007), 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.

At 31 December 2007, Evraz had contractual commitments for the purchase of production equipment and construction works for an approximate amount of US$677 million.

Future minimum lease payments were as follows as at 31 December 2007:

millions of US dollars	Minimum lease payments	Present value of minimum lease payments
	As at 31 December 2007	
2008	22	15
2009–2012	57	46
2013	9	8
Total	88	69
Less: amounts representing finance charges	(19)	
Total	**69**	**69**

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 Evraz's assets are located. In 2008, Evraz plans to spend approximately US$133 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 2008 to 2012, Evraz is obligated to spend approximately US$245 million on the replacement of old machinery and equipment which is expected to result in reduced pollution.

Liquidity and Capital Resources (Continued)

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 because 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 amount to approximately US$19 million.

Inflation

While Evraz's revenues depend substantially on international prices for metallurgical products, its costs are closely linked to Russian cost factors. Inflation moderated in Russia during the past years; however it reached 11.9% in 2007 compared with 9.0% in 2006. In 2007 and 2006, overall price trends were generally positive, with steel prices growing faster than many relevant cost factors such as raw materials, railway transportation charges, natural gas prices, electricity costs and the general consumer price index.

The table below presents changes in Russia's consumer price index and Rouble to US dollar exchange rates from 2003 through 2007:

	2003	2004	2005	2006	2007	2003 to 2007
Consumer price Index, change in RUB[1]	12.0%	11.7%	10.9%	9.0%	11.9%	69%
Nominal RUB/US$ exchange rate, change[1]	7.9%	6.1%	(3.6%)	9.3%	7.3%	29.5%

[1] Represents the change from 31 December of the prior year to 31 December of the indicated year. Sources: Fedstat; CBR.

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 slow down 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 functional currency of Evraz's Russian subsidiaries is the Rouble, while the functional currencies of Evraz's subsidiaries located in other countries are the Czech Koruna in respect of Vitkovice Steel, the euro in respect of Palini, the Rand in respect of Highveld and the South African operations of Stratcor 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 CBR. Market rates may differ from the official rates but the differences are, generally, within narrow parameters monitored by the CBR. See "Presentation of Financial and Other Information—Exchange Rate Information".

Evraz's products are typically priced in Roubles in respect of Russian and CIS sales and US dollars and euro in respect of international sales. Evraz's direct costs, including raw materials, labour and transportation, are incurred in Roubles in respect of Russian subsidiaries and in Czech Korunas, euro, US dollars and South African Rand for Vitkovice Steel, Palini, Oregon Steel and Highveld, respectively. Other costs, such as interest expense, are incurred largely in Roubles, US dollars and euro.

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 3.9% in 2005, 16.7% in 2006 and 15.0% in 2007, 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.

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%, 4.1% and 6.3% in nominal terms in 2005, 2006 and during 2007, 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 2007 and 31 December 2006. This table excludes interest payable and unamortised debt issue costs, as opposed to the obligations in respect of borrowings. See "—Liquidity and Capital Resources—Contractual obligations and commercial commitments":

millions of US dollars	2007 US dollar-denominated	2007 Rouble-denominated	2007 Euro-denominated	2007 Denominated in other currencies	2007 Total	2006 US dollar-denominated	2006 Rouble-denominated	2006 Euro-denominated	2006 Total
	As at 31 December								
Total debt, of which	*6,172*	*168*	*309*	*5*	*6,654*	*2,278*	*24*	*304*	*2,606*
Fixed-rate debt	1,389	51	106	–	1,546	1,420	12	99	1,531
Variable-rate debt	4,783	117	203	5	5,108	858	12	205	1,075

Quantitative and Qualitative Disclosures in Respect of Market Risk / Exchange and Interest Rate Risk (Continued)

A hypothetical, instantaneous and simultaneous 10% appreciation of the Rouble and the euro against the US dollar as of 31 December 2007 would have resulted in an increase of approximately US$53 million on borrowings denominated in Roubles and euro held as of 31 December 2007.

The following table demonstrates the sensitivity to reasonably possible changes in the relative values of the respective currencies, with all other variables held constant, of Evraz's profit before tax. In estimating a reasonably possible change, Evraz used foreign exchange rates of forward contracts for one year at each reporting date:

	2007		2006	
millions of US dollars, except percentages	As at 31 December			
	Change in exchange rate	Effect on profit before tax	Change in exchange rate	Effect on profit before tax
USD/RUB	**(5.80)**	**1**	(6.10)	(8)
	4.20	**(1)**	4.50	7
EUR/USD	**(7.35)**	**(14)**	(9.25)	(17)
	7.35	**14**	9.25	17
EUR/RUB	**(5.45)**	**17**	(7.00)	17
	3.25	**(10)**	4.70	(11)
EUR/CZK	**(4.10)**	**(3)**	(3.50)	(2)
	4.10	**3**	3.50	2
USD/CZK	**(9.40)**	**10**	(8.40)	15
	9.40	**(10)**	10.10	(18)
USD/ZAR	**(17.70)**	**(6)**	(15.00)	13
	13.00	**5**	15.00	(13)

Reasonably possible changes in floating interest rates at the reporting date would have changed profit before tax by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

US$ millions (except basis points)	2007 Basis points	2007 Effect on profit before tax	2006 Basis points	2006 Effect on profit before tax
	As at 31 December			
Liabilities denominated in US dollars				
Decrease in LIBOR	(125)	24	(100)	9
Increase in LIBOR	75	(14)	50	(5)
Liabilities denominated in euro				
Decrease in EURIBOR	(150)	3	(50)	1
Increase in EURIBOR	75	(1)	150	(3)

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 Yuzhkuzbassugol and 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 inter-segment transfer and eliminated on consolidation. In addition, any increase in prices for coking coal sourced from Raspadskaya is partially reflected as an increase in Evraz's income from affiliates.

As Evraz increases the proportion of raw materials acquired from internal sources, Evraz'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, Evrazruda, Mine 12, Palini and Vitkovice Steel in 2005 and Yuzhkuzbassugol, Oregon Steel and Highveld in 2007, is an important element in Evraz'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 Russian government, thereby limiting Evraz's exposure to fluctuations in the cost of these products.

Quantitative and Qualitative Disclosures in Respect of Market Risk / Tariff Risk (Continued)

The Russian electricity sector is currently characterised by distinctly limited competition and regulated prices. Pricing policy is determined by the Federal Tariffs Service (the "FTS"), a governmental agency authorised to regulate prices in respect of the power generated by regional electricity companies, power transmission, dispatch services and inter-regional 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 generation companies that seek to sell a power surplus to regional generation 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 2007 and in 2006, Evraz's Russian operations purchased approximately 8,913 million kWh and 9,047 million kWh of electricity, respectively, representing approximately 84% and 90% of their requirements, respectively, from local subsidiaries of UES, the government-controlled national holding company for the Russian power sector. The Russian 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 government Macroeconomic Long-term Forecast, electricity tariffs for industrial users will reach 6.5-6.7 US cents per kWh by 2010. Evraz's average cost of electricity in Russia was 3.8 US cents per kWh in 2007 and 3.1 US cents per kWh in 2006. Assuming a price of 6.7 US cents per kWh, Evraz's Russian operations would have incurred additional costs of approximately US$266 million and US$328 million in the years ended 31 December 2007 and 2006, respectively. 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 Evraz'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 RUB1,532 per thousand cubic metres and RUB1,294 per thousand cubic metres in 2007 and in 2006, respectively. 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. According to the Russian Government Macroeconomic Long-term Forecast, domestic gas prices for industrial users will reach US$96-99 per thousand cubic metres by 2010. Assuming a price of US$99 per thousand cubic metres, Evraz's Russian operations would have incurred additional costs of approximately US$143 million and US$161 million in 2007 and 2006, respectively.

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 Russian 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.

Operational Outlook

Evraz's primary strategy is to retain its 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. Evraz's management 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, are expected to facilitate a shift in product mix towards higher margin products and are also expected to result in a moderate increase in output, all of which is expected to have a positive effect on Evraz's operating results, subject to movements in steel prices. Evraz expects that increases in steel production as a result of the acquisitions of Vitkovice Steel, Oregon Steel and Highveld will be partially offset by a gradual shutdown of inefficient open hearth furnaces at certain of Evraz's plants.

Inventories increased by 84% at 31 December 2007 compared to the balance at 31 December 2006. Approximately three-quarters of this increase was attributable to contributions of the new subsidiaries Oregon Steel, Highveld and Yuzhkuzbassugol and approximately one-fifth of this increase was due to higher prices for raw materials and steel goods. Evraz's management 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 its production facilities and to reduce cost of production per tonne. Evraz's mining segment currently supplies approximately 77% of the steel segment's iron ore requirements. Evraz's requirements for coking coal can be fully covered by the mining segment and purchases from Raspadskaya, which is accounted for under the equity method. Investments in power-generation assets, including ZapsibTETs and EvrazEK, are expected to significantly reduce Evraz's dependence on external sources of electricity and heat. These factors are expected to mitigate the impact of increasing costs in respect of raw materials and energy.

Evraz expects other 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 the respective countries where Evraz's non-Russian subsidiaries are located. Evraz also expects the recent acquisitions of Stratcor, Oregon Steel and Highveld to have a positive impact on Evraz's revenues and results of operations in 2008.

Consolidated Financial Statements
Year Ended December 31, 2007

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. and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as at December 31, 2007, 2006 and 2005, and the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements for the years 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 consolidated 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, 2007, 2006 and 2005, and its financial performance and its cash flows for the years 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 1, 2008
Moscow, Russia

Consolidated Income Statement

In millions of US dollars, except for per share information

Year ended December 31,	Notes	2007	2006*	2005*
Revenue				
Sale of goods	3	**$12,579**	$8,166	$6,387
Rendering of services	3	**229**	126	121
		12,808	8,292	6,508
Cost of revenue	7	**(7,875)**	(5,163)	(4,172)
Gross profit		**4,933**	3,129	2,336
Selling and distribution costs	7	**(539)**	(243)	(181)
General and administrative expenses	7	**(681)**	(494)	(467)
Social and social infrastructure maintenance expenses		**(78)**	(86)	(76)
Loss on disposal of property, plant and equipment		**(26)**	(21)	(24)
Impairment of assets		**(7)**	(20)	(8)
Foreign exchange gains/(losses), net		**(55)**	48	(5)
Other operating income/(expenses), net		**(24)**	(15)	7
Profit from operations		**3,523**	2,298	1,582
Interest income	7	**41**	27	15
Interest expense	7	**(409)**	(229)	(142)
Share of profits/(losses) of joint ventures and associates	11	**88**	40	57
Gain/(loss) on financial assets and liabilities, net	4, 6, 7	**(71)**	26	8
Gain/(loss) on disposal groups classified as held for sale	12	**6**	(77)	–
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	4	**19**	1	15
Other non-operating gains/(losses), net	7	**4**	1	(7)
Profit before tax		**3,201**	2,087	1,528
Income tax expense	8	**(984)**	(637)	(475)
Net profit		**$2,217**	$1,450	$1,053
Attributable to:				
Equity holders of the parent entity		**$2,144**	$1,377	$918
Minority interests		**73**	73	135
		$2,217	$1,450	$1,053
Earnings per share:				
basic, for profit attributable to equity holders of the parent entity, US dollars	19	**$18.16**	$11.76	$8.14
diluted, for profit attributable to equity holders of the parent entity, US dollars	19	**$18.02**	$11.68	$8.13

* *The amounts shown here do not correspond to the 2006 and 2005 financial statements and reflect adjustments made in connection with the completion of initial accounting* (Notes 4 and 11).

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

Consolidated Balance Sheet

In millions of US dollars

December 31,	Notes	2007	2006*	2005*
ASSETS				
Non-current assets				
Property, plant and equipment	9	**$8,161**	$3,655	$3,062
Intangible assets other than goodwill	10	**806**	37	19
Goodwill	5	**1,271**	112	67
Investments in joint ventures and associates	11	**787**	1,494	906
Restricted deposits at banks	13	**5**	12	8
Other non-current assets	14	**1,317**	271	48
		12,347	5,581	4,110
Current assets				
Inventories	15	**1,575**	864	964
Trade and other receivables	16	**1,117**	556	375
Prepayments		**175**	82	54
Loans receivable		**48**	19	–
Receivables from related parties	17	**60**	54	90
Income tax receivable		**87**	51	16
Other taxes recoverable	18	**343**	331	461
Short-term investments and notes receivable		**25**	25	19
Restricted deposits at banks	13	**–**	–	24
Cash and cash equivalents	13	**327**	842	641
		3,757	2,824	2,644
Assets of disposal groups classified as held for sale	12	**276**	105	–
		4,033	2,929	2,644
Total assets		**$16,380**	$8,510	$6,754

Continued on the next page

* *The amounts shown here do not correspond to the 2006 and 2005 financial statements and reflect adjustments made in connection with the completion of initial accounting* (Notes 4 and 11) *and certain reclassifications* (Note 2).

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

Consolidated Balance Sheet (Continued)

In millions of US dollars

December 31,	Notes	2007	2006*	2005*
EQUITY AND LIABILITIES				
Equity				
Equity attributable to equity holders of the parent entity				
Issued capital	19	**$320**	$318	$316
Treasury shares	19	**–**	–	–
Additional paid-in capital	19	**286**	531	547
Revaluation surplus	4	**233**	–	–
Legal reserve	19	**29**	28	22
Accumulated profits		**4,124**	2,750	1,751
Translation difference		**994**	439	72
		5,986	4,066	2,708
Minority interests		**371**	169	179
		6,357	4,235	2,887
Non-current liabilities				
Long-term loans	20	**4,653**	1,855	1,515
Deferred income tax liabilities	8	**1,277**	277	265
Finance lease liabilities	21	**54**	42	30
Employee benefits	22	**291**	117	79
Provisions	24	**126**	39	14
Amounts payable under put options for shares of subsidiaries	4	**–**	–	67
Other long-term liabilities	25	**56**	47	2
		6,457	2,377	1,972
Current liabilities				
Trade and other payables	26	**933**	462	404
Advances from customers		**111**	67	43
Short-term loans and current portion of long-term loans	20	**1,958**	741	835
Payables to related parties	17	**136**	176	315
Income tax payable		**74**	77	70
Other taxes payable	27	**138**	96	189
Current portion of finance lease liabilities	21	**15**	11	7
Provisions	24	**53**	8	15
Amounts payable under put options for shares of subsidiaries	4	**6**	175	–
Dividends payable by the parent entity to its shareholders		**80**	38	3
Dividends payable by the Group's subsidiaries to minority shareholders		**16**	24	14
		3,520	1,875	1,895
Liabilities directly associated with disposal groups classified as held for sale	12	**46**	23	–
		3,566	1,898	1,895
Total equity and liabilities		**$16,380**	$8,510	$6,754

* *The amounts shown here do not correspond to the 2006 and 2005 financial statements and reflect adjustments made in connection with the completion of initial accounting* (Notes 4 and 11) *and certain reclassifications* (Note 2).

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

Consolidated Cash Flow Statement

In millions of US dollars	Year ended December 31, 2007	2006*	2005*
Cash flows from operating activities			
Net profit	**$2,217**	$1,450	$1,053
Adjustments to reconcile net profit to net cash flows from operating activities:			
Depreciation, depletion and amortisation (Note 7)	**698**	303	245
Deferred income tax (benefit)/expense (Note 8)	**(69)**	(41)	2
Loss on disposal of property, plant and equipment	**26**	21	24
Impairment of assets	**7**	20	8
Foreign exchange (gains)/losses, net	**55**	(48)	5
Share of (profits)/losses of associates and joint ventures, net	**(88)**	(40)	(57)
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**(19)**	(1)	(15)
(Gain)/loss on financial assets and liabilities, net (Notes 4 and 7)	**71**	(26)	(8)
Loss on disposal groups classified as held for sale (Note 12)	**(6)**	77	–
Other non-operating (gains)/losses, net (Note 7)	**(4)**	(1)	7
Interest income	**(41)**	(27)	(15)
Interest expense	**409**	229	142
Bad debt expense	**9**	5	8
Movements in provisions, pensions and other long-term liabilities	**(6)**	5	15
Share-based payments (Note 23)	**5**	17	8
	3,264	1,943	1,422
Changes in working capital:			
Inventories	**(77)**	208	(14)
Trade and other receivables	**(224)**	(140)	32
Prepayments	**(44)**	(16)	22
Receivables from/payables to related parties	**(3)**	(25)	13
Taxes recoverable	**50**	113	(101)
Other assets	**3**	(1)	(3)
Trade and other payables	**46**	96	85
Taxes payable	**(78)**	(113)	55
Advances from customers	**20**	19	(15)
Net cash flows from operating activities	**2,957**	2,084	1,496
Cash flows from investing activities			
Issuance of loans receivable to related parties	**(31)**	–	(202)
Proceeds from repayment of loans issued to related parties, including interest	**1**	6	206
Issuance of loans receivable	**(94)**	(20)	(38)
Proceeds from repayment of loans receivable, including interest	**58**	3	45
Purchases of subsidiaries, net of cash acquired (Notes 4 and 14)	**(4,752)**	(113)	(312)
Purchases of minority interests	**(423)**	(96)	(415)
Purchase of interest in associates/joint venture	**–**	(736)	(400)
Restricted deposits at banks in respect of investing activities	**(1)**	(207)	–
Short-term deposits at banks, including interest	**24**	18	16
Purchases of property, plant and equipment and intangible assets	**(740)**	(651)	(695)
Proceeds from disposal of property, plant and equipment	**34**	10	8
Proceeds from sale of disposal groups classified as held for sale, net of transaction costs	**223**	–	–
Dividends and advances in respect of future dividends received	**57**	212	30
Other investing activities, net	**8**	5	4
Net cash flows used in investing activities	**(5,636)**	(1,569)	(1,753)

Continued on the next page

* *The amounts shown here do not correspond to the 2006 and 2005 financial statements and reflect adjustments made in connection with the completion of initial accounting* (Notes 4 and 11).

