EVRAZ

STRATEGIC ASSETS ▸ SUSTAINABLE BUSINESS ▸ STRONG COMPANY

Annual Report & Accounts 2008

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Company Overview

Evraz Group is a vertically-integrated steel, mining and vanadium business and is currently ranked the 15th largest steel company in the world based on crude steel production volumes.

Who We Are

Our Business

Evraz Group is a global industrial enterprise that spans four continents and employs 134,000 people. During 2008, Evraz produced 17.7 million tonnes of crude steel, 13.3 million tonnes of pig iron and 16.1 million tonnes of rolled steel products. Self-coverage in relation to the Company's iron ore and coking coal requirements amounted to 93% and 89% respectively.

Our principal activities include the manufacture and sale of steel and steel products, iron ore mining and enrichment, coal production and processing, the manufacture and sale of vanadium products and trading and logistics.

As a leading supplier to major industrial sectors, Evraz's operations extend to all key steel markets.

Our Vision

Evraz's vision, in addition to being a world class steel and mining company, is to become one of the Top Five most profitable global steelmakers in terms of ROCE and EBITDA margin.

Evraz remains focused on its primary objective of sustaining the Company's position as one of the most cost-efficient integrated steel producing and mining enterprises in the world.

Evraz's strategy is focused on achieving ongoing improvements in operating efficiency, cost control and synergies derived from asset consolidation, while maintaining the Company's prime positions in the railway and construction steel products markets in Russia and CIS, the flat products markets in Europe and the US and the global vanadium market.

The consistent implementation of these strategic objectives continued throughout 2008.

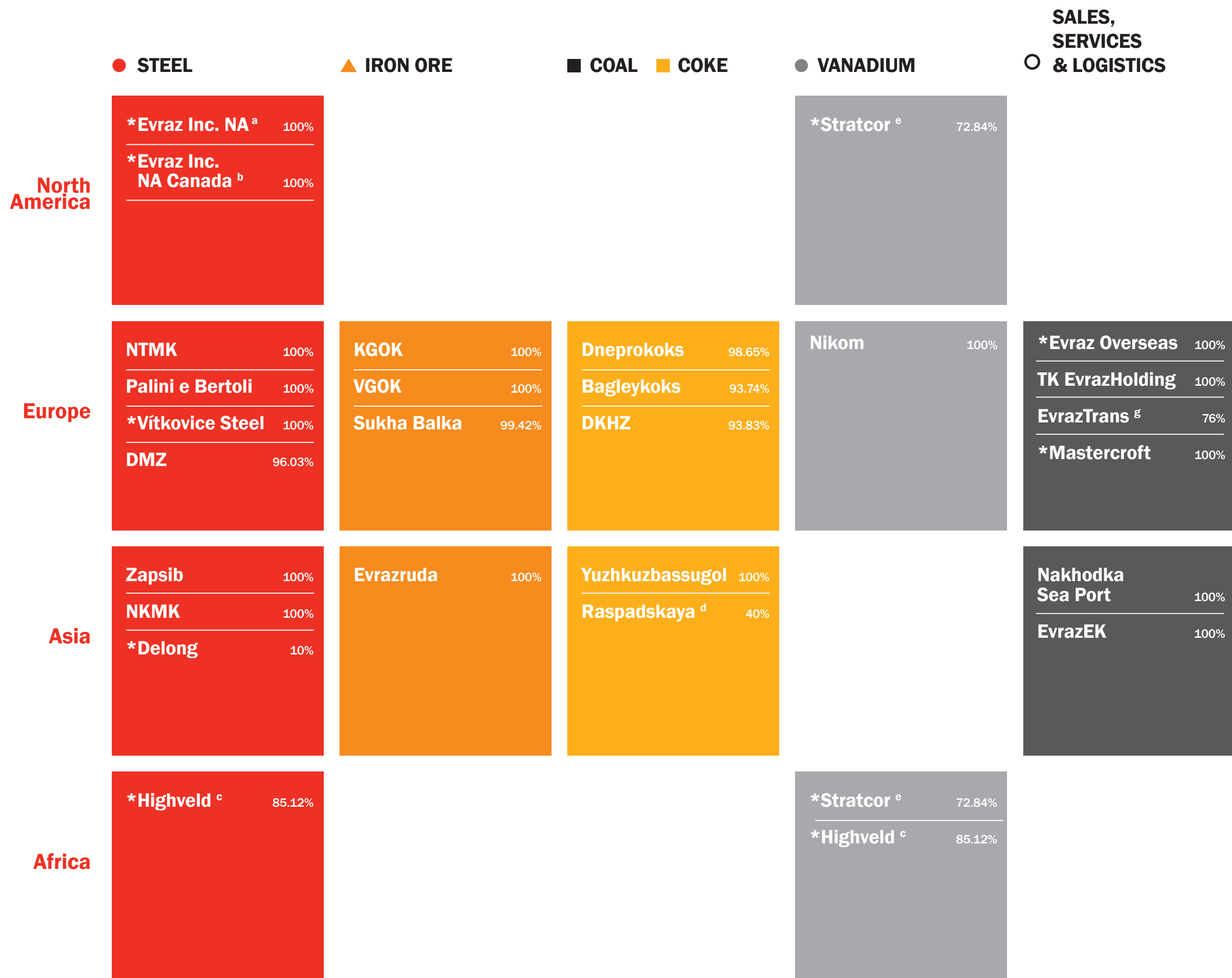
Our Story

Originally founded in 1992 as a small metal trading company in Russia, Evraz has developed into a multinational corporation through progressively extending its steel and mining operations around the globe.

We believe our greatest responsibility to our shareholders, our employees, our customers, our communities and other relevant constituencies is to deliver maximum value while aligning our activities to a framework of sustainability that lies at the heart of our business.

Corporate Structure

Key subsidiaries and jointly controlled entities as of 1 July 2009



* Interests in subsidiaries marked with an asterisk (*) are held directly by Evraz Group S.A., the parent company.

a Evraz Inc. NA headquartered in Portland (Oregon, USA) incorporates steel manufacturing facilities in Portland, Pueblo (Colorado, USA), Claymont (Delaware, USA), Camrose (Alberta, Canada), and General Scrap business (Canada, USA).

b Evraz Inc. NA Canada, formerly IPSCO's Canadian plate and pipe business, comprises a steelmaking and rolling mill in Regina (Saskatchewan), tubular operations in Regina, Calgary and Red Deer (Alberta), a cut-to-length processing centre in Surrey (British Columbia) and a sales office in Calgary.

c Highveld Steel and Vanadium Corporation produces both steel and vanadium products. Highveld's shares have a primary listing on the Johannesburg Stock Exchange.

d 40% interest in Raspadskaya is held by its management, while 20% is free float.

e Strategic Minerals Corporation comprises two divisions: Stratcor, Hot Springs (Arkansas, USA) and Vametco Alloys, Brits (South Africa).

f Other major sales and service companies include Ferrotrade, TH EvrazHolding, Trade House EvrazResource, Trade House EvrazResource-Ukraine, Metallenergo-finance, East Metals and Sinano.

g The remaining 24% in EvrazTrans is held by its management.

Major Assets

Dnepropetrovsk Iron and Steel Works ("DMZ"), Ukraine, an integrated steel mill specialising in the manufacture of pig iron, steel and rolled products.

Evraz Inc NA together with **Evraz Inc. NA Canada** represents one of the most diversified steel manufacturers in North America. Evraz's facilities in the USA and Canada, established in 2008 through the combination of Evraz Oregon Steel Mills, Claymont Steel and IPSCO's Canadian plate and pipe business, produce higher margin specialty and commodity steel products.

Evraz Palini e Bertoli ("Palini e Bertoli") in northern Italy produces customised, high-quality steel plate products.

Evraz Vitkovice Steel ("Vitkovice Steel"), the largest producer of steel plates in the Czech Republic.

Evrazruda Iron Ore Mining and Processing Complex ("Evrazruda") produces iron ore concentrate and sinter, operating mines in Kemerovo region, the Republic of Khakassia and south Krasnoyarsk Krai.

Highveld Steel and Vanadium Corporation ("Highveld"), one of the largest steel producers in South Africa with primary positions in medium and heavy structural sections and ultra thick plate as well as being a leading producer of vanadium slag.

Kachkanarsky Ore Mining and Processing Enterprise ("KGOK") produces sinter, pellets and concentrate from high-vanadium iron ore.

Nakhodka Trade Sea Port ("NMTP"), one of the largest ports in the Far East of Russia, from where Evraz ships the majority of its exports.

Nizhny Tagil Iron and Steel Plant ("NTMK"), an integrated steel plant that primarily produces railway and construction long products, pipe blanks and semi-finished products.

Novokuznetsk Iron and Steel Plant ("NKMK") specialises in the production of rolled long metal products for the railway sector and semi-finished products.

Strategic Minerals Corporation ("Stratcor"), one of the world's leading producers of vanadium alloys and chemicals for the steel and chemical industries.

Sukha Balka Iron Ore Mining and Processing Complex ("Sukha Balka") operates two underground mines in Ukraine for the production of lumping iron ore.

Vysokogorsky Ore Mining and Processing Enterprise ("VGOK") produces sinter from its iron ore resources, as well as iron ore concentrate, limestone, crushed stone and other products.

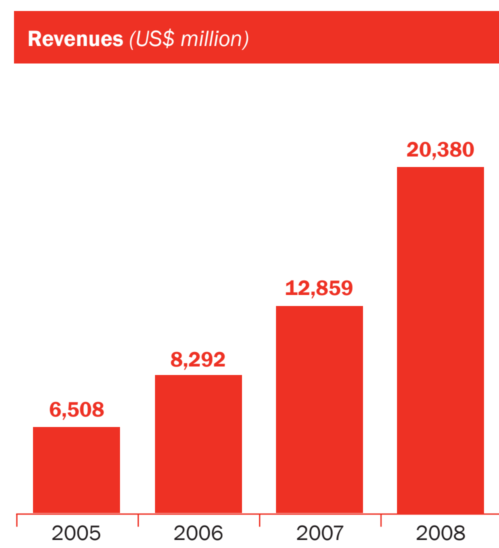
West Siberian Iron and Steel Plant ("Zapsib"), an integrated steel plant that primarily produces construction long products and semi-finished products.

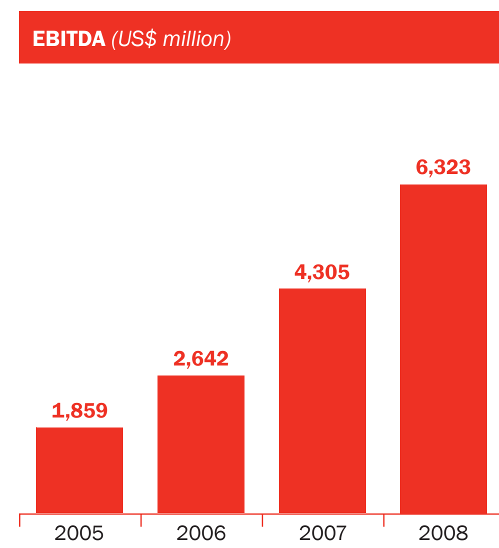
Yuzhkuzbassugol Coal Company ("Yuzhkusbassugol"), one of the largest coal companies in Russia that produces both coking and steam coal.

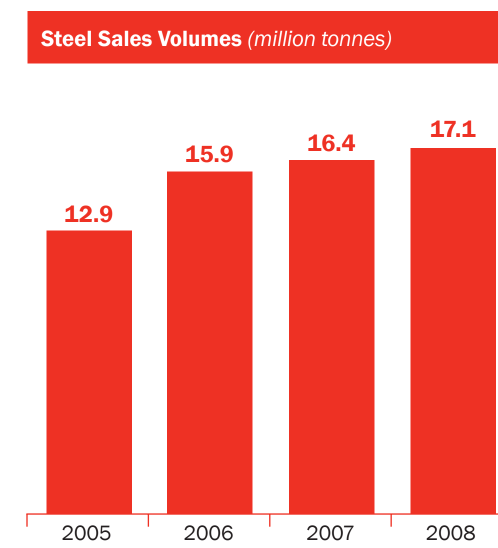
Ukrainian coking plants **– Bagleykoks, Dneprokoks and Dneprodzerzhinsk Coking Plant ("DKHZ")** – supply their coke production to DMZ and various local steelmakers in Eastern Europe.

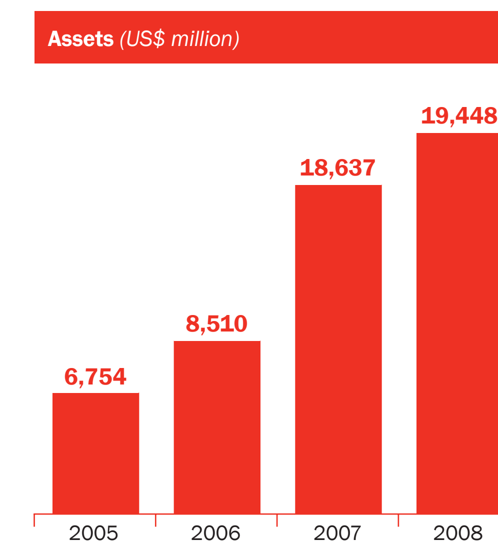
Operations Map

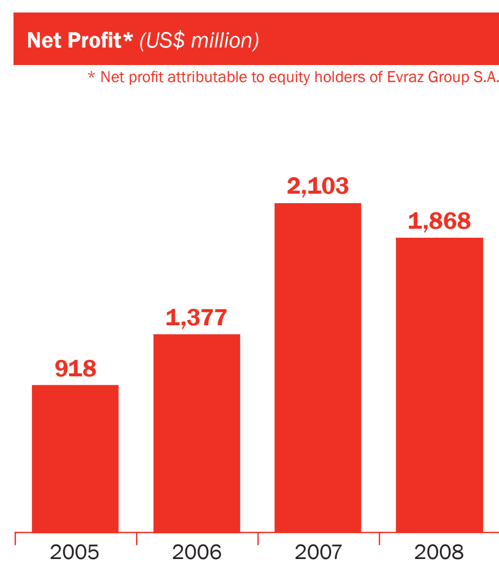
Our Progress

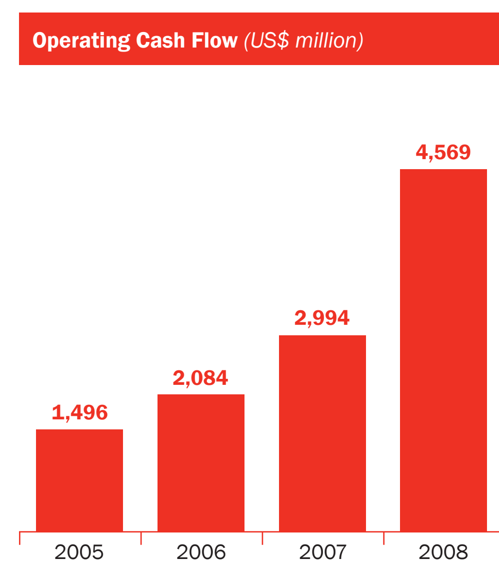


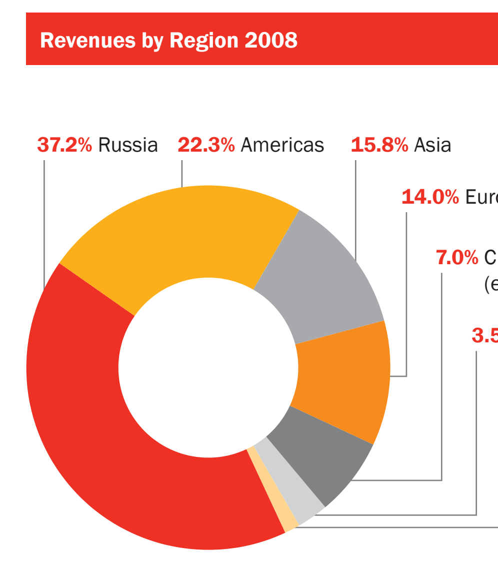


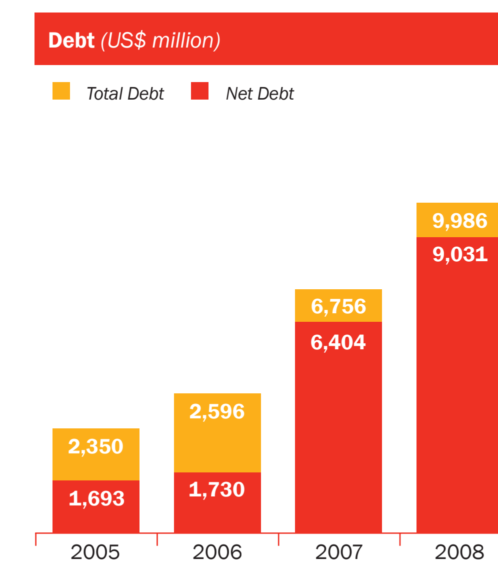












Key Events

2008

January

Evraz completed the acquisition of Claymont Steel, a manufacturer of custom steel plate based in Delaware, USA.

Evraz concluded the buyout of all outstanding common stock of West Siberian Heat and Power Plant (“ZapSibTETs”).

February

Evraz acquired a 10% stake in Delong Holdings Limited (“Delong”), an SGX-listed steel manufacturing group headquartered in Beijing, China and entered into an agreement to acquire an interest of up to 51% in Delong, subject to antitrust clearance from the People’s Republic of China.

March

Evraz acquired IPSCO’s Canadian plate and pipe business from SSAB for a net consideration of US$2.3 billion in a transaction that involved the acquisition of the IPSCO Tubulars business from SSAB for US$4.025 billion and the on-sale of IPSCO’s US tubular and seamless business to TMK for approximately US$1.7 billion.

April

Evraz completed the first stage of the acquisition of select production assets in Ukraine through the US$1.11 billion purchase of a 51.4% interest in Palmrose Limited, a Cyprus-based holding company that owned the following investments: a 99.25% interest in Sukha Balka iron ore mining and processing complex; a 95.57% interest in Dnepropetrovsk Iron and Steel Works; and major interests in three coking plants (94.37% of Bagleykoks, 98.65% of Dneprokoks and 93.86% of Dneprodzerzhinsk Coke Chemical Plant).

Evraz successfully placed US$1.6 billion Eurobonds: the US$1,050 million 5-year bond issue with a coupon of 8.875% and the US$550 million 10-year bond issue with a coupon of 9.50%.

May

Evraz placed an additional US$400 million Eurobonds.

The Annual General Meeting of shareholders approved a final dividend of US$4.20 per ordinary share, or US$1.40 per GDR, for the year ended 31 December 2007. Taking into account the interim payment this made a total dividend for the year of US$9.00 per ordinary share, or US$3.00 per GDR.

June

Evraz completed the acquisition of IPSCO’s Canadian plate and pipe business. The latter’s Canadian assets, including the Regina Steel mill together with plate and pipe production capacities in Regina, Calgary and Red Deer, became part of Evraz’s North American operations.

Evraz rebranded its North American subsidiaries under the name of Evraz Inc. NA.

July

Evraz won the tender to develop the Mezhegey coal deposit in the Republic of Tyva, Russia.

Evraz signed a cooperation agreement with the China Metallurgical Group Corporation for the joint development of the Cape Lambert Iron Ore Project in Western Australia.

August

Evraz concluded a US$550 million five-year revolving credit facility and a US$175 million five-year term loan facility in respect of Evraz Inc. NA, primarily for the purpose of refinancing the existing indebtedness of the North American operation.

Evraz sold certain vanadium assets controlled by Highveld including the latter’s Vanchem operations, its 50% shareholding in South Africa Japan Vanadium (Proprietary) Limited and its non-dividend bearing equity interest in Mapochs Mine (Proprietary) Limited. The approval by the European Commission and South African competition authorities of Evraz’s acquisition of a majority interest in Highveld in 2007 was conditional on these disposals.

The Board of Directors declared an interim dividend for the first six months of 2008 of US$8.25 per ordinary share, or US$2.75 per GDR, payable before 18 December 2008.

September

Evraz completed the second stage of the acquisition of Ukrainian assets through the issue of 4,195,150 shares in favour of Lanebrook Limited, the Company's major shareholder, in exchange for the remaining 48.6% interest in Palmrose Limited.

November

Russian bank VTB granted Evraz a one-year RUB10 billion (approximately US$360 million as at the date of the announcement) credit facility.

Russia's State bank "Vnesheconombank" (VEB) approved credit lines of US$1,006.6 million and US$800 million for Evraz to refinance its indebtedness under syndicated loans.

December

Evraz's Board of Directors elected Alexander Abramov as Chairman of the Board.

The Board of Directors proposed that shareholders should be permitted to elect to receive up to US$2.25 per share or US$0.75 per GDR of the interim dividend announced in August 2008 in the form of new shares to be issued at US$22.50 per share or US$7.50 per GDR.

The Board of Directors approved a change in Evraz's dividend policy whereby the Company's dividend distribution will not exceed 25% of consolidated net income, as calculated under IFRS, with effect from the final dividend in respect of 2008. The historic policy was to pay not less than 25% of consolidated net income in dividends.

2009

January

Evraz Group S.A. renounced the right to purchase the license to develop the Mezhegey coal deposit in the Republic of Tyva, Russia. The decision reflected the global economic downturn and weakening coal markets.

An Extraordinary Shareholders' Meeting approved the modification of the method of payment of the 2008 interim dividends, proposed by the Board of Directors in December 2008. This resolution was supported by holders of approximately 80% of Evraz's shares. Following the decision, 9,755,347 new shares were issued in favour of those shareholders who supported 2008's partial scrip interim dividend.

February

Evraz sold 49% of NS Group to TMK for US$508 million, thereby completing the transfer of IPSCO's former US tubular and pipe businesses.

April

Highveld agreed to sell 26% of Mapochs Mine to local partners. This agreement is part of the South African Government's Black Economic Empowerment programme and was signed in order to comply with South African legislation in respect of the mining industry.

May

Shareholders approved the proposal not to pay a final dividend for 2008. Dividend payments will only resume upon completion of the deleveraging exercise and market recovery.

July

Evraz raised approximately US$965 million from concurrent convertible bond and equity offerings through the issue of US$650 million (including US$50 million of over-allotment option) 7.25% convertible bonds due 2014 and US$315 million (including US$15 million of over-allotment option) of new equity. The Bonds will be convertible into GDRs at an initial conversion price of US$21.12 per GDR. New equity was issued in the form of GDRs at an issue price of US$16.50 per GDR.

Messages

We are pleased to introduce this Annual Report for 2008. Evraz Group demonstrated a strong financial and operating performance despite the challenges of the world economic downturn in the second half of the year.

Alexander Abramov, Chairman of the Board:

"… We are determined to grow shareholder value, continue to meet the objectives of our stakeholders and serve the communities in each region and location in which we operate. Together we can overcome the challenges and, indeed, emerge even stronger."

see pages 14-15

Alexander Frolov, Chief Executive Officer:

"… Our strategic disciplines of cost leadership, vertical integration, geographic diversification and product mix improvement, while highly efficient in a growing market, also proved viable at a time of global recession"

see pages 16-17

Chairman’s Statement

Dear Stakeholders,

2008 was a remarkable year for our Company and for the industry as a whole. This was most certainly a year to remember, one that left us with mixed feelings. On the one hand we achieved new records in terms of revenues and EBITDA, finalised a number of landmark acquisitions, improved the product mix and further diversified our business. On the other, the world economic downturn, which commenced in the second half of 2008, presented the most serious challenge in decades and put our Company and the entire industry to the test.

Driven by our original vision, we built a company based on key strategic pillars: cost leadership, a sufficient level of vertical integration into raw materials, geographic diversification, exposure to infrastructure investment and the development of downstream operations in regions where value-added products enjoy high consumption.