Consolidated Cash Flow Statement

(Continued)

In millions of US dollars — Year ended December 31,	2007	2006*	2005*
Cash flows from financing activities			
Proceeds from issuance of share capital, net of transaction costs of $0, $0 and $22, respectively (Note 19)	**$ –**	$ –	$400
Proceeds from exercise of share options (Note 19, 23)	**35**	26	–
Purchase of treasury shares (Note 19)	**(41)**	–	–
Sale of treasury shares (Note 19)	**14**	–	–
Contributions from Crosland Limited (Note 19)	**–**	–	131
Payments to entities under common control for the transfer of ownership interest in subsidiaries	**–**	–	(33)
Proceeds from loans provided by related parties	**3**	8	9
Repayment of loans provided by related parties, including interest	**(1)**	–	(62)
Net (repayment)/proceeds from bank overdrafts and credit lines, including interest	**222**	(1)	(136)
Proceeds from loans and promissory notes	**4,515**	708	1,305
Repayment of loans and promissory notes, including interest	**(1,635)**	(684)	(418)
Restricted deposits at banks in respect of financing activities	**9**	23	(11)
Dividends paid by the parent entity to its shareholders	**(916)**	(352)	(524)
Dividends paid by the Group's subsidiaries to minority shareholders	**(48)**	(40)	(11)
Payments under finance leases, including interest	**(22)**	(19)	(12)
Payments under Settlement Agreements, including interest, and purchases of debts of subsidiaries	**–**	(2)	(9)
Payments of restructured taxes, including interest	**–**	(8)	(22)
Net cash flows from/(used in) financing activities	**2,135**	(341)	607
Effect of foreign exchange rate changes on cash and cash equivalents	**29**	27	(2)
Net increase/(decrease) in cash and cash equivalents	**(515)**	201	348
Cash and cash equivalents at beginning of year	**842**	641	293
Cash and cash equivalents at end of year	**$327**	$842	$641
Supplementary cash flow information:			
Cash flows during the year:			
Interest paid	**$(351)**	$(211)	$(122)
Interest received	**42**	23	13
Income taxes paid	**(994)**	(656)	(477)

* *The amounts shown here do not correspond to the 2006 and 2005 financial statements and reflect adjustments made in connection with the completion of initial accounting* (Notes 4 and 11).

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

Consolidated Statement of Changes in Equity

In millions of US dollars	Issued capital	Treasury shares	Additional paid-in capital	Revaluation surplus	Legal reserve	Accumulated profits	Translation difference	Total	Minority interests	Total equity
	Attributable to equity holders of the parent entity									
At December 31, 2006 (as previously reported)	$318	$ –	$531	$ –	$28	$2,758	$439	$4,074	$176	$4,250
Adjustments to provisional values (Notes 4 and 11)	–	–	–	–	–	(8)	–	(8)	(7)	(15)
At December 31, 2006 (as restated)	$318	$ –	$531	$ –	$28	$2,750	$439	$4,066	$169	$4,235
Effect of exchange rate changes							555	555	11	566
Revaluation surplus on acquisition of a controlling interest in associates (Note 4)	–	–	–	233	–	–	–	233	–	233
Total income and expense for the year recognised directly in equity	–	–	–	233	–	–	555	788	11	799
Net profit	–	–	–	–	–	2,144	–	2,144	73	2,217
Total income and expense for the year	–	–	–	233	–	2,144	555	2,932	84	3,016
Acquisition of minority interests in existing subsidiaries (Note 6)	–	–	–	–	–	–	–	–	(10)	(10)
Minority interests arising on acquisition of subsidiaries (Note 4)	–	–	–	–	–	–	–	–	266	266
Minority interests arising on acquisition of a single asset entity (Note 10)	–	–	–	–	–	–	–	–	44	44
Decrease in minority interests arising due to change in ownership within the Group	–	–	–	–	–	5	–	5	(5)	–
Derecognition of minority interests in subsidiaries (Notes 4 and 6)	–	–	–	–	–	(145)	–	(145)	(311)	(456)
Recognition of minority interests in respect of the expired put options (Note 4)	–	–	–	–	–	73	–	73	174	247
Share-based payments (Note 23)	–	–	5	–	–	–	–	5	–	5
Purchase of treasury shares (Note 19)	–	(41)	–	–	–	–	–	(41)	–	(41)
Exercise of share options (Notes 19 and 23)	2	41	33	–	–	(27)	–	49	–	49
Appropriation of net profit to legal reserve (Note 19)	–	–	–	–	1	(1)	–	–	–	–
Dividends declared by the parent entity to its shareholders (Note 19)	–	–	(283)	–	–	(675)	–	(958)	–	(958)
Dividends declared by the Group's subsidiaries to minority shareholders (Note 19)	–	–	–	–	–	–	–	–	(40)	(40)
At December 31, 2007	**$320**	**$ –**	**$286**	**$233**	**$29**	**$4,124**	**$994**	**$5,986**	**$371**	**$6,357**

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

Consolidated Statement of Changes in Equity (Continued)

in millions of US dollars	Issued capital	Treasury shares	Additional paid-in capital	Revaluation surplus	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 (Notes 4 and 11)	–	–	–	–	–	13	–	13	(11)	2
At December 31, 2005 (as restated)	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*	–	–	–	–	–	1,377	–	1,377	73	1,450
Total income and expense for the year*	–	–	–	–	–	1,377	367	1,744	96	1,840
Exercise of share options (Notes 19 and 23)	2	–	24	–	–	–	–	26	–	26
Acquisition of minority interests in existing subsidiaries (Notes 6)	–	–	1	–	–	(42)	–	(41)	(56)	(97)
Minority interests arising on acquisition of subsidiaries (Note 4) *	–	–	–	–	–	–	–	–	42	42
Derecognition of minority interests in subsidiaries (Note 4 and 6)	–	–	–	–	–	(64)	–	(64)	(42)	(106)
Acquisition of minority interests by an associate (Note 19)	–	–	1	–	–	–	–	1	–	1
Sale of shares in a joint venture's subsidiary (Notes 19)	–	–	58	–	–	–	–	58	–	58
Reorganisation of ownership structure within a joint venture	–	–	–	–	–	(1)	–	(1)	–	(1)
Allocation of losses of prior periods to minority shareholders (Note 19)	–	–	–	–	–	5	–	5	–	5
Share-based payments (Notes 23)	–	–	17	–	–	–	–	17	–	17
Appropriation of net profit to legal reserve	–	–	–	–	6	(6)	–	–	–	–
Dividends declared by the parent entity to its shareholders (Note 19)	–	–	(117)	–	–	(270)	–	(387)	–	(387)
Dividends declared by the Group's subsidiaries to minority shareholders (Note 19)	–	–	–	–	–	–	–	–	(50)	(50)
At December 31, 2006*	$318	$ –	$531	$ –	$28	$2,750	$439	$4,066	$169	$4,235

* *The amounts shown here do not correspond to the 2006 financial statements and reflect adjustments made in connection with the completion of initial accounting* (Notes 4 and 11).

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

Consolidated Statement of Changes in Equity (Continued)

In millions of US dollars	Issued capital	Treasury shares	Additional paid-in capital	Revaluation surplus	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 (Notes 2 and 5)	–	–	–	–	–	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 (Note 19)	24	–	376	–	–	–	–	400	–	400
Issue of share capital in exchange for shares in Mastercroft (Note 19)	292	–	(292)	–	–	–	–	–	–	–
Acquisition of minority interests in existing subsidiaries (Note 6)	–	–	2	–	–	(131)	–	(129)	(287)	(416)
Acquisition of minority interests by a joint venture (Note 19)	–	–	3	–	–	–	–	3	–	3
Minority interests arising on acquisition of subsidiaries (Note 4) *	–	–	–	–	–	–	–	–	3	3
Contributions from Crosland Limited (Note 19)	–	–	131	–	–	–	–	131	–	131
Share-based payments (Note 23)	–	–	8	–	–	–	–	8	–	8
Appropriation of net profit to legal reserve	–	–	–	–	22	(22)	–	–	–	–
Dividends declared by the parent entity to its shareholders (Note 19)	–	–	–	–	–	(518)	–	(518)	(6)	(524)
Dividends declared by the Group's subsidiaries to minority shareholders (Note 19)	–	–	–	–	–	–	–	–	(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* (Notes 4 and 11).

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

Notes to the Consolidated Financial Statements Year Ended December 31, 2007

1. CORPORATE INFORMATION

These consolidated financial statements were authorised for issue in accordance with a resolution of the directors of Evraz Group S.A. on April 1, 2008.

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 the beginning of the earliest period presented.

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

Subsidiary	Actual ownership interest, %	Effective ownership interest, % (2)			Business activity	Location
	2007	2007	2006	2005		
OAO Nizhny Tagil Iron & Steel Plant	100.00	100.00	95.00	92.38	Steel production	Russia
OAO West-Siberian Iron & Steel Plant	100.00	100.00	100.00	96.67	Steel production	Russia
OAO Novokuznetsk Iron & Steel Plant	100.00	100.00	98.75	97.26	Steel production	Russia
Vitkovice Steel a.s.	100.00	100.00	100.00	98.96	Steel production	Czech Republic
Evraz Oregon Steel Mills	100.00	100.00	–	–	Steel production	USA
Highveld Steel and Vanadium Corporation (1)	80.92	80.92	24.90	–	Steel production	South Africa
ZAO Yuzhkuzbassugol (1)	100.00	100.00	50.00	50.00	Coal mining	Russia
OAO Kachkanarsky Mining-and-Processing Integrated Works	100.00	100.00	97.11	91.98	Ore mining and processing	Russia
OAO Evrazruda	100.00	100.00	100.00	100.00	Ore mining	Russia
Ferrotrade Limited	100.00	100.00	100.00	100.00	Trading	Gibraltar
OOO Trade House EvrazHolding	100.00	100.00	100.00	100.00	Trading	Russia

(1) Before the purchase of controlling interests in ZAO Yuzhkuzbassugol and Highveld Steel and Vanadium Corporation in 2007 (Note 4), these entities were accounted for under the equity method (Note 11).

1. Corporate Information (Continued)

(2) 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 (Notes 4 and 6).

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

In 2005, the Group acquired a controlling interest in OAO Evrazruda from an entity under common control with the Group. The Group applied the pooling of interests method with respect to this acquisition and presented its consolidated financial statements as if the transfer of the controlling interest in the subsidiary had occurred from the beginning of the earliest period presented.

In the years ended December 31, 2007, 2006 and 2005, approximately 5%, 8% and 7%, respectively, of the Group's revenues 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, associates and a joint venture. For detailed information related to such activities refer to Note 17.

At December 31, 2007, the Group employed approximately 127,000 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").

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 the lower of their carrying amount or fair value less costs to sell and post-employment benefits measured at present value.

In 2007, the Group finalised its purchase price allocation for the acquisition of ownership interest in Strategic Minerals Corporation (Note 4) and adjusted the consolidated financial statements as of December 31, 2006 and for the year then ended. In addition, adjustments to provisional values have been made in respect of Highveld Steel and Vanadium Corporation (Note 11) resulting in a change in the amount of investments in associates at December 31, 2006.

Certain reclassifications have been made to the prior years financial statements to conform to the current year presentation, in particular, the intangible assets have been separately presented on the face of the balance sheet.

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, 2007. The changes in accounting policies result from adoption of the following new or revised standards:

- IFRS 7 "Financial Instruments: Disclosures";
- IAS 1 (amended) "Presentation of Financial Statements";
- IFRIC 8 "Scope of IFRS 2";
- IFRIC 10 "Interim Financial Reporting and Impairment".

The Group has also early adopted IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions".

The principal effects of these changes in policies are discussed below.

IFRS 7 "Financial Instruments: Disclosures"

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included in the financial statements (Notes 7 and 28).

IAS 1 "Presentation of Financial Statements"

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 28.

IFRIC 8 "Scope of IFRS 2"

This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to the grantees in accordance with the Incentive Plans (Note 23), the interpretation had no impact on the financial position or performance of the Group.

IFRIC 10 "Interim Financial Reporting and Impairment"

This interpretation requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. The interpretation had no impact on the financial position or performance of the Group during 2007.

IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions"

This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed.

In 2007, the Group ceased to issue new shares to meet its obligations under the share options plans (Note 23). Instead, the Group started to acquire its own shares on the open market for this purpose. The Group has elected to adopt IFRIC Interpretation 11 as of January 1, 2007.

2. Significant Accounting Policies / Basis of Preparation / Changes in Accounting Policies (Continued)

Standards Issued But Not Yet Effective

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

- IFRS 8 "Operating Segments" (effective from January 1, 2009);
- IAS 23 (revised) "Borrowing Costs" (effective from January 1, 2009);
- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective from January 1, 2008);
- IFRS 3 (revised) "Business Combinations" (effective from July 1, 2009);
- IAS 27 (revised) "Consolidated Financial Statements" (effective from July 1, 2009);
- Amendments to IFRS 2 "Share-based Payments" – Vesting Conditions and Cancellation (effective from January 1, 2009);
- IAS 1 (revised) "Presentation of Financial Statements" (effective from January 1, 2009);
- Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 (revised) "Presentation of Financial Statements"– Puttable instruments and obligations arising on liquidation (effective from January 1, 2009).

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.

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 options to acquire ownership interests in Caplink and Velcast represent potential voting rights which provide the Group with the power to exercise control over these subsidiaries.
- The Group determined that the sale of Nerungriugol does not constitute a discontinued operation (Note 12).
- The Group determined that the purchase of production complex of OOO Nizhnesaldinsky Metallurgical Plant is, in substance, business combination (Note 4).
- The Group determined that it obtained an access to the economic benefits associated with potential voting rights in respect of 54.1% shares of Highveld Steel and Vanadium Corporation on February 26, 2007 (Note 11).

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 2007, 2006 and 2005, the Group recognised an impairment loss of $7 million, $20 million and $7 million, respectively (Note 9).

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 2006 and 2007.

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, 2007, 2006 and 2005 was $1,271 million, $112 million and $67 million, respectively. More details are provided in Note 5.

Mineral Reserves

Mineral reserves are a material factor in the Group's computation of depreciation, depletion and amortisation charge. The Group estimates its mineral reserves in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC Code"). Estimation of reserves in accordance with JORC Code involves some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data, which also requires use of subjective judgement and development of assumptions.

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.

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 22).

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, 2007, 2006 and 2005, allowances for doubtful accounts in respect of trade and other receivables have been made in the amount of $79 million, $59 million and $54 million, respectively (Notes 16 and 17).

The Group makes an allowance for obsolete and slow-moving raw materials and spare parts. As of December 31, 2007, 2006 and 2005, the allowance for the obsolete and slow-moving items was $12 million, $13 million and $21 million, respectively (Note 15). 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 30.

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 dollars 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.

2. Significant Accounting Policies / Foreign Currency Transactions (Continued)

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 intercompany 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.

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 was before March 31, 2004) or the fair values (for business combinations for which agreement date was 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

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.

Put Options Over Minority Interests

The Group derecognises minority interests if minority shareholders have a put option over their holdings. The difference between the amount of the liability recognised in the balance sheet over the carrying value of the derecognised minority interests is charged to accumulated profits.

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.

2. Significant Accounting Policies (Continued)

Property, Plant and Equipment

The Group's property, plant and equipment, except for the items acquired prior to January 1, 2002, 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. 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, which is the date of the Group's transition to IFRS.

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	21
Machinery and equipment	4–45	11
Transport and motor vehicles	7–20	10
Other assets	3–15	6

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 and probable 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.

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.

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 is recognised in the income statement.

2. Significant Accounting Policies (Continued)

Intangible Assets Other Than Goodwill

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Expenditures on internally generated intangible assets, excluding capitalised development costs, are expensed as incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite life are reviewed at least at each year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortised, they are tested for impairment annually either individually or at the cash generating unit level.

The table below presents the useful lives of intangible assets.

years	Useful lives	Weighted average useful life
Customer relationships	1–15	11
Trade names and trademarks	5	5
Water rights and environmental permits with definite lives	5	5
Patented and unpatented technology	5	5
Contract terms	49	49
Other	5–10	9

Certain water rights and environmental permits are considered to have indefinite lives as the management believes that these rights will continue indefinitely.

The most part of the Group's intangible assets represents customer relationships arising on business combinations (Note 10).

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.

Financial Assets

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.

2. Significant Accounting Policies / Financial Assets (Continued)

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.

The Group establishes an allowance for impairment of accounts receivable that represents its estimate of incurred losses. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar receivables in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

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.

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.

Financial Guarantee Liabilities
Financial guarantee liabilities issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issue of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the balance sheet date and the amount initially recognised.

Equity
Share Capital
Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares 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.

Treasury Shares
Own equity instruments which are acquired by the Group (treasury shares) are deducted from equity. No gain or loss is recognised in income statement on the purchase, sale, issue or cancellation of the treasury shares.

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.

2. Significant Accounting Policies (Continued)

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 benefits to their employees. The entitlement to these benefits is usually conditional on the completion of a minimum service period. Certain benefit plans require the employee to remain in service up to retirement age. Other employee 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.

The Group includes expected return on plan assets in interest expense caption of the consolidated income statement.

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 23. In valuing equity-settled transactions, no account is taken of any conditions, other than market conditions.

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 19).

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. The moment of transfer of the risks and rewards of ownership is determined by the contract terms.

Rendering of Services

The Group's revenues from rendering of services include electricity, transportation, port and other 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 six steel mills. Mining segment includes ore and coal mining and enrichment.

In 2005–2007, inter-segment 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, 2007, 2006, and 2005:

Year ended December 31, 2007

US$ million	Steel production	Mining	Other operations	Eliminations	Total
Revenue					
Sales to external customers	$12,278	$369	$161	$ –	$12,808
Inter-segment sales	155	1,532	677	(2,364)	–
Total revenue	12,433	1,901	838	(2,364)	12,808
Result					
Segment result	$3,069	$458	$30	$2	$3,559
Unallocated expenses					(36)
Profit from operations					$3,523
Share of profits/(losses) of joint ventures and associates	20	68	–		88
Other income/(expenses), net					(410)
Income tax expense					(984)
Net profit					$2,217
Assets and liabilities					
Segment assets	$9,832	$3,655	$708		$14,195
Investments in joint ventures and associates	4	783	–		787
Unallocated assets					1,398
Total assets					$16,380
Segment liabilities	$3,540	$1,172	$214		$4,926
Unallocated liabilities					5,097
Total liabilities					$10,023
Other segment information					
Additions to property, plant and equipment and intangible assets	$464	$197	$132		$793
Property, plant and equipment and intangible assets acquired in business combinations	2,263	2,272	305		4,840
Depreciation, depletion and amortisation	(501)	(169)	(37)		(707)
Impairment of assets	(4)	(2)	(1)		(7)

3. Segment Information (Continued)

Year ended December 31, 2006

US$ million

	Steel production	Mining	Other operations	Eliminations	Total
Revenue					
Sales to external customers	$8,085	$121	$86	$ –	$8,292
Inter-segment sales	76	1,026	518	(1,620)	–
Total revenue	8,161	1,147	604	(1,620)	8,292
Result					
Segment result	$1,962	$351	$26	$(42)	$2,297
Unallocated expenses					1
Profit from operations					$2,298
Share of profits/(losses) of joint ventures and associates	17	23	–		40
Other income/(expenses), net					(251)
Income tax expense					(637)
Net profit					$1,450
Assets and liabilities					
Segment assets	$4,853	$1,043	$273		$6,169
Investments in joint ventures and associates	233	1,261	–		1,494
Unallocated assets					847
Total assets					$8,510
Segment liabilities	$1,633	$183	$125		$1,941
Unallocated liabilities					2,334
Total liabilities					$4,275
Other segment information					
Additions to property, plant and equipment and intangible assets	$509	$133	$34		$676
Property, plant and equipment and intangible assets acquired in business combinations	107	3	40		150
Depreciation, depletion and amortisation	(228)	(63)	(16)		(307)
Impairment of assets	(19)	(1)	–		(20)

Year ended December 31, 2005

US$ million

	Steel production	Mining	Other operations	Eliminations	Total
Revenue					
Sales to external customers	$6,133	$147	$228	$ –	$6,508
Inter-segment 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 and intangible assets	$611	$125	$37		$773
Property, plant and equipment and intangible assets acquired in business combinations	319	10	–		329
Depreciation, depletion and amortisation	(191)	(54)	(13)		(258)
Impairment of assets	–	(1)	–		(1)

3. Segment Information (Continued)

The additions to the property, plant and equipment and intangible assets based on the location of the Group's subsidiaries for the years ended December 31 were as follows:

US$ million	2007	2006	2005
Russia	**$603**	$629	$746
Ukraine	**65**	–	–
South Africa	**62**	–	–
USA	**39**	2	–
Czech Republic	**13**	31	7
Canada	**5**	–	–
Other	**6**	14	20
	$793	$676	$773

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

US$ million	2007	2006	2005
Russia	**$5,952**	$4,217	$3,905
USA	**1,964**	289	87
Iran	**461**	292	203
Korea	**400**	149	166
Kazakhstan	**379**	259	80
Taiwan	**373**	572	522
Italy	**361**	379	113
South Africa	**319**	7	–
Czech Republic	**277**	263	24
Germany	**263**	184	34
Poland	**179**	77	13
Thailand	**175**	465	477
Austria	**173**	24	8
Philippines	**144**	194	198
Ukraine	**143**	33	27
Great Britain	**119**	54	16
Canada	**91**	15	–
Turkey	**86**	188	40
Vietnam	**82**	89	211
Indonesia	**75**	32	24
China	**72**	98	176
Other countries	**720**	412	184
	$12,808	$8,292	$6,508

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

US$ million	2007	2006	2005
Russia	**$8,791**	$5,674	$4,997
USA	**3,125**	159	–
South Africa	**1,556**	332	–
Luxembourg	**1,099**	720	310
Czech Republic	**574**	451	444
Switzerland	**475**	51	43
Italy	**414**	368	334
Cyprus	**212**	252	80
Ukraine	**66**	–	–
Malta	**33**	34	37
Gibraltar	**17**	445	488
Belgium	**11**	16	12
Panama	**7**	8	9
	$16,380	$8,510	$6,754

4. BUSINESS COMBINATIONS

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 owned 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 the 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:

4. BUSINESS COMBINATIONS / Palini & Bertoli S.p.A. (Continued)

US$ million	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.

In 2005, cash flow on acquisition was as follows:

US$ million	
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. The difference between the cash portion of the purchase consideration ($112 million) and amounts paid on acquisition ($115 million) represents translation difference.

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.

In October 2007, the Group exercised its call option in respect of 25% less one share ownership interest in Palini for €76 million ($107 million at the exchange rate as of the date of the transaction). The change in the fair value of the liability to minority shareholders amounting to $21 million was recorded as a loss within gain/(loss) on financial assets and liabilities caption of the consolidated income statement for the year ended December 31, 2007.

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:

US$ million	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)**

In 2005, cash flow on acquisition was as follows:

US$ million	
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.

4. Business Combinations / Vitkovice Steel (Continued)

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.

At December 31, 2006, the acquisition of Stratcor was accounted for based on provisional values as at the date of authorisation of issue of the financial statements for the year ended December 31, 2006 the subsidiary has not completed valuation of assets in accordance with IFRS 3 "Business Combinations"

In 2007, the Group finalised its purchase price allocation on the acquisition of Stratcor. As a result, the Group recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities as at August 23, 2006. Identifiable assets, liabilities and contingent liabilities of the acquiree and the resulting goodwill were as follows:

US$ million	Initial estimation of fair values	Final estimation of fair values
Property, plant and equipment	$123	$81
Intangible assets	–	27
Other non-current assets	3	3
Inventories	51	57
Accounts and notes receivable	31	31
Cash	39	39
Total assets	**247**	**238**
Non-current liabilities	41	46
Deferred income tax liabilities	22	22
Current liabilities	50	39
Total liabilities	**113**	**107**
Minority interests	**–**	**8**
Net assets	**$134**	**$123**
Fair value of net assets attributable to 72.84% ownership interest	**$97**	**$89**
Purchase consideration	**$125**	**$125**
Goodwill	**$28**	**$36**

In 2006, cash flow on acquisition was as follows:

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

In 2007, the Group repaid the outstanding liability for the purchase of Stratcor.

For the period from August 23, 2006 to December 31, 2006 Stratcor incurred net loss amounting to $5 million.

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 considered as contingent consideration and recognised at fair value which was determined based on expected amounts to be paid, their timing and applicable discount rate.

In 2007, the change in the fair value of the contingent consideration amounting to $11 million was recorded as an adjustment to goodwill recognised on acquisition (Note5).

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 an 11% ownership interest in the South-African subsidiary of Stratcor to historically disadvantaged communities not later than April 2014.

Oregon Steel Mills

On January 12, 2007, the Group acquired approximately 90.65% of the outstanding shares of Oregon Steel Mills, Inc. ("OSM") through a tender offer. OSM, located in the United States and Canada, produces plates, pipes, rails and other long steel products.

In accordance with the US legislation, following the acquisition of the controlling interest in OSM, all the 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. As a result, the Group effectively acquired a 100% ownership interest in OSM. On January 23, 2007, OSM was merged with the Group's wholly owned subsidiary and the merged entity was named as Evraz Oregon Steel Mills, Inc.

Total cash consideration for the acquisition of a 100% ownership interest in OSM amounted to $2,276 million, including transaction costs of $10 million.

As a result, the financial position and the results of operations of OSM were included in the Group's consolidated financial statements beginning January 12, 2007.

In the interim consolidated financial statements for the six-month period ended June 30, 2007, the acquisition of OSM was accounted for based on provisional values. In 2007, the Group finalised its purchase price allocation on the acquisition of OSM, but no adjustments were required to the amounts initially recognised.

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

US$ million	January 12, 2007
Property, plant and equipment	$1,038
Intangible assets	373
Other non-current assets	3
Inventories	442
Accounts and notes receivable	131
Cash	2
Total assets	**1,989**
Deferred income tax liabilities	359
Non-current liabilities	155
Current liabilities	235
Total liabilities	**749**
Minority interests	**46**
Net assets	**$1,194**
Purchase consideration	**$2,276**
Goodwill	**$1,082**

In 2007, cash flow on acquisition was as follows:

US$ million	
Net cash acquired with the subsidiary	$2
Cash paid	(2,269)
Net cash outflow	**$(2,267)**

Certain transaction costs amounting to $4 million were paid in 2006. In 2008, the Group paid $3 million of the transaction costs outstanding at December 31, 2007.

For the period from January 12, 2007 to December 31, 2007, OSM reported net profit amounting to $49 million.

Highveld Steel and Vanadium Corporation

On July 13, 2006, the Group acquired a 24.9% ownership interest in Highveld Steel and Vanadium Corporation Limited ("Highveld"), one of the largest steel producers in South Africa and a leading producer of vanadium products. Cash consideration amounted to $216 million, including $10 million of transaction costs. In addition, the Group entered into option agreements with Anglo South Africa Capital (Proprietary) Limited ("Anglo") and Credit Suisse International ("Credit Suisse"), the major shareholders of Highveld, to increase this stake to 79% within the next 24 months should such a decision be made by the Board of directors of Evraz Group S.A. and subject to receipt of all necessary regulatory approvals.

On February 20, 2007, the European Commission approved the proposed acquisition of the controlling interest in Highveld, subject to certain conditions, and the directors resolved to proceed with the purchase transaction at the meeting held on February 26, 2007.

These conditions included divestment commitments in respect of certain business of Highveld (Note 12) and a commitment 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.

On April 26, 2007, the Group obtained the regulatory approvals of the South African competition authorities and the share options became exercisable. As a result, the financial position and results of operations of Highveld were included in the Group's consolidated financial statements beginning April 26, 2007 as the Group effectively exercised control over Highveld's operations since that date. In the period from July 13, 2006 to April 26, 2007, the Group accounted for its investment in Highveld under the equity method (Note 11).

In the interim consolidated financial statements for the six-month period ended June 30, 2007 the acquisition of Highveld was accounted for based on provisional values as the Group, as of that date, has not completed purchase price allocation in accordance with IFRS 3 "Business Combinations".

The acquisition of a controlling interest in Highveld was accounted for based on provisional values as the Group, 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 Group made certain adjustments to the provisional fair values of Highveld's consolidated identifiable assets, liabilities and contingent liabilities at April 26, 2007 as compared with those values recorded in the Group's interim consolidated financial statements for the six-month period ended June 30, 2007.

4. Business Combinations / Highveld Steel and Vanadium Corporation (Continued)

US$ million	Carrying amounts immediately before the business combination	Initial estimation of fair values	Adjusted provisional fair values
Property, plant and equipment	$207	$382	$431
Intangible assets	–	339	419
Other non-current assets	2	2	2
Inventories	70	69	81
Accounts and notes receivable	161	147	168
Cash and cash equivalents	75	75	75
Assets of disposal groups classified as held for sale (Note 12)	170	536	338
Total assets	**685**	**1,550**	**1,514**
Non-current liabilities	42	42	54
Deferred income tax liabilities	36	183	191
Current liabilities	316	325	329
Liabilities directly associated with disposal groups classified as held for sale (Note 12)	24	44	44
Total liabilities	**418**	**594**	**618**
Net assets	**$267**	**$956**	**$896**

On April 26, 2007, the Group recognised revaluation surplus amounting to $34 million in respect of the change in fair values of identifiable assets, liabilities and contingent liabilities of Highveld allocated to the previously acquired stakes.

In 2007, cash flow on acquisition was as follows:

US$ million	
Net cash acquired with the subsidiary	$75
Cash paid	(254)
Net cash outflow	**$(179)**

For the period from April 26, 2007 to December 31, 2007, Highveld reported net profit amounting to $105 million.

The acquisition of Highveld was achieved in stages. Cost of the business combination at each stage, the provisional values of Highveld's identifiable consolidated assets, liabilities and contingent liabilities and goodwill are summarised in the table below:

US$ million	July 13, 2006 (Note 11)	February 26, 2007 (Note 11)	April 26, 2007 (provisional)	Total
Ownership interest acquired	24.9%	54.1%	0%	79%
Cost of business combination	216	442	–	658
Fair values of Highveld's identifiable consolidated assets, liabilities and contingent liabilities	731	834	896	–
Goodwill/(excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition)	34	(9)	–	–

Goodwill includes $16 million associated with the disposal group which, subsequent to July 13, 2006, was classified as held for sale (Note 12).

On May 4, 2007, the Group exercised its option and acquired a 29.2% ownership interest in Highveld for cash consideration of $238 million from Anglo. In addition, the Group incurred transaction costs amounting to $2 million.

In accordance with the South African legislation, an acquirer, which purchases 35% of the acquiree's share capital, is obliged to offer to minority shareholders to sell their holdings.

Following this requirement, on June 4, 2007, the Group made an offer to acquire the entire share capital of Highveld, other than those shares already held by the Group, at a price of $11.40 per share.

The Group derecognised minority interests in the amount of $189 million representing 21% ownership interest in Highveld, and accrued a liability to minority shareholders in the amount of $237 million. The liability was measured at a price of $11.40 per share. The excess of the amount of the liability over the carrying value of the derecognised minority interests amounting to $48 million was charged to accumulated profits.

On July 16, 2007, the Group increased the offer price from the South African rands equivalent of $11.40 per share to 93 South African rands ($13.03 at the exchange rate as of June 4, 2007).

Upon the increase of the offer price, the Group remeasured the liability to minority shareholders and recorded the increase amounting to $34 million as a loss in gain/(loss) on financial assets and liabilities caption of the consolidated income statement for the year ended December 31, 2007.

As a result of this offer, the Group acquired 1,880,750 shares of Highveld (1.91% of the share capital) for 175 million South African rands ($25 million at the exchange rates as of the dates of the transactions). On August 6, 2007, upon the closing of the offer, the Group recognised minority interests in respect of the shares retained by minority shareholders. The difference between the carrying value of minority interests recognised and the liability to minority shareholders, which was derecognised at that date, amounting to $73 million was credited to accumulated profits.

4. Business Combinations / Highveld Steel and Vanadium Corporation (Continued)

On September 28, 2007, the Credit Suisse option for the acquisition of 24.9% ownership interest in Highveld was exercised by the Group for $219 million, comprising $207 million offset with the restricted deposit (Note 14) and a cash consideration of $12 million. As the liability under this put option was initially measured at $202 million, the Group recorded the increase amounting to $17 million as a loss in gain/(loss) on financial assets and liabilities caption of the consolidated income statement for the year ended December 31, 2007.

At December 31, 2007, the Group is the owner of 80,223,738 Highveld's shares (80.91% of the Highveld's share capital).

West Siberian Heat and Power Plant

On May 3, 2007, the Group acquired a 93.35% ownership interest in OAO West Siberian Heat and Power Plant ("ZapsibTETs"), an energy generating company located in Novokuznetsk, the Russian Federation, for cash consideration of 5,945 million roubles ($231 million at the exchange rate as of the date of the transaction). In addition, the Group incurred transaction costs of $1 million.

As a result, the financial position and the results of operations of ZapsibTETs were included in the Group's consolidated financial statements beginning May 3, 2007.

In the interim consolidated financial statements for the six-month period ended June 30, 2007 the acquisition of ZapsibTETs was accounted for based on provisional values as the Group, as of that date, has not completed purchase price allocation in accordance with IFRS 3 "Business Combinations". In 2007, the Group finalised its purchase price allocation on the acquisition of the controlling interest in ZapsibTETs and recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities as at May 3, 2007, which were as follows:

US$ million	Initial estimation of fair values	Final estimation of fair values
Property, plant and equipment	$189	$306
Other non-current assets	1	1
Inventories	3	3
Accounts and notes receivable	2	2
Cash	13	13
Total assets	**208**	**325**
Deferred income tax liabilities	31	60
Non-current liabilities	–	1
Current liabilities	6	6
Total liabilities	**37**	**67**
Net assets	**$171**	**$258**
Fair value of net assets attributable to 93.35% ownership interest	**$159**	**$242**
Purchase consideration	**$232**	**$232**
Goodwill	**$73**	**$ –**
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**$ –**	**$(10)**

In 2007, cash flow on acquisition was as follows:

US$ million	
Net cash acquired with the subsidiary	$13
Cash paid	(228)
Net cash outflow	**$(215)**

The difference between the cash portion of the purchase consideration ($232 million) and amounts paid on acquisition ($228 million) represents translation difference.

For the period from May 3, 2007 to December 31, 2007, ZapsibTETs reported net loss amounting to $9 million.

In accordance with the Russian legislation, an acquirer, which purchases at least 30% of the acquiree's share capital, is obliged to offer to other shareholders to sell their holdings ("obligatory offer"). Following this requirement, on June 4, 2007, the Group made an offer to minority shareholders of ZapsibTETs to sell their stakes to the Group at a price of 10.59 roubles per share ($0.41 at the exchange rate as of June 4, 2007). The total purchase consideration for the ownership interests that could be acquired amounts to 427 million Russian roubles ($17 million at the exchange rate as of June 4, 2007). The Group derecognised all minority interests in ZapsibTETs amounting to $16 million and accrued a liability to the minority shareholders in the amount of $17 million. The excess of the amount of the liability over the carrying value of the derecognised minority interests amounting to $1 million was charged to accumulated profits.

During the offer the Group acquired 4.44% shares of ZapsibTETs and became subject to the provisions of the Russian legislation allowing a shareholder owning more than 95% of a company to increase its stake to 100%. On November 12, 2007, the Group started the buy out of minority shares and completed the transaction in January 2008.