Earlier years represented the periods of rapid growth: upstream vertical integration and downstream geographical expansion. Now it is time to focus on operations, improvements in efficiency and the integration of acquired assets. Such focus will enable us to prepare for the new growth phase as we become more efficient, more viable and even stronger.

Low-cost production has always been a cornerstone of our strategy, the key rationale behind our decision making. This has been achieved through the production of semi-finished steel at the most cost-efficient locations and our expansion into raw materials. This consistent focus on cost leadership and efficiency became even more critical as the need to improve competitiveness gathered momentum in the face of the global meltdown.

In order to implement our strategy of operating in regions synonymous with the consumption of high value-added products we acquired a number of “profitability champions,” operating in mature markets, which possessed the financial health to enable them to overcome any short-term difficulties.

The importance of geographic diversification was also evident amid the down-cycle. For example, during the fourth quarter of 2008 and the onset of 2009, when domestic demand for our products in Russia collapsed and exports declined, we benefited from the stable business and healthy margins of our North American operations.

The financial crisis became a stress test for the global economy and for the metals and mining industry, one of the key elements of worldwide infrastructure. Against this background Evraz's management took swift and decisive action to reorganise the business to meet the market challenge.

First of all we eliminated the less efficient parts: shut down open-hearth furnaces and reduced a number of iron ore and coking coal sites. We are constantly reviewing our products and resources flows to identify potential efficiency gains. We put rather aggressive cost reduction targets in place and we are confident that these will be achieved.

The rapid expansion of our business during recent years was partially financed through borrowing which resulted in a relatively high debt level. We recognised deleveraging as a key priority and a significant reduction in indebtedness bears witness to our considerable achievements in this regard. We have further improved cash management, reduced working capital, cut CAPEX to what essentially equates to maintenance levels and sacrificed dividends: all of which improved our liquidity position. A successful capital raising transaction in July 2009 reflected the confidence of our investors and debt-holders alike.

During this challenging time my appointment as Chairman of the Board served to split the roles of Chairman and Chief Executive and permitted Alexander Frolov, Evraz's CEO, to focus solely on the Company's business and operations. My principal duty, as Chairman of the Board and a founder of the Company, is to maintain good working relationships with our key stakeholders.

Evraz remains totally committed to its corporate principles in respect of safe, sustainable and socially-responsible development. We constantly endeavour to mitigate any negative impact on the environment. Evraz's key environmental objectives include consistent reductions in emissions and energy consumption, the appropriate treatment of gaseous and liquid waste and the effective processing of by-products.

Ongoing improvements in the standards of health and safety in relation to the well-being of our employees remain at the forefront of our priorities. Evraz continues to address the occupational and social needs of its employees and support social projects for the benefit of the residents of those regions in which we operate.

Evraz has always taken the view that its employees represent a tremendously important asset which is critical to the Company's long-term success. It is manifestly clear that our achievements would not have been possible without the hard work, commitment and dedication of our talented employees around the world and I would like to take this opportunity to thank each one of them for their enormous contribution to our results.

It is inevitable that the closure of non-efficient production chains, the improvement of business processes and actions designed to increase productivity sometimes result in unpopular measures. Even when redundancies cannot be avoided we are endeavouring to provide people with opportunities for alternative employment. We are intent on retaining our best people, an approach that is not only socially responsible but will also yield rewards when the market regains momentum.

We are determined to grow shareholder value, continue to meet the objectives of our stakeholders and serve the communities in each region and location in which we operate. Together we can overcome the challenges and, indeed, emerge even stronger.

Alexander Abramov
Chairman of the Board

Chief Executive's Report

Dear Stakeholders,

I am pleased to report that Evraz achieved a strong financial and operating performance in 2008, a year that witnessed another important step in the implementation of our corporate strategy. We grew our business by almost 60% last year, both organically and through a series of strategic international acquisitions, namely in the US, Canada and Ukraine.

Organic growth benefited from a favourable pricing environment for much of the year enhanced by an improved product mix. We further strengthened our position as the largest producer of crude steel and construction steel products in our core Russian market. Acquisitions of US and Canadian businesses served to underwrite our position as the regional leader in the plate and tubular products markets.

The exceptionally strong results achieved during the first nine months of 2008 were overshadowed by a sharp slowdown of the global economy in the fourth quarter. Our strategic disciplines of cost leadership, vertical integration, geographic diversification and product mix improvement, while highly efficient in a growing market, also proved viable at a time of global recession.

One of Evraz's competitive strengths lies in management's ability to assess and react swiftly to market challenges. I am pleased to inform you that the initial results from the management action plan are encouraging.

We were able to stabilise the situation and achieve operational improvements, further supported by a pick-up in demand, particularly in export markets, which became evident in the first half of 2009.

The aforementioned stabilisation has enabled management to focus on two key areas: efficiency gains through extensive cost reductions and deleveraging. In order to improve our efficiency we need to do away with our non-core activities and reduce our labour costs. We are focusing on the optimisation of our production capacities and the discontinuation of cost inefficient operations that lack a competitive edge on a global scale. We have set aggressive cost reduction targets, in comparison with 2008 levels, including cuts of as much as 50% in certain areas.

We have also decreased our capital expenditure to effective maintenance levels and planned investment in 2009 is not expected to exceed US$500 million. Our prudent management of working capital continued, as illustrated by the reduction from a 16% proportion of revenues in 2007 to 10% in 2008, despite the challenging market environment in the fourth quarter. We currently plan to reduce our working capital by US$700 million in 2009.

I am pleased that our liquidity plan has started to yield rewards. During the first quarter of 2009 we reduced our net debt by US$1 billion to approximately US$8 billion. As of 31 March 2009, we have accumulated more than US$800 million of current cash and US$1.8 billion of undrawn credit facilities. As part of the liquidity plan, and through dialogue with our debt-holders, we converted some US$650 million of short-term debt into longer-term debt during the fourth quarter of 2008 and the first quarter of 2009. We are pleased to see that our banking and lending relationships, built up over time, continue to hold us in fair standing and that the overwhelming majority of our debt-holders are professionally disposed to conduct continuous business with us.

A successful GDR and convertible bond placement in July 2009, which enabled us to attract US$965 million, provided another illustration of capital market confidence. This deal represented the second largest transaction on the Russian market since July 2008 and the largest ever convertible bond issue executed on the Russian market. Despite the challenging market environment investors showed considerable appetite for the issues. This capital raising exercise provides us with a comfortable financial cushion in respect of our short-term refinancing needs.

The stabilisation of demand and some positive price trends in respect of exported semi-finished products registered in the middle of 2009 allowed us to restart the previously idled blast furnace at our Zapsib plant in June 2009, thereby increasing Russian production volumes in order to meet export demand. Following this restart, our Russian steelmaking plants are running at full capacity of 13.5 million tonnes of crude steel per annum, albeit two million tonnes less than last year's capacity due to production optimisation.

All these factors indicate that consistent implementation of the management's response plan will enable us to successfully weather the downturn and prepare to fully capitalise on a market recovery.

The industry and the wider global economy continue to face serious challenges and considerable uncertainty. Despite positive pricing and volume dynamics in some markets, the shape of the global economic recovery remains questionable and longer-term projections of demand for infrastructure products are not possible at this stage.

Few can doubt that 2009 is going to prove a difficult year for the global steel industry and for Evraz as one of the sector's key players. However, we strongly believe that the combination of asset composition, a high degree of vertical integration and our geographic diversification, together with our experienced international management team, will ensure that we not only overcome the challenges but enter a new growth era with enhanced competitive credentials.

Alexander Frolov
Chief Executive Officer

Economic and Industry Overview

Evraz outlines the challenging economic issues and industrial trends that have affected the Company's key markets.

Global Macroeconomic Environment

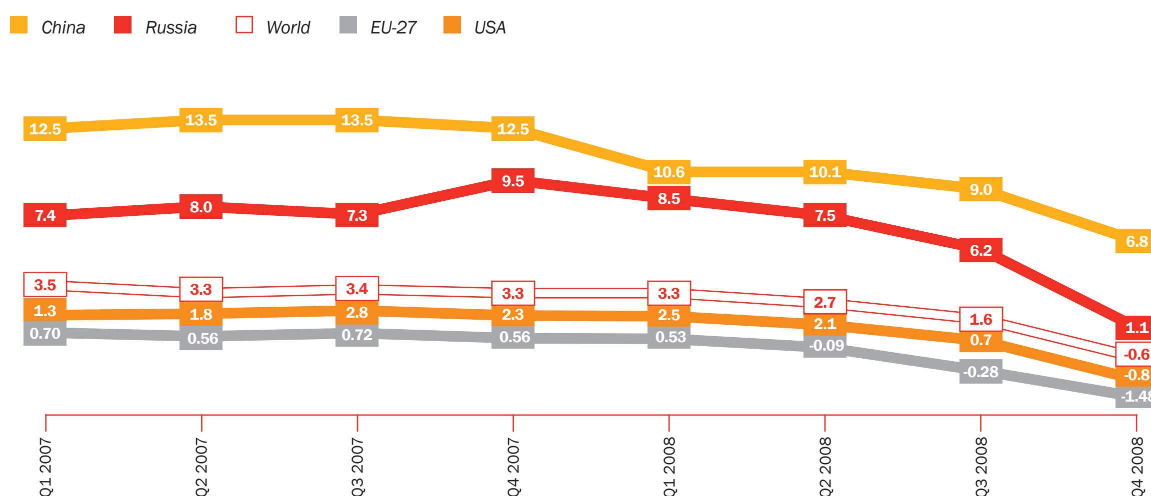
The year 2008 proved somewhat contradictory for the global economy. The first three quarters enjoyed relatively favourable economic conditions and healthy growth, despite the gradually deepening mortgage problems in the USA. As from September 2008 these positive trends gave way to an effective paralysis of the global financial system accompanied by a breakneck fall in the 'real' sector of the economy. This trend manifested itself in a stock market decline (around 30% in August-December), an increase in interest rates on banking loans, a collapse in commodity prices, the descent of GDP growth rates in developed countries into negative territory (-0.8% in the USA in 4Q, -1.5% in EU-27 countries and -4.6% in Japan) together with a significant slowdown in BRIC countries. In the fourth quarter of 2008 global GDP registered a fall of 0.6%. The steel consuming sectors proved the most severely affected with both investment (construction, mechanical engineering) and consumer (automotive industry, domestic appliance) demand experiencing major reversals. By way of example, the 4Q output of the global automotive industry decreased by 22%, domestic appliance output fell by 7%, while construction output declined by 4.5%*.

Governments across the world have worked together on measures designed to counteract the global recession but the pace of economic recovery remains unpredictable.

* Oxford Economics estimates

Global GDP Growth Rate for Selected Countries and Regions

(y-o-y, %) Source: Oxford Economics, OECD, Rosstat



Steel Industry

For a long time steel has been one of the basic structural materials widely used in mechanical engineering and construction which are essential to satisfy both investment and consumer demand. That is why the steel industry is the backbone of every modern economy and steel consumption (especially per capita) is a universally recognised indicator of economic development and industrial growth.

Due to an unprecedented rally during the first half of 2008 annual average benchmark steel prices soared by 40-60% to reach historic highs. For example, South Europe ex-works average hot-rolled coil (HRC) price increased by 40% to 928 US$/t, while North America FOB US Midwest mill HRC price advanced 61% to 945 US$/t*.

According to the World Steel Association ("Worldsteel"), total world crude steel output decreased by 1.4% in 2008 from 1,351 mt to 1,332 mt. This outcome encompasses 6% growth in the first half of the year and a 9.3% decrease (-20% in 4Q) in the second half. The top crude steel producers included China with approximately 500 mt (a 2.3% increase over 2007), Japan (119 mt, a decrease of 1.2% compared with 2007), the USA (91 mt, -7%) and Russia (69 mt, -5.4%). Crude steel output growth in India slowed to +3.7% (+7.3% in 2007) and was -0.2% in Brazil (+9.3% in 2007).

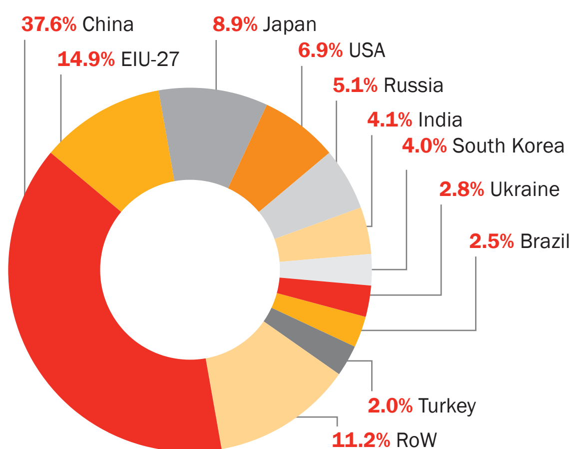
Global consumption of finished steel products fell by 1.4% in 2008, from 1,215 mt to 1,197 mt in the wake of a healthy 12% first half growth rate and a 14% second half collapse (-19% in 4Q). Once again China increased its share of global steel consumption from 34.1% in 2007 to 35.5%, or 427 mt, in 2008 – a record for any single country and considerably in excess of the EU-27 countries' 15.2% share, the USA's 8.2% and Japan's 6.4%. India's and Brazil's shares have expanded slightly from 4.1% to 4.4% and from 1.8% to 2.0% respectively, in contrast to Russia's share which declined from 3.3% to 3.0%.

The global steel industry is still highly fragmented despite considerable consolidation in recent years, with the top 10 producers accounting for 28% of global crude steel production in 2008.

*Source: Steel Business Briefing

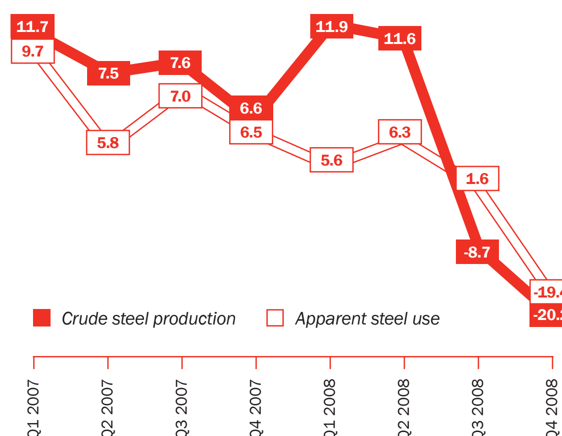
Share of World Crude Steel Production in 2008

Source: Worldsteel



Crude Steel and Apparent Steel Use Dynamics

(Total world, quarterly, y-o-y, %) Source: Worldsteel



Iron Ore Market

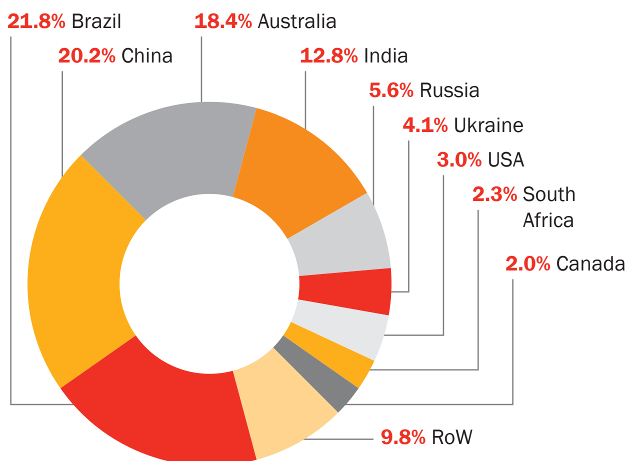
World iron ore mine production rose by 10% to 2,200 mt in 2008*. The top iron ore producers – China: 770 mt (+9% versus 2007), Brazil: 390 mt (+10%), Australia: 330 mt (+10%) and India: 200 mt (+11%) – accounted for 77% of total world iron ore production. Australia, Brazil and India are the largest iron ore exporters** and respectively accounted for 35%, 32% and 12% of the total export market. China, in contrast, is the indisputable leader in iron ore imports at 444 mt, a figure that shows a 16% increase over 2007 and represents almost 50% of total international iron ore trade volume. Unlike the rather fragmented steel industry, in corporate terms the iron ore trade is dominated by three major mining companies, namely Vale (29% of global iron ore export in 2008), Rio Tinto (21%) and BHP Billiton (14%). Iron ore seaborne trade increased by 9% in 2008.

Iron ore prices achieved an impressive advance that carried through from the second half of 2007 into the first quarter of 2008. Between July 2007 and March 2008 prices increased by as much as 92%, illustrated by the rise from 103 US$/t to 197 US$/t in spot Indian iron ore concentrate (63% Fe) CFR Northern China terms***. The strength of the market proved a contributory factor to the steel price hikes of 2008, although iron ore prices subsequently suffered a major correction which brought a 62% reversal between March and December 2008. As a result, the iron ore contract prices fixed in April 2008 were 70-100% higher than the comparable figures for 2007. By way of example, Vale Carajas fines, FOB Ponta de Madeira, increased from 73 US$/t to 125 US$/t. The fact that iron ore contract prices were significantly higher than spot prices at the year end served to further erode the profitability of non-integrated steel producers, already impacted by the cutbacks in demand and the collapse in steel prices. This was particularly evident in China, Japan, South Korea and the EU.

*Source: US Geological Survey, January 2009
**Source: TEX Report, UN Comtrade
***Source: Steel Business Briefing

Share of Iron Ore Production in 2008

Source: USGS, Metal Courier



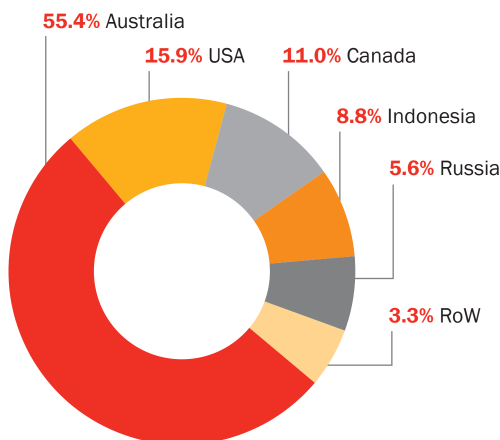
Coking Coal Market

World exports of coking coal registered an increase of just 4% to 243 mt in 2008, compared with an 11% advance in 2007, according to CRU estimates. The market is dominated by Australia (135 mt or 55% of 2008's world coking coal export) followed by the USA (39 mt or 16%), Canada (27 mt or 11%) and Russia (21 mt or 9%). The major importers of coking coal are Japan (81 mt in 2008 or 33% of the world market), EU-27 countries (57 mt or 23%), India (24 mt or 10%) and South Korea (20 mt or 8%). As these statistics show, the world coking coal market, leaving aside the unprecedented prices spike brought about by the flooding of Australian coal mines at the onset of 2008, proved relatively sedate with exports achieving only minimal growth against the backdrop of a 6% fall in EU-27 import, an 8% reduction in Turkey's import requirement, -2% in Brazil and import growth of just 1% in Japan. The international coking coal trade is also dominated by large companies, albeit to a much lesser extent than the iron ore market. BHP Billiton, according to CRU estimates, accounted for 24% of global export in 2008, followed by Teck Cominco (10%), Xstrata (7%), Anglo Coal (7%) and Rio Tinto (5%).

Coking coal prices proved the subject of a surprising fourfold upswing from almost 100 US$/t (spot FOB Australia price) at the outset of 2007 to around 400 US$/t in July 2008. In sympathy with the erosion of the steel market, the price fell to 150 US$/t in December, a reversal of around 60%. As with iron ore, however, the spot price dynamics contrasted to the strength of the contract price which trebled from 98 US$/t (hard coking coal, FOB Australia) in 2007 to 305 US$/t in April 2008. This also impacted unfavourably on steel companies' profits, particularly in major importing countries with small coking coal reserves such as Japan, India, South Korea and Brazil.

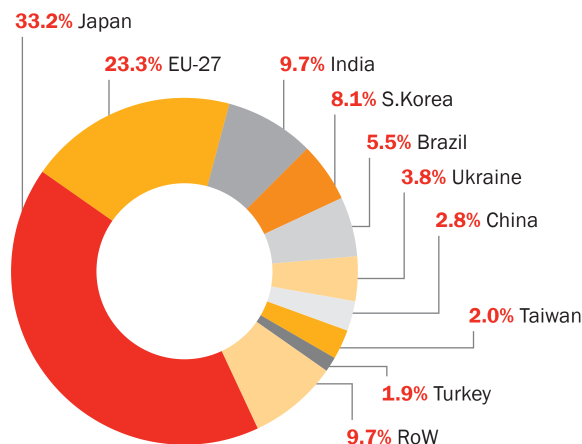
Coking Coal Export Breakdown by Countries in 2008

Source: TEX Report, CRU



Coking Coal Import Breakdown by Countries in 2008

Source: TEX Report, CRU



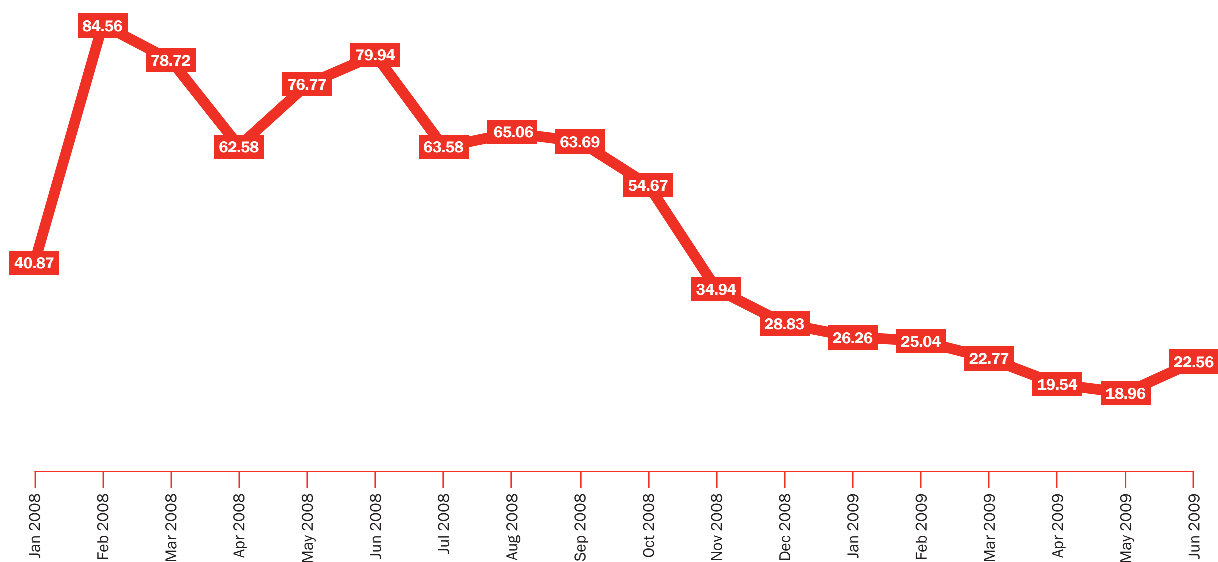
Vanadium Market

The vanadium market is closely related to the steel market due to the fact that almost 90% of vanadium is utilised as a steel alloying element in steel production. The world output of vanadium in 2008 is estimated at some 60,000 tonnes*, an increase of around 2.5% compared to 2007. Russia and China were the only major producers to register higher output with increases of 10% and 5% respectively. In contrast, South Africa's vanadium output reduced by 4%. Having benefited from the strong growth in steel consumption during the first half of the year, particularly in relation to the construction sector, vanadium prices declined in the second half of 2008 following a contraction in global steel production.