ZAO Yuzhkuzbassugol

On June 8, 2007, the Group acquired an additional 50% ownership interest in ZAO Yuzhkuzbassugol ("Yuzhkuzbassugol"), the Group's associate, for cash consideration of $871 million, including transaction costs of $9 million, increasing the Group's ownership interest in Yuzhkuzbassugol to 100%.

As a result, the financial position and results of operations of Yuzhkuzbassugol were included in the Group's consolidated financial statements beginning June 8, 2007 as the Group effectively exercised control over Yuzhkuzbassugol's operations since that date. In the period from January 1, 2007 to June 8, 2007, the Group accounted for its investment in Yuzhkuzbassugol under the equity method (Note 11).

The acquisition of a controlling interest in Yuzhkuzbassugol was accounted for based on provisional values as the Group, 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 Group made certain adjustments to the provisional fair values of Yuzhkuzbassugol's consolidated identifiable assets, liabilities and contingent liabilities at June 8, 2007 as compared with those values recorded in the Group's interim consolidated financial statements for the six-month period ended June 30, 2007.

4. Business Combinations / ZAO Yuzhkuzbassugol (Continued)

The table below sets forth the provisional fair values of Yuzhkuzbassugol's consolidated identifiable assets, liabilities and contingent liabilities at June 8, 2007:

US$ million	Carrying amounts immediately before the business combination	Initial estimation of fair values	Adjusted provisional fair values
Mineral reserves	$ 1,170	$ 1,578	$1,403
Other property, plant and equipment	663	663	856
Investments in associates (Note 11)	154	211	204
Other non-current assets	45	45	45
Inventories	35	38	38
Accounts and notes receivable	97	99	115
Cash	17	17	17
Total assets	2,181	2,651	2,678
Deferred income tax liabilities	298	394	402
Non-current liabilities	180	145	192
Current liabilities	321	361	327
Total liabilities	799	900	921
Minority interests	9	9	15
Net assets	**$1,373**	**$1,742**	**$1,742**
Fair value of net assets attributable to 50% ownership interest		**$871**	**$871**
Purchase consideration		**$871**	**$871**

On June 8, 2007, the Group recognised revaluation surplus amounting to $199 million in respect of the change in fair values of identifiable assets, liabilities and contingent liabilities of Yuzhkuzbassugol allocated to the previously acquired stake.

In 2007, cash flow on acquisition was as follows:

US$ million	
Net cash acquired with the subsidiary	$17
Cash paid	(871)
Net cash outflow	**$(854)**

For the period from June 8, 2007 to December 31, 2007, Yuzhkuzbassugol reported net loss amounting to $70 million.

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.

On December 20, 2007, the Group acquired 100% in Nikom, a.s., ("Nikom"), a ferrovanadium producer located in the Czech Republic, for cash consideration of $43 million. The acquisition of Nikom was accounted for based on provisional values as the Group, 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". Goodwill of $37 million arising on the acquisition of Nikom was recorded in the consolidated balance sheet as of December 31, 2007.

Disclosure of Other Information in Respect of Business Combinations

As the acquired subsidiaries either did not prepare financial statements in accordance with IFRS before the business combinations or applied accounting policies that are significantly different from the Group's accounting policies, 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.

Except for the relevant disclosures in respect of Yuzhkuzbassugol and Highveld, 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.

5. GOODWILL

Negative Goodwill

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

US$ million	Gross book value	Accumulated amortisation	Total
At December 31, 2004	**(436)**	**73**	**(363)**
Change in accounting policies: derecognition of negative goodwill	436	(73)	363
At January 1, 2005	**$ –**	**$ –**	**$ –**

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 11).

Goodwill

The table below presents movement in the carrying amount of goodwill:

US$ million	Carrying amount
At December 31, 2004	**$ –**
Goodwill recognised on acquisitions of subsidiaries (Note 4)	72
Impairment of goodwill (Note 4)	(1)
Translation difference	(4)
At December 31, 2005	**67**
Goodwill recognised on acquisitions of subsidiaries (Note 4)	37
Translation difference	8
At December 31, 2006	**112**
Goodwill recognised on acquisitions of subsidiaries (Note 4)	1,119
Goodwill previously recognised in investments under the equity method (Note 11)	34
Goodwill allocated to disposal groups classified as held for sale (Note 11)	(16)
Adjustment to contingent consideration (Note 4)	11
Translation difference	11
At December 31, 2007	**$1,271**

Goodwill relates to the assembled workforce and synergy from integration of the acquired subsidiaries into the Group. The carrying amount of goodwill was allocated among cash generating units as follows at December 31:

US$ million	2007	2006	2005
Oregon Steel Mills	**$1,082**	$ –	$ –
Oregon Steel Portland Mill	*411*	–	–
OSM Tubular – Portland Mill	*103*	–	–
Rocky Mountain Steel Mills	*411*	–	–
OSM Tubular – Camrose Mills	*157*	–	–
Palini e Bertoli	**84**	75	67
Strategic Minerals Corporation	**47**	36	–
Nikom, a.s.	**37**	–	–
Highveld	**20**	–	–
Evro-Aziatskaya Energy Company	**1**	1	–
	$1,271	$112	$67

The cash generating units within Evraz Oregon Steel Mills represent the smallest identifiable groups of assets, primarily individual mills, that generate cash flows that are largely independent from other assets or groups of assets.

Goodwill was tested for impairment at various dates during the second half of 2007.

The recoverable amount of goodwill was based on value in use determined based on future cash flow analysis covering a period as disclosed below. For periods beyond this projection a terminal value was calculated. Cash flow projections have been estimated by extrapolating the budget for 2008 using a zero real growth rate. The budgets were based on the expected commodity prices.

	Period of forecast, years	Discount rate	Commodity	Average price of the commodity per ton
Evraz Oregon Steel Mills	10	10.4%	steel products	$1,019
Palini e Bertoli	10	11.7%	steel plates	€ 628
Strategic Minerals Corporation	13	11.2%	ferrovanadium products	$37,229
Nikom	10	12.1%	ferrovanadium products	$35,640
Highveld	11	12.5%	ferrovanadium products	$34,008
			steel products	$728

5. Goodwill (Continued)

The above mentioned goodwill will not be impaired unless the assumptions used for impairment testing substantially change. Management believes that no reasonably possible change in any of the key assumptions would cause the carrying values of cash-generating units to materially exceed their recoverable amounts.

6. ACQUISITIONS OF MINORITY INTERESTS IN SUBSIDIARIES

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.

On December 27, 2007, the Group acquired an additional minority interest of 19.9% in LDPP for cash consideration of $10 million, which approximates the carrying value of the net assets attributable to the acquired shares.

Minority Interests Derecognised in 2006

In 2005, the Group acquired minority interests in West Siberian Iron and Steel Plant ("Zapsib") (2.08% ownership interest) for cash consideration of $41 million. The excess of the amounts of consideration over the carrying values of minority interests acquired amounting to $23 million was charged to accumulated profits. Purchases of minority interests in 2006 had no significant impact on the Group's financial statements.

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 at least 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. As such, a controlling shareholder obtained a call option and minority shareholders obtained a put option for the minority shares in a subsidiary.

At July 1, 2006, the Group was the owner of 96.68% shares of Zapsib and 97.72% shares of KGOK. At this date, the Group derecognised minority interests of $42 million and accrued a liability to minority shareholders in the amount of $106 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 $64 million was charged to accumulated profits.

US$ million	Minority interests derecognised	Fair value of liability at July 1, 2006	Charged to accumulated profits
Zapsib	$26	$64	$38
KGOK	16	42	26
	$42	**$106**	**$64**

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

In 2007, the liability to minority shareholders of Zapsib and KGOK as of December 31, 2006 was measured by independent experts. The excess of the new valuation over the liability to minority shareholders recognised as of December 31, 2006 amounting to $24 million was charged to accumulated profits in the accompanying statement of changes in equity for the year ended December 31, 2007. In addition, the Group derecognised minority interests in the amount of $3 million in respect of Zapsib's subsidiaries.

Minority Interests Derecognised in 2007

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

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.

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.

In March 2007, the Group made voluntary offers 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.

At the dates of voluntary offers, the Group derecognised minority interests in Nizhny Tagil Iron and Steel Plant, Vysokogorsky Mining-and-Processing Integrated Works and Nakhodka Trade Sea Port in the amount of $103 million and accrued a liability to minority shareholders in the amount of $174 million. The liabilities were measured based on the expected amounts to be paid to minority shareholders being the highest price for the shares during the period of six months up to the date of its recognition, as required by the legislation. The excess of the amount of the liability over the carrying value of the derecognised minority interests amounting to $71 million was charged to accumulated profits.

6. Acquisitions Of Minority Interests In Subsidiaries / Minority Interests Derecognised in 2007 (Continued)

US$ million	Minority interests derecognised	Fair value of liability at the date of derecognition	Charged to accumulated profits
Nizhny Tagil Iron and Steel Plant	$92	$162	$70
Vysokogorsky Mining-and-Processing Integrated Works	9	9	–
Nakhodka Trade Sea Port	2	3	1
	$103	**$174**	**$71**

In the course of the voluntary offer the Group acquired minority interests of 1.09%, 0.83% and 1.54% in Nizhny Tagil Iron and Steel Plant, Vysokogorsky Mining-and-Processing Integrated Works and Nakhodka Trade Sea Port, respectively, for cash consideration of $37 million, $2 million and $1 million, respectively.

As a result, the Group has obtained in each of the above mentioned subsidiaries an ownership interest exceeding 95% of the share capital. As such, the Group became subject to the regulations that require 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 require the minority shareholders to sell their stakes.

Buyout of Minority Shares in Subsidiaries

In August 2007, in accordance with Russian legislation allowing a shareholder owning more than 95% of a company to increase its stake to 100%, the Group started the buyout of minority shares of its five Russian subsidiaries (Nizhny Tagil Iron and Steel Plant, West Siberian Iron and Steel Plant, Kachkanarsky Mining-and-Processing Integrated Works, Vysokogorsky Mining-and-Processing Integrated Works and Nakhodka Trade Sea Port). The buyouts have been successfully completed in October 2007.

7. INCOME AND EXPENSES

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

US$ million	2007	2006	2005
Cost of inventories recognised as expense	**$(4,996)**	$(2,900)	$(2,509)
Staff costs, including social security taxes	**(1,535)**	(909)	(769)
Depreciation, depletion and amortisation	**(698)**	(303)	(245)

Interest expense consisted of the following for the years ended December 31:

US$ million	2007	2006	2005
Bank interest	**$(285)**	$(98)	$(63)
Interest on guaranteed notes	**(97)**	(108)	(61)
Finance charges payable under finance leases	**(8)**	(6)	(4)
Interest on liabilities relating to employee benefits and expected return on plan assets	**(10)**	(6)	(5)
Discount adjustment on provisions	**(4)**	(2)	(3)
Interest on earn out and synergy payments	**(1)**	(1)	–
Other	**(4)**	(8)	(6)
	$(409)	$(229)	$(142)

Interest income consisted of the following for the years ended December 31:

US$ million	2007	2006	2005
Interest on bank accounts and deposits	**$24**	$25	$13
Interest on loans receivable	**7**	1	2
Interest on accounts receivable	**9**	–	–
Other	**1**	1	–
	$41	**$27**	**$15**

Gain/(loss) on financial assets and liabilities included the following for the years ended December 31:

US$ million	2007	2006	2005
Re-measurement of liabilities to minority shareholders at fair value (Notes 4 and 6)	**$(72)**	$12	$ –
Gain/(loss) on extinguishment of debts (Notes 17 and 25)	**–**	13	8
Amortisation of financial guarantee contracts	**1**	1	–
	$(71)	**$26**	**$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.

8. INCOME TAXES

The Group's income was subject to tax at the following tax rates:

	2007	2006	2005
Russia	**24.00%**	24.00%	24.00%
Cyprus	**10.00%**	10.00%	10.00%
Czech Republic	**24.00%**	24.00%	26.00%
Italy	**37.25%**	37.25%	37.25%
South Africa	**29.00%**	29.00%	–
Switzerland	**25.38% and 10.90%**	24% and 11.60%	–
USA	**35.00%**	35.00%	–

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.

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

US$ million	2007	2006	2005
Current income tax expense	**$(1,064)**	$(676)	$(466)
Adjustment in respect of income tax of previous years	**11**	(2)	(7)
Deferred tax benefit relating to changes in tax rates	**5**	–	–
Deferred income tax (expense)/benefit Relating to origination and reversal of temporary differences	**64**	41	(2)
Income tax expense reported in the consolidated income statement	**$(984)**	$(637)	$(475)

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:

US$ million	2007	2006	2005
Profit before income tax	**$3,201**	$2,087	$1,528
At the Russian statutory income tax rate of 24%	**(768)**	(501)	(367)
Adjustment in respect of income tax of previous years	**11**	(2)	(7)
Effect of non-deductible expenses and other non-temporary differences	**(48)**	(105)	(37)
Effect of the difference in tax rates on dividend income from associates and joint ventures	**31**	10	11
Tax on dividends distributed by the Group's subsidiaries to parent company	**(78)**	(45)	(44)
Effect of the difference in tax rates in countries other than the Russian Federation	**(37)**	7	6
Deferred income tax provided for undistributed earnings of the Group's subsidiaries	**(54)**	(11)	(18)
Share of profits in joint ventures and associates	**(12)**	(1)	3
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**5**	–	4
Gain/(loss) on financial assets and liabilities	**(17)**	3	–
Utilisation of previously unrecognised tax losses	**–**	6	–
Change in allowance for deferred tax asset	**(17)**	2	(26)
Income tax expense reported in the consolidated income statement	**$(984)**	$(637)	$(475)

8. Income Taxes (Continued)

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

US$ million	2007	Change recognised in income statement	Change due to business combinations	Translation difference	2006	Reclassification to assets held-for-sale	Change recognised in income statement	Change due to business combinations	Translation difference	2005
Deferred income tax liabilities:										
Valuation and depreciation of property, plant and equipment	**$1,177**	**(47)**	**862**	**50**	$312	$ –	$(17)	$25	$26	$278
Valuation and amortisation of intangible assets	**237**	**(24)**	**251**	**3**	7	–	–	7	–	–
Undistributed earnings of subsidiaries	**54**	**43**	**–**	**–**	11	–	(7)	–	–	18
Other	**29**	**(22)**	**25**	**4**	22	–	(9)	10	3	18
	1,497	**(50)**	**1,138**	**57**	352	–	(33)	42	29	314
Deferred income tax assets:										
Tax losses available for offset	**67**	**23**	**12**	**2**	30	(2)	3	–	1	28
Accrued liabilities	**143**	**(3)**	**97**	**6**	43	–	6	9	3	25
Impairment of accounts receivable	**24**	**10**	**1**	**1**	12	(1)	(3)	–	2	14
Other	**56**	**6**	**16**	2	32	(5)	–	8	4	25
	290	**36**	**126**	**11**	117	(8)	6	17	10	92
Valuation allowance	**(48)**	**(17)**	**–**	–	(31)	–	2	(4)	–	(29)
	242	**19**	**126**	**11**	86	(8)	8	13	10	63
Net deferred income tax asset	**22**	**9**	**–**	**2**	11	(8)	3	–	2	14
Net deferred income tax liability	**$1,277**	**(60)**	**1,012**	**48**	$277	$ –	$(38)	$29	$21	$265

As of December 31, 2007, 2006 and 2005, deferred income taxes have been provided for in respect of undistributed earnings of the Group's subsidiaries amounting to $1,046 million, $255 million and $465 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, 2007, the Group has not recognised a deferred tax liability and deferred tax asset in respect of temporary differences of $3,685 million and $857 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 12.5%.

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, 2007, the unused tax losses carry forward approximated to $369 million (2006: $152 million, 2005: $156 million). The Group recognised deferred tax asset of $22 million (2006: $2 million, 2005: $2 million) in respect of unused tax losses. Deferred tax asset in the amount of $45 million (2006: $28 million, 2005: $26 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 $283 million (2006: $146 million, 2005: $139 million) for which deferred tax asset was not recognised arose in companies registered in Luxembourg, Cyprus and Russia. Losses in the amount of $270 million (2006: $130 million, 2005: $119 million) are available indefinitely for offset against future taxable profits of the companies in which the losses arose and $13 million (2006: $16 million, 2005: $20 million) will expire during 2012–2017.

9. PROPERTY, PLANT AND EQUIPMENT

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

US$ million	2007	2006	2005
Cost:			
Land	**$148**	$62	$58
Buildings and constructions	**1,950**	1,224	823
Machinery and equipment	**4,427**	2,258	1,689
Transport and motor vehicles	**396**	257	186
Mining assets	**2,266**	350	315
Other assets	**113**	69	52
Assets under construction	**676**	474	670
	9,976	4,694	3,793
Accumulated depreciation and depletion:			
Buildings and constructions	**(320)**	(149)	(99)
Machinery and equipment	**(1,158)**	(753)	(534)
Transport and motor vehicles	**(98)**	(55)	(31)
Mining assets	**(194)**	(36)	(34)
Other assets	**(37)**	(38)	(25)
	(1,807)	(1,031)	(723)
Government grants:			
Machinery and equipment, net	**(8)**	(8)	(8)
	$8,161	$3,655	$3,062

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of $114 million, $117 million and $127 million as of December 31, 2007, 2006 and 2005, respectively.

The movement in property, plant and equipment for the year ended December 31, 2007 was as follows:

US$ millions	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Mining assets	Other assets	Assets under construction	Total
At December 31, 2006, cost, net of accumulated depreciation and government grants	$62	$1,075	$1,497	$202	$314	$31	$474	$3,655
Reclassifications	(2)	(3)	–	–	–	–	5	–
Additions	–	2	9	12	34	–	666	723
Assets acquired in business combination	88	403	1,634	42	1,646	49	185	4,047
Assets put into operation	–	175	391	72	30	16	(684)	–
Disposals	(6)	(13)	(20)	(7)	(3)	(2)	(10)	(61)
Depreciation & depletion charge	–	(94)	(399)	(37)	(55)	(20)	–	(605)
Impairment loss	–	(1)	(3)	–	(1)	–	(2)	(7)
Disposal of assets due to sale of a subsidiary	–	(2)	–	–	–	–	–	(2)
Transfer to assets held for sale	(1)	(12)	(8)	–	–	–	–	(21)
Translation difference	7	100	160	14	107	2	42	432
At December 31, 2007, cost, net of accumulated depreciation and government grants	**$148**	**$1,630**	**$3,261**	**$298**	**$2,072**	**$76**	**$676**	**$8,161**

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

US$ millions	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	$27	$670	$3,062
Reclassifications	–	(12)	10	3	8	(1)	(8)	–
Additions	–	1	4	25	17	1	625	673
Assets acquired in business combination	8	43	55	1	10	1	5	123
Assets put into operation	3	289	408	54	–	9	(763)	–
Disposals	–	(5)	(12)	(2)	–	(1)	(10)	(30)
Depreciation & depletion charge	–	(45)	(203)	(25)	(20)	(8)	–	(301)
Impairment loss	–	(1)	(2)	–	–	–	(17)	(20)
Disposal of assets due to sale of a subsidiary	–	(1)	(4)	(21)	–	–	(1)	(27)
Transfer to assets held for sale	(15)	–	(25)	–	(21)	–	(87)	(148)
Change in site restoration provision	2	1	–	–	13	–	–	16
Translation difference	6	81	119	12	26	3	60	307
At December 31, 2006, cost, net of accumulated depreciation and government grants	$62	$ 1,075	$1,497	$202	$314	$31	$474	$3,655

9. Property, Plant and Equipment (Continued)

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

US$ million	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	$20	$499	$2,392
Reclassifications	–	17	(17)	–	–	–	–	–
Additions	1	–	5	18	17	–	728	769
Assets acquired in business combination	13	80	200	2	9	7	6	317
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)	(8)	–	(255)
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	$27	$670	$3,062

10. INTANGIBLE ASSETS OTHER THAN GOODWILL

Intangible assets consisted of the following as of December 31:

US$ million	2007	2006	2005
Cost:			
Customer relationships	**$714**	$7	$ –
Trade names and trademarks	**31**	3	–
Water rights and environmental permits	**63**	6	–
Patented and unpatented technology	**10**	10	–
Contract terms	**66**	1	–
Other	**46**	17	22
	930	44	22
Accumulated amortisation:			
Customer relationships	**(87)**	(1)	–
Trade names and trademarks	**(6)**	–	–
Water rights and environmental permits	**(2)**	–	–
Patented and unpatented technology	**(3)**	(1)	–
Contract terms	**–**	–	–
Other	**(26)**	(5)	(3)
	(124)	(7)	(3)
	$806	$37	$19

As of December 31, 2007, water rights with a carrying value of $42 million had indefinite useful life.

The movement in intangible assets for the year ended December 31, 2007 was as follows:

US$ million	Customer relationships	Trade names and trademarks	Water rights and environ-mental permits	Patented and unpatented technology	Contract terms	Other	Total
At December 31, 2006, cost, net of accumulated amortisation	$6	$3	$6	$9	$1	$12	$37
Additions	–	–	–	–	65	5	70
Assets acquired in business combination	697	28	57	–	–	11	793
Amortisation charge	(87)	(6)	(1)	(2)	–	(6)	(102)
Emission allowances granted	–	–	–	–	–	1	1
Emission allowances used for the period	–	–	–	–	–	(4)	(4)
Impairment loss	–	–	–	–	–	(1)	(1)
Translation difference	11	–	(1)	–	–	2	12
At December 31, 2007, cost, net of accumulated amortisation	**$627**	**$25**	**$61**	**$7**	**$66**	**$20**	**$806**

In 2007, the Group acquired a 51% ownership interest in Frotora Holdings Ltd. (Cyprus). This purchase does not qualify for a business combination as the acquired company does not constitute a business. The company's assets comprise only rights under a long-term lease of land to be used for a construction of a commercial sea port in the Ukraine. These rights were valued at $65 million and included in contract terms category of the intangible assets.

The movement in intangible assets for the year ended December 31, 2006 was as follows:

US$ million	Customer relationships	Trade names and trademarks	Water rights and environ-mental permits	Patented and unpatented technology	Contract terms	Other	Total
At December 31, 2005, cost, net of accumulated amortisation	$ –	$ –	$ –	$ –	$ –	$19	$19
Additions	–	–	–	–	–	3	3
Assets acquired in business combination	7	3	6	10	1	–	27
Amortisation charge	(1)	–	–	(1)	–	(4)	(6)
Emission allowances granted	–	–	–	–	–	15	15
Emission allowances used for the period	–	–	–	–	–	(9)	(9)
Sale of emission allowances	–	–	–	–	–	(4)	(4)
Impairment loss	–	–	–	–	–	(9)	(9)
Translation difference	–	–	–	–	–	1	1
At December 31, 2006, cost, net of accumulated amortisation	$6	$3	$6	$9	$1	$12	$37

10. Intangible Assets Other Than Goodwill (Continued)

The movement in intangible assets for the year ended December 31, 2005 was as follows:

US$ million	Customer relationships	Trade names and trademarks	Water rights and environmental permits	Patented and unpatented technology	Contract terms	Other	Total
At December 31, 2004, cost, net of accumulated amortisation	$ –	$ –	$ –	$ –	$ –	$7	$7
Additions	–	–	–	–	–	4	4
Assets acquired in business combination	–	–	–	–	–	12	12
Amortisation charge	–	–	–	–	–	(3)	(3)
Sale of emission allowances	–	–	–	–	–	(2)	(2)
Translation difference	–	–	–	–	–	1	1
At December 31, 2005, cost, net of accumulated amortisation	$ –	$ –	$ –	$ –	$ –	$19	$19

Amortisation of customer-related intangible assets in the amount of $93 million and $1 million were included in selling and distribution costs in 2007 and 2006, respectively.

11. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

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

The movement in investments in joint ventures and associates was as follows:

US$ million	Corber	Yuzhkuz-bassugol	Highveld	Kazankov-skaya	Other associates	Total
Investment at December 31, 2004	$195	$ –	$ –	$ –	$2	$197
Change in accounting policies: derecognition of negative goodwill (Note 2)	27	–	–	–	–	27
Investment at January 1, 2005	222	–	–	–	2	224
Additional investments	–	675	–	–	–	675
Share of profit/(loss)	56	–	–	–	1	57
Dividends paid	(44)	–	–	–	(1)	(45)
Additional paid-in capital in respect of acquisition of minority interests (Note 19)	3	–	–	–	–	3
Translation difference	(8)	–	–	–	–	(8)
Investment at December 31, 2005	**229**	**675**	**–**	**–**	**2**	**906**
Additional investments	225	–	216	–	1	442
Share of profit/(loss)	39	(28)	17	–	12	40
Dividends paid	–	(32)	(9)	–	(8)	(49)
Reorganisation of ownership structure within a joint venture	(1)	–	–	–	–	(1)
Additional paid-in capital in respect of acquisition of minority interests (Note 19)	–	1	–	–	–	1
Sale of shares in a subsidiary to minority shareholders (Note 19)	58	–	–	–	–	58
Cost of guarantee issued to a joint venture	2	–	–	–	–	2
Translation difference	25	63	7	–	–	95
Investment at December 31, 2006	**577**	**679**	**231**	**–**	**7**	**1,494**
Additional investments	–	–	442	–	–	442
Share of profit/(loss)	82	(10)	20	(5)	1	88
Dividends paid	(120)	–	(15)	–	(1)	(136)
Assets acquired in business combination (Note 4)	–	–	–	204	2	206
Acquisition of controlling interests (Note 4)	–	(682)	(684)	–	(5)	(1,371)
Translation difference	34	13	6	11	–	64
Investment at December 31, 2007	**$573**	**$ –**	**$ –**	**$210**	**$4**	**$787**

11. Investments in Joint Ventures and Associates (Continued)

Corber Enterprises Limited

Corber Enterprises Limited ("Corber") is a joint venture established in 2004 for the purpose of exercising joint control over economic activities of Raspadskaya Mining Group.

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:

US$ million	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.

In addition, in 2006, the Group settled its liabilities under the interest-bearing promissory notes of Mastercroft Mining Limited, the Group's subsidiary, in the amount of $20 million payable in connection with the acquistion of a 50% ownership interest in Corber in 2004.

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

US$ million	2007	2006	2005
Mineral reserves	$1,163	$1,148	$246
Other property, plant and equipment	587	474	299
Other non-current assets	10	9	4
Inventories	51	27	18
Accounts and notes receivable	245	365	83
Cash	84	56	42
Total assets	**2,140**	**2,079**	**692**
Non-current liabilities	328	52	26
Deferred income tax liabilities	297	296	77
Current liabilities	107	363	113
Total liabilities	**732**	**711**	**216**
Minority interests	**260**	216	18
Net assets	**$1,148**	**$1,152**	**$458**

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

US$ million	2007	2006	2005
Revenue	$784	$472	$549
Cost of revenue	(374)	(271)	(330)
Other expenses, including income taxes	(194)	(116)	(103)
Net profit	**$216**	**$85**	**$116**
Attributable to:			
Equity holders of the parent entity	$170	$79	$113
Minority interests	46	6	3
Net profit	**$216**	**$85**	**$116**
Unrealised profits on transactions with the joint venture	(7)	–	–
Group's share of profits of the joint venture	**$82**	**$39**	**$56**

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 bore interest of LIBOR plus 0.85% per annum and matured on June 30, 2007. The Group recognised a fair value of the guarantee as a liability in the amount of $2 million.

11. Investments in Joint Ventures and Associates (Continued)

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 17). Yuzhkuzbassugol, a closed joint stock company, is a vertically integrated group being one of the largest coking 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:

US$ million	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:

US$ million	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	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 periods from its acquisition till the date when the entity became a subsidiary of the Group:

US$ million	Period from January 1 to June 8, 2007	Year ended December 31, 2006
Revenue	$258	$595
Cost of revenue	(194)	(482)
Other expenses, including income taxes	**(84)**	**(170)**
Net loss	**$(20)**	**$(57)**
Attributable to:		
Equity holders of the parent entity	$(20)	$(54)
Minority interests	–	(3)
Net loss	**$(20)**	**$(57)**
Group's share of loss of the associate	**$(10)**	**$(28)**

11. Investments in Joint Ventures and Associates (Continued)

Kazankovskaya

In 2007, assets acquired in business combination represent investment in ZAO Kazankovskaya, an associate of Yuzhkuzbassugol (Note 4). The Group owns 50% in ZAO Kazankovskaya. ZAO Kazankovskaya is a coal mining company.

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

US$ million	December 31, 2007	June 8, 2007
Mineral reserves	$584	$556
Other property, plant and equipment	59	59
Inventories	1	1
Accounts receivable	8	13
Other current assets	3	2
Total assets	**655**	**631**
Non-current liabilities	91	83
Deferred income tax liabilities	133	130
Current liabilities	11	11
Total liabilities	**235**	**224**
Net assets	**$420**	**$407**

The table below sets forth Kazankovskaya's income and expenses for the period from acquisition of the controlling interest in Yuzhkuzbassugol:

US$ million	Period from June 8 to December 31, 2007
Revenue	$7
Cost of revenue	(11)
Other expenses, including income taxes	(5)
Net loss	**$(9)**
Group's share of loss of the associate	**$(5)**

Highveld Steel and Vanadium Corporation

On July 13, 2006, the Group acquired a 24.9% ownership interest in Highveld (Note 4). The Group determined that its ownership interest in Highveld represents an investment in an associate and accounted for it under the equity method.

In 2006, 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 the financial statements for the year ended December 31, 2006, had not completed valuation of assets in accordance with IFRS 3. In 2007, the Group completed purchase price allocation and recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities of Highveld as of July 13, 2006.

The table below sets forth the fair values of Highveld's consolidated identifiable assets, liabilities and contingent liabilities at July 13, 2006:

US$ million	Initial estimation of fair values	Final estimation of fair values
Mineral reserves	$241	$ –
Other property, plant and equipment	306	419
Intangible assets	–	352
Other non-current assets	18	4
Inventories	50	74
Accounts and notes receivable	112	149
Cash and cash equivalents	92	108
Assets of disposal groups classified as held for sale	285	170
Total assets	**1,104**	**1,276**
Non-current liabilities	30	32
Deferred income tax liabilities	172	184
Current liabilities	273	323
Liabilities directly associated with disposal groups classified as held for sale	–	6
Total liabilities	**475**	**545**
Net assets	**$629**	**$731**
Fair value of net assets attributable to 24.9% ownership interest	**$157**	**$182**
Purchase consideration	**$216**	**$216**
Goodwill (Note 5)	**$59**	**$34**
including goodwill associated with disposal groups subsequently classified as held for sale	–	$16

11. Investments in Joint Ventures and Associates / Highveld Steel and Vanadium Corporation (Continued)

The table below sets forth Highveld's assets and liabilities as of December 31, 2006:

US$ million	December 31, 2006
Property, plant and equipment	$489
Intangible assets	344
Other non-current assets	2
Inventories	69
Accounts and notes receivable	167
Cash and cash equivalents	74
Assets of disposal groups classified as held for sale	176
Total assets	**1,321**
Non-current liabilities	44
Deferred income tax liabilities	192
Current liabilities	275
Liabilities directly associated with disposal groups classified as held for sale	19
Total liabilities	**530**
Net assets	**$791**

On February 26, 2007, when the Board of directors of the Company approved the acquisition transaction, the completion of the acquisition of controlling interest in Highveld became probable and the Group recognised liabilities to Anglo and Credit Suisse under the option agreements (Note 4) in the amount of $442 million.

As a result, taking into account the eventual exercise of potential voting rights under the option agreements concluded by the Group with Anglo and Credit Suisse in 2006 in respect of an additional 54.1% ownership interest in Highveld, under which the exercise price for put and call options was fixed and adjusted for dividends to be distributed by Highveld to Anglo and Credit Suisse, the Group, in substance, obtained access to the economic benefits associated with that additional ownership interest. Consequently, the Group accounted for a 79% ownership interest in the associate under the equity method beginning February 26, 2007.

The table below sets forth the provisional fair values of Highveld's consolidated identifiable assets, liabilities and contingent liabilities at February 26, 2007, when the beneficial interest was increased:

US$ million	Initial estimation of fair values	Adjusted provisional fair values
Property, plant and equipment	$375	$413
Intangible assets	310	385
Other non-current assets	4	2
Inventories	61	71
Accounts and notes receivable	162	184
Cash and cash equivalents	58	58
Assets of disposal groups classified as held for sale	451	330
Total assets	**1,421**	**1,443**
Non-current liabilities	41	55
Deferred income tax liabilities	176	180
Current liabilities	343	335
Liabilities directly associated with disposal groups classified as held for sale	39	39
Total liabilities	**599**	**609**
Net assets	**$822**	**$834**
Fair value of net assets attributable to 54.1% beneficial ownership interest	**$444**	**$451**
Purchase consideration consisting of a liability under the option agreements	**$442**	**$442**
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**$(2)**	**$(9)**

The Group classified assets, including goodwill, and liabilities of the businesses to be disposed of in accordance with the resolution of the European Commission as disposal groups held for sale (Note 12).

11. Investments in Joint Ventures and Associates / Highveld Steel and Vanadium Corporation (Continued)

The table below sets forth Highveld's income and expenses for the periods from its acquisition till the date when the entity became a subsidiary of the Group:

US$ million	Period from January 1 to April 26, 2007	Period from July 13 to December 31, 2006
Revenue	$351	$481
Cost of revenue	(276)	(376)
Other expenses, including income taxes	(42)	(37)
Net profit	**$33**	**$68**
Group's share of profits of the associate	**$21**	**$17**

12. DISPOSAL GROUPS HELD FOR SALE

The major classes of assets and liabilities of the disposal groups measured at the lower of carrying amount and fair value less costs to sell were as follows as of December 31:

US$ million	2007	2006	2005
Land	**$1**	$5	$ –
Other property, plant and equipment	**161**	71	–
Goodwill	**58**	–	–
Other non-current assets	**–**	9	–
Current assets	**56**	20	–
Assets classified as held for sale	**276**	105	–
Liabilities directly associated with assets classified as held for sale	**46**	23	–
Net assets classified as held for sale	**$230**	**$82**	**$ –**

At December 31, 2006, assets held for sale were mostly represented by OAO Nerungriugol ("Nerungriugol"), a subsidiary, which the Group intended to dispose of in April 2007. In addition, these assets included 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 were expected to be sold in 2007.

Nerungiugol was included in the mining segment of the Group's operations. The Group recognised a $66 million impairment loss of Nerungriugol'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. The other losses on assets held for sale for the year ended December 31, 2006 related 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 gain/(loss) on assets held for sale in the consolidated income statement for the year ended December 31, 2006. In 2007, the Group reversed this impairment and recorded the gain on sale of land in the amount of $4 million.

On April 25, 2007, the Group completed the sale of Nerungriugol, the Group's subsidiary, which was classified as a disposal group held for sale in 2006. The total disposal consideration amounted to $84 million. Upon completion of the transaction, the Group recognised additional loss representing the difference between the estimated recoverable amount of the disposal group as of December 31, 2006 and actual proceeds. This additional loss amounting to $3 million was included in the consolidated income statement for the year ended December 31, 2007.

In 2007, for the purpose of acquisition of Highveld (Note 4), the Group committed 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 assets and liabilities of the above mentioned business units were classified as assets and liabilities of disposal groups held for sale (Notes 4 and 11).

The Group was obliged to enter into a binding agreement for the sale of the divestment package by November 20, 2007. In November 2007, the sale of the divestment package was extended to January 20, 2008 (Note 31). The Highveld divestment package was included in the steel segment of the Group's operations.