*Source: US Geological Survey rounded estimate

Price of FeV *(US$/kg V)*

Source: London Metal Bulletin

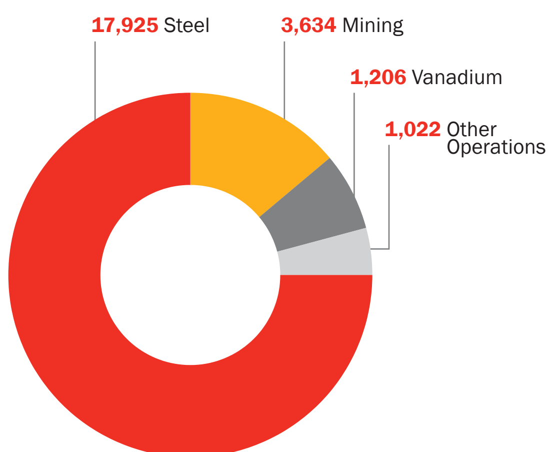


Business Overview

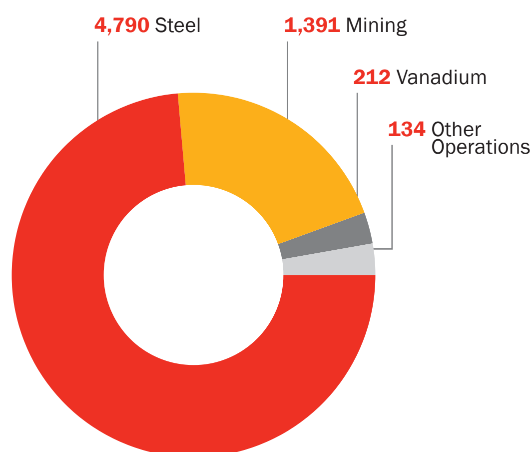
Evraz, which services customers in more than 40 countries, is a global supplier of steel products for industrial applications. More than 40% of the Company's assets are based in Russia with 30% located in the USA and Canada.

Performance in Figures

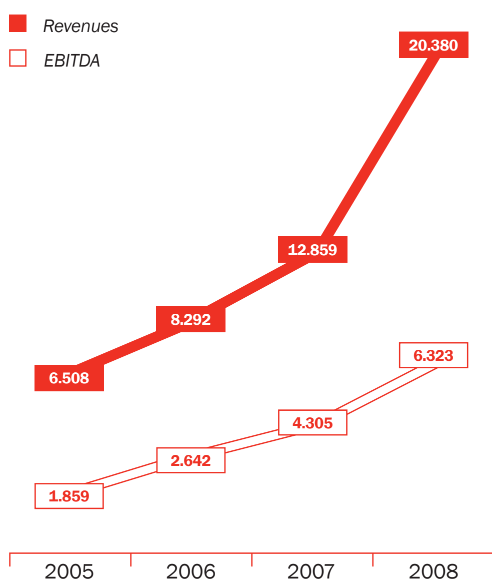
Revenues by Segment *(US$ million)*



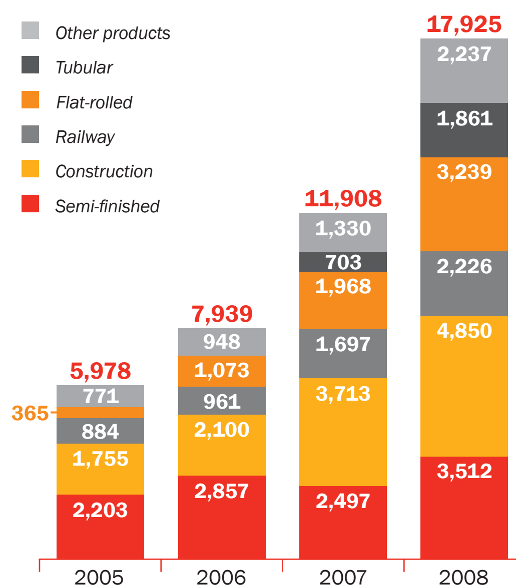
EBITDA by Segment *(US$ million)*



Revenues and EBITDA Growth *(US$ million)*

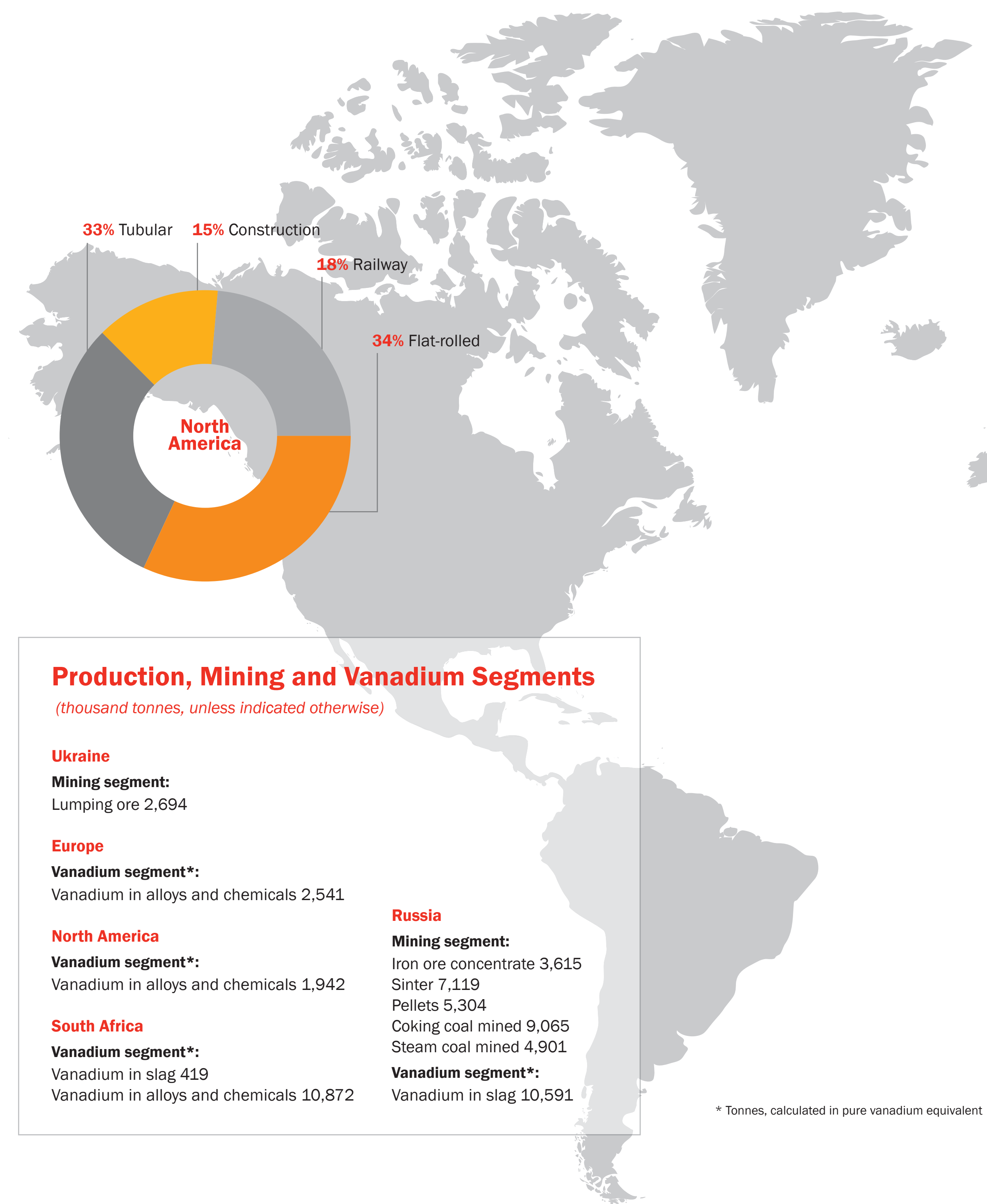


Steel Segment Sales by Product *(US$ million)*



Production by Region

(share of total steel rolled products produced by region)



Production, Mining and Vanadium Segments

(thousand tonnes, unless indicated otherwise)

Ukraine

Mining segment:
Lumping ore 2,694

Europe

Vanadium segment*:
Vanadium in alloys and chemicals 2,541

North America

Vanadium segment*:
Vanadium in alloys and chemicals 1,942

South Africa

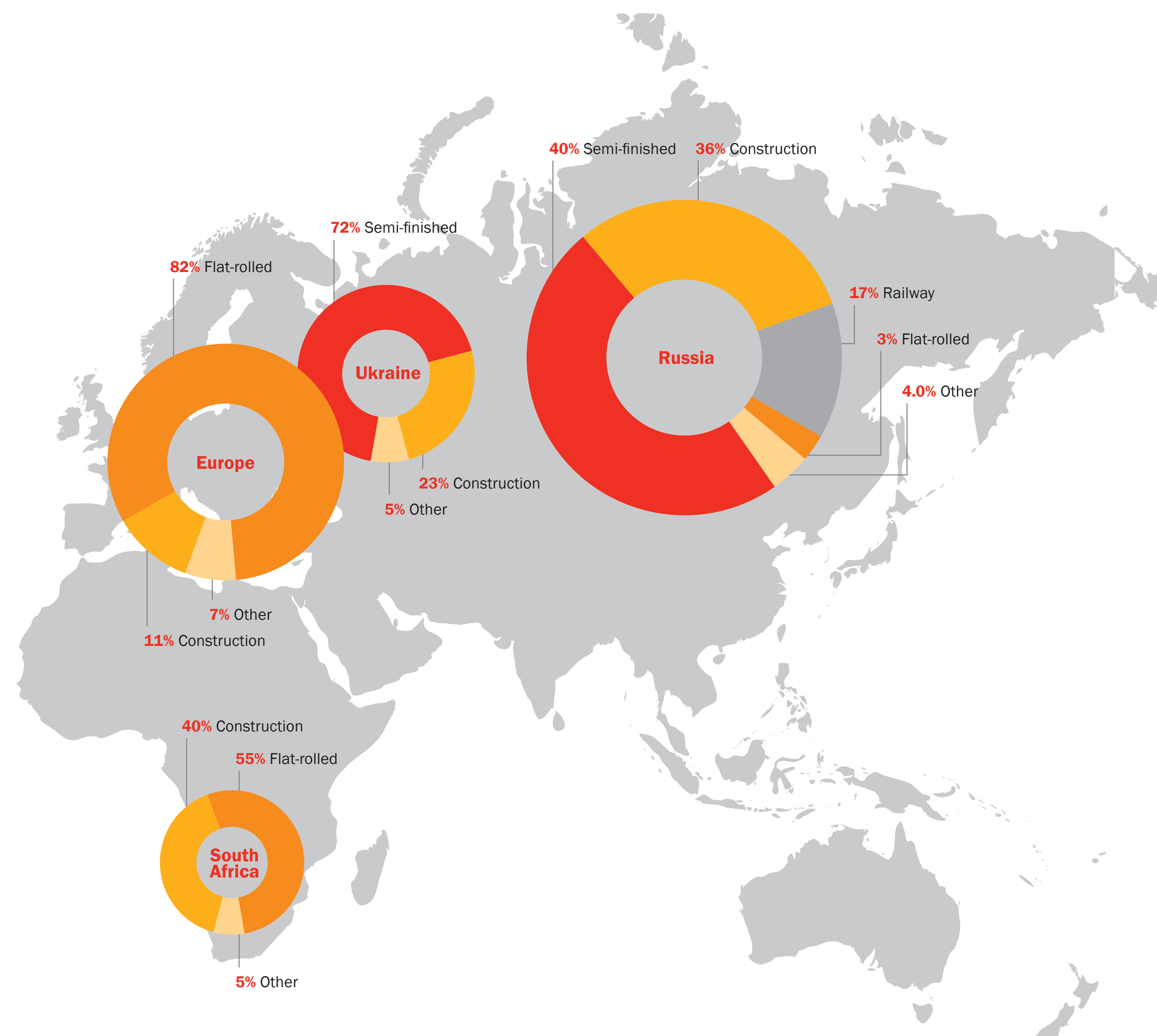
Vanadium segment*:
Vanadium in slag 419
Vanadium in alloys and chemicals 10,872

Russia

Mining segment:
Iron ore concentrate 3,615
Sinter 7,119
Pellets 5,304
Coking coal mined 9,065
Steam coal mined 4,901

Vanadium segment*:
Vanadium in slag 10,591

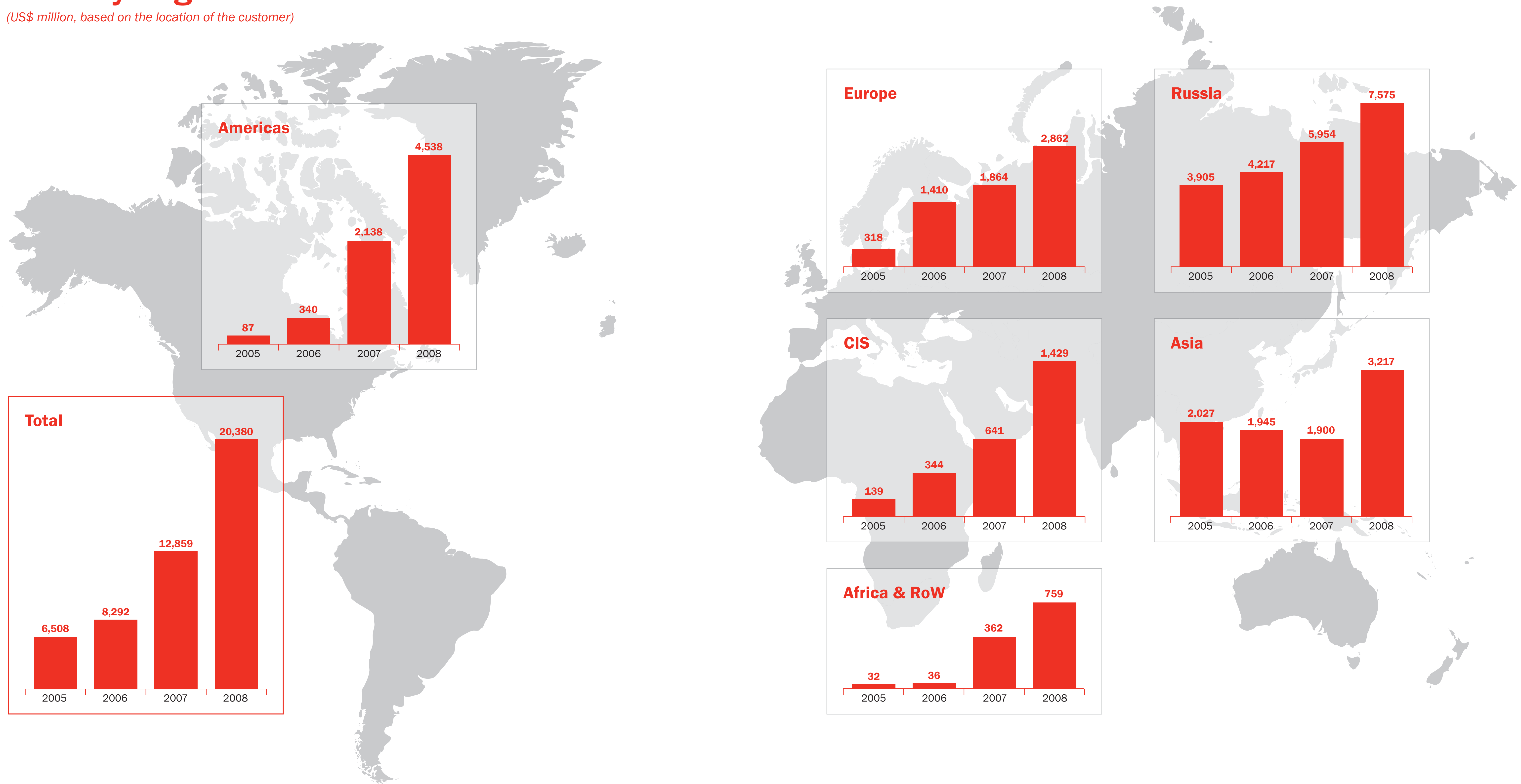
* Tonnes, calculated in pure vanadium equivalent



All information concerning production volumes of the enterprises only relates to the period of operation within Evraz Group. The total volume of rolled steel products excludes those re-rolled at other group's plants.

Sales by Region

(US$ million, based on the location of the customer)



Advance Long Product Leadership Position in Russia and the CIS

Capitalise on breadth of construction product range, effective distribution and customer service strengths to grow construction steel business segment in Russia and gain leading position in CIS

Develop railroad product portfolio to strengthen dominant position in Russian Railways segment and CIS, growing export sales of rails and Russian market share in wheels

Advance Long Product Leadership Position in Russia and the CIS

Evraz is Russia's number one steel producer by volume accounting for more than 18% of total Russian crude steel output and almost 20% of rolled products manufacture. The steel segment's revenues in Russia increased from US$5.6 billion in 2007 to almost US$7 billion in 2008 primarily due to the higher average prices of steel products.

The Company is the largest producer of long products and the leading manufacturer of Russian railway products with an estimated near 97% market share in rails in 2008 and an estimated 30% market share in wheels by volume. Evraz also produces a full range of products for the Russian construction sector. In 2008, Evraz estimates that it accounted for an 88% market share in H-beams, a 22% market share in rebar and a 60% market share in channels.

Evraz intends to further strengthen its competitive position as a diversified supplier to Russia's construction sector and is currently focused on expanding its respective market shares in high value-added products such as beams and channels.

Evraz expects to capitalise on its position as a major supplier to Russian Railways taking into account the latter's commitment to the development of Russia's railway network and an upgrade of rolling stock in the wake of a long period of under-investment. Against this background Evraz expects demand for railway products (rails and wheels) to remain strong. With an approximate 40% share of the North American rails market via Oregon Steel Mills, acquired in 2007, Evraz has emerged as the largest rail manufacturer in the world with a global market share of approximately 23% by volume.

Strategic Highlights 2008

- Revenue from sales of construction products in Russia and CIS increased by 24%
  - Overall rebar sales rose by 30.4% in 2008 to US$1.25 billion with stable market share and sales volumes of approximately 1.5 million tonnes.
- Revenue from sales of railway products in Russia and CIS increased by 34% with sales volumes expanding by 6%
  - Rail revenue increased by 37% accompanied by a 7% expansion of shipments in Russia and the CIS
  - Wheels revenue rose by 22% with sales volumes increasing by 3%

M&A Activities 2008

- Acquisition of Dnepropetrovsk Iron and Steel Works in Ukraine
  - Integrated steel mill, located in the proximity of iron ore resources and key markets
  - Crude steel capacity of 1.2 million tonnes

Key Investment Projects 2008

- Commencement of reconstruction of NKMK and NTMK rail production with introduction of rail head hardening technology
- Third stage of wheel rolling shop reconstruction at NTMK

Expand Presence in the International Flat and Tubular Markets

Expand presence in the attractive flat product markets through selective M&A and greenfield projects in plate and other flat segments

Build a flexible world-class semis export business through achieving best in class position in product range, quality and customer service benchmarks

Expand Presence in the International Flat and Tubular Markets

As a result of a series of strategic acquisitions in Europe and North America, Evraz will benefit from enhanced exposure to mature, stable and protected European and North American markets.

Evraz's strategy is to achieve superior performance by capturing additional margins through focused acquisitions of steel, re-rolling and other complementary assets outside Russia, which can be supplied with slab produced at the Company's Russian plants. As part of this strategy, Evraz has made several foreign acquisitions: in August 2005 it acquired Palini e Bertoli, a producer of steel plates, located in Italy; in November 2005 it acquired Vitkovice Steel, a producer of steel plates in the Czech Republic; in January 2007, it acquired Oregon Steel, a diversified steel producer headquartered in Portland, Oregon, the USA, laying the foundation of the Company's American plate business.

In 2008 Evraz strengthened its global steel business by consolidating and expanding its presence in the North American market. In January 2008, Evraz acquired Claymont Steel, a producer of steel plates based in Delaware, the USA. This transaction serves to expand Evraz's presence in North America and represents another important step in the implementation of the Company's long-term strategy to develop higher value downstream markets.

In March 2008, Evraz signed an agreement to acquire IPSCO's Canadian plate and pipe business which represents another successful strategic move in the Company's geographic diversification. This transaction enhances Evraz's presence in high value-added steel segments in North America and increases Evraz's exposure to the attractive energy and infrastructure sectors throughout the region. Evraz expects the combination of IPSCO Canada and Evraz's existing North American operations to yield substantial synergies.

As a result of these transactions, Evraz has acquired a first class asset portfolio in relation to the production of plate and welded pipes in North America, one of the most important steel markets in the world. These assets represent a product mix targeted at infrastructure expenditures in the USA which are supported by government within the framework of America's anti-recession programme and/or are required in the wake of historic under-investment.

Strategic Highlights 2008

- Expansion into the North American market through strategic acquisitions and successful integration of IPSCO Canada and Claymont Steel
- 165% growth in tubular sales revenue with sales volumes increasing 81%
- Increase of 65% in flat-rolled revenue with sales volumes up 22% primarily due to North American operations

M&A Activities 2008

- Claymont Steel
  - Leading integrated producer of custom steel plate on the East Coast of the USA
  - 450,000 tonnes capacity for cash consideration of US$422 million
- IPSCO Canadian plate and pipe business
  - Major synergies from combination of business with Evraz's existing facilities in North America
  - Net cost of US$2.3 billion

Key Investment Projects 2008

- Evraz Highveld Steel and Vanadium Corporation – Upgrade of the Plate Mill (phase 1) – replacement of low-margin coils with high margin plates
- Evraz Vitkovice Steel – Slab Area Scarfing Plates of above 40 mm thickness – increase in production capacity
- Evraz Inc. NA, Portland – Heat Treat Expansion project – designed to increase market share in respect of high value-added products
- Evraz Inc. NA Canada, Regina Tubular – Coil Prep line Facility and Associated Equipment – productivity increase and improvements in overall efficiency

Enhance Cost Leadership Position

Cut production costs through operational improvements, increased investments in efficiency, ongoing realisation of asset synergies and energy savings

Achieve best in class performance in workplace safety and ecological compliance indicators

Enhance Cost Leadership Position

The ability to manufacture low cost steel products is essential to ensure the Company's competitiveness in a market characterised by growing supply and limited demand. Evraz benefits from the fact that Russia represents one of the lowest cost regions for steel production in the world. In addition, Evraz's favourably located mining operations enable the Company to obtain a stable supply of raw materials.

The purchase of a select portfolio of assets in Ukraine has enhanced these advantages in terms of both production costs and the availability of raw materials. As one of the largest steel producers in Russia, Evraz enjoys significant economies of scale and endeavours to secure competitive input prices from its suppliers. Evraz continued to upgrade certain facilities during 2008 in order to drive cost competitiveness through increased productivity and improved yields. This reflects Evraz's consistent focus on operating performance and cost management.

Evraz is confident that its low-cost priorities, which are synonymous with the Company's integrated mining platform, will serve to underwrite ongoing competitive advantages in the global marketplace.

During the past three years Evraz's advances in project management, operations optimisation and planning processes have benefited from a number of strategic programmes designed to enhance overall business efficiency.

In response to challenging market conditions in the fourth quarter of 2008, Evraz elaborated and implemented a number of measures designed to increase operational efficiency involving production optimisation together with cost and CAPEX savings initiatives.

Due to the fact that the majority of consolidated cost is Rouble and Hryvnia denominated, Evraz's US Dollar denominated cost position was enhanced as a result of the Rouble and Hryvnia devaluations.

Strategic Highlights 2008

- Overall optimisation of products and flows
  - Maximisation of intercompany inputs consumption (reduction of cash out-flows)
  - Minimisation of coal and iron ore transportation
- Shutdown of inefficient production capacity
  - Idling three out of 10 blast furnaces
  - Open hearth furnace and blooming at NTMK
  - Coke batteries at NTMK and Zapsib
- Constant implementation of cost reduction programmes
  - Cost-cutting programmes at Evraz steel plants, including
    - Consumption reduction of key production inputs (coke, lining, rollers, ferroalloys, power)
    - Capital repairs and contractor services optimisation at production facilities
  - Optimisation of purchasing functions
  - Programmes designed to increase labour productivity

Key Developments 2008

- Initiation of pulverised coal injection projects at NTMK and Zapsib – reduction of coke consumption by up to ~30-40% and gas consumption by 100% in pig iron production
- Implementation of investment optimisation programmes with CAPEX essentially reduced to maintenance levels
- Acquisition of Ukrainian assets – expansion into one of the lowest cost producing regions

OUR STRATEGY

Complete Vertical Integration and Grow Competitive Mining Platform

Cover up to 100% of Company requirements in iron ore and coking coal

Capitalise on further development of the mining business

Complete Vertical Integration and Grow Competitive Mining Platform

As one of the world's top three vertically integrated steel producers, Evraz's exposure to the volatility of raw material prices is limited due to the availability of its own significant resources. Evraz was the second-largest iron ore producer (17%) and the largest coking coal producer (26%) in Russia by volume in 2008 with self-coverage of 93% and 89% respectively.

In the first half of 2008, Evraz acquired the Sukha Balka iron ore complex and three Ukrainian coking plants. This acquisition increases Evraz's self-sufficiency in respect of iron ore and ensures further upstream integration.The strategically located Ukrainian coking plants will utilise surplus coking coal from the Company's coal mines in Siberia and, in turn, will provide a captive source of coke for the Dnepropetrovsk Iron and Steel Works.

This scale of vertical integration has enabled Evraz to maintain high utilisation rates in respect of the Company's iron ore and coking coal operations, thereby alleviating the impact of the global downturn in the steel industry.

Strategic Highlights 2008

- One of the world's top three steel producers with the highest levels of vertical integration in iron ore, coking coal and coke
  - Iron ore self-coverage 93%
  - Coking coal self-coverage 89%
- Mining revenue up 91% to US$3.6 billion

M&A Activities

- Acquisition and integration of Ukrainian assets
- Sukha Balka iron ore complex
- Three coking plants
  - Bagleykoks
  - Dneprodzerzhinsk Coking Plant
  - Dneprokoks

Key Investment Projects 2008

Iron Ore

- Realisation of Sobstvenno-Kachkanarskoye iron ore deposit development programme
- Modernisation of dry magnetic separation technology at KGOK – productivity increase and cost reduction

Coking Coal

- Construction of a new mine Erunakovskaya-8 to be completed in 2010; output of two million tonnes of hard coking coal p.a. to be achieved in 2011
- Revamp of Alardinskaya mine will add 1.5 million tonnes of semi-hard coking coal in 2009
- Ulyanovskaya mine reconstruction and implementation of safety measures

Achieve World Leadership in Vanadium Business

Diversify processing
base and increase
quality of vanadium slag

Achieve World Leadership in Vanadium Business

Evraz is the sole producer of vanadium-rich ore in Russia and, with five operating units on four continents, is one of the largest producers of vanadium slag in the world. The acquisitions of Highveld, Stratcor and Nikom were designed to provide vanadium processing capabilities and technical know-how to enable Evraz to fully capitalise on its leading position in the global vanadium market. The international aspect of operations yields a geographically diversified revenue stream.

In 2008, Evraz produced about 21,000 tonnes of vanadium in vanadium-bearing products, which represents approximately 39% of the total global vanadium consumption in steel alloying. Finished vanadium products totalled 19,400 tonnes of vanadium in 2008 compared to 23,800 tonnes in 2007, a decline that reflected the focus on production of final product FeV over slag and fourth quarter production cuts in relation to the global downturn.

Strategic Highlights 2008

- Global footprint – geographically diversified operation with five operating units on four continents
- The sole producer of vanadium-rich ore in Russia
- Vanadium segment revenues and EBITDA doubled year-on-year

Key Developments 2008

- Optimisation of products and flows through integration of global vanadium facilities
- Acquisition of Nikom – a ferrovanadium producer located in the Czech Republic
- Divestment of Vanchem and completion of all other obligations to EU competition authorities
- Sales function consolidated under single management channel

Management Response to Challenging Market Environment

The sharp slowdown of the global economy in the fourth quarter of 2008 required quick and decisive action. Evraz's management developed and promptly implemented a series of measures that served to stabilise the situation and achieve operational improvements. Key aspects of the action plan include:

Capacity Utilisation Management and Product Mix Flexibility

- Proactive management of production capacity in order to avoid inventory build-ups and extended receivables
- Idling excessive blast furnace capacity
- Extracting synergies from integration with international downstream assets
- "Hot switching" between slab and billet production depending on market pricing

Extensive Cost Reduction

- Labour costs forecast to decline by more than 40% in 2009 vs. 2008 due to reductions in salaries, Rouble and Hryvnia devaluation, four-day working week, five-shift schedule and reduction in workforce
- Key services and auxiliary materials price cuts of ca. 50% vs. 2008 levels due to extensive renegotiation with suppliers and Rouble and Hryvnia devaluation

Optimisation of Capital Expenditure

- Since 3Q08, capital expenditure has been reduced to essentially maintenance levels
- CAPEX in 2009 expected to be less than US$500 million

Prudent Working Capital Management

- Historically low working capital was further reduced to 10% of revenues in 2008 compared to 16% in 2007
- Active focus on working capital management to minimise cash outflows
- Excess inventory levels have been sold down to almost zero
- Expect significant cash inflow of approximately US$700 million in 2009 as a result of reduced working capital requirements

Dividends

- Change of dividend policy through introduction of ceiling of 25% of net income on dividend payments
- Voluntary partial scrip in respect of the 2008 interim dividend
- No dividend payments to be made in 2009
- Payments will only resume upon the completion of deleveraging and the appearance of a sustainable market recovery

Management remains focused on achieving efficiency gains and deleveraging. The liquidity plan has yielded rapid rewards which saw the Company's net debt reduced by US$1 billion to approximately US$8 billion during the first quarter of 2009.

Our successful GDR and convertible bond issues in July 2009, which attracted US$965 million, illustrated the confidence of the capital market. This capital raising exercise provides us with a comfortable financial cushion in respect of our short-term refinancing needs.

Positive demand and the pricing trends of export markets allowed us to restart some of our previously-idled capacity. Russian operations are now running at full capacity, excluding the less efficient production sites that have been shut down.

Corporate Responsibility

As an enterprise that employs more than 134,000 people in 10 countries around the world, manufacturing and selling 16 million tonnes of steel products per annum, responsible corporate management, in relation to people and the environment, is Evraz Group's key priority.

Introduction

We believe that Evraz's commitment to maximising shareholder value is synonymous with the sustainability of our business which, in turn, is dependent on the manner in which the Company's activities impact on the environment, consumers, employees, economies, the communities we work within and all other stakeholders.

Evraz has defined the following priorities in relation to corporate responsibility:

- Economic – contributing to the sustainability of regional and national economies
- Environmental – endeavouring to reduce the adverse environmental impact of the Company's activities
- Social – focusing on the safety and development of employees and support for local communities

The Company's Code of Business Conduct and Code of Ethics constitute the framework for the management of sustainable development at Evraz, while our social funding and community activities are governed by the Social Investment Guidelines. In addition, individual entities within the Group have their own specific policies in relation to health, safety and the environment which are fully compliant with, and in many instances go beyond, local legislation.

Evraz understands that its business activities are capable of having significant effects on the areas in which it operates, both on people and on the regional and ultimately global environment, and the Company's objective is to ensure that such effects are as beneficial as possible. Evraz believes that it can be a positive force in the lives of those associated with the Company and that through good stewardship and innovative industrial practices it can help to safeguard the planet for future generations.

An underlying aspect of our corporate philosophy is the belief that respect for the well-being of people and places impacted by the Group's operations is consistent with the creation of a profitable enterprise. The Group believes that the implementation of sound financial, environmental, social, health and safety and quality attentive management policies will serve to enhance profitability and underwrite future success. Consequently, Evraz is committed to encouraging innovation throughout the Group in order to continue to improve the quality of its products and the efficiency of its manufacturing processes. In the pursuit of these objectives, Evraz is pleased to endorse the principles of the International Council on Mining and Metals Sustainable Development Framework.

Engagement with Stakeholders

We recognise the importance of an ongoing and consistent dialogue with our employees and customers, local communities and authorities and suppliers and partners in order to form constructive mutually beneficial relationships.

Our people are committed to acting in a professional manner, with integrity and in compliance with legal and regulatory requirements and good governance. We endeavour to meet and surmount market challenges by achieving continuous improvements in performance.

Through sustainable compliance with internal, local and international regulations, Evraz endeavours to make a positive contribution to society.

The profitability of our Company does not merely represent the means to reward shareholders and develop the business. Our steel production and mining activities contribute to the economic sustainability of the regions where we operate, support local communities and fund corporate social programmes.

Economic Prosperity

Economic Contribution

Steel is one of the basic materials used in the construction of buildings and infrastructure with more than 50% of steel applications related to the construction industry. As often as not, steel represents the ultimate solution, with no viable alternatives, to various aspects of construction with consumption closely related to economic development (fixed asset investment) and urbanisation.

Evraz's role as a leading supplier to major industrial sectors is illustrated by an average daily output from our plants of more than 48,000 tonnes of crude steel and more than 44,000 tonnes of rolled products during 2008. All of Evraz's steelmaking facilities and Strategic Minerals Corporation (Stratcor), our US based vanadium producer, have established certified quality management systems in accordance with ISO 9001 standard and hold certificates of compliance with various international and local standards in relation to separate products such as slabs, rails, tubular goods and plates.

Evraz's earning capabilities was reflected in the Company's operating margin of 18.3% on revenues in excess of US$20 billion in 2008, while CAPEX totalled US$1.1 billion, of which US$831 million was allocated to investment projects. As a major employer and corporate taxpayer, Evraz contributes to all the economies within which the Company operates.

Community Support

Evraz is strongly committed to its social investment programmes which are reviewed by the Board of Directors on an annual basis. These policies are designed to ensure that Evraz contributes in a direct and meaningful way to local communities in the areas where we operate. Many of the tangible steps that the Company takes to protect the environment and improve the well-being of employees will not be immediately apparent to local communities, irrespective of the fact that they can be expected to ultimately benefit from such measures. We take the view that actions speak louder than words and Evraz's commitment to social investment seeks to redress any imbalance in perception and demonstrate the Group's respect for the communities within which we operate.

Social investment priorities:

- Youth: initiatives and projects which assist in the development of young people
- Education: enabling individuals of all ages to acquire new knowledge, abilities and skills
- Citizenship: fostering favourable neighbourhood values and safe environments in local communities

Evraz seeks an active dialogue with the residents of the areas in which it operates in order to discuss specific projects within the priority areas of Evraz's Social Investment Programme. The Company establishes local Supervisory Boards, including representatives from the community, which decide which projects would be most appropriate and should therefore receive funding. To further communication with local communities with regard to social investment spending, Evraz has established corporate charity funds in the Czech Republic, Siberia and the Urals. Our employees are also involved in various charitable initiatives and are active members of local business communities.

In 2008 Evraz's community investments in Russia amounted to approximately US$15 million (RUB371.5 million). Most of the projects are focused on stimulating sport and education initiatives, the improvement of living conditions in the towns where Evraz's subsidiaries are situated and encouraging residents to start their own community projects. Some of the most important social projects include "City of Friends – City of Ideas", "Yards" and "The Town Needs You". The "Beloved Children" programme is aimed at organising medical and educational assistance, as well as psychological support, for children with infantile cerebral paralysis and their parents.

Our community investments in the Czech Republic exceeded EUR760,000 (CZK20.2 million). The most important projects include financial support for the University Hospital in Ostrava and the Centre for Advanced Innovation Technology CPIT-TL2, together with contributions to the MS Stankova kindergarten and the Centre of Early Care Ostrava, which specialises in assisting families with children suffering from eye diseases.

In Canada, Evraz supports the Canadian Red Cross's "Imagine...No Bullies" Campaign, designed to promote the prevention of bullying among young people. The Regina Globe Theatre also received support and donations were made to the Saskatchewan Nutrition Advisory Council for Kids, Junior Achievement of Southern Alberta, the Surrey Children's Hospital Foundation & BC Children's Hospital and the Children's Health & Hospital Foundation. One of our more high profile projects in Saskatchewan, funded by Evraz Inc NA, is the renovation of Evraz Place, a vast event complex that hosts trade shows, exhibitions and houses an indoor soccer facility and a hockey arena. During 2008, Evraz Inc. NA contributed some US$326,000 to charities and community groups.

The primary focus of our support activities in South Africa related to Black Economic Empowerment and resulted in the agreement to transfer a 26% ordinary equity interest in Mapochs Mine (Proprietary) Limited to local partners (as announced in April 2009). We also participated in extensive community engagement and educational programmes.

Health, Safety, Environment

Health and Safety

The health and safety of Evraz's employees are paramount. The Group constantly seeks ways in which the health and safety of its workforce can be improved and complies with all applicable health and safety laws and regulations. Evraz conducts regular inspections designed to eliminate dangerous conditions or behaviour, together with the causes of such, and is committed to the development of programmes that serve to improve safety and well-being. Employees are strongly encouraged to report the slightest sign of risk and to suggest ways in which their jobs could be made safer.

Health and safety can always be improved, even where all applicable legal and regulatory requirements are satisfied, and Evraz's ultimate scenario is to experience zero accidents across the entire Group each year. In pursuit of this goal, Evraz sets its production facilities specific objectives and constantly strives to find new ways to reduce risk. One of Evraz's priorities in this area is to ensure a uniform approach across the entire Group by implementing globally recognised health and safety standards within each subsidiary and each plant.

As of 2008, the Occupational Health and Safety Systems at Zapsib, NKMK and NTMK were certified in accordance with OHSAS 18001 standard.

Environment

Evraz employs its best endeavours to comply with all environmental laws and regulations applicable in the territories within which it operates. The Group is acutely aware of the possible environmental consequences of its production processes and energy consumption. Accordingly, the Group has set a number of targets in this context, namely:

- to continuously monitor the Company's environmental impact at all levels, ranging from individual smelters to the global environment;
- to eliminate environmental incidents; and
- to operate processes which make the most efficient use of natural resources and energy.

In line with these targets one of Evraz's key objectives is to achieve a consistent reduction in waste emissions alongside the introduction of modern, environmentally-friendly technologies. A significant amount of obsolete equipment, which failed to meet environmental standards, has already been withdrawn as part of the modernisation of Evraz's production facilities and, by the end of 2008, closure of all open-hearth furnaces at the Russian steel plants had been completed.

Evraz strives to implement environmental policies that are fully compliant with ISO 14001. By the end of 2008, all of the Russian steelmaking facilities, Evraz Vitkovice Steel and Highveld had established environmental management systems in accordance with ISO 14001 and received relevant certificates of compliance.

Evraz believes that these goals fully complement sustainability, enhanced profitability and the maximisation of shareholder value.

Our People

We believe that our employees are the key drivers of the successful and sustained development of the Group. Evraz has always proclaimed its intention to ensure that all of its employees enjoy fair treatment and equality of opportunity in a work environment free from discrimination and harassment. Evraz is committed to the development of expertise and know-how by its entire workforce and to this end employees receive regular training, assessment and appraisals, the goal being that each and every employee becomes an expert in his/her field.

By the end of 2008 the number of Group employees totalled approximately 134,000.

Key Personnel Priorities in 2008

During 2008 there was considerable focus on the following objectives:

- the improvement of working efficiency, making staff costs more comprehensible and the further strengthening of Evraz's position as a low-cost producer
- the need to reinforce the role of middle management as the key driver of positive changes to the Company's business

Management focus in respect of the improvement of working efficiency and the strengthening of Evraz's position as a low-cost producer, included the ongoing modernisation of production facilities and further improvements in labour management. At the same time the organisational structure was simplified in order to enhance transparency and streamline processes through a reduction in supportive functions, the elimination of duplication and the implementation of a strategic outsourcing programme. The result was a reduction of approximately 7.5% in the number of employees in 2008.

The emphasis on the role of middle management as the key driver of sustainable development was facilitated by the creation of a corporate model of management competencies and the launch of a comprehensive management assessment programme. This programme provided the foundations for the creation of a strategic management pool that comprises more than 200 managers of which 70% are employed at the Urals and Siberian production sites.

Special training programmes were developed exclusively for Evraz to facilitate the education and development of the personnel who make up this strategic resource. The primary objective is to develop professional principals with excellent managerial skills and considerable expertise in respect of technological and production processes. Professors associated with some of the world's leading business schools and universities participated in the development of the educational programmes, as did a number of acknowledged experts in corporate governance and business development.

In addition, 2008 witnessed the launch of a separate three-stage educational project designed to develop the managerial skills and competencies of 1,800 line managers at Evraz's plants in the Urals and Siberia. This project will also serve to identify prospective members of Evraz's strategic management resource.

Professional Education

The provision of development opportunities for personnel has always ranked as one of Evraz's key priorities. Our employees around the world have the opportunity to upgrade their professional grades via training courses, workshops, seminars and through mentoring and the sharing of best practices.

To further this process Evraz established its own educational centres that facilitate the training of employees in line with Evraz's corporate requirements. Highveld Steel, for example, operates its own training centre for the education of employees. In Russia, two educational centres - "Evraz-Siberia" in Kemerovo region and "Evraz-Urals" in Sverdlovsk region - provide professional training in some 500 aspects of employment for more than 20,000 Evraz employees each year.

At the same time Evraz supports regional specialised institutes and colleges through the provision of educational allowances, practical training, mentoring and consultancy together with work-books, manuals and other descriptive materials. During 2008 more than 4,500 students completed internships at Evraz's plants in Russia and more than 750 of these were employed at the Company's steel and mining plants after graduation.

Employee Social Programmes

Evraz's approach to social responsibilities in respect of personnel is based on a detailed system of protection and support of the Company's employees. A wide range of social programmes for personnel is constantly extended and includes not only employees but also members of their families. Such programmes include:

- employee insurance programmes, encompassing life insurance, accident and occupational illness insurance and the co-financing of a voluntary medical insurance programme;
- recreational activities for employees and their families;
- support of health programmes (sporting events, healthy eating programmes, etc.);
- support of veteran and youth organisations;
- co-financing of employee pension plans;
- mortgage programmes.

In order to adapt to the changing economic situation, Evraz, towards the end of 2008, launched a programme of financial support for employees in Russia who had mortgage loans or loans in respect of education or medical treatment. Under the programme, which was initially launched for one year but can be extended depending on the economic cycle, the Company provides help with regard to interest payments.

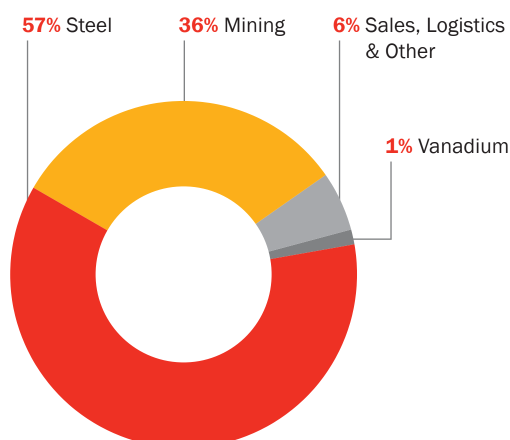
Cooperation with Trade Unions

Evraz respects the right of each employee to decide whether to join a trade union and acknowledges employees' rights to collective bargaining.

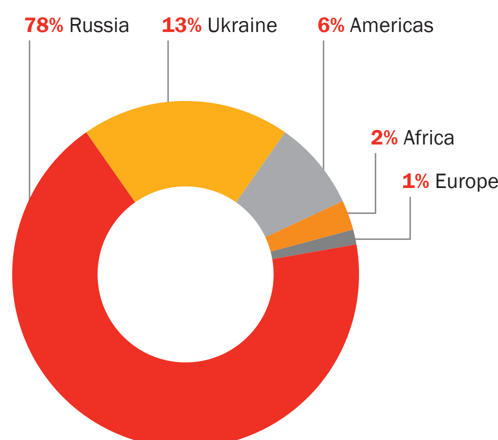
The Company's policy is to develop a constructive and mutually beneficial cooperative relationship with trade unions that represent the majority of our employees. We believe that such a dialogue should be based on the principles of transparency, openness and fair social partnership. Our principal objective is to create conditions that will support and preserve social stability at the Company's plants and engender the same fair-minded approach to the resolution of any issues that may arise as that which lies at the heart of relations between Evraz and its employees.

It is for this reason that Evraz became the first steel company in Russia to establish the so-called Social Council in which representatives of the Russian Steel and Mining Trade Union and members of regional trade unions at Evraz's plants participate. The Council's most important function is to discuss, identify and approve mutually acceptable decisions that will serve to create a stable social atmosphere and an effective production environment at the Company's plants.

Number of Employees by Segment



Allocation of Employees According to Geographical Location



Corporate Governance

Evraz Group strives to constantly enhance its corporate governance system in order to maximise shareholder value, provide for business prosperity over the long-term and maintain the trust of the Company's internal and external stakeholders.

Introduction

Evraz Group S.A., incorporated as a société anonyme under the laws of the Grand Duchy of Luxembourg, operates in accordance with Luxembourg law and adheres to all applicable laws and regulations incumbent upon the Company, attendant to the listing of its Global Depositary Receipts on the Official List of the UK Listing Authority, with particular regard to the Combined Code on Corporate Governance.

We recognise corporate governance as a system of objectives, policies and procedures designed to ensure the proper control and regulation of the Company's affairs through the provision of guidance to shareholders, the Board and management. Our ultimate corporate objective is to maximise long-term shareholder value consistent with the Company's commitment to transparency, integrity and appropriate compliance in whichever jurisdiction we operate. The manner in which the Board carries out its duties and exercises its authority is integral to good governance and a detailed account of the Board's activities can be found on page 70.

An ongoing dialogue with stakeholders is synonymous with transparency and, in keeping with accountability to shareholders and responsibilities in relation to other parties with which the Company interacts, such communication is an essential aspect of corporate activity.

We relate to a range of audiences through various channels including, in terms of financial calendar reporting and disclosure, announcements made via the London Stock Exchange, the Annual Report and Accounts, the Annual General Meeting and the Company's website www.evraz.com. Our transparency credentials were acknowledged in Standard & Poor's Transparency and Disclosure Survey 2008 which, for the second consecutive year, placed Evraz among the 10 most transparent companies in Russia. The Chairman of the Board, the Chief Executive, senior management and the investor relations team regularly engage with institutional investors to discuss the Company's operations and a wide range of issues including governance. More than 450 individual/group meetings, conferences and other public events involving the investment community took place during 2008.

In addition to the Evraz Group S.A. Articles of Association and internal rules and regulations, our governance principles are detailed in the Company's Corporate Governance Code adopted by the Board in April 2007. Certain issues such as corporate responsibility, sustainable development, and relations with business partners and stakeholders are also covered in our Code of Business Conduct and Code of Ethics.