In addition, the assets held for sale at the date of acquisition of ownership interests in Highveld (Notes 4 and 11) included two divisions of Highveld (Transalloys, producing manganese alloys, and Rand Carbide, producing ferrosilicon and various carbonaceous products). Transalloys division was sold in July 2007 for cash consideration of $136 million, which approximated the carrying value of the disposed assets.

The table below demonstrates the carrying values of assets and liabilities of the subsidiaries and other business units disposed of in 2007:

US$ million	At the dates of disposal
Property, plant and equipment	$74
Other non-current assets	8
Accounts and notes receivable	20
Cash	–
Assets held for sale acquired in business combinations	137
Total assets	**239**
Non-current liabilities	–
Deferred income tax liabilities	–
Current liabilities	7
Total liabilities	**7**
Net assets	**$232**

12. Disposal Groups Held for Sale (Continued)

Cash flow on disposal of the subsidiary and other business units was as follows:

US$ million	
Net cash disposed with the subsidiary	$ –
Cash received	223
Net cash inflow	**$223**

13. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS AT BANKS

Cash and cash equivalents were denominated in the following currencies as of December 31:

US$ million	2007	2006	2005
Russian rouble	**$55**	$110	$96
US dollar	**72**	632	421
Euro	**83**	36	80
Czech koruna	**10**	19	43
South African rand	**105**	42	–
Other	**2**	3	1
	$327	**$842**	**$641**

The above cash and cash equivalents mainly consist of cash at banks.

Restricted deposits at banks were as follows as of December 31:

US$ million	2007	2006	2005
Deposits to secure bank loans	**$ –**	$8	$25
Other	**5**	4	7
	5	12	32
Less: deposits with current maturities	**–**	–	(24)
	$5	**$12**	**$8**

The deposits were mainly denominated in US dollars.

14. OTHER NON-CURRENT ASSETS

Other non-current assets were as follows as of December 31:

US$ million	2007	2006	2005
Prepayments for acquisition of subsidiaries	**$1,060**	$6	$ –
Deposit to secure put option for the shares of OAO Vanady	**126**	–	–
Deposit to secure put option for the Highveld's shares (Note 4)	**–**	207	
Deferred income tax assets (Note 8)	**22**	11	14
Long-term input VAT	**2**	19	16
Loans issued to related parties (Note 28)	**46**	1	–
Loans receivable (Note 28)	**12**	7	1
Trade and other receivables (Note 28)	**27**	–	–
Other	**22**	20	17
	$1,317	**$271**	**$48**

As of December 31, 2007, prepayments for acquisition of subsidiaries represent the amounts paid for the businesses in the Ukraine (Note 31).

Deposit to secure put option for the Highveld's shares did not earn interest and matured upon the completion of the transaction (Note 29).

On December 20, 2007, the Group signed an option agreement with OOO SGMK-Engineering in respect of shares of OAO Vanady, a vanadium refinery located in Russia. Under the agreement, the Group has the right to acquire (and OOO SGMK-Engineering has the right to sell to the Group) 90.84% of shares of OAO Vanady for 3,140 million roubles ($128 million at the exchange rate as of December 31, 2007). The option expires on December 31, 2008. The exercise of the option is conditional upon the receipt of the approval of the regulatory authorities. As of the date of the issuance of these consolidated financial statements, the Group did not apply for this approval and the option was not exercisable. To secure the put option the Group provided the seller with the repayable non-interest bearing deposit in the amount of 3,091 million roubles ($126 million at the exchange rate as of December 31, 2007).

Amounts receivable from related parties represent rouble-denominated loans granted by Yuzhkuzbassugol to Kazankovskaya (Note 11) in 2004–2005. The loans bear interest of 10% per annum and mature in 2013.

15. INVENTORIES

Inventories consisted of the following as of December 31:

US$ million	2007	2006	2005
Raw materials and spare parts, at cost	$762	$431	$434
Work-in-progress, at cost	202	106	115
Finished goods:			
– at cost	623	334	282
– at net realisable value	–	6	154
	1,587	**877**	**985**
Allowance for obsolete and slow-moving items	(12)	(13)	(21)
	$1,575	**$864**	**$964**

As of December 31, 2007, 2006 and 2005, certain items of inventory with an approximate carrying amount of $415 million, $194 million and $204 million, respectively, were pledged to banks as collateral against loans provided to the Group (Note 20).

16. TRADE AND OTHER RECEIVABLES

Trade and other receivables consisted of the following as of December 31:

US$ million	2007	2006	2005
Trade accounts receivable	**$1,119**	$586	$403
Other receivables	**75**	29	21
	1,194	615	424
Allowance for doubtful accounts	**(77)**	(59)	(49)
	$1,117	$556	$375

Ageing analysis and movement in allowance for doubtful accounts are provided in Note 28.

17. 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:

US$ million	Amounts due from related parties 2007	2006	2005	Amounts due to related parties 2007	2006	2005
Corber	**$ –**	$ –	$14	**$70**	$151	$ –
Crondale	**–**	–	–	**–**	–	275
Evrazmetall-Centre	**–**	1	6	**–**	–	9
Evrazmetall-Sibir	**–**	18	36	**–**	–	19
Evrazmetall-Ural	**–**	11	5	**–**	–	–
Ferrotranstrade	**–**	–	2	**–**	–	–
Marens	**31**	–	–	**–**	–	–
Raspadsky Ugol	**–**	–	–	**24**	3	–
SEAR-MF	**–**	–	–	**19**	–	–
Sojitz Noble Alloys Corp.	**2**	–	–	**3**	8	–
Yuzhkuzbassugol	**–**	–	–	**–**	7	–
Other entities	**29**	24	32	**20**	7	12
	62	54	95	**136**	176	315
Less: allowance for doubtful accounts	**(2)**	–	(5)	**–**	–	–
	$60	$54	$90	**$136**	$176	$315

17. Related Party Disclosures (Continued)

Transactions with related parties were as follows for the years ended December 31:

US$ million	Sales to related parties 2007	2006	2005	Purchases from related parties 2007	2006	2005
Evrazmetall-Centre	**$144**	$141	$100	**$ –**	$ –	$ –
Evrazmetall-Chernozemie	**65**	53	18	**–**	–	–
Evrazmetall-Povolzhie	**65**	62	22	**–**	–	–
Evrazmetall-Severo-Zapad	**46**	45	20	**–**	–	–
Evrazmetall-Sibir	**137**	146	123	**–**	–	–
Evrazmetall-Ural	**157**	150	67	**–**	–	–
Evro-Aziatskaya Energy Company	**–**	23	14	**–**	104	75
Ferrotranstrade	**–**	–	–	**–**	–	1
KMK- Energo	**–**	–	–	**–**	–	2
Marteck Shipping	**–**	–	–	**–**	–	40
Raspadsky Ugol	**–**	–	–	**192**	80	147
Sojitz Noble Alloys Corp.	**–**	18	–	**1**	1	–
Yuzhkuzbassugol	**1**	12	26	**121**	279	426
Other entities	**17**	14	10	**55**	59	38
	$632	$664	$400	**$369**	$523	$729

In addition to the balances and transactions disclosed in this note, loans due to and receivable from related parties are presented separately in the consolidated balance sheets and in Note 14.

Corber is the Group's joint venture (Note 11). At December 31, 2007 and 2006, amounts due to Corber represented advances received from the entity in respect of dividends to be declared for 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 11). In 2006, the Group fully repaid its liabilities to Crondale.

OOO Evrazmetall-Centre, OOO Evrazmetall-Sibir, OOO Evrazmetall-Ural, OOO Evrazmetall-Povolzhie, OOO Evrazmetall-Severo-Zapad, OOO Evrazmetall-Chernozemie were the entities under control of an ultimate principal shareholder of the Group and purchased steel products from the Group. In 2007, 2006 and 2005, the Group sold approximately 5%, 7% and 6%, respectively, of volume of steel products to these entities. The transactions were made on terms equivalent to those that prevail in arm's length transactions. In December 2007, the ultimate principal shareholder of the Group sold its ownership interests in these companies and they ceased to be the related parties to the Group.

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 steel products and materials from the Group companies.

OAO Ferrotranstrade ("Ferrotranstrade"), an entity under control of an ultimate principal shareholder of the Group, acted as the Group's sales agent. 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.

Marens is an entity under control of ultimate principal shareholders of the Group. In 2007, the Group granted a short-term interest-bearing loan to Marens for financing the construction of the office building to be rented by one of the Group's subsidiaries.

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 Raspadsky Ugol ("Raspadsky Ugol"), a subsidiary of the Group's joint venture, sells coal to the Group. Raspadsky Ugol represents approximately 16% of volume of the Group's coal purchases. In 2007, 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. The accounts payable to SEAR-MF represent zero-interest loans to Yuzhkuzbassugol.

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 2007 and 2006, Sojitz acted as a sales agent of Stratcor. At December 31, 2007 and 2006, other long-term liabilities (Note 25) include a $14 million financial liability in respect of the fixed cumulative preferred dividends of $1 million per year payable to Sojitz.

Yuzhkuzbassugol, the major coal supplier, was the Group's associate. In 2005, the Group sold coal to processing mills of Yuzhkuzbassugol. The transactions were made at prevailing market prices at the dates of transactions.The entity provides approximately 50% of volume of the Group's coal purchases. In 2007, Yuzhkuzbassugol became the Group's subsidiary (Note 4).

Compensation to Key Management Personnel

Key management personnel totalled 48, 46 and 33 persons as at December 31, 2007, 2006 and 2005, respectively. Total compensation to key management personnel were included in general and administrative expenses in the accompanying income statement and consisted of the following:

US$ million	2007	2006	2005
Salary	**$25**	$18	$11
Performance bonuses	**20**	21	12
Social security taxes	**10**	1	2
Share-based payments (Note 23)	**3**	11	5
Termination benefits	**10**	–	–
Other benefits	**1**	3	11
	$69	**$54**	**$41**

18. OTHER TAXES RECOVERABLE

Taxes recoverable were denominated in roubles and consisted of the following as of December 31:

US$ million	2007	2006	2005
Input VAT	**$270**	$264	$384
Other taxes	**73**	67	77
	$343	$331	$461

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.

19. 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, 2004, the authorised and issued share capital of Mastercroft comprising 300,019,666 ordinary shares of $1 each was paid up to $169 million.

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, 2007, 2006 and 2005, the share capital of Mastercroft is eliminated on consolidation.

Share Capital of Evraz Group

Number of shares	2007	2006	2005
Authorised			
Ordinary shares of €2 each	**157,204,326**	157,204,326	157,204,326
Issued and fully paid			
Ordinary shares of €2 each	**118,309,653**	117,499,606	116,904,326

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 2006, some of the share options granted under the Company's Incentive Plan (Note 23) 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.

In 2007, the grantees exercised additional share options. The Company issued 810,047 shares with par value of €2 each and received $35 million in cash from the Plan's participants. Share premium of $33 million arising on the transaction was included in additional paid-in capital.

Starting from May 23, 2007, the Group made a decision to cease the issuance of new shares under the share options plans. Since that date the Group acquires its own shares on the open market for the grantees. During 2007, the Group purchased 299,528 treasury shares for $41 million and sold 298,991 shares to participants at exercise prices determined in the Incentive Plans. The excess of the purchase cost of treasury shares over the proceeds from their sale amounting to $27 million was charged to accumulated profits.

As of December 31, 2007, the Group had 535 treasury shares.

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 year ended December 31, 2005 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.

19. Equity / Earnings per Share (Continued)

In 2005–2007, share options granted to participants of the Group's Incentive Plans (Note 23) 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:

US$ million	2007	2006	2005
Weighted average number of ordinary shares for basic earnings per share	**118,076,909**	117,073,156	112,731,997
Effect of dilution: share options	**890,306**	829,804	132,141
Weighted average number of ordinary shares adjusted for the effect of dilution	**118,967,215**	117,902,960	112,864,138
Profit for the year attributable to equity holders of the parent, US$ million	**$2,144**	$1,377	$918
Basic earnings per share	**$18.16**	$11.76	$8.14
Diluted earnings per share	**$18.02**	$11.68	$8.13

Dividends

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, US$ million	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
Final for 2006	20/06/ 2007	20/06/2007	390	3.30
Interim for 2007	04/10/2007	19/10/2007	568	4.80

The final dividends for 2006 and 2005 were distributed from accumulated profits to the extent that distributable amounts were available as of December 31, 2006 and 2005, respectively. Distributable profits were determined based on separate financial statements of Evraz Group S.A. prepared in accordance with the statutory requirements. The amount of $283 million and $117 million representing the excess of declared dividends over the Company's distributable accumulated profits as of December 31, 2006 and 2005, respectively, reduced additional paid-in capital in 2007 and 2006, respectively.

In addition, in 2007, 2006 and 2005, certain subsidiaries of the Group declared dividends. The share of minority shareholders in those dividends was $40 million, $50 million and $23 million, respectively.

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 at least 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, Corber, the Group's joint venture, acquired additional 1.43% ownership interest in Raspadskaya, Corber'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 joint venture amounting to $3 million was recorded in additional paid-in capital (Note 11).

Acquisitions of Minority Interests by an Associate

In 2006, Yuzhkuzbassugol, the Group's associate, acquired an additional 13% ownership interest in OAO Kuznetskpogruztrans, 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 11).

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 $301 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 11).

Acquisitions of Minority Interests in Subsidiaries

In 2006 and 2005, the Group acquired minority interests in certain subsidiaries (Note 6). The excess of acquired minority interests over the consideration amounting to $1 million and $2 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 and $131 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 obligations to cover losses. In 2006, a minority shareholder paid $5 million to the charter capital of Caplink and the Group recovered the accumulated losses.

20. LOANS AND BORROWINGS

Short-term and long-term loans and borrowings were as follows as of December 31:

US$ million	2007	2006	2005
Bank loans	**$5, 604**	$1,556	$1,132
8.25 per cent notes due 2015	**750**	750	750
10.875 per cent notes due 2009	**300**	300	300
8.875 per cent notes due 2006	**–**	–	175
Unamortised debt issue costs	**(82)**	(40)	(36)
Interest payable	**39**	30	29
	$6, 611	$2,596	$2,350

20. Loans and Borrowings (Continued)

As of December 31, 2007, 2006 and 2005, total interest bearing loans and borrowings consisted of short-term loans and borrowings in the amount of $1,116 million, $608 million and $500 million, respectively, and long-term loans and borrowings in the amount of $5,538 million, $1,998 million and $1,857 million, respectively, including the current portion of long-term liabilities of $804 million, $104 million and $310 million, respectively.

In the years ended December 31, 2007, average effective annual interest rates were as follows:

	Long-term borrowings			Short-term borrowings		
	2007	2006	2005	**2007**	2006	2005
Russian rouble	**9.1%**	8.6%	12.5%	**8.0%**	7.1%	8.2%
US dollar	**7.9%**	8.3%	8.7%	**6.2%**	6.6%	6.1%
Euro	**5.9%**	5.6%	5.9%	**5.5%**	3.8%	4.1%
South African rand	**–**	–	–	**12.5%**	–	–
Canadian dollar	**7.3%**	–	–	**–**	–	–
Czech koruna	**–**	–	–	**–**	–	2.8%

The liabilities are denominated in the following currencies:

US$ million	**2007**	2006	2005
Russian rouble	**$182**	$24	$18
US dollar	**6,195**	2,308	1,987
Euro	**311**	304	354
Canadian dollar	**5**	–	–
Czech koruna	**–**	–	27
Unamortised debt issue costs	**(82)**	(40)	(36)
	$6,611	**$2,596**	**$2,350**

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.

At December 31, 2007, the Group's borrowings included the loan from ZAO Raiffeisen Bank with the carrying amount of $19 million. In Setember 2007, one of the loan covenants related to the level of the sales proceeds passing through the lender's account was breached. In October 2007, the Group obtained a waiver letter from the lender in respect of this covenant violation.

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, 2007, 2006 and 2005, the Group had equipment with a carrying value of $121 million, $39 million and $156 million, respectively, pledged as collateral under the loan agreements. In addition, the Group pledged finished goods with a carrying value of $415 million, $194 million and $204 million as of December 31, 2007, 2006 and 2005, respectively.

Guaranteed Notes

In September and December 2003, EvrazSecurities, the Group's subsidiary, 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 payments 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. 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

The Group had the following unutilised borrowing facilities as of December 31:

US$ million	2007	2006	2005
Unutilised borrowing facilities	**$863**	$2,428	$716

21. 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 14 years. The estimated remaining useful life of leased assets varies from 3 to 21 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:

US$ million	2007	2006	2005
Machinery and equipment	$17	$10	$3
Transport and motor vehicles	93	75	52
	$110	**$85**	**$55**

The leased assets are included in property, plant and equipment in the consolidated balance sheet (Note 9).

Future minimum lease payments were as follows at December 31, 2007:

US$ million	2007 Minimum lease payments	2007 Present value of minimum lease payments	2006 Minimum lease payments	2006 Present value of minimum lease payments	2005 Minimum lease payments	2005 Present value of minimum lease payments
Not later than one year	**$22**	**$15**	$16	$11	$11	$7
Later than one year and not later than five years	**57**	**46**	47	39	33	25
Later than five years	**9**	**8**	3	3	6	5
	88	**69**	66	53	50	37
Less: amounts representing finance charges	**(19)**	**–**	(13)	–	(13)	–
	$69	**$69**	**$53**	**$53**	**$37**	**$37**

In the years ended December 31, 2007, 2006 and 2005, the average interest rates under the finance lease liabilities were 9.6%, 10.4% and 12.5%.

22. EMPLOYEE BENEFITS

Russian Plans

In 2007, 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 funds the benefits when the amounts of benefits 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, 2009 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 administered 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.

USA and Canadian Plans

The Group's subsidiaries in the USA and Canada have non-contributory defined benefit pension plans, post-retirement healthcare and life insurance benefit plans and supplemental retirement plans that cover all eligible employees. Certain employees that were hired after September 1, 2005 are no longer eligible to participate in the defined benefit plans. Those employees are instead enrolled in a defined contribution plan and receive a contribution funded by the Group's subsidiaries equal to 3% of annual wages.