Directors and Senior Management

The following table lists the Company's directors and senior management as of 1 June 2009

Name		Initially elected or appointed
Alexander Abramov	Director, Chairman of the Board	Chairman since December 2008, Director since April 2005
Alexander Frolov	Director, Chief Executive Officer	Director since April 2005
Otari Arshba	Non-executive director	May 2005
Gennady Bogolyubov	Non-executive director	May 2008
James W. Campbell	Independent director	April 2005
Philippe Delaunois	Independent director	January 2007
Olga Pokrovskaya	Non-executive director	August 2006
Terry Robinson	Independent director	April 2005
Eugene Shvidler	Non-executive director	August 2006
Eugene Tenenbaum	Non-executive director	August 2006
Leonid Kachur	Senior Vice President	June 2002
Pavel Tatyanin	Senior Vice President	November 2004
Giacomo Baizini	Vice President	August 2006
Vladimir Bruev	Vice President	March 2006
Natalia Cheltsova	Vice President	March 2006
Igor Gaponov	Vice President	March 2006
Daniel Harris	Vice President	November 2007
Natalia Ionova	Vice President	June 2006
Alexey Ivanov	Vice President	June 2009
Giuseppe Mannina	Vice President	July 2006
Igor Markov	Vice President	April 2008
Dmitry Sotnikov	Vice President	June 2009
Timur Yanbukhtin	Vice President	February 2007

On 3 December 2008 Evraz announced the election of Alexander Abramov as Chairman of Evraz Group's Board of Directors. He succeeded Alexander Frolov who remains the Company's CEO and a member of the Board.

At the Company's AGM on 15 May 2009 all directors were duly re-elected.

Dmitry Melnikov has been Secretary to the Board since 2007.

Directors and Senior Management

As of 1 June 2009

Alexander Abramov

Director, Chairman of the Board

Member of the Remuneration Committee since 18 December 2008

Born in 1959.

In 1992, Mr Abramov founded EvrazMetal company, a predecessor of Evraz Group.

CEO of Evraz Group until 1 January 2006, Chairman of the Board until 1 May 2006. Served as non-executive director until 1 December 2008 until his re-appointment as Chairman of the Board.

A director of OOO Invest AG, President of OOO EvrazInvest, 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.

Alexander Frolov

Director, Chief Executive Officer

Member of the Remuneration Committee until 18 December 2008

Born in 1964.

Mr Frolov joined EvrazMetal, a predecessor of Evraz Group, in 1994, and subsequently held various positions within the Company. Elected Chairman of the Board effective 1 May 2006 and continued to serve as Chairman of the Board until 1 December 2008.

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, Evraz Vitkovice Steel, Evraz Inc. NA and Highveld Steel and Vanadium Corporation.

Otari Arshba
Non-executive Director

Born in 1955.

Mr Arshba joined Evraz in 1998 and served as Evraz's Senior Vice President for Corporate Communications until December 2003 when he was elected as a deputy of the State Duma of the Russian Federation.

Currently serves as a deputy of the State Duma of the RF Federal Assembly, Chair of the State Duma Committee for Regulations and Procedural Organisation.

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.

Gennady Bogolyubov
Non-executive Director

Born in 1962.

Mr Bogolyubov currently acts as Chairman of the Supervisory Board of Ukrainian commercial bank, PrivatBank. He has been a member of the Supervisory Board of Ukrnafta, the Ukrainian oil and gas company, since 2003. In February 2008 he was elected Chairman of the Board of Directors of Consolidated Minerals Limited, producers of manganese ore and other non-ferrous metals. Graduated from Dnepropetrovsk Engineering and Construction Institute in Ukraine with a degree in Industrial and Civil Construction.

James W. Campbell
Independent Director

Chairman of the Strategy Committee, Member of the Remuneration Committee

Born in 1949.

Mr Campbell held various positions with Anglo American plc from 1975 until 2002, including posts with Amcoal, then part of Anglo American's coal division, 1984-2002. Between 1999-2002 he was 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 De Beers Centenary AG.

He is the Acting Chairman of Highveld Steel and Vanadium Corporation.

Received a B.Sc. in Mathematical Physics from Queen's University, Belfast, and an M.A. in Engineering Management from Cambridge University, England.

Philippe Delaunois
Independent Director

Chairman of the Remuneration Committee

Born in 1941.

Mr Delaunois was involved in the Belgian steel industry for 35 years, including holding management positions and serving as CEO, 1987-99, at Cockerill Sambre, the Belgian steel group. He was a director of several Belgian and international companies.

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).

He is Chairman of CFE and a director of Mobistar, ING Belgium and Suez Energie Services (France).

Received a degree in Engineering from the State University at Mons, Belgium, and studied business at Harvard Business School.

Olga Pokrovskaya
Non-executive Director

Member of the Audit Committee

Born in 1969.

Ms Pokrovskaya held several key finance positions in Sibneft post 1997, including serving as Head of Corporate Finance from 2004 until 2006. From 1991 until 1997, she worked as a senior audit manager at Arthur Andersen.

She is Head of Corporate Finance at Millhouse LLC and a director of Highland Gold Mining Ltd.

Graduated with honours from the State Financial Academy in 1991.

Terry Robinson
Independent Director

Chairman of the Audit Committee

Member of the Strategy Committee

Chairman of the Group Risk Committee

Born in 1944.

Mr Robinson served for 20 years at Lonrho PLC, where he was a main Board director for the last 10 years. Since 1992 he has been variously occupied with international business recovery engagements and investment projects including natural resources in the UK, Russia, the CIS and Brazil.

He is an independent non-executive director of Katanga Mining Limited and an Independent and Senior non-executive director of Highland Gold Mining Limited.

A Fellow of the Institute of Chartered Accountants of England and Wales.

Eugene Shvidler
Non-executive Director

Born in 1964.

Mr Shvidler worked as a Senior Vice President of Sibneft, beginning in 1995, and served as President of Sibneft from 1998 through 2005.

He is Head of Millhouse LLC and a director of Highland Gold Mining Ltd.

Graduated from the I.M. Gubkin Moscow Institute of Oil and Gas with a Master's degree in Applied Mathematics. He holds an MBA in Finance and an M.Sc. in International Tax from Fordham University.

Eugene Tenenbaum
Non-executive Director

Member of the Remuneration Committee

Born in 1964.

Mr Tenenbaum served as the Head of Corporate Finance for Sibneft in Moscow from 1998 through 2001. In 1994-1998 he was a director for corporate finance at Salomon Brothers. Prior to that, he was engaged in corporate finance with KPMG in Toronto, Moscow and London, including three years 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.

He is Managing Director of Millhouse Capital UK Ltd.; a director of Highland Gold Mining Ltd and a director of Chelsea FC Plc.

A chartered accountant with a Bachelor's degree in Commerce and Finance from the University of Toronto.

Leonid Kachur
Senior Vice President,
Business Support and Interregional Relations

Born in 1961.

Joined Evraz Group in 1993. Mr. Kachur holds a Master's degree in Engineering.

Pavel Tatyanin
Senior Vice President,
Corporate Affairs, 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.

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. 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 2007; previously held various positions with Strategic Minerals Corporation (USA) and 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 management positions in HR with the NDK Merkury and Russian Gold. Received a degree in Management from the Russian University of Sports and Tourism, holds a Ph.D. in Psychology.

Alexey Ivanov
Vice President, the Siberian Division

Born in 1975.

Joined Evraz in 2002; previously held various positions with Inkombank and Liggett-Ducat. Received a degree in Economics from the Finance Academy under the Government of the Russian Federation, INSEAD. A member of the Chartered Institute of Management Accountants, holds Diploma in Financial Management from the Association of Chartered Certified Accountants.

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., Duferco S.A. and Siderius, Inc. Received a degree in Business Administration from the University of Palermo.

Igor Markov

Vice President, Commercial Activities

Born in 1965.

Joined Evraz in 1995; previously worked at the Kurchatov's Institute of Atomic Energy. Graduated from the Moscow Institute of Electronic Engineering.

Dmitry Sotnikov

Vice President, the Urals Division

Born in 1979.

Joined Evraz in 2002 and held various positions with the management company, KGOK and NTMK. Received a Master's degree in Economics from the Moscow State University and the New Economic School in Russia, a Ph.D. in Economics from the Moscow State University and a Master's degree in Management from Université Paris Dauphine.

Timur Yanbukhtin

Vice President, Business Development and Strategic Planning

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.

Senior management changes:

Appointments:

Igor Markov

Departures:

Alexey Borisov
Vice President, Coal

Irina Kibina
Vice President, Corporate Affairs & Investor Relations

Maxim Kuznetsov
Vice President, Steel

Vyacheslav Pavlov
Vice President, Technical Development

Board and Management Remuneration

Independent directors serve on the Board pursuant to agreements. These agreements have a one-year term and provide for identical levels of remuneration and the reimbursement of certain expenses.

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

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

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

Mr. Philippe Delaunois, who was appointed an independent director on 19 January 2007, does not participate in this programme.

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;
- variable performance-based compensation:
  - a bonus paid semi-annually (for the first half year in an amount not exceeding 25% of the annual bonus);
  - an annual bonus.

The table below provides details regarding the GDR options granted as at 31 December 2008.

Name of director	Date of grant	Date from which exercisable	Granted, GDR	Option price, US$ per GDR	GDR (exercised)	Expiry date
James W. Campbell	7 June 2005	25 May 2006	55,173	14.5	55,172 (21.05.2008)	3 June 2008
	21 June 2006	10 May 2007	36,714	21.79	36,714 (15.05.2008)	15 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

Key Performance Indicators (KPIs) in relation to the annual bonus depend on the particular functions of a senior manager. The principal KPIs applicable to vice presidents responsible for production segments (steel, mining, vanadium) are:

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

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

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, depending on the job grade, various benefits, e.g. life and medical insurance, cell phones, cars (such services are outsourced).

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

Evraz Group's key management personnel totalled 60, 48 and 46 persons as at 31 December, 2008, 2007 and 2006 respectively. Total compensation received by these individuals consisted of the following:

(US$ million)	**2008**	**2007**	**2006**
Salary	22	25	18
Performance bonuses	29	20	21
Social security taxes	1	1	1
Share-based payments	18	3	11
Termination benefits	–	10	–
Other benefits	1	1	3
Total	71	59	54

Other details regarding the remuneration of directors and managers are provided in the Remuneration Committee Report on page 72.

Risk Management

The Group's business and investment activities are exposed to various business risks. Some of these risks are inherent in the character and jurisdiction of the Group's international business activities, while others relate to changes in the global economy and are largely outside management's control.

With regard to risk management disciplines, the Group's executives seek to ensure management awareness and appropriate risk mitigation planning and actions defined and monitored within an enterprise risk management process (ERM). The ERM process is a structured and coordinated company-wide governance approach to identify, quantify, respond to and monitor the consequences of a management agreed schedule that encompasses both internal and external risks. This process is consistent with the listing rules of the LSE, and is based on the Turnbull Guidance on Internal Control.

The ERM process is fully supported by Evraz Group's Board, the Audit Committee and executive management.

Senior management, tasked with the development of the ERM process, identified key risk elements and, in order to further risk management accountability, assigned ownership of the relevant risk areas to senior managers according to their designated functions. This exercise commenced in 2007 and, during 2008, the Board of Evraz reviewed the Group's risk matrix, presented by the executive management and prepared in conjunction with the Audit Committee.

As a result of the ERM process, a Risk Committee was established and mandated to have oversight of the Group's risk profile and supervise the entire risk management process including response procedures. Under the auspices of the Risk Committee, the Group is in the process of communicating throughout the management chain with key middle and junior managers who will share accountability with senior management in relation to various aspects of the Group's risk profile. Such practices will serve to encourage a risk conscious business culture.

The Risk Committee and the Audit Committee share a common goal of codifying a Group wide set of risk management and internal control policies and procedures.

We apply the following core principles to 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 2008, the Group's key business risk areas were:

I) External compliance (including environment);
II) Reputation;
III) Operational;
IV) Financial;
V) Human Resources;
VI) Political;
VII) Market Volatility; and
VIII) Cost competitiveness.

Internal Control

Consistent with its governance policies, the Group continues to improve the process by which the effectiveness of its internal control system 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 in place within the Group to manage significant business, operational and financial risks (including social, environmental, safety and ethical risks) throughout the year.

This process has the normal limitations, in that any internal control system can only be directed at the management of risk rather than the elimination of risk. An effective internal control system can only provide reasonable and not absolute assurance against material misstatement or loss.

Evraz's Head of Internal Audit has attended all the meetings of the Audit Committee and addressed any reported deficiencies in internal control as required by the Audit Committee. The Audit Committee engaged with executive management during the year to monitor the effectiveness of internal control. Deficiencies that occurred and management's response to deficiencies were considered by the Audit Committee during the year, together with agreement regarding follow up response and action in respect of critical internal control deficiencies.

The annual internal audit programme is predominately risk-based and in 2008 incorporated particular assignments and priorities agreed by the Audit Committee. Further, the 2008 annual internal audit scope included a review of the internal control systems of newly acquired subsidiaries as considered appropriate for effective risk management.

The Company's internal audit is structured on a regional basis, reflecting the developing geographic diversity of the Group's operations. In the light of this the head office internal audit function has furthered implementation of common internal audit practices throughout the Group. During 2008 the internal audit function worked in close cooperation with Ernst & Young, Evraz's external auditor, on a joint review of internal controls and an appraisement of the general competence, independence and professional objectivity of the Group's internal audit resource. This exercise also served to avoid in the future the duplication of procedures during the separate internal and external audits.

The Board

Role of the Board

Through its broad powers and frequent meetings the Board is deeply involved in managerial decision-making procedures. Such involvement covers different areas of Evraz Group's management activities and reporting: from regular updates on the financial performance and operating forecasts to strategic investments and new financing, from liquidity position updates to audit committee reports, from management performance assessment to reviews of the Company's health and safety policy. Save for matters specifically reserved for the Annual General Meeting (such as election of the new Board members, amendments to the Articles of Association, appointment of auditors), the Articles of Evraz Group S.A. limits the unilateral decision making of the Company's officers and vests the Board of Directors with ultimate decision-making powers.

The Board exercises its powers based on the highest corporate governance standards and on what the directors believe to be in the best interests of Evraz Group S.A. and its shareholders to whom it is accountable: discharge of the directors' liability is subject to shareholders' approval each year at the Annual General Meeting. The members of the Board have access to all information necessary for the exercise of its duties. It should be specifically noted that in the case of related-party transactions (such as, for example, the acquisition of several Ukrainian plants and mills from Evraz Group's major shareholder in September 2008) the ultimate decision as to the benefits of the acquisition was taken by a committee formed exclusively of independent directors which only gave a "green light" for the acquisition after careful consideration of the fair market terms of the transaction and the receipt of all necessary opinions from the auditors and independent appraisers.

During 2008 the composition of the Board was increased from nine to 10 members. Members of the Board are elected for a one-year term for an unlimited number of times by a simple majority of shareholders' votes at the Annual General Meeting which is held on 15 May of each calendar year. The practice of Evraz Group S.A. is to have at least three independent directors matching the independence criteria set out by the corporate governance principles applicable to listed companies.

Board meetings in 2008

Month	Scheduled Board Meetings	Circular Board Meetings
January	23 January	–
February	14 February	29 February
March	–	–
April	1 April	10, 16 April
May	23 May	–
June	19 June	–
July	25 July	23 July
August	28 August	–
September	–	9, 10 September
October	7 October	–
November	13 November	5 November
December	18 December	1, 16 December

Meetings' Attendance 2008

	Attended	Possible
Abramov	9	11
Arshba	6	11
Bogolyubov	4	7
Campbell	10	11
Delaunois	11	11
Frolov	11	11
Pokrovskaya	11	11
Robinson	11	11
Shvidler	9	11
Tenenbaum	9	11

The above criteria does not apply to Circular Board meetings in view of the fact that even if a director missed a conference call such absent director shall sign the protocol as required by Luxembourg law.

Annual General Meeting

The 2008 AGM was held on 15 May 2009. All resolutions have been accepted.The shareholders approved the Directors' Report and the consolidated financial statements for the year ended 31 December 2008, re-elected the Company's directors, determined the level of the directors' and CEO's remuneration and re-appointed Ernst & Young as Evraz's external auditor.

Copies of the AGM documents are available to download from the corporate website:
http://www.evraz.com/investor/shareholder_services/agm.

Committees

In 2008, the Board had the following standing committees: The Remuneration Committee, The Audit Committee and The Strategy Committee.

Remuneration Committee Report

as of 1 April 2009

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	article 10
Corporate Governance Code:	article 6.4 and 6.5
Policy Governing the Board of Directors: Management Remuneration Policy	article 6 and 7

Since 19 January 2007 the Remuneration Committee has consisted 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:	Natalya Ionova

Mr. Dmitry Melnikov, Secretary to the Board, acts as Secretary to 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 the interests of shareholders. The committee seeks to ensure that management is rewarded fairly, taking into account all elements of the remuneration package and in the light of the Group's performance.

The Remuneration Committee met five times in 2008.

The committee decided on the bonuses of the CEO-1 level for the year 2007, as well as the bonuses for the Chairman and the CEO. The committee also decided the key performance indicators (KPIs) for the CEO-1 level for the year 2008.

As far as the remuneration of the independent directors is concerned, the Chairman of the Board is responsible and makes recommendations as to the amount of their remuneration to the Annual General Meeting of shareholders.

The Remuneration Committee, which usually meets before a Board meeting, always presents its conclusion to the Board for final approval.

Audit Committee Report

as of 6 April 2009

The Audit Committee report to the shareholders of Evraz Group S.A. encompasses the committee's activities from the date of the last report as of 31 January 2008 to 6th April 2009.

During 2008 and into 2009, Evraz Group, as with the majority of global metal and mining corporations, experienced some extreme business challenges and trauma. The challenges initially related to materially increased volume activity accompanied by increases in input prices and selling prices, a situation complicated by major strategic acquisitions in North America and the Ukraine and the assimilation of these companies into the Group's business control structure. In the latter part of 2008, the severity of the global recession added to the business and operational strain.

This difficult scenario tested internal business controls, reporting and forecasting procedures, risk management effectiveness and business and human resource structures and skill sets.

While business performance has been negatively affected, almost entirely due to the global recession and its particular impact on the metals and mining sector, Evraz Group's internal controls have demonstrated significant resilience and reliability.

Against this background, the Audit Committee has been vigilant in exercising its oversight role and has been greatly assisted in its work by the competence of the Group's internal audit function particularly with regard to the department's risk management expertise in relation to internal controls and its approach to the internal audit programme.

Role of the Committee

The Board has delegated to the committee the responsibility for oversight of Evraz Group's financial controls and reporting. Such responsibilities include overseeing the planning and process of appropriate reviews and reports of the Group's financial and operational internal controls and risk management systems conducted by a wholly, management independent, internal audit function reporting to the Audit Committee as provided within the Group's internal audit charter.

Further, the committee has responsibility for managing the Company's relationship with its external auditor.

In relation to these responsibilities the committee has:

- Reviewed its Board mandate and the internal audit charter.
- Reviewed the form, content and integrity of the Company's and Group's published financial statements (within the period of this report the audited consolidated Financial Statements for 2007 and the Interim results to 30 June 2008) including the related press releases.
- 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 and the quality and independence of the respective audit functions. Costs, skill sets and available man-hours of the internal audit function have been reviewed and accepted as appropriate.
- During 2008, the committee conducted an open tender for the Group audit for the years 2009 and 2010. Based on a pre-determined service and cost points award basis, Ernst & Young, the existing external auditors, were awarded the audit mandate on a fixed price for the aforementioned two years.

- The committee established the terms of reference of the Group's Risk Committee. The Risk Committee is largely an executive committee, chaired by the Chairman of the Audit Committee with the Group Chief Executive representing a key member of the committee. A Group risk matrix has been developed and management action and accountability for risk exposure has been appropriately delegated. The Board has duly reviewed the Group's risk register.

Composition of the Committee

The composition of the Audit Committee during the period was:

- Terry Robinson, (Chairman) a financially qualified independent non-executive director.
- Olga Pokrovskaya, a financially qualified non-executive director.
- John Heywood, a financially qualified, Board-nominated (not being a director of Evraz) member of the committee. In addition to the audit committee papers, Mr Heywood receives copies of all Board minutes and has access to all Board papers.

Alexey Melnikov, Head of Group internal audit, served as the Committee's Secretary

The composition of the Audit Committee is not compliant with the Combined Code in that membership of the committee is not drawn wholly from the Board's resource of independent non-executive directors. The Board continues to ensure the Audit Committee's independence through a rigorous regard of the committee's mandate and its independent authority.

Report on the Committee's Activities in 2008

Meetings and attendance: seven meetings of the Audit Committee, attended by all members, were held during the 14-month period. A further two meetings were held in respect of the short list regarding the external audit tender.

The external auditor, Ernst & Young, the internal auditors and the Group's Senior Vice President and Chief Financial Officer, attended all 14 regular meetings. At various additional meetings the committee received presentations from senior members of the Group's finance team, the Group Vice President Vanadium division, the Group IT Vice President, the Group Vice President of Corporate Affairs and Investor Relations, Head of Group security, Head of Group procurement and the Chairman of the Raspadskaya Audit Committee.

Principal issues considered during the period from 31 January 2008 to 6 April 2009 were:

- Review of the external auditor's management letter following their full year 2007 audit, 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 2007 full year and 2008 interim accounts, the committee carefully enquired as to related party transactions. With the exception of raw material purchases from an associate enterprise, Raspadskaya, and Yuzhny Gok, an enterprise in which Lanebrook holds a 46% beneficial interest but does not have management control, such transactions have been materially reduced.

- The Ukraine transaction acquired via Lanebrook, the major shareholder in Evraz Group SA., represented a significant related party transaction and was carefully reviewed. The audit committee found this transaction to be at arms length. Olga Pokrovskaya, a Millhouse executive and an Evraz Audit Committee member, exempted herself from these discussions and the decision taking process.
- Reviewed internal audit reports, discussed deficiencies and agreed management action and corrective action timelines.
- Review of the Group's tax and treasury management processes.
- Review of the Group's incidence of fraud and activity in hand to manage and reduce such future incidence. The instigation of a Group Fraud and Security Committee with agreed terms of reference.
- Review of the actions involved in the instigation of the Group's 'whistleblowing' facility and the reports made via the whistleblowing facility.
- Review of revised manning, organisation and the internal audit function's internal audit programme to increase the scope to accommodate the expansion of the Group's operations through acquisitions.
- Review of the internal audit report on the effectiveness and process in delivering the monthly management information and Board reports.
- Reviewed plans for the consolidation and rationalisation of the Group's IT infrastructure; given the numerous legacy IT platforms in existence through acquisitions.
- Reviewed the consolidation of the Group's vanadium activities and improvements in operational internal controls.
- Reviewed the regulatory correctness of the Group's transfer pricing policies.
- Reviewed the impairment considerations of the Group's cash generating units and investments.
- Reviewed the Group's Going Concern assumptions, sensitivities and stress testing.

In addition, the Audit Committee reviewed and discussed all the programmed internal audit reports concerned with the business and financial internal controls and processes together with initial reviews of the functional internal controls in respect of the acquired subsidiaries.

The committee has met with the external auditors, Evraz's management and with the internal audit team separately for individual discussions.

Non-Audit Services

As reported in previous years, it is Group 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 2008, the interim review and year-end audit fees totalled US$8,558,000; other audit-related services amounted to US$872,000, while non-audit fees were US$1,187,000.

Audit Committee Self-Assessment

The Audit Committee has prepared a self-assessment questionnaire and conducted assessments with the external auditors, the internal audit function and with Evraz's management.

Strategy Committee Report

In 2008, the Strategy Committee consisted of the following individuals: James W. Campbell (Chairman), Terry Robinson, Pavel Tatyanin and Timur Yanbukhtin.
During the first half of 2008, the Committee considered value enhancing international acquisitions and potential opportunities within Russia and Ukraine designed to increase the underlying net asset value of the Group and advance earnings growth.