The new defined contribution plan is funded annually, and participants' benefits vest after three years of service. The subsidiaries also offer qualified Thrift (401(k)) plans to all of their eligible employees.

Other Plans

Defined benefit pension plans and a defined contribution plan are maintained by the subsidiaries located in South Africa, Italy and the Czech Republic.

Defined Contribution Plans

The Group's expenses under defined contribution plans were as follows:

US$ million	2007	2006	2005
Expense under defined contribution plans	**$220**	$181	$143

Defined Benefit Plans

The Russian and the Other defined benefit plans are mostly unfunded and the USA and Canada plans are partially funded.

The components of net benefit expense recognised in the consolidated income statement for the years ended December 31, 2007, 2006 and 2005 and amounts recognised in the consolidated balance sheet as of December 31, 2007, 2006 and 2005 for the defined benefit plans were as follows:

22. Employee Benefits (Continued)

Net benefit expense (recognised in cost of sales and general and administrative expenses)

Year ended December 31, 2007

US$ million	Russian plans	USA & Canadian plans	Other plans	Total
Current service cost	$(5)	$(8)	$(1)	$(14)
Interest cost on benefit obligation	(9)	(15)	(1)	(25)
Expected return on plan assets	–	15	–	15
Net actuarial (gains)/losses recognised in the year	(1)	–	–	(1)
Past service cost	1	–	–	1
Net benefit expense	**$(14)**	**$(8)**	**$(2)**	**$(24)**

Year ended December 31, 2006

US$ million	Russian plans	USA & Canadian plans	Other plans	Total
Current service cost	$(4)	$ –	$ –	$(4)
Interest cost on benefit obligation	(6)	(1)	–	(7)
Expected return on plan assets	–	1	–	1
Net actuarial (gains)/losses recognised in the year	1	2	–	3
Past service cost	(9)	–	(1)	(10)
Net benefit expense	$(18)	$2	$(1)	$(17)

Year ended December 31, 2005

US$ million	Russian plans	USA & Canadian plans	Other plans	Total
Current service cost	$(2)	$ –	$ –	$(2)
Interest cost on benefit obligation	(5)	–	–	(5)
Expected return on plan assets	–	–	–	–
Net actuarial (gains)/losses recognised in the year	–	–	–	–
Past service cost	(22)	–	–	(22)
Net benefit expense	$(29)	$ –	$ –	$(29)

Actual return on plan assets was as follows:

US$ million	2007	2006	2005
Actual return on plan assets	**$19**	$2	$ –
including:			
USA & Canadian plans	**18**	2	–
Russian plans	**1**	–	–

Benefit liability

December 31, 2007

US$ million	Russian plans	USA & Canadian plans	Other plans	Total
Benefit obligation	$183	$275	$21	$479
Plan assets	(2)	(199)	–	(201)
	181	76	21	278
Unrecognised net actuarial gains/ (losses)	(24)	18	(3)	(9)
Unrecognised past service cost	22	–	–	22
Benefit liability	**$179**	**$94**	**$18**	**$291**

December 31, 2006

US$ million	Russian plans	USA & Canadian plans	Other plans	Total
Benefit obligation	$89	$36	$6	$131
Plan assets	(1)	(23)	–	(24)
	88	13	6	107
Unrecognised net actuarial gains/ (losses)	(13)	1	–	(12)
Unrecognised past service cost	22	–	–	22
Benefit liability	$97	$14	$6	$117

December 31, 2005

US$ million	Russian plans	USA & Canadian plans	Other plans	Total
Benefit obligation	$79	$ –	$2	$81
Plan assets	–	–	–	–
	79	–	2	81
Unrecognised net actuarial gains/ (losses)	(2)	–	–	(2)
Benefit liability	$77	$ –	$2	$79

22. Employee Benefits (Continued)

Movements in benefit obligation

US$ million	Russian plans	USA & Canadian plans	Other plans	Total
At January 1, 2005	$52	$ –	$	$52
Interest cost on benefit obligation	5	–	–	5
Current service cost	2	–	–	2
Past service cost	22	–	–	22
Change in liability due to business combinations	4	–	2	6
Benefits paid	(8)	–	–	(8)
Actuarial (gains)/losses on benefit obligation	5	–	–	5
Translation difference	(3)	–	–	(3)
At December 31, 2005	**$79**	**$ –**	**$2**	**$81**
Interest cost on benefit obligation	6	1	–	7
Current service cost	4	–	–	4
Past service cost	(13)	–	1	(12)
Change in liability due to business combinations	1	38	3	42
Benefits paid	(6)	(1)	–	(7)
Actuarial (gains)/losses on benefit obligation	10	(2)	–	8
Translation difference	8	–	–	8
At December 31, 2006	**$89**	**$36**	**$6**	**$131**
Interest cost on benefit obligation	9	15	1	25
Current service cost	5	8	1	14
Past service cost	–	–	–	–
Change in liability due to business combinations	70	235	14	319
Benefits paid	(12)	(13)	(1)	(26)
Actuarial (gains)/losses on benefit obligation	11	(13)	3	1
Curtailment gain	1	–	–	1
Translation difference	9	7	(2)	14
At December 31, 2007	**$182**	**$275**	**$22**	**$479**

The amount of contributions expected to be paid to the defined benefit plans during 2008 approximates to $28 million.

Changes in the fair value of plan assets

US$ million	Russian plans	USA & Canadian plans	Other plans	Total
At January 1, 2006	$ –	$ –	$ –	$ –
Change in plan assets due to business combinations	1	20	–	21
Expected return on plan assets	–	1	–	1
Contributions by employer	6	2	–	8
Benefits paid	(6)	(1)	–	(7)
Actuarial gains/(losses) on plan assets	–	1	–	1
Translation difference	–	–	–	–
At December 31, 2006	1	23	–	24
Change in plan assets due to business combinations	–	153	–	153
Expected return on plan assets	–	15	–	15
Contributions by employer	13	13	1	27
Benefits paid	(12)	(13)	(1)	(26)
Actuarial gains/(losses) on plan assets	–	4	–	4
Translation difference	–	4	–	4
At December 31, 2007	$2	$199	$ –	$201

At December 31, 2007, the major categories of plan assets as a percentage of total plan assets were as follows:

	2007	2006	2005
USA & Canadian plans:			
Equity funds and investment trusts	**58%**	6%	–
Corporate bonds and notes	**22%**	25%	–
Shares	**8%**	67%	–
Property	**9%**	2%	–
Cash	**3%**	–	–

22. Employee Benefits / Changes in the fair value of plan assets (Continued)

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:

US$ million	2007	2006	2005	2004	2003
Defined benefit obligation	**$479**	$131	$81	$52	$29
Plan assets	**201**	24	–	–	–
(Deficit)/surplus	**(278)**	(107)	(81)	(52)	(29)
Experience adjustments on plan liabilities	**(18)**	11	–	–	–
Experience adjustments on plan assets	**5**	–	–	–	–

The principal assumptions used in determining pension obligations for the Group's plans are shown below:

	2007			2006			2005		
	Russian plans	USA & Canadian plans	Other plans	Russian plans	USA & Canadian plans	Other plans	Russian plans	USA & Canadian plans	Other plans
Discount rate	6.8%	5.0–6.4%	4.7–8.3%	6.8%	5.8%	3.9–4.0%	8%	–	4.0%
Expected rate of return on assets	12%	7.8–8.5%	–	12%	7.8%	–	–	–	–
Future benefits increases	5%	0%	0–3%	5%	0%	0–3%	5%	–	0–3%
Future salary increase	5%	3–4%	3–5%	5%	4%	3–4%	5%	–	3–4%
Healthcare costs increase rate	–	7–10%	–	–	–	–	–	–	–

The expected long-term rate of return on defined benefit pension plan assets represents the weighted-average asset return for each forecasted asset class return over several market cycles.

A one percentage point change in the assumed rate of increase in healthcare costs would have insignificant effects on the Group's current service cost and the defined benefit obligation.

23. 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 was 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. The vesting dates under Plan 2005 are determined by the reference to the grant date, which is June 15, 2005, and become vested on the first, second and third anniversary of the grant date. Under Plan 2006, the vesting date for each tranche is the date falling 15 days after the date when the Board of directors decides to announce annual results. The actual and expected vesting dates are 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
April 16, 2008	148,904	–
June 15, 2008	–	1,250,000
April 16, 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 inputs, including 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
Market prices of the shares at the grant dates	$66.06	$42.90

23. Share-Based Payments (Continued)

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:

	2007		2006		2005	
	No.	WAEP	No.	WAEP	No.	WAEP
Outstanding at January 1	**2,266,580**	**$48.29**	**2,567,131**	**$43.10**	**–**	**$ –**
Granted during the year	–	–	496,369	65.37	2,618,855	43.10
Forfeited during the year	(224,258)	65.37	(137,955)	43.50	(51,724)	43.50
Exercised during the year:						
by issue of shares	(810,047)	43.50	(595,280)	43.50	–	–
by sale of shares by the Company's parent	–	–	*(63,685)*	*27.75*	–	–
by purchase of shares on the open market	(298,991)	47.12	–	–	–	–
Outstanding at December 31	**933,284**	**$48.72**	**2,266,580**	**$48.29**	**2,567,131**	**$43.10**
Vested at December 31	176,842	$45.00	813,915	$43.50	63,685	$27.75
Exercisable at December 31	42,619	44.02	537,703	43.50	63,685	27.75

The weighted average share price at the dates of exercise was $111.33 and $69.92 in 2007 and 2006, respectively.

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 2005–2007.

The revised expected time schedule of exercise of the share options outstanding at December 31, 2007 is presented below:

Number of shares	Incentive Plan 2006	Incentive Plan 2005
Immediately exercisable	1,009	41,610
April 16, 2008	90,061	–
June 15, 2008	–	669,059
April 16, 2009	131,545	–
	222,615	**710,669**

The weighted average remaining contractual life of the share options outstanding as at December 31, 2007, 2006 and 2005 was 0.54, 0.82 and 1.68 years, respectively.

In the years ended December 31, 2007, 2006 and 2005, compensation expense arising from the share option plans amounted to $5 million, $17 million and $8 million, respectively.

24. PROVISIONS

In the years ended December 31, 2007, 2006 and 2005, the movement in provisions was as follows:

US$ million	Site restoration costs	Legal claims	Other provisions	Total
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**
Additional provisions	2	4	4	10
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	**38**	**3**	**6**	**47**
Additional provisions	7	10	14	31
Increase from passage of time	4	–	–	4
Change in provisions due to business combinations	77	9	52	138
Utilised in the year	(2)	(2)	(24)	(28)
Unused amounts reversed	–	(9)	(8)	(17)
Translation difference	4	–	–	4
At December 31, 2007	**$128**	**$11**	**$40**	**$179**

Site Restoration Costs

Under the legislation, mining companies and steel mills have obligations to restore mining and certain other sites. As of December 31, 2007, 2006 and 2005, the Group accrued a provision for site restoration costs in the amount of $128 million, $38 million and $13 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 ranging from 6.85% to 8.5% in 2007 and 2006. In 2005, the discount rates varied from 17.6% to 20.9%.

25. OTHER LONG-TERM LIABILITIES

Other long-term liabilities consisted of the following as of December 31:

US$ million	2007	2006	2005
Earn out and synergy payments (Note 4)	**$34**	$22	$ –
Dividends payable under cumulative preference shares of a subsidiary to a related party (Note 17)	**14**	15	–
Employee income participation plans and compensations	**15**	9	–
Tax liabilities	**13**	1	7
Other liabilities	**7**	1	2
	83	48	9
Less: current portion (Note 26)	**(27)**	(1)	(7)
	$56	$47	$2

Restructured taxes

Restructured taxes payable, that are included in tax liabilities in 2005, 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 financial assets and liabilities 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 on financial assets and liabilities in the consolidated income statement for the year ended December 31, 2005.

In 2006, the Group fully repaid its outstanding liabilities under restructuring agreements.

26. TRADE AND OTHER PAYABLES

Trade and other payables consisted of the following as of December 31:

US$ million	2007	2006	2005
Trade accounts payable	**$590**	$308	$249
Long-term promissory notes with current maturities	**–**	–	21
Accrued payroll	**193**	102	78
Termination benefits	**–**	13	–
Other long-term obligations with current maturities (Note 25)	**27**	1	7
Other payables	**123**	38	49
	$933	$462	$404

Maturity profile of the accounts payable is shown in Note 28.

27. OTHER TAXES PAYABLE

Taxes payable were mainly denominated in roubles and consisted of the following as of December 31:

US$ million	2007	2006	2005
Social insurance taxes	**$36**	$27	$22
VAT and related fines and penalties	**47**	27	138
Property tax	**15**	12	6
Land tax	**10**	10	–
Personal income tax	**12**	8	6
Other taxes, fines and penalties	**18**	12	17
	$138	$96	$189

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and trade accounts receivable.

To manage credit risk related to cash, the Group maintains its available cash, mainly in US dollars, in reputable international banks, Russian affiliates of international banks and major Russian banks. Management periodically reviews the creditworthiness of the banks in which it deposits cash.

The Group's trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. The most part of the Group's sales are made on terms of letter of credit. In addition, the Group requires prepayments from certain customers.

The Group does not require collateral in respect of trade and other receivables, except when a customer asks for a payment period which is longer than normal terms. In this case, the Group requires bank guarantees or other liquid collateral.

The Group developed standard payment terms and constantly monitors the status of accounts receivable collection and the creditworthiness of the customers.

Certain of the Group's long-standing Russian customers for auxiliary products, such as heat and electricity, represent municipal enterprises and governmental organisations that experience financial difficulties. The most part of doubtful debts allowance consists of receivables from such customers. The Group has no practical ability to terminate the supply to these customers and negotiates with regional and municipal authorities the terms of recovery of these receivables.

There are no significant concentrations of credit risk within the Group. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5% of gross monetary assets at any time during the year.

The maximum exposure to credit risk is equal to the carrying amount of financial assets, which is disclosed below.

US$ million	2007	2006	2005
Restricted deposits at banks	**$5**	$219	$32
Financial instruments included in other non-current assets	**3**	–	5
Trade and other receivables	**1,144**	556	375
Loans receivable	**60**	26	1
Receivables from related parties	**106**	55	90
Short-term investments and notes receivable	**25**	25	19
Cash and cash equivalents	**327**	842	641
	$1,670	$1,723	$1,163

The ageing analysis of trade and other receivables, loans receivable and receivables from related parties is presented in the table below.

US$ million	2007 Gross amount	2007 Impairment	2006 Gross amount	2006 Impairment	2005 Gross amount	2005 Impairment
Not past due	**$1,167**	**$(3)**	$519	$(2)	$410	$(1)
Past due	**222**	**(76)**	177	(57)	110	(53)
less than six months	**133**	**(4)**	101	(3)	59	(9)
between six months and one year	**16**	**(4)**	13	(7)	12	(5)
over one year	**73**	**(68)**	63	(47)	39	(39)
	$1,389	**$(79)**	$696	$(59)	$520	$(54)

In the years ended December 31, 2007, 2006 and 2005, the movement in allowance for doubtful accounts was as follows:

US$ million	2007	2006	2005
At January 1	**$59**	$54	$45
Charge for the year	**15**	7	19
Utilised	**–**	(6)	(7)
Translation difference	**5**	4	(3)
At December 31	**$79**	**$59**	**$54**

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group prepares a financial plan on a monthly basis which ensures that the Group has sufficient cash on demand to meet expected operational expenses, financial obligations and investing activities for a period of 30 days. In addition, the Group maintains credit lines and overdraft facilities that can be drawn down to meet short-term financing needs.

The Group developed standard payment periods in respect of trade accounts payable and monitors the timeliness of payments to its suppliers and contractors.

All of the Group's financial liabilities represent non-derivative financial instruments. The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, incluing interest payments.

28. Financial Risk Management Objectives and Policies / Liquidity Risk (Continued)

Year ended December 31, 2007

US$ million	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	After 5 years	Total
Fixed-rate debt							
Loans and borrowings							
Principal	$ –	$35	$131	$412	$176	$792	$1,546
Interest	–	23	98	110	202	191	624
Finance lease liabilities		1	4	4	8	8	25
Financial instruments included in long-term liabilities	–	–	15	1	13	32	61
Total fixed-rate debt	**–**	**59**	**248**	**527**	**399**	**1,023**	**2,256**
Variable-rate debt							
Loans and borrowings							
Principal	–	398	1,356	947	2,393	14	5,108
Interest	–	84	235	190	234	1	744
Finance lease liabilities	–	4	13	15	30	1	63
Total variable-rate debt	**–**	**486**	**1,604**	**1,152**	**2,657**	**16**	**5,915**
Non-interest bearing debt							
Financial instruments included in long-term liabilities	6	–	–	1	–	–	7
Trade and other payables	91	580	42	–	–	–	713
Payables to related parties	26	38	2	–	–	–	66
Amounts payable under put options for shares of subsidiaries	6	–	–	–	–	–	6
Dividends payable	96	–	–	–	–	–	96
Total non-interest bearing debt	225	618	44	1	–	–	888
	$225	**$1,163**	**$1,896**	**$1,680**	**$3,056**	**$1,039**	**$9,059**

Year ended December 31, 2006

US$ million	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	After 5 years	Total
Fixed-rate debt							
Loans and borrowings							
Principal	$ –	$9	$48	$117	$577	$780	$1,531
Interest	–	23	99	117	243	249	731
Financial instruments included in long-term liabilities	1	–	7	6	9	21	44
Total fixed-rate debt	1	32	154	240	829	1,050	2,306
Variable-rate debt							
Loans and borrowings							
Principal	–	24	631	265	130	25	1,075
Interest	–	18	40	24	16	1	99
Finance lease liabilities	–	4	12	14	33	3	66
Total variable-rate debt	–	46	683	303	179	29	1,240
Non-interest bearing debt							
Trade and other payables	67	250	29	–	–	–	346
Payables to related parties	25	–	–	–	–	–	25
Amounts payable under put options for shares of subsidiaries	–	–	176	–	–	–	176
Dividends payable	62	–	–	–	–	–	62
Total non-interest bearing debt	154	250	205	–	–	–	609
	$155	$328	$1,042	$543	$1,008	$1,079	$4,155

28. Financial Risk Management Objectives and Policies / Liquidity Risk (Continued)

Year ended December 31, 2005

US$ million	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	After 5 years	Total
Fixed-rate debt							
Loans and borrowings							
Principal	$ –	$16	$243	$74	$488	$776	$1,597
Interest	–	30	101	111	269	311	822
Payables to related parties							
Principal	–	19	–	–	–	–	19
Interest	–	2	–	–	–	–	2
Total fixed-rate debt	–	67	344	185	757	1,087	2,440
Variable-rate debt							
Loans and borrowings							
Principal	–	131	420	43	125	41	760
Interest	–	11	26	10	16	7	70
Finance lease liabilities	–	3	8	10	23	6	50
Total variable-rate debt	–	145	454	63	164	54	880
Non-interest bearing debt							
Trade and other payables	93	186	19	–	–	–	298
Payables to related parties	40	275	–	–	–	–	315
Financial instruments included in long-term liabilities	–	–	–	–	1	1	2
Amounts payable under put options for shares of subsidiaries	–	–	–	72	–	–	72
Dividends payable	17	–	–	–	–	–	17
Total non-interest bearing debt	150	461	19	72	1	1	704
	$150	$673	$817	$320	$922	$1,142	$4,024

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures, while optimising the return on risk.