However, in the second half of the year, as the full effects of the credit squeeze emerged and the business environment in the international steel industry deteriorated, the Committee's function became more integrated with the Board's primary focus on funding requirements and the financial robustness of the Group. As a result, it became essential for the Group to implement various fundamental internal rationalisation initiatives in order to underpin the future well-being of the business.

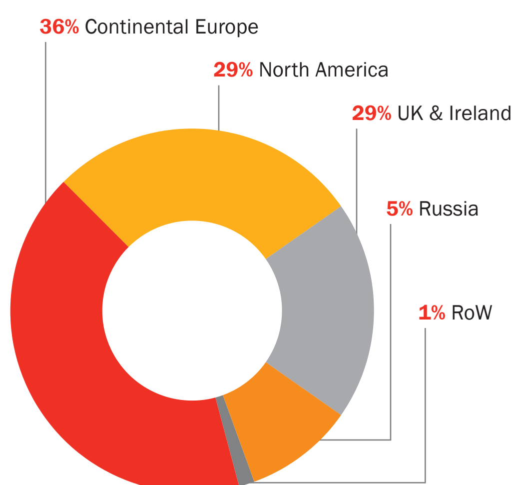
The improvements in operating efficiencies, reflecting this internal process, were primarily focused on the long-term sustainability of the Group as a primary producer of specialised steel products focused on specific markets, commodity steel products focused on international markets and the continuation of the Company's position as one of the world's leading and most reliable suppliers of vanadium slag.

Shareholder Information

The Company's share capital as of 31 December 2008 consisted of 122,504,803 issued and fully paid ordinary shares with a nominal value of two euros (€2) each. The Company's Global Depositary Receipts listed and traded on the London Stock Exchange represented 30.5% of the issued share capital.

Following the voluntary partial scrip dividend alternative voted for by the Company's shareholders at the EGM held on 30 January 2009, Evraz Group issued 9,755,347 new shares bringing the subscribed share capital to 132,260,150 shares. The new shares were ranked pari passu with the existing ordinary shares of the Company.

GDR Holders – Geographical Distribution



Dividends

- Final dividends of US$4.20 per ordinary share and US$1.40 per GDR in respect of 2007 approved by shareholders at the Annual General Meeting held in Luxembourg on 15 May 2008.
- Interim dividends of US$8.25 per ordinary share and US$2.75 per GDR in respect of 2008 approved by the Board of Directors meeting held in Luxembourg on 28 August 2008.
- No final dividends will be paid in respect of 2008 as approved by shareholders at the Annual General Meeting held in Luxembourg on 15 May 2009. Evraz Group plans to resume dividend payments upon completion of the deleveraging plan and market recovery.

It should be specifically noted that on 16 December 2008 the Board of Directors decided to call for an extraordinary shareholders' meeting for the purpose of changing the method of payment of the interim dividends approved on 28 August 2008. Under the proposal US$6 per ordinary share or US$2 per GDR would be paid in cash with shareholders offered the option of receiving the remaining US$2.25 per ordinary share /US$0.75 per GDR in cash or in newly issued shares/GDRs at prices of US$22.50 per share/US$7.50 per GDR.

At the Extraordinary General Meeting held on 30 January 2009, shareholders approved the proposed modification of the method of payment of the 2008 interim dividends and voted to subscribe to 9,755,347 new shares issued at a price of $22.50 per share (US$7.50 per GDR).

Management Report

Selected Consolidated Financial Information

The selected consolidated financial information set forth below shows historic consolidated financial information and other operating information of Evraz Group S.A. as of 31 December 2008, 2007 and 2006 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 2008, 2007 and 2006 and for the years then ended, prepared in accordance with IFRS. The selected consolidated financial information should also be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" below.

Evraz's operating results for the periods presented were significantly affected by the Company's acquisition programme. The operating results of businesses acquired are, in the majority of instances, included in Evraz's consolidated financial statements for the periods post the respective dates of acquisition.

	Year ended 31 December	
(In millions of US dollars, except share and per share data and as noted)	**2008**	**2007**
CONSOLIDATED INCOME STATEMENT DATA		
Revenues	20,380	12,859
Cost of revenues	(13,308)	(7,976)
Gross profit	**7,072**	**4,883**
Selling and distribution expenses	(876)	(538)
General and administration expenses	(938)	(682)
Other operating expenses, net	(1,538)	(195)
Profit from operations	**3,720**	**3,468**
Non-operating income and expense, net	(577)	(343)
Profit before tax	**3,143**	**3,125**
Income tax expense	(1,213)	(946)
Net profit	**1,930**	**2,179**
Net profit attributable to equity holders of the parent entity	**1,868**	**2,103**
Net profit attributable to minority interests	62	76
Net income per share	15.13	17.62
Weighted average number of ordinary shares outstanding	123,495,726	119,363,489
Steel segment income statement data		
Revenues[1]	17,925	11,908
Cost of revenues[1]	(12,546)	(7,856)
Gross profit	5,379	4,052
Selling and distribution expenses	(796)	(499)
General and administration expenses	(473)	(385)
Other operating (expenses) income, net	(1,267)	(132)
Profit from operations – Steel Segment	**2,843**	**3,036**
Vanadium segment income statement data		
Revenues[1]	1,206	583
Cost of revenues[1]	(922)	(466)
Gross profit	284	117
Selling and distribution expenses	(82)	(58)
General and administration expenses	(33)	(16)
Other operating expenses, net	1	2
Profit from operations – Vanadium Segment	**170**	**45**

(In millions of US dollars, except share and per share data and as noted)	Year ended 31 December	
	2008	**2007**
Mining segment income statement data		
Revenues[1]	3,634	1,903
Cost of revenues[1]	(2,348)	(1,272)
Gross profit	1,286	631
Selling and distribution expenses	(40)	(23)
General and administration expenses	(176)	(109)
Other operating expenses, net	(103)	(55)
Profit from operations – Minig Segment	**967**	**444**
Other operations income statement data		
Revenues[1]	1,022	783
Cost of revenues[1]	(749)	(593)
Gross profit	273	190
Selling and distribution expenses	(119)	(64)
General and administration expenses	(44)	(38)
Other operating expenses, net	(27)	(1)
Profit from operations – Other Operations	**83**	**87**
CONSOLIDATED BALANCE SHEET DATA (AT PERIOD END)		
Total assets	19,448	18,637
Equity attributable to equity holders of the parent entity	4,729	5,950
Minority interests	245	406
Long-term debt, net of current portion	6,064	4,653
CONSOLIDATED CASH FLOWS DATA		
Net cash flows from operating activities	4,569	2,994
Net cash flows used in investing activities	(3,736)	(5,650)
Net cash flows (used in) from financing activities	(127)	2,112
OTHER MEASURES		
Consolidated Adjusted EBITDA[2]	6,323	4,305
Steel segment Adjusted EBITDA[2]	4,790	3,578
Vanadium segment Adjusted EBITDA[2]	212	74
Mining segment Adjusted EBITDA[2]	1,391	654
Other operations Adjusted EBITDA[2]	134	124
Net Debt[3]	9,031	6,404

(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, loss (gain) on disposal of property, plant and equipment and foreign exchange loss (gain). 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 and amortisation expense may approximate the cost to replace these assets in the future. Adjusted EBITDA, due to the exclusion of this expense, 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:

(In millions of US dollars)	Year ended 31 December	
	2008	2007
Consolidated Adjusted EBITDA reconciliation		
Profit from operations	3,720	3,468
Add:		
Depreciation, depletion and amortisation	1,215	749
Impairment of assets	880	7
Loss (gain) on disposal of property, plant & equipment	37	26
Foreign exchange loss (gain)	471	55
Consolidated Adjusted EBITDA	**6,323**	**4,305**
Steel segment Adjusted EBITDA reconciliation		
Profit from operations	2,843	3,036
Add:		
Depreciation and amortisation	773	469
Impairment of assets	821	4
Loss (gain) on disposal of property, plant & equipment	11	18
Foreign exchange loss (gain)	342	51
Steel segment Adjustaed EBITDA	**4,790**	**3,578**
Vanadium segment Adjusted EBITDA reconciliation		
Profit from operations	170	45
Add:		
Depreciation and amortisation	43	30
Impairment of assets	0	0
Loss (gain) on disposal of property, plant & equipment	0	0
Foreign exchange loss (gain)	(1)	(1)
Vanadium segment Adjusted EBITDA	**212**	**74**
Mining segment Adjusted EBITDA reconciliation		
Profit from operations	967	444
Add:		
Depreciation, depletion and amortisation	363	205
Impairment of assets	56	2
Loss (gain) on disposal of property, plant & equipment	15	8
Foreign exchange loss (gain)	(10)	(5)
Mining segment Adjusted EBITDA	**1,391**	**654**
Other operations Adjusted EBITDA reconciliation		
Profit from operations	83	87
Add:		
Depreciation and amortisation	33	37
Impairment of assets	3	1
Loss (gain) on disposal of property, plant & equipment	11	0
Foreign exchange loss (gain)	4	(1)
Other operations Adjusted EBITDA	**134**	**124**

(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 an accurate indicator of its ability to meet its financial obligations, represented by gross debt, from its available cash. Net debt allows Evraz to show investors the trend in its net financial condition over the periods presented. However, the use of Net debt effectively assumes that gross debt can be reduced by cash. In fact, it is unlikely that Evraz would use all of its cash to reduce its gross debt all at once, as cash must also be available to pay employees, suppliers and taxes, and to meet other operating needs and capital expenditure requirements. Net debt and its ratio to equity, or leverage, are used to evaluate Evraz'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 optimize the use of internally-generated funds versus funds from third parties.

Net Debt has been calculated as follows:

	Year ended 31 December	
(In millions of US dollars)	**2008**	**2007**
NET DEBT CALCULATION		
Add:		
Long-term loans, net of current portion	6,064	4,653
Short-term loans and current portion of long-term	3,922	2,103
Less:		
Short-term bank deposits	(25)	(25)
Cash and cash equivalents	(930)	(327)
Net Debt	**9,031**	**6,404**

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 2008 and 2007 and for the years then ended. This section contains forward looking statements that involve risks and uncertainties. Evraz's actual results may differ materially from those discussed in such forward looking statements due to various factors.

Overview

Evraz is one of the largest vertically integrated steel and mining businesses in the world with operations based in the Russian Federation, the United States, Canada, Ukraine, the Czech Republic, Italy and South Africa. Evraz produced 17.7 million tonnes and 16.4 million tonnes of crude steel in 2008 and 2007 respectively, ranking the Company as the largest producer of steel and steel products in Russia, the largest producer of long products in Russia and among the 17 largest steel producers in the world. Evraz also produces significant quantities of iron ore and coal (following upon the acquisition of Yuzhkuzbassugol in June 2007). Most of Evraz's iron ore production and a significant proportion of its coal production are used in the Group's steel making operations.

The Company listed global depositary receipts ("GDRs"), representing approximately 8.3% of its issued share capital, on the Official List of the London Stock Exchange ("LSE") on 2 June 2005, thereby raising $422 million from new investors. Each GDR represents an interest of one-third of one share. The total number of GDRs listed on the LSE represented approximately 30.5% of the Company's issued share capital as of 31 December 2008.

Evraz's principal assets comprise nine steel plants: NTMK, Zapsib, NKMK, Evraz Vitkovice Steel, Rocky Mountain Steel and Claymont Steel (both are parts of Evraz Inc. NA), Evraz Inc. NA Canada (former IPSCO Canada, acquired in June 2008), Dnepropetrovsk Iron and Steel Works (DMZ, acquired in December 2007) and Highveld Steel and Vanadium Corporation (acquisition completed in April 2007); Highveld is also a leading vanadium producer; three steel rolling mills: Evraz Palini e Bertoli, Oregon Steel Portland and Camrose Pipe Corporation (both are parts of Evraz Inc. NA); five iron ore mining and processing facilities: KGOK, VGOK and Evrazruda in Russia, Sukha Balka in Ukraine and Mapochs Mine in South Africa; coal mining assets: Yuzhkuzbassugol (acquired in June 2007) and Mine 12; one of the world's leading producers of vanadium alloys and chemicals for the steel, chemical, and titanium industries: Strategic Mineral Corporation (Stratcor); together with various trading and logistical assets. Evraz also owns a significant equity interest in a coking coal producer Raspadskaya. In 2008, Evraz's consolidated revenues amounted to $20,380 million, while the net profit attributable to equity holders of the parent entity totalled $1,868 million.

Reorganisation and Formation of the Company

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

The Company's interests in the majority of its subsidiaries are held indirectly through its ownership of Mastercroft Limited ("Mastercroft"), a limited liability company registered in Cyprus, exceptions being Evraz Vitkovice Steel a.s., Evraz Palini e Bertoli S.p.A., Strategic Minerals Corporation, Highveld Steel and Vanadium Corporation, Evraz Inc. NA, Evraz Inc. NA Canada and Ukrainian assets, all of which are owned directly by Evraz Group.

Business Structure

Segments

Evraz's business is divided into three principal segments:

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

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 2008, Evraz's mining segment supplied approximately 73% and 55% of the steel segment's total iron ore and coal requirements respectively. The coal supplies include purchases from JV Raspadskaya. 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 are included in the presentation of respective segments.

Summary of Acquisitions

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

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

Acquisitions / Start-Ups Prior to 2007

- *Nizhny Tagil Iron and Steel Plant.* NTMK is an integrated steel plant that primarily produces railway and construction long products, pipe blanks and semi-finished products. During 1997-2005, Evraz acquired a 92.38% interest in NTMK for a total consideration of $379 million. Evraz acquired a further 2.62% interest for a consideration of $79 million in 2006. In 2007, in accordance with Russian legislation, Evraz conducted a mandatory buy out of the minority shares of NTMK that increased its total holding to 100%.
- *West Siberian Iron and Steel Plant.* 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 $139 million. In 2007, in accordance with Russian legislation, Evraz conducted a mandatory buy out of the minority shares of Zapsib that increased its total holding to 100%.
- *Novokuznetsk Iron and Steel Plant.* NKMK is an integrated steel plant that specialises in the production of rolled long metal products for the railway sector as well as semi-finished products. NKMK, formed in May 2003, commenced steel operations in October 2003 having acquired certain property, plant and equipment from OAO Kuznetsk Iron and Steel Plant ("KMK") for a consideration of $45 million subsequent to the dissolution of the latter in bankruptcy proceedings in June 2003. The Company's effective interest in NKMK as of 31 December 2008 amounted to 100%.
- *Vysokogorsky Mining and Processing Integrated Works.* VGOK is an iron ore mining and processing complex that produces sinter from its iron ore resources and from iron ore purchased from other producers. During 1998-2005, Evraz acquired an 87.39% interest in VGOK for a consideration of $2 million. In 2007, in accordance with Russian legislation, Evraz conducted a mandatory buy out of the minority shares of VGOK that increased its total holding to 100%.
- *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 $17 million. In 2006, Evraz acquired additional minority interests in Nakhodka Sea Port amounting to 0.6%. In 2007, in accordance with Russian legislation, Evraz conducted a mandatory buy out of the minority shares of the Nakhodka Sea Port that raised its total holding to 100%.
- *Ferrotrade Limited and East Metals S.A.* Ferrotrade Limited ("Ferrotrade") and East Metals S.A. ("East Metals") are export traders that sell Evraz's steel products overseas. East Metals became the main export trading arm during 2008. The traders' principal markets are South East Asia, North America and the Middle East. The Company's effective interest in both Ferrotrade and East Metals as of 31 December 2008 amounted to 100%.
- *Raspadskaya.* Raspadskaya, which produces coking coal, is one of the largest coal mines in Russia. On 10 March 2004, as part of a joint venture agreement, Evraz acquired a 50% interest in Corber Enterprises Limited ("Corber"), a joint venture created for the purpose of exercising joint control over the business activities of Raspadskaya, in which Corber owned 72.03% of the ordinary shares, and other subsidiaries of Corber. Evraz acquired its interest for a total consideration of $140 million. Corber acquired a further 4.90% interest in Raspadskaya during 2004-2005 for a total consideration of $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 7,200 of its newly issued ordinary shares and 4,800 preferred shares with a par value of 1 US dollar. As part of the consideration, Corber paid preferred dividends of $318 million to Adroliv. The total cost of the business transaction, including the cash consideration and fair value of equity instruments exchanged, amounted to $770 million. On 31 May 2006, Evraz acquired 3,600 newly issued ordinary shares in Corber for a cash consideration of $225 million and retained its 50% ownership interest in Corber. The Company's effective interest in Raspadskaya as of 31 December 2008 amounted to 40%.
- *Kachkanarsky Ore Mining and Processing Enterprise "Vanady".* KGOK is an iron ore mining and processing complex that produces sinter, pellets and concentrate from high-vanadium iron ore. On 21 May 2004, Evraz acquired 83.59% of the ordinary shares of KGOK for a consideration of $190.3 million and purchased restructured debts of KGOK with a fair value of RUR597.0 million (approximately $20.6 million based on the exchange rate as at the date of transaction), the nominal value being RUR1,283.0 million (approximately $44.3 million as at the date of transaction). Evraz acquired further interests in KGOK amounting to 14.12% of the ordinary shares during 2004-2005 for a total consideration of $32 million. In 2007, in accordance with Russian legislation, Evraz conducted a mandatory buy out of the minority shares in KGOK which raised its total holding to 100%.
- *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 $32 million from entities under common control with Evraz and a 0.10% interest from third parties for an additional $32,000. This has resulted in Evrazruda being consolidated with Evraz with effect from 31 December 2001, as it existed at such date, with acquisitions by Evrazruda subsequent to 31 December 2001 being accounted for by Evraz under the purchase method. The Company's effective interest in Evrazruda as of 31 December 2008 amounted to 100%.
- *Evraz 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. The total cash consideration amounted to $112 million, including transaction costs of $3 million. At the same date, Evraz and Clama's minority shareholders entered into a put and call option agreement under which Clama's minority shareholders had a put option and Evraz had a corresponding call option, exercisable in the period from 2007 to 2010, in respect of a 25% less one share interest in Clama. As a result, Evraz effectively acquired a 100% ownership interest in Clama with deferred consideration of $69 million which is equal to the fair value of the financial liability payable under the put option.

- *Evraz Vitkovice Steel ("Vitkovice").* Evraz 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 $298 million based on the exchange rate as at the date of the transaction). The Company's effective interest in Vitkovice as of 31 December 2008 amounted to 100%.
- *Yuzhkusbassugol ("YuKU").* Yuzhkusbassugol, which produces coking and steam coal, is one of the largest coal mines in Russia. On 30 December 2005, Evraz acquired a 50% ownership interest in YuKU for a cash consideration of $675 million payable to Crondale Overseas Limited, an entity under common control with Evraz. (See "Acquisitions in 2007").
- *Strategic Minerals Corporation ("Stratcor").* Stratcor is one of the world's leading producers of vanadium alloys and chemicals for the steel and chemical industries. Stratcor encompasses 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% of the voting shares, for a purchase consideration of $125 million, including transaction costs of $6 million and fair value of the contingent consideration amounting to $21 million. The Company's effective interest in Stratcor as of 31 December 2008 amounted to 72.84%.
- *Evro-Aziatskaya Energy Company ("EvrazEK").* EvrazEK, an energy generating company, supplies natural gas, coke-oven gas, steam and electricity to certain subsidiaries of Evraz and purchases metal products and materials from them. In 2006, Evraz acquired a 100% interest in the entity for $34 million.

Acquisitions in 2007

- *Evraz Inc. NA ("Evraz Inc. NA", formerly Evraz Oregon Steel Mills).* Headquartered in Portland, Oregon, Evraz Inc. NA is one of the most diversified steel operations in North America. Due to a wide range of manufacturing capabilities the company can produce more than 1.5 million metric tons of higher margin specialty and commodity steel products (plate, coiled plate, welded and seamless pipe for oil and gas applications, structural tubing, rail and wire rod/bar) annually. Its predecessor, Oregon Steel Mills, Inc., was a public company and its shares were traded on the New York Stock Exchange from 1988 until the onset of 2007. In January 2007, following a successful tender offer by Evraz Group, the company became a wholly owned subsidiary of Evraz with the name changed to Evraz Oregon Steel Mills, Inc. ("EOSM"). Total cash consideration for the acquisition of 100% ownership interest in EOSM amounted to $2,276 million, including $10 million of transaction costs. Subsequently, EOSM's securities were de-listed and registration was withdrawn from the NYSE. In June 2008, after the acquisition of Claymont Steel Holdings, Inc. and General Scrap Inc. (see "Acquisitions in 2008"), Evraz decided to consolidate Evraz Oregon Steel Mills, Inc. and certain newly acquired subsidiaries under the new name of Evraz Inc. NA.
- *West Siberian Heat and Power Plant ("ZapSibTETs").* ZapSibTETs was built as a substation of Zapsib which currently consumes 42% of the heat and more than 25% of the electricity produced by the energy plant. The technological processes of Zapsib and ZapSibTETs are closely interconnected. Zapsib supplies coking and blast furnace gas to ZapSibTETs, participates in the steam refrigeration process and provides space for the disposal of ashes. 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 93.35% ownership interest in ZapSibTETs for a cash consideration of 5,945 million Roubles ($231 million based on the exchange rate as at the date of transaction). In addition, the Group incurred transaction costs of $1 million. In accordance with Russian legislation, an acquirer that purchases more than 30% of the acquiree's share capital, is obliged to make an offer to acquire the shares held by minority shareholders ("obligatory offer"). In line with this requirement, Evraz made an offer, on 4 June 2007, to acquire the outstanding shares in ZapSibTETs at a price of 10.59 Roubles per share ($0.41 based on the exchange rate as of 4 June 2007). The total purchase consideration for all the outstanding shares that could be acquired amounted to 427 million Roubles ($17 million based on the exchange rate as of 4 June 2007). As a result of the offer the Group acquired 4.44% of the shares in ZapSibTETs and became subject to the provisions of the Russian legislation that permits a shareholder that owns more than 95% of a company's equity to increase its interest to 100%. On 12 November 2007, the Group commenced a buy out of minority shares which was completed in January 2008. The procedure was carried out in accordance with Russian legislation through mandatory offers to all minority shareholders. As a result of the buy out, the Company's effective interest in ZapSibTETs as of 31 December 2008 amounted to 100%.
- *Highveld Steel and Vanadium Corporation Limited ("Highveld").* Highveld is one of the largest steel producers in South Africa and a leading producer of vanadium products. Initially, on 13 July 2006, Evraz acquired a 24.9% ownership interest in Highveld from Anglo American plc for a cash consideration of $216 million, including $10 million of transaction costs, and entered into share option agreements with the major shareholders of Highveld to increase this stake to 79% within 24 months. On 20 February 2007, the European Commission approved the proposed acquisition of the controlling interest in Highveld, subject to certain conditions. Evraz was obliged to divest Highveld's vanadium extraction, vanadium oxides and vanadium chemicals plants located at the Vanchem site in Witbank, Republic of South Africa (collectively referred to as the Vanchem operations) along with an equity interest or a portion of the Mapoch iron and vanadium ore mine which guarantees supply of ore to the Vanchem operations. The divestment package also included 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 (See "Divestments in 2007- 2008"). On 26 April 2007, Evraz obtained the regulatory approvals of the South African competition authorities and the share options became exercisable. Consequently, the financial position and the results of Highveld's operations were included in Evraz's consolidated financial statements with effect from 26 April 2007, the date at which the Company effectively exercised control over Highveld's operations. On 4 May 2007, Evraz exercised its option and acquired a 29% ownership interest in Highveld for a cash consideration of $238 million from Anglo American plc. In addition, Evraz paid transaction costs amounting to $3 million. In accordance with South African legislation, an acquirer that purchases 35% of the acquiree's share capital is obliged to make an offer to acquire the shares held by minority shareholders. In line with this requirement, the Group made an offer, on 4 June 2007, 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. On 16 July 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 based on the exchange rate as of 4 June 2007) which represented an increase of approximately 14% over the previous offer price. As a result of this offer, the Group acquired 1,880,750 shares in Highveld (1.91% of the share capital) for 175 million South African Rands ($25 million based on the exchange rates as at 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 Group for $219 million.

In 2008, Evraz purchased an additional 4,162,606 common shares in Highveld Steel and Vanadium Corporation Limited at a cost of 535 million South African Rands ($69 million based on the exchange rates as at the dates of the transactions). This purchase increased Evraz's shareholding by 4.2%. As of 31 December 2008, the Company's effective interest in Highveld amounted to 85.12%.

- *Yuzhkuzbassugol ("YuKU").* On 8 June 2007, Evraz acquired an additional 50% interest in YuKU for a cash consideration of $871 million, including transaction costs of $9 million, thereby increasing its ownership interest in YuKU to 100%.
- *Nikom, a.s ("Nikom").* On 20 December 2007, Evraz acquired a 100% interest in Nikom, a ferrovanadium producer located in the Czech Republic, for a cash consideration of $46 million.

Acquisitions in 2008

- *Claymont Steel Holdings, Inc. ("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 the Group's wholly owned subsidiary and untendered shares were converted into the right to receive $23.50 in cash which was the same price per share paid during the tender offer. In June 2008, Evraz decided to consolidate Claymont Steel with Evraz Oregon Steel Mills, Inc. under the new name of Evraz Inc. NA. The total cash consideration for the acquisition of a 100% ownership interest in Claymont Steel amounted to approximately $420 million.
- *General Scrap Inc. ("GSI").* In June 2008, Evraz acquired the outstanding voting stock of GSI for $25 million. GSI collects, processes, recycles, trades and brokers metal, both ferrous (such as iron and steel) and nonferrous (such as aluminum, copper, stainless steel, nickel, brass, tin, titanium and others). Post acquisition GSI was absorbed into the Oregon Steel division of Evraz Inc. NA.
- *IPSCO's Canadian plate and pipe business ("Evraz Inc. NA Canada", formerly "IPSCO Canada").* In March 2008, Evraz entered into an agreement with SSAB, a Swedish steel company, to acquire IPSCO's Canadian plate and pipe business. IPSCO is a leading North American producer of steel plates, as well as pipes for the oil and gas industry.

  Under the structure of the transaction, Evraz and OAO TMK ("TMK"), Russia's leading tubular player, acquired plate and pipe businesses for $4,211 million (excluding transaction costs and any working capital adjustment to the purchase consideration paid by TMK) comprising certain Canadian plate and pipe businesses, a US metal scrap company (together – "IPSCO Inc.") and US tubular and pipe businesses. Evraz also entered into a back-to-back agreement with TMK and its affiliates, which consisted of an on-sale of the acquired US tubular and pipe businesses, including a 51% interest in NS Group, to TMK for $1,250 million.

  In addition, Evraz signed an option agreement that gave it the right to sell and gave TMK the right to buy 49% in NS Group for approximately $511 million plus interest at an annual rate ranging from 10% to 12% accrued from 12 June 2008 to the date of exercise of the option. The option to buy 49% in NS Group was excercised in January 2009 for approximately $508 million.

  The acquisition was completed on 12 June 2008. As a result, the net cost to Evraz of the acquisition of 100% of IPSCO Inc. amounted to $2,450 million, including transaction costs of $65 million and $25 million of working capital adjustment to the purchase consideration paid in October 2008. The financial position and the results of operations of IPSCO Inc. were included in Evraz's consolidated financial statements with effect from 12 June 2008. In 2008, following upon the acquisition of the Canadian operations, Evraz decided to change the name of its subsidiary from "IPSCO Canada" to "Evraz Inc. NA Canada".
- *Palmrose Limited (Acquisition of Ukrainian assets).* In September 2008, Evraz completed the acquisition, from entities under common control with the Company, of 100% of Palmrose Limited, a Cyprus-based holding company in respect of the following assets in Ukraine:
  - a 95.57% shareholding in *Dnepropetrovsk Iron and Steel Works, OAO ("DMZ").* Dnepropetrovsk Iron and Steel Works is a steel producer with a total annual capacity of 1.8 million tonnes of pig iron and 1.23 million tonnes of crude steel.
  - a 99.25% shareholding in *Sukha Balka, OAO ("Sukha Balka").* Sukha Balka is an iron ore mining and processing complex with a total annual production capacity of 3.75 million tonnes of iron ore.
  - a 94.37%, 98.65% and 93.86% shareholding in *Bagleykoks, OAO ("Bagleykoks"), Dneprokoks, OAO ("Dneprokoks") and Dneprodzerzhinsk Coke Chemical Plant, OAO ("DKHZ")* respectively. The three Ukrainian coking plants have a total annual capacity of 3.52 million tonnes of metallurgical coke.

  The acquisition was accomplished in two stages. In April 2008, Evraz completed the acquisition of a 51.4% shareholding in Palmrose Limited for a cash consideration of $1,110 million. The second stage, in September 2008, saw Evraz issue 4,195,150 shares in favour of Lanebrook Limited (Cyprus), the ultimate controlling party in respect of Evraz's assets, in exchange for a 48.6% interest in Palmrose Limited. As a result, Evraz became the owner of a 100% interest in Palmrose Limited with effect from September 2008.

  Palmrose and its subsidiaries were included in the consolidated financial statements of Evraz as from 11 December 2007 – the date when Lanebrook Limited obtained control over those entities.

Divestments in 2007-2008

- In July 2007, Evraz sold Transalloys, a wholly owned subsidiary of Highveld Steel and Vanadium Corporation, to Renova Group for $139 million. The plant produces some 50,000 tonnes of medium-carbon ferro-manganese per annum and 160,000 tonnes of silicon-manganese per annum.
- In February 2008, Evraz sold Rand Carbide, a wholly owned subsidiary of Highveld Steel and Vanadium Corporation, to Silicon Smelters, a subsidiary of FerroAtlantica (Spain), for $39 million. Rand Carbide produced some 55,000 tonnes of ferro-silicon per annum at three electric furnaces and accounted for approximately 50% of the local market.

- Evraz's disposals of certain vanadium assets in South Africa in accordance with the conditions required by the European Commission and South African competition authorities for approval of its acquisition of a majority interest in Highveld Steel and Vanadium Corporation (see "Acquisitions in 2007") were completed in August 2008. Under the agreements, Evraz sold Highveld's Vanchem operations and its 50% shareholding in South Africa Japan Vanadium (Proprietary) Limited, as well as a non-dividend bearing equity interest in Highveld`s Mapochs Mine (Proprietary) Limited. The disposals were implemented with effect from 29 August 2008. The transfer of the assets of the Mapochs Mine from Highveld into Mapochs Mine (Proprietary) Limited remained subject to the conversion of the old order mining rights which Highveld held in relation to the mine, and the consent of the Minister of Minerals and Energy for the transfer thereof. On 9 April 2009, Highveld concluded an agreement to transfer 26% of the ordinary equity interest in Mapochs Mine (Proprietary) Limited to local partners. This agreement is a part of the Black Economic Empowerment government programme and was signed in order to comply with South African legislation for the mining industry.

Results of Operations for the Years Ended 31 December 2008 and 2007

The following table sets out the Company's consolidated income statement data for the years ended 31 December 2008 and 2007 in absolute terms and as a percentage of revenues.

	Year ended 31 December					
	2008		2007		2008 vs. 2007	
(US$ million, except percentages)	Amount	Percentage of revenues	Amount	Percentage of revenues	Change	% change
INCOME STATEMENT DATA						
Revenues[1]	20,380	100.0%	12,859	100.0%	7,521	58.5%
Cost of revenues	(13,308)	(65.3)%	(7,976)	(62.0)%	(5,332)	66.9%
Gross profit	**7,072**	**34.7%**	**4,883**	**38.0%**	**2,189**	**44.8%**
Selling and distribution costs	(876	(4.3)%	(538)	(4.2)%	(338)	62.8%
General and administrative expenses	(938)	(4.6)%	(682)	(5.3)%	(256)	37.5%
Other operating income and expenses, net	(1,538)	(7.5)%	(195)	(1.5)%	(1,343)	688.7%
Profit from operations	**3,720**	**18.2%**	**3,468**	**27.0%**	**252**	**7.3%**
Non-operating income and expenses, net	(577)	(2.8)%	(343)	(2.7)%	(234)	68.2%
Profit before tax	**3,143**	**15.4%**	**3,125**	**24.3%**	**(18)**	**0.6%**
Income tax expense	(1,213)	(6.0)%	(946)	(7.4)%	(267)	28.2%
Net profit	**1,930**	**9.5%**	**2,179**	**16.9%**	**(249)**	**(11.4)%**
Net profit attributable to equity holders of the parent entity	1,868	9.2%	2,103	16.4%	(235)	(11.2)%
Net profit attributable to minority interests	62	0.3%	76	0.6%	(14)	(18.4)%

(1) Includes service revenues of $390 million and $232 million for the years ended 31 December 2008 and 2007 respectively. Sales of services consist primarily of heat and electricity supply, port, transportation, steel coating and accounting services.

In 2008 approximately 0.6% of Evraz's revenues was generated through transactions with related parties compared to 4.9% in 2007. In addition, Evraz made significant purchases from related parties. (See Note 16 to the Consolidated Financial Statements).

Explanation of One-Off Charges

By the end of 2008, Evraz's activities in most of its operating segments had been adversely affected by the instability in international financial, currency and commodity markets resulting from the global financial crisis. As a result, the Group recognised in its financial statements significant extraordinary non-cash items in the total amount of $1,857 million that negatively affected profitability levels. The key items were:

- Impairment loss on assets of $880 million. This figure, which affected operating profit, included impairment of goodwill in the amount of $466 million on newly acquired Ukrainian assets, $187 million on newly acquired Claymont Steel and $103 million on Evraz Inc. NA. It also reflected impairment of assets in the amount of $123 million which included contemplated or planned shutdowns of certain obsolete and inefficient Russian production facilities (open hearth furnaces, coke batteries, etc.).
- Revaluation of inventories down to net realisable values. This exercise resulted in an additional charge of $314 million which also affected operating profit.
- Foreign exchange losses in the amount of $471 million. These losses, which further reduced the operating results, related to the depreciation of local currencies in Evraz's areas of operation in Russia, Europe, Canada and South Africa against the US dollar between 31 December 2007 and 31 December 2008. This was reflected in the accounts of certain subsidiaries which sustained foreign exchange losses in relation to bank loans denominated in US dollars. The total foreign exchange loss also included Evraz Group losses in respect of intercompany loans issued to subsidiaries in local currencies.
- Revaluation of investments in Delong Holdings and the Cape Lambert project resulted in a $150 million total mark down to current market values.
- Evraz also booked a $99 million gain on selected bond repurchases performed during the fourth quarter of 2008, which was partially offset by a $19 million loss in respect of the early repayment of Claymont Steel liabilities at a premium.

Revenues

Evraz's consolidated revenues in 2008 totalled $20,380 million, a 58.5% increase compared to revenues of $12,859 million in 2007. Steel segment sales accounted for the majority of the increase in revenues largely due to the higher average prices of steel products and the contributions from newly acquired operations in North America, South Africa and Ukraine. Evraz's sales volumes of steel products advanced from 16.4 million tonnes in 2007 to 17.1 million tonnes in 2008.

The increase in steel sales volumes primarily reflects contributions from Evraz's North American operations (+1.0 million tonnes), which benefited from the acquisition of Claymont Steel and Ipsco Canada in 2008, and from a new Ukrainian plant, DMZ (+0.9 million tonnes). The South African operations made an approximate +0.2 million tonnes contribution due to full year consolidation of Highveld in 2008 as against only eight months in 2007. On the other hand, the Russian operations experienced a 14% (or approximately 1.1 million tonnes) reduction in domestic steel sales volumes (excluding inter-segment sales) and a 6% (or 0.3 million tonnes) decrease in export sales volumes. These decreases were attributable to the general slowdown in the steel markets during the fourth quarter of 2008 and consequent cuts in production volumes.

The following table shows the average price trends of Evraz's principal products in 2008 and 2007 (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:

	Year ended 31 December				% change	
	2008		2007		1st half 2008 vs. 1st half 2007	2nd half 2008 vs. 2nd half 2007
(US$ per tonne, except percentages)	2nd half	1st half	2nd half	1st half		
AVERAGE RUSSIAN AND CIS PRICES FOR EVRAZ'S RUSSIAN AND UKRAINIAN PRODUCTS[1]						
Construction products						
Rebars	869	810	609	607	33.4%	42.7%
H-Beams	1,328	1,155	1,031	972	18.8%	28.8%
Channels	1,021	903	762	654	38.1%	34.0%
Angles	1,000	831	687	585	42.1%	45.6%
Wire rods	963	804	569	546	47.3%	69.2%
Wire	971	885	657	624	41.8%	47.8%
Railway products						
Rails	802	775	624	591	31.1%	28.5%
Wheels	1,570	1,635	1,427	1,293	26.5%	10.0%
Flat-rolled products						
Plates	1,050	888	624	602	47.5%	68.3%
Semi-finished products						
Slabs	972	721	491	425	69.6%	98.0%
Pig Iron	739	522	344	308	69.5%	114.8%
Pipe blanks	1,109	733	577	522	40.4%	92.2%
Other steel products						
Grinding balls	1,210	854	689	567	50.6%	75.6%
Rounds	951	789	613	538	46.7%	55.1%
AVERAGE NON-CIS EXPORT PRICES FOR EVRAZ'S RUSSIAN AND UKRAINIAN PRODUCTS[2]						
Construction products						
H-beams	516	735	597	568	29.4%	(13.6)%
Rebars	851	606	587	486	24.7%	45.0%
Wire rods	367	686	508	446	53.8%	(27.8)%
Semi-finished products						
Billets	486	701	530	429	63.4%	(8.3)%
Slabs	893	660	541	457	44.4%	65.1%
Pig Iron	341	492	404	351	40.2%	(15.6)%
Flat-rolled products						
Plates	769	725	605	510	42.2%	27.1%

(US$ per tonne, except percentages)	Year ended 31 December				% change	
	2008		2007		1st half 2008 vs. 1st half 2007	2nd half 2008 vs. 2nd half 2007
	2nd half	1st half	2nd half	1st half		
AVERAGE PRICES FOR EVRAZ'S NON-CIS OPERATIONS PRODUCTS(3)						
Construction products						
Highveld - H-beams	1,113	961	843	826	16.3%	32.0%
Flat-rolled products						
Vitkovice – plates	1,347	1,213	950	929	30.6%	41.8%
Palini – plates	1,255	1,004	891	821	22.3%	40.9%
Evraz Inc. NA – commodity plates	1,430	1,005	840	866	16.1%	70.2%
Evraz Inc. NA – speciality plates	1,848	1,782	2,033	1,289	38.2%	(9.1)%
Evraz Inc. NA Canada – commodity plates	1,406	1,292	n/a	n/a	n/a	n/a
Highveld – commodity plates	1,154	863	798	809	6.7%	44.6%
Tubular products						
Evraz Inc. NA – large diameter pipes	1,942	1,444	1,386	1,344	7.4%	40.1%
Evraz Inc. NA Canada – large diameter pipes	1,712	1,576	n/a	n/a	n/a	n/a

(1) Prices for sales denominated in Roubles and UAH are converted into US dollars at the average monthly exchange rate to the US dollar as stated by the CBR and National Bank of Ukraine. Average US dollar prices are calculated as a weighted average of sales prices in the relevant semi-annual period.

(2) Average price data relates to sales by Ferrotrade Limited and East Metals S.A.

(3) Prices for sales denominated in Euros, Czech Korunas and South African 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 2008 and 2007:

(US$ million)	Year ended 31 December			
	2008	2007	2008 vs. 2007	
			Change	% Change
REVENUES BY SEGMENT				
Steel segment				
To third parties	17,623	11,743	5,880	50.1%
To mining segment	178	103	75	72.8%
To vanadium segment	28	10	18	180.0%
To other operations	96	52	44	84.6%
Total – Steel segment	**17,925**	**11,908**	**6,017**	**50.5%**
Vanadium segment				
To third parties	1,201	583	618	106.0%
To steel segment	5		5	0.0%
Total – Vanadium segment	**1,206**	**583**	**623**	**106.9%**
Mining segment				
To third parties	1,290	371	919	247.7%
To steel segment	2,340	1,527	813	53.2%
To other operations	4	5	(1)	(20.0)%
Total – Mining segment	**3,634**	**1,903**	**1,731**	**91.0%**
Other operations				
To third parties	266	162	104	64.2%
To steel segment	588	469	119	25.4%
To mining segment	168	152	16	10.5%
Total – Other operations	**1,022**	**783**	**239**	**30.5%**
Eliminations	(3,407)	(2,318)	(1,089)	47.0%
Consolidated revenues	**20,380**	**12,859**	**7,521**	**58.5%**
% from steel segment	86.5%	91.3%		
% from vanadium segment	5.9%	4.5%		
% from mining segment	6.3%	2.9%		
% from other operations	1.3%	1.3%		

The following table presents the geographic breakdown of Evraz's consolidated revenues in 2008 and 2007 (based on location of customer) in monetary terms and as a percentage of total revenues.

	Year ended 31 December					
					2008 vs. 2007	
(US$ million, except percentages)	2008	%% of total	2007	%% of total	Change	% change
Russia	7,575	37.2%	5,954	46.3%	1,621	27.2%
Americas	4,538	22.3%	2,138	16.6%	2,400	112.3%
Asia	3,217	15.8%	1,900	14.8%	1,317	69.3%
Europe	2,862	14.0%	1,864	14.5%	998	53.5%
CIS	1,429	7.0%	641	5.0%	788	122.9%
Africa	720	3.5%	353	2.7%	367	104.0%
Rest of the World	39	0.2%	9	0.1%	30	333.3%
Total	**20,380**	**100.0%**	**12,859**	**100.0%**	**7,521**	**58.5%**

Revenues from sales outside Russia increased in monetary terms and as a proportion of total revenues. The main drivers of the growth in revenues outside Russia were additional sales volumes from the new operations in North America, South Africa and Ukraine as discussed above. Revenues from sales in Russia increased in monetary terms due to higher average steel prices in 2008 compared with 2007.

Steel Segment

Steel segment revenues were affected by the positive price dynamic for steel products, particularly during the first nine months of the year, and by the acquisitions of IPSCO Canada in June 2008, Claymont Steel in January 2008, DMZ and Ukrainian coke plants effective December 2007, and Highveld in April 2007. Post-acquisition revenues of IPSCO Canada and Claymont Steel amounted to $1,273 million (7.1% of steel segment revenues) and $464 million (2.6% of steel segment revenues) respectively. Revenues attributable to the acquisition of new Ukrainian assets, excluding intra-segment sales, contributed approximately $1,045 million (5.8% of steel segment revenues) to the increase. Revenues of Highveld in 2008 amounted to $650 million (3.6% of steel segment revenues) against $422 million (3.5% of steel segment revenues) in 2007. Therefore, approximately $3,007 million of the increase in steel segment revenues was due to organic growth and approximately $3,010 million was attributable to acquisitions.

The following table provides a breakdown of Evraz's steel segment sales in 2008 and 2007, noting the contribution made by Claymont Steel, Highveld, IPSCO Canada and DMZ.

	Year ended 31 December					
	2008		2007		2008 vs. 2007	
(US$ million, except percentages)	Amount	Percentage of total	Amount	Percentage of total	Change	% change
STEEL SEGMENT SALES						
Construction products(1)	4,850	27.1%	3,713	31.2%	1,137	30.6%
of which Highveld	*291*	*1.6%*	*164*	*1.4%*	*127*	*77.4%*
of which DMZ	*119*	*0.7%*	-	-	*119*	
Flat-rolled products(2)	3,239	18.1%	1,968	16.5%	1,271	64.6%
of which Highveld	*338*	*1.9%*	*173*	*1.5%*	*165*	*95.4%*
of which Claymont	*435*	*2.4%*	-	-	*435*	
of which IPSCO	*250*	*1.4%*	-	-	*250*	
Railway products(3)	2,226	12.4%	1,697	14.3%	529	31.2%
of which DMZ	*10*	*0.1%*	-	-	*10*	
Tubular products(4)	1,861	10.4%	703	5.9%	1,158	164.7%
of which IPSCO	*938*	*5.2%*	-	-	*938*	
Semi-finished products(5)	3,512	19.6%	2,497	21.0%	1,015	40.6%
of which DMZ	*36*	*0.2%*	-	-	*36*	
Other steel products(6)	607	3.4%	458	3.8%	149	32.5%
of which DMZ	*15*	*0.1%*	-	-	*15*	
Other products(7)	1,630	9.1%	872	7.3%	758	86.9%
of which Ukrainian coke plants	*386*	*2.2%*	-	-	*386*	
of which Claymont	*29*	*0.2%*	-	-	*29*	
of which IPSCO	*63*	*0.4%*	-	-	*63*	
TOTAL	**17,925**	**100%**	**11,908**	**100%**	**6,017**	**50.5%**

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

(2) Includes plates and coils.

(3) Includes rails and wheels.

(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 coke and coking products, refractory products, ferroaloys and resale of coking coal

The proportions of both revenues and sales volumes in respect of construction products decreased despite the additional post acquisition volumes provided by Highveld and DMZ. This reflected a sharp decline in the sales volumes of construction products at the Russian operations during the fourth quarter of 2008.

The proportion of revenues attributable to sales of railway products decreased despite an increase in the proportion of volumes. Revenues were impacted by the fact that railway products were the subject of below average price increases compared to other steel products.

The proportion of revenues attributable to sales of flat-rolled products (primarily plates) increased due to additional sales volumes following upon the acquisition of Claymont Steel and IPSCO Canada in 2008 and Highveld in 2007.

The proportion of revenues attributable to sales of tubular products increased as a result of additional sales volumes following the acquisition of IPSCO Canada in 2008.

A decline in the proportion of revenues attributable to sales of semi-finished products resulted from substantially lower volumes of export sales of ‘semis’ by the Russian operations (see discussion regarding consolidated revenues above) and the allocation of production capacities in favour of higher margin construction and railway products.

Revenues from sales of other steel products decreased as a proportion of steel segment revenues in 2008 compared to 2007 largely due to lower volumes of rounds sold in the Russian market.

Revenues attributable to other non-steel sales increased as a proportion of steel segment sales. The increase was attributable to the Ukrainian plants’ sales of coke to third party customers, increased sales of coke from the Russian steel operations due to both volume and price factors and to the respective contributions of Claymont Steel and IPSCO Canada.

Steel segment sales to the mining segment amounted to $178 million in 2008 compared with $103 million in 2007. The increase is attributable to increased sales by the Russian steel operations to the Russian mining operations and to sales by the Ukrainian steel and coke operations to Sukha Balka.

Revenues from sales in Russia amounted to approximately 39% of steel segment revenues in 2008 compared to 47% in 2007. This decrease is primarily attributable to various acquisitions effected by Evraz, as discussed above, although in monetary terms, steel segment revenues in Russia increased from $5,636 million in 2007 to $6,946 million in 2008, largely due to higher average prices for steel products.

Vanadium Segment

Vanadium segment revenues increased by 106.9% to $1,206 million in 2008 compared to $583 million in 2007. The increase is primarily attributable to the acquisitions of Highveld and Nikom (a subsidiary of Evraz Vitkovice Steel) and to higher average prices for vanadium products in 2008 against 2007.