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 and obligations under cumulative preference shares of one of the Group's subsidiary.

The Group incurs interest rate risk on liabilities with variable interest rate. The Group's Treasury function performs analysis of current interest rates and prepares forecasts for the next year. Depending on that, the management makes decisions whether it would be more beneficial to obtain financing on a fixed-rate or variable-rate basis. In case of changes in the current market fixed or variable rates the management may consider refinancing of a particular debt on more favourable terms.

The Group does not have any financial assets with variable interest rate.

Fair Value Sensitivity Analysis for Fixed Rate Instruments

The Group does not account for any fixed rate financial asstes or liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect the Group's profits.

The Group does not account for any fixed rate financial assets as assets available for sale. Therefore, a change in interest rates at the reporting date would not affect the Group's equity.

Cash Flow Sensitivity Analysis for Variable Rate Instruments

Based on the analysis of exposure during the years presented, reasonably possible changes in floating interest rates at the reporting date would have changed profit before tax ("PBT") by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	2007		2006		2005	
	Basis points	Effect on PBT US$ million	Basis points	Effect on PBT US$ million	Basis points	Effect on PBT US$ million
Liabilities denominated in US dollars						
Decrease in LIBOR	(125)	$24	(100)	$9	(50)	$3
Increase in LIBOR	75	(14)	50	(5)	100	(5)
Liabilities denominated in euro						
Decrease in EURIBOR	(150)	3	(50)	1	(50)	1
Increase in EURIBOR	75	$(1)	150	$(3)	150	$(3)

Currency Risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's subsidiaries. The currencies in which these transactions primarily are denominated are euro and US dollars.

The Group does not have formal arrangements to mitigate currency risks of the Group's operations. However, management believes that the Group is secured from currency risks as foreign currency denominated sales are used to cover repayment of foreign currency denominated borrowings.

28. Financial Risk Management Objectives and Policies / Market Risk / Currency Risk (Continued)

The Group's exposure to currency risk determined as the net monetary position in respective currencies was as follows:

US$ million	2007	2006	2005
USD/RUB	**$25**	$147	$(277)
EUR/USD	**193**	185	150
EUR/RUB	**(313)**	(245)	(149)
EUR/CZK	**71**	56	71
USD/CZK	**(102)**	(180)	–
USD/ZAR	**36**	(88)	–

Sensitivity Analysis

The following table demonstrates the sensitivity to reasonably possible changes in the respective currencies, with all other variables held constant, of the Group's profit before tax. In estimating a reasonably possible change the Group used foreign exchange rates of forward contracts for one year at each reporting date.

	2007		2006		2005	
	Change in exchange rate (%)	Effect on PBT (US$ million)	Change in exchange rate (%)	Effect on PBT (US$ million)	Change in exchange rate (%)	Effect on PBT (US$ million)
USD/RUB	**(5.80)**	**1**	(6.10)	(8)	(8.35)	23
	4.20	**(1)**	4.50	7	5.00	(14)
EUR/USD	**(7.35)**	**(14)**	(9.25)	(17)	(10.75)	(16)
	7.35	**14**	9.25	17	10.75	16
EUR/RUB	**(5.45)**	**17**	(7.00)	17	(10.00)	15
	3.25	**(10)**	4.70	(11)	5.70	(8)
EUR/CZK	**(4.10)**	**(3)**	(3.50)	(2)	(4.75)	(3)
	4.10	**3**	3.50	2	4.75	3
USD/CZK	**(9.40)**	**10**	(8.40)	15	–	–
	9.40	**(10)**	10.10	(18)	–	–
USD/ZAR	**(17.70)**	**(6)**	(15.00)	13	–	–
	13.00	**5**	15.00	(13)	–	–

Fair Value of Financial Instruments

The carrying amounts of financial instruments, such as cash, short-term and long-term investments, short-term accounts receivable and payable, short-term and long-term loans receivable and payable with variable interest rate, promissory notes, and restructured taxes, approximate their fair value.

The following table shows financial instruments which carrying amounts differ from fair values.

US$ million	2007 Carrying amount	2007 Fair value	2006 Carrying amount	2006 Fair value	2005 Carrying amount	2005 Fair value
Long-term fixed-rate bank loans	**$436**	**$370**	$462	$406	$338	$313
8.25 per cent notes due 2015	**742**	**747**	740	776	739	745
10.875 per cent notes due 2009	**314**	**316**	314	330	314	332
8.875 per cent notes due 2006	**–**	**–**	–	–	178	179
	$1,492	**$1,433**	$1,516	$1,512	$1,569	$1,569

The fair value of the notes was determined based on market quotations. The fair value of long-term fixed-rate bank loans was calculated based on the present value of future principal and interest cash flows, discounted at the Group's market rates of interest at the reporting dates. The discount rates ranged from 6.8% to 7.7% fro US dollar and from 5.2% to 6.5% for euro.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise the return to shareholders. The Board of directors reviews the Group's performance and establishes key performance indicators. In addition, the Group and certain of its subsidiaries are subject to externally imposed capital requirements (loans and bonds covenants) which are used for capital monitoring. There were no changes in the objectives, policies and processes during 2007.

Capital includes equity attributable to the equity holders of the parent entity. Revaluation surplus which is included in capital is not subject to capital management because of its nature (Note 4).

The Group manages its capital structure and makes adjustments to it by issue of new shares, dividend payments to shareholders, purchase of treasury shares. The Group monitors the compliance of the amount of legal reserve with the statutory requirements and makes appropriations of profits to legal reserve. In addition, the Group monitors distributable profits on a regular basis and determines the amounts and timing of dividends payments. The capital requirements imposed by certain loan agreements include the following:

- consolidated equity less goodwill should be at least $2,000 million.

29. 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:

US$ million	2007	2006	2005
Liabilities for purchases of property, plant and equipment	**$50**	$20	$28
Liabilities for purchases of shares in subsidiaries and other entities	**38**	6	11
Liabilities for purchase of interest in associates/joint ventures	**–**	–	296
Refinancing of a bridge loan	**1,535**	–	–
Offset of restricted deposit with amounts payable to Credit Suisse for the purchase of 24.9% of Highveld's shares (Notes 4 and 13)	**207**	–	–
Offset of loan receivable with amounts payable for the purchase of non-current assets	**13**	–	–
Loans paid by banks to vendors for property, plant and equipment	**–**	11	37

30. 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 $19 million.

Contractual Commitments

At December 31, 2007, the Group had contractual commitments for the purchase of production equipment and construction works for an approximate amount of $677 million.

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 2008, the Group plans to spend approximately $133 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 2008 to 2012, the Group is obligated to spend approximately $245 million under this programme.

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 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 ($23 million at the exchange rate as of December 31, 2007) 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.

Stratcor, the Group's subsidiary, together with IBM Corporation, Anglo Americam Plc., Gold Fields Ltd., UBS AG and some other companies, acts as a defendant in an action filed in 2004. Plaintiffs allege that the defendants engaged in conspiracy with the Apartheid era government of South Africa in violation of international law and participated in genocide, expropriation and other wrongful acts. Plaintiffs are seeking unspecified compensatory damages and exemplary damages of $10,000 million. The Group's potential losses under this litigation are limited to the net assets of Stratcor being $78 million as of December 31, 2007. The management believes that the risk of losing this case is very remote.

31. SUBSEQUENT EVENTS

Acquisition of Claymont Steel

On January 16, 2008, the Group acquired 16,415,722 shares of Claymont Steel Holdings, Inc. ("Claymont Steel") through a tender offer, representing approximately 93.4% of the outstanding ordinary shares of Claymont Steel. Claymont Steel is a plates producer located in the United States.

Following the acquisition of the controlling interest in Claymont Steel, the company was merged with the Group's wholly owned subsidiary and untendered shares were converted into the right to receive $23.50 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 Claymont Steel amounts to approximately $422 million.

31. Subsequent Events / Acquisition of Claymont Steel (Continued)

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 to disclose this information because the Group has not completed purchase price allocation in accordance with IFRS 3 "Business Combinations" and the acquired entity did not prepare IFRS financial statements prior to the date of its acquisition.

Acquisition of Steel and Mining Businesses in the Ukraine

On December 12, 2007, Lanebrook, the ultimate parent of the Group, acquired majority shares in selected production assets in the Ukraine which include the following:

- a 99.25% share holding in the Sukha Balka iron ore mining and processing complex;
- a 95.57% share holding in the Dnepropetrovsk Iron and Steel Works; and
- three coking plants (Bagleykoks – 93.74%, Dneprkoks – 98.65%, and Dneprodzerzhinsk Coke Chemical Plant – 93.83% of shares outstanding).

Lanebrook has acquired these production assets on the working capital free and debt free basis. The share purchase agreement gives the seller approximately three months (the "Settlement period") to settle the current assets, liabilities and debt that existed at the acquisition date and receive net settlement from Lanebrook.

On December 5, 2007, the Group signed an agreement with Lanebrook to acquire these assets. The transfer of the shares from Lanebrook to the Group is expected to occur upon the completion of the settlement period by the end of April 2008. Total cash consideration for the acquisition of these businesses amounts to approximately $2,031 million, comprising cash in the amount of $1,060 million and 4,195,150 Evraz Group's shares that will be issued for the settlement of this acquisition.

Purchase of Shares of Steel and Mining Businesses in China

On February 18, 2008, the Group entered into a Share Purchase Agreement (the "Agreement") to acquire up to approximately 51.05% of the issued share capital of Delong Holdings Limited ("Delong"), a hot-rolled coil manufacturer, headquartered in Beijing (China), over an agreed period of time. This transaction is subject to anti-trust clearance by the regulatory authorities of China.

The Share Purchase Agreement entered into between the Group, Best Decade and the shareholders of Best Decade includes an initial sale to the Group of approximately 10% of the issued share capital of Delong (the "Initial Sale") at 3.9459 Singapore dollar (S$) per share (the "Offer Price") or S$211 million ($150 million at the exchange rate as of the date of the agreement).

Best Decade has also granted the Group a call option to acquire an additional 32.08% of the issued share capital of Delong (the "Call Option") that is conditional upon the satisfaction of certain conditions, including obtaining antitrust approval and clearance from Ministry of Commerse and State Administration of Industry and Commerce of China. The Call Option is exercisable within six months after February 18, 2008. The Group has granted Best Decade a put option with respect to 32.08% of the issued share capital of Delong (the "Put Option"), exercisable during the same period. Both the Call Option and the Put Option have a strike price equal to the Offer Price of S$3.9459 per share. Total consideration under Call and Put option is S$677 million ($480 million at the exchange rate as of the date of the agreement).

In addition, the beneficial shareholders of Best Decade have signed an undertaking to sell approximately 8.97% of the issued share capital of Delong to the Group at the Offer Price when certain restrictions in place due to existing financing arrangements are released. The purchase price of additional shares is fixed at S$3.9459 per share or S$189 million ($134 million at the exchange rate as of the date of the agreement).

Following completion of these transactions, the Group will control approximately 51.05% of the issued share capital of Delong.

In accordance with the Singapore Code on Takeovers and Mergers, the Group will be required to make a mandatory cash offer for the remaining Delong shares at the Offer Price upon acquisition of 30% of shares in the company.

The maximum consideration payable under that mandatory cash offer by the Group will be approximately S$484 million ($343 million at the exchange rate as of the date of the agreement), assuming a full acceptance of the mandatory offer.

Agreement to Acquire IPSCO Canada

On March 14, 2008, the Group entered into an agreement to acquire IPSCO's Canadian plate and pipe business ("IPSCO Canada"). IPSCO Canada is a leading North American producer of steel plate, as well as pipe for the oil and gas industry.

Under the structure of the agreed transaction, the Group will acquire the IPSCO Tubulars business from SSAB for $4,025 million. The Group has also entered into definitive back-to-back agreements with OAO TMK and its affiliates ("TMK"), the Russian leading tubular player, to sell certain of the acquired US businesses for $1,200 million. In addition, the Group signed an option agreement to sell the remaining acquired US businesses of IPSCO Tubulars to TMK for approximately $510 million in 2009. All of these transactions are subject to certain closing adjustments and conditions. As a result of these transactions, the net cost of the acquisition for the Group is expected to be approximately $2,314 million.

Extension of Sale of Highveld Divestment Package

On January 20, 2008, the European Commission has further extended the divestiture period during which Highveld is obliged to dispose of certain vanadium assets till April 20, 2008 (Note 12).

Borrowings

Subsequent to December 31, 2007, the Group signed bank loan agreements for $618 million, which include the following:

	Long-term borrowings		Short-term borrowings	
	US$ million	Interest rate	US$ million	Interest rate
Russian rouble	$82	7.48%	$102	9%
US dollar	35	4.57%	399	4.50–7.25%
	$117		**$501**	

Abbreviations

BRIC
Brazil, Russia, India and China

IISI
International Iron and Steel Institute

RoW
Rest of the world

Glossary

Blast furnace
The blast furnace is the classical production unit to reduce iron ore to molten iron, called hot metal. It operates as a counter-current shaft system, where iron ore and coke is charged at the top. While this charge descends towards the bottom, ascending carbon containing gases and coke reduces the iron ore to liquid iron. To increase efficiency and productivity, hot air (often enriched with oxygen) is blown into the bottom of the blast furnace. In order to save coke, sometimes coal or other carbon containing materials are injected together with this hot air. Modern blast furnaces can produce over 10,000 tonnes of hot metal per day.

Brownfield project
A development or exploration project in the vicinity of an existing operation.

Coke
A product made by baking coal without oxygen at high temperatures. Unwanted gases are driven out of the coal. (The unwanted gases can be used as fuels or processed further to recover valuable chemicals). The resulting material (coke) has a strong porous structure. This makes it ideal for use in a blast furnace.

Consumption
The physical use of steel by end users. Consumption predicts changes in inventories, unlike demand figures.

Crude steel
Steel in its solidified state directly after casting. This is then further processed by rolling or other treatments, which can change its properties.

Ferroalloy
A metal product commonly used as a raw material feed in steelmaking, usually containing iron and other metals, to aid various stages of the steelmaking process such as deoxidation, desulfurisation, and adding strength. Examples: ferrochrome, ferromanganese, and ferrosilicon.

Flat-rolled steel
Category of steel that includes shapes such as sheet, strip, and tin plate.

Greenfield project
The development or exploration of a new project not previously examined.

Iron ore
Chemical compounds of iron with other elements, mainly oxygen, silicon, sulphur or carbon. Iron ore is very abundant in the Earth's crust. Only very pure (rich) iron-oxygen compounds are used for steelmaking. Since the iron is chemically bound to the accompanying elements, energy is needed to break these bonds. This makes ore-based steel production more energy intensive than production based on recycled steels, where only melting is usually required.

Open-hearth furnace
A vessel used to produce steel, which has been largely superseded by the basic oxygen furnace (BOF). The open-hearth method is about 10 times slower than the BOF.

Pig iron
The solidified iron produced from a blast furnace. The traditional moulds for pig iron were formed in sand. They consisted of a shallow central channel with deeper depressions at right-angles to the channel. Hot metal was run along the central channel and filled the deeper depressions, forming ingots of iron. It was thought that the ingots (also called pigs) looked like piglets suckling on their mother. In liquid form, pig iron is known as hot metal.

Semi-finished steel
Steel products such as blooms, billets, or slabs that are then rolled and processed into beams, bars, sheets, etc.

Sintering
A process that combines iron-bearing particles into small pellets that were recovered from environmental control filters. The pellets can be used as charge in a blast furnace.

Slab
A very common type of semi-finished steel usually measuring 10 inches thick by 30–85 inches wide, and averaging 20 feet in length. After casting, slabs are sent to a strip mill where they are rolled and coiled into sheet and plate products.

Slag
The impurities in a molten pool of iron. Flux may be added to congregate the impurities into a slag. Slag is lighter than iron and will float allowing it to be skimmed.

Vanadium
A grey metal that is normally used as an alloying agent for iron and steel. It is also used as a strengthener of titanium-based alloys.

Vanadium pentoxide
The chemical compound with the formula V_2O_5, this orange solid is the most important compound of vanadium. Upon heating it reversibly loses oxygen.

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To receive free hardcopy of this Report or the audited financial statements please contact us at +7 495 232 1370 or through a request to ir@evraz.com.

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