The following table shows the breakdown of Evraz’s vanadium segment sales in 2008 and 2007, noting the contribution made by Highveld and Nikom.

	Year ended 31 December					
	2008		2007		2008 vs. 2007	
(US$ million, except percentages)	Amount	Percentage of total	Amount	Percentage of total	Change	% change
VANADIUM SEGMENT SALES						
Vanadium in slag	290	24.1%	167	28.6%	123	73.7%
Vanadium in alloys & chemicals	912	75.7%	416	71.4%	496	119.2%
of which Highveld	*471*	*39.1%*	*260*	*44.6%*	*211*	*81.2%*
of which Nikom	*112*	*9.3%*	-	-	*112*	
of which resale of vanadium products	*51*	*4.2%*	-	-	*51*	
Other revenues	4	0.3%	-	-	7	
TOTAL	**1,206**	**100.0%**	**583**	**100.0%**	**623**	**106.9%**

The following table shows the average price trends of Evraz’s vanadium products from 2007 through 2008 (encompassing semi-annual breakdowns):

	Year ended 31 December				% change	
	2008		2007			
(US$ per tonne of pure vanadium in the products, except percentages)	2nd half	1st half	2nd half	1st half	1st half 2008 vs. 1st half 2007	2nd half 2008 vs. 2nd half 2007
AVERAGE PRICES FOR EVRAZ'S VANADIUM PRODUCTS(1)						
NTMK – Vanadium in slag	25,152	31,771	15,083	15,337	107.2%	66.8%
Highveld – Vanadium in alloys	57,167	55,026	33,935	39,060	40.9%	68.5%
Stratcor – Vanadium in alloys	53,359	54,550	38,387	36,751	48.4%	39.0%

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

(2) Prices for sales denominated in South African Rands are converted into US dollars at the average exchange rate to the US dollar for the period under consideration as stated by the South African Reserve Bank.

Mining Segment

Mining segment revenues increased by 91.0% to $3,634 million in 2008 compared to $1,903 million in 2007. This increase largely reflected the acquisitions of YuKU and Sukha Balka in June and December 2007 respectively, and the growth in the average prices of iron ore and coal in 2008 compared to 2007. Sales volumes of iron ore and coal in 2008 increased by 24.0% and 81.3% respectively compared to 2007.

The following table shows a breakdown of Evraz's mining segment sales in 2008 and 2007, noting the contribution made by YuKU and Sukha Balka:

	Year ended 31 December					
	2008		2007		2008 vs. 2007	
(US$ million, except percentages)	Amount	Percentage of total	Amount	Percentage of total	Change	% change
MINING SEGMENT SALES						
Iron ore products	**2,213**	**60.9%**	**1,433**	**75.3%**	**780**	**54.4%**
Iron ore concentrate	625	17.2%	242	12.7%	383	158.3%
of which resale of related parties' products	*263*	*7.2%*	-	-	*263*	
Sinter	885	24.4%	665	34.9%	220	33.1%
of which resale of related parties' products	*57*	*1.6%*	-	-	*57*	
Pellets	566	15.6%	524	27.5%	42	8.0%
Other	137	3.8%	2	0.1%	135	n/m
of which Sukha Balka	*137*	*3.8%*	*2*	*0.1%*	*135*	*n/m*
Coal products	**1,251**	**34.4%**	**384**	**20.2%**	**867**	**225.8%**
Coking coal	259	7.1%	194	10.2%	65	33.5%
of which YuKU	*205*	*5.6%*	*162*	*8.5%*	*43*	*26.5%*
Coal concentrate	725	20.0%	158	8.3%	567	358.9%
of which YuKU	*725*	*20.0%*	*158*	*8.3%*	*567*	*358.9%*
Steam coal	267	7.3%	32	1.7%	235	734.4%
of which YuKU	*236*	*6.5%*	*24*	*1.3%*	*212*	*883.3%*
Other revenues	**170**	**4.7%**	**86**	**4.5%**	**84**	**97.7%**
of which YuKU	*26*	*0.7%*	-	-	*26*	
TOTAL	**3,634**	**100%**	**1,903**	**100%**	**1,731**	**91.0%**

The following table shows the average price trends of the mining segment's iron ore products in 2008 and 2007 with half-yearly breakdowns:

	Year ended 31 December				% change	
	2008		2007			
(US$ per tonne, except percentages)	2nd half	1st half	2nd half	1st half	1st half 2008 vs. 1st half 2007	2nd half 2008 vs. 2nd half 2007
AVERAGE PRICES FOR EVRAZ'S MINING SEGMENT PRODUCTS(1)						
Iron ore products						
Concentrate	86	95	70	68	39.7%	22.9%
Sinter	108	116	86	83	39.8%	25.6%
Pellets	103	111	86	84	32.1%	19.8%
Coal products						
Coking coal	87	79	44	41	92.70%	97.7%
Coal concentrate	168	157	94	77	103.9%	78.7%
Steam coal	32	38	26	34	11.8%	23.1%
Steam concentrate	89	79	n/a	n/a	n/a	n/a

(1) Prices for sales denominated in Roubles and Hryvnia are converted into US dollars at the average semi-annual exchange rate of the Rouble and Hryvnia to the US dollar as stated by the CBR and National Bank of Ukraine respectively.

Prior to the acquisition of YuKU in June 2007, substantially all of Evraz's mining segment sales consisted of iron ore. Evraz also holds a 40.0% equity method accounted interest in Raspadskaya coking coal mine. 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").

Mining segment sales to the steel segment amounted to $2,340 million (64.4% of mining segment sales) in 2008 compared with $1,527 million (80.2% of mining segment sales) in 2007.

Approximately 73% of Evraz's iron ore requirements were met by the mining segment in 2008 compared with 77% in 2007. Around 55% of Evraz's coking coal requirements were satisfied by supplies from Raspadskaya, YuKU and Mine 12 in 2008, as against 58% in 2007. The decrease in the proportion of iron ore supplied by the mining segment is attributable to a higher share of external iron ore at DMZ. About two thirds of DMZ's iron ore requirement was met by related party UGOK.

Approximately 29% of third party sales by the mining segment in 2008 were to customers in Russia compared to 51% in 2007. The increase in the proportion of third party sales outside Russia is primarily attributable to the acquisition of Sukha Balka in Ukraine, the resale of iron ore from UGOK, a related party, to export markets and export sales of coal by YuKU for a full year in 2008.

Other Operations

Evraz's revenues in respect of the Company's other operations segment increased by 30.5% to $1,022 million in 2008 compared to $783 million in 2007. Revenues were largely derived from the following operations (sales figures shown below include sales made within the same segment):

- Nakhodka Sea Port. Sales at Nakhodka Sea Port, which provides various seaport services, amounted to $81 million in 2008 against $44 million in 2007. The increase in sales largely relates to higher volumes of coal handling in 2008 compared to 2007. Inter-segment sales accounted for 26% and 30% of such revenues in 2008 and 2007 respectively.
- Evraztrans acts as a railway forwarder for Evraz's steel segment. Sales at Evraztrans amounted to $98 million in 2008 compared with $75 million in 2007. Evraztrans derives the majority of its revenues from inter-segment sales which accounted for 76.9% and 85.5% of revenues in 2008 and 2007 respectively.
- Metallenergofinance ("MEF") supplies electricity to Evraz's steel and mining segments and to third parties. MEF's sales amounted to $457 million in 2008 compared to $371 million in 2007. Inter-segment sales accounted for 83.1% and 90.9% of MEF's revenues in 2008 and 2007 respectively.
- Sinano Shipmanagement ("Sinano") provides sea freight services to Evraz's steel segment. Sinano's sales totalled $144 million in 2008 compared with $95 million in 2007. Sinano derives the majority of its revenues from inter-segment sales and the increase in revenues in 2008 reflected higher export volumes of steel products from Russia.
- Evro-Aziatskaya Energy Company ("EvrazEK"). EvrazEK is an energy generating company which supplies natural gas, coke-oven gas, steam and electricity to the steel and mining segments. In 2008, EvrazEK generated revenues of $169 million compared to $163 million in 2007. Inter-segment sales accounted for 81.4% and 81.7% of revenues in 2008 and 2007 respectively.
- West Siberian Heat and Power Plant ("ZapSibTETs"). ZapSibTETs is also an energy generating company which was acquired by Evraz in May 2007. It supplies electricity and heat to Zapsib and to external customers. The revenues of ZapSibTETs amounted to $90 million in 2008 against $52 million in 2007. Inter-segment sales accounted for 34.6% and 24.1% of revenues in 2008 and 2007 respectively.

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, advanced from $161 million in 2007 to $266 million in 2008. This increase in external sales is attributable to third party sales of MEF, Nakhodka Sea Port and Evraztrans.

Cost of Revenues and Gross Profit

Evraz's consolidated cost of revenues amounted to $13,308 million in 2008 compared with $7,976 million in 2007. Cost of revenues as a share of consolidated revenues increased from 62.0% in 2007 to 65.3% in 2008. Whereas the average prices of raw materials increased significantly, the growth in Evraz's own iron ore and coal production served to shield Evraz's consolidated gross profit, to a considerable extent, from the impact of such increases.

The effect of the strengthening of the average exchange rates of the Russian Rouble, the Czech Koruna and the Euro against the US dollar in 2008 was responsible for cost increases of around 3% in respect of the Russian operations, 16% for Evraz Vitkovice Steel and 6% at Evraz Palini e Bertoli. On the other hand, the weakening of the average exchange rate of the South African Rand against the US dollar had a positive effect of around 19% on Highveld's costs in 2008 as compared with 2007.

The table below sets out the cost of revenues and gross profit by segment for 2008 and 2007, including percentage of segment revenues.

	Year ended 31 December					
	2008		2007		2008 vs. 2007	
(US$ million, except percentages)	Amount	Percentage of segment revenues	Amount	Percentage of segment revenues	Change	% change
Steel segment						
Cost of revenues	(12,546)	(70.0)%	(7,856)	(66.0)%	(4,690)	59.7%
Raw materials	*(8 605)*	*(48.0)%*	*(4,993)*	*(41.9)%*	*(3 612)*	*72.3%*
Transportation	*(567)*	*(3.2)%*	*(394)*	*(3.3)%*	*(173)*	*43.9%*
Staff costs	*(998)*	*(5.6)%*	*(737)*	*(6.2)%*	*(261)*	*35.4%*
Depreciation	*(612)*	*(3.4)%*	*(362)*	*(3.0)%*	*(250)*	*69.1%*
Energy	*(833)*	*(4.6)%*	*(608)*	*(5.1)%*	*(225)*	*37.0%*
Other(1)	*(931)*	*(5.2)%*	*(762)*	*(6.4)%*	*(169)*	*22.2%*
Gross profit	5,379	30.0%	4,052	34.0%	1,327	32.7%
Vanadium segment						
Cost of revenues	(922)	(76.5)%	(466)	(80.0)%	(456)	97.9%
Raw materials	*(453)*	*(37.6)%*	*(151)*	*(25.9)%*	*(302)*	*200.0%*
Transportation	*(2)*	*(0.2)%*	*(2)*	*(0.3)%*	*0*	*0.0%*
Staff costs	*(78)*	*(6.5)%*	*(59)*	*(10.1)%*	*(19)*	*32.2%*
Depreciation	*(39)*	*(3.2)%*	*(26)*	*(4.5)%*	*(13)*	*50.0%*
Energy	*(59)*	*(4.9)%*	*(41)*	*(7.0)%*	*(18)*	*43.9%*
Other(1)	*(291)*	*(24.1)%*	*(187)*	*(32.1)%*	*(104)*	*55.6%*
Gross profit	284	23.5%	117	20.1%	167	142.7%

(US$ million, except percentages)	Year ended 31 December					
	2008		2007		2008 vs. 2007	
	Amount	Percentage of segment revenues	Amount	Percentage of segment revenues	Change	% change
Mining segment						
Cost of revenues	(2,348)	(64.6)%	(1,272)	(66.8)%	(1,076)	84.6%
Raw materials	*(654)*	*(18.0)%*	*(255)*	*(13.4)%*	*(399)*	*156.5%*
Transportation	*(234)*	*(6.4)%*	*(121)*	*(6.4)%*	*(113)*	*93.4%*
Staff costs	*(448)*	*(12.3)%*	*(316)*	*(16.6)%*	*(132)*	*41.8%*
Depreciation	*(354)*	*(9.7)%*	*(202)*	*(10.6)%*	*(152)*	*75.2%*
Energy(2)	*(245)*	*(6.7)%*	*(213)*	*(11.2)%*	*(32)*	*15.0%*
Other(3)	*(413)*	*(11.4)%*	*(165)*	*(8.7)%*	*(248)*	*150.3%*
Gross profit	1,286	35.4%	631	33.2%	655	103.8%
Other operations						
Cost of revenues	(749)	(73.3)%	(593)	(75.7%)	(156)	26.3%
Gross profit	273	26.7%	190	24.3%	83	43.7%
Unallocated						
Cost of revenues	(7)	-	(7)			
Gross profit	(7)	-	(7)			
Eliminations-cost of revenues	*3,264*		*2,211*		*1,053*	*47.6%*
Eliminations-gross profit	*(143)*		*(107)*		*36*	*33.6%*
Consolidated cost of revenues	**(13,308)**	**(65.3)%**	**(7,976)**	**(62.0)%**	**(5,332)**	**66.9%**
Consolidated gross profit	**7,072**	**34.7%**	**4,883**	**38.0%**	**2,189**	**44.8%**

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

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

(3) Includes auxiliary materials and repairs and maintenance.

Steel Segment

Steel segment cost of revenues increased by 59.7% from $7,856 million in 2007 to $12,546 million in 2008. Cost of revenues amounted to 70.0% of steel segment revenues in 2008 compared with 66% in 2007.

Acquisitions of the new Ukrainian operations (DMZ and coke plants), IPSCO Canada, Claymont Steel and Highveld, together with the higher average prices of raw materials, contributed to the increase in the steel segment cost of revenues in monetary terms in 2008 as compared with 2007.

The cost of revenues, including intra-group profits, in respect of the Ukrainian assets, amounted to $1,161 million (9.2% of steel segment cost of revenues), while the cost of revenues in respect of Claymont Steel amounted to $348 million (2.8% of steel segment cost of revenues). The post-acquisition cost of revenues at IPSCO Canada totalled $916 million (7.3% of steel segment cost of revenues). The cost of revenues in respect of Highveld's contribution to the steel segment amounted to $323 million (2.6% of steel segment cost of revenues) in 2008 compared with $271million (3.5% of steel segment cost of revenues) in 2007.

The primary factors affecting the growth of steel segment cost of revenues in monetary terms in 2008 as compared to 2007 were as follows:

- Raw material costs rose by 72.3%. This reflected the higher prices of iron ore, coking coal, scrap, ferroalloys, pig iron and steel semis and the enhanced scale of purchasing subsequent to the acquisitions of new global operations which accounted for +33.7% of the increase.
- Transportation costs rose by 43.9%. A large part of these costs related to railway tariffs in respect of the transportation of Evraz's steel products to the relevant ports. The increase is largely attributable to the additional export sales volumes of the Ukrainian operations and to transport costs related to the delivery of raw materials to Russian plants.
- Staff costs increased by 35.4%. The new Ukrainian operations, IPSCO Canada, Claymont Steel and Highveld accounted for +23.7% of the increase. Wages and salaries of production staff at Evraz's existing operations rose in accordance with the trade union agreement and as a result of the appreciation of the average rates of local currencies against the US dollar.
- Depreciation costs increased by 69.1%. The new Ukrainian operations, IPSCO Canada, Claymont Steel and Highveld accounted for +47.6% of the increase. The remainder of the increase is largely attributable to the commissioning of new equipment at NTMK and Zapsib.
- Energy costs increased by 37.0%. The acquisitions of the Ukrainian operations, IPSCO Canada, Claymont Steel and Highveld accounted for +23.5% of the increase. The remainder is largely attributable to the increase in energy costs of the Russian operations due to rises in electricity and natural gas tariffs and to the appreciation of the local currencies against the US dollar.
- A rise of 22.2% in other costs was entirely accounted for by the new operations. These costs consisted primarily of contractor services and materials in respect of maintenance and repairs.

Steel segment gross profit increased by 32.7% to $5,379 million in 2008 from $4,052 million in 2007, while gross profit margin amounted to 30.0% of steel segment revenues in 2008 compared with 34% in 2007. Gross profit margin decreased over the period primarily due to the deterioration in the steel market during the fourth quarter of 2008.

Vanadium Segment

Vanadium segment cost of revenues increased by 97.9% from $466 million in 2007 to $922 million in 2008. The increase was primarily attributable to the contributions from Highveld Vanchem Operations and Nikom, together with the resale of vanadium products. Cost of revenues amounted to 76.5% of vanadium segment revenues in 2008 compared with 80.1% in 2007.

Vanadium segment gross profit increased by 142.7% from $117 million in 2007 to $284 million in 2008. This resulted in a gross profit margin of 23.5% of vanadium segment revenues in 2008 as compared with 20.1% in 2007.

Mining Segment

The mining segment cost of revenues increased by 84.6% from $1,272 million in 2007 to $2,348 million in 2008, representing 64.6% and 66.8% of mining segment revenues in 2008 and 2007 respectively.

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

- Raw material costs increased by 156.5%. Resale of the iron ore products from UGOK in 2008 contributed +128.6% to the increase. Cost of coal purchased from the market for resale by Greyridge, a coal trading arm of Evraz, accounted for a further +18.0%.
- Transportation costs increased by 93.4%. The transportation costs relating to the resale of iron ore from UGOK and to full year export sales of coal from YuKU contributed +40.5% to the increase. The growth in the transportation of raw iron ore between branches of Evrazruda and YuKU for further processing, which was also subject to increases in railway tariffs, contributed a further +34.7%.
- Staff costs increased by 41.8%. Staff costs of YuKU and Sukha Balka contributed approximately +31.0%. The remainder of the increase is largely attributable to the wages and salaries of production staff, which rose in accordance with the trade union agreement, and to the appreciation of the average rates of local currencies against the US dollar.
- Depreciation costs increased by 75.2%. Depreciation charges in respect of YuKU and Sukha Balka contributed approximately +70.8%. The remainder of the increase is attributable to the strengthening of the average rates of local currencies against the US dollar.
- Energy costs increased by 15.0%. This increase is largely accounted for by YuKU and Sukha Balka.
- Other costs increased by 150.3%. These costs consisted primarily of contractor services and materials in respect of maintenance and repairs together with certain taxes. YuKU and Sukha Balka contributed +95.8% to the increase. The remainder of the increase is largely attributable to materials and services for repairs at KGOK, which accounted for a further +44.0%.

Mining segment gross profit increased by 103.8% from $631 million in 2007 to $1,286 million in 2008. This resulted in a gross profit margin of 35.4% of mining segment revenues in 2008 compared with 33.2% in 2007. The increase in the gross profit margin of the mining segment largely reflected the growth in the average prices of iron ore and coal in 2008 as against 2007.

Other Operations

The cost of revenues of the other operations segment increased by 26.3% to $749 million in 2008, representing 73.3% of other operations' revenues, compared to $593 million, representing 75.7% of other operations' revenues, in 2007. ZapSibTETs, which was acquired by Evraz in May 2007, accounted for $99 million, or 13.2%, of the other operations segment's cost of revenues in 2008 compared with $59 million in 2007. The growth in third party sales of the energy companies and Nakhodka Sea Port also contributed to the increase in the segment's 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 rent and maintenance 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; while the major component of Sinano's cost of revenues is ship hire fees.

The gross profit of the other operations segment increased by 43.7% to $273million in 2008 from $190 million in 2007. The principal contributions to the increase in gross profit came from Sinano (+28.2%) and Nakhodka Sea Port (+13.1%) reflecting the growth of the respective operations.

Gross profit margin amounted to 26.7% of the other operations' revenues in 2008 compared with 24.3% in 2007.

Selling and Distribution Costs

Selling and distribution costs increased by 62.8% to $876 million, representing 4.3% of consolidated revenues, in 2008 compared to $538 million, representing 4.2% of consolidated revenues, in 2007. Selling and distribution costs largely consist of transportation expenses related to Evraz's selling activities.

The following table presents selling and distribution costs by segment for 2008 and 2007, including as a percentage of segment revenues.

(US$ million, except percentages)	Year ended 31 December					
	2008		2007		2008 vs. 2007	
	Amount	Percentage of segment revenues	Amount	Percentage of segment revenues	Change	% change
SELLING AND DISTRIBUTION COSTS BY SEGMENT						
Steel segment	**(796)**	**(4.4)%**	**(499)**	**(4.2)%**	**(297)**	**59.5%**
Transportation costs	(387)	(2.2)%	(266)	(2.2)%	(121)	45.5%
Staff costs	(66)	(0.4)%	(50)	(0.4)%	(16)	32.0%
Bad debt expense	(14)	(0.1)%	(5)	0.0%	(9)	180.0%
Depreciation	(114)	(0.6)%	(78)	(0.7)%	(36)	46.2%
Other(1)	(215)	(1.2)%	(100)	(0.8)%	(115)	115.0%
Vanadium segment	**(82)**	**(6.8)%**	**(58)**	**(9.9)%**	**(24)**	**41.4%**
Transportation costs	(37)	(3.1)%	(27)	(4.6)%	(10)	37.0%
Staff costs	(6)	(0.5)%	(7)	(1.2)%	1	(14.3)%
Bad debt expense	-	0.0%	-	0.0%	-	0.0%
Depreciation	(14)	(1.2)%	(15)	(2.6)%	1	(6.7)%
Other(1)	(25)	(2.1)%	(9)	(1.5)%	(16)	177.8%
Mining segment	**(40)**	**(1.1)%**	**(23)**	**(1.2)%**	**(17)**	**73.9%**
Transportation costs	(20)	(0.6)%	(13)	(0.7)%	(7)	53.8%
Staff costs	(2)	(0.1)%	-	0.0%	(2)	0.0%
Bad debt expense	(4)	(0.1)%	(5)	(0.3)%	1	(20.0)%
Other(1)	(14)	(0.4)%	(5)	(0.3)%	(9)	180.0%
Other operations	**(119)**	**(11.6)%**	**(64)**	**(8.2)%**	**(55)**	**85.9%**
Eliminations	161		106		55	51.9%
Total	**(876)**	**(4.3)%**	**(538)**	**(4.2)%**	**(338)**	**62.8%**

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

Steel Segment

Selling and distribution costs amounted to 4.4% of the steel segment's revenues in 2008 compared with 4.2% in 2007. The principal factors affecting the steel segment's selling and distribution costs between the periods were:

- Transportation costs increased by 45.5% primarily due to the contribution of the new Ukrainian operations, IPSCO Canada, Claymont Steel and Highveld.
- Staff costs increased by 32.0%. The new Ukrainian operations, IPSCO Canada and Claymont Steel contributed approximately +20.5% to the increase. Highveld contributed a further +2.0% due to full year consolidation in 2008 compared with eight months in 2007. The remainder of the increase is largely attributable to higher wages and salaries at existing operations, which rose in accordance with the trade union agreement, and to appreciation of the average rates of local currencies against the US dollar.
- Bad debt expense increased by 180.0% from $5 million in 2007 to $14 million in 2008. This was largely attributable to provisions made against receivables from Russian dealers.
- Depreciation costs increased by 46.2% primarily reflecting the new operations.
- Other selling costs increased by 115.0%. This increase is attributable to expenses related to the additional export sales volumes of the Ukrainian operations (+82.1%) and to third party sales commissions paid by NTMK (+16.6%). The new operations contributed +7.0% to the increase.

Vanadium Segment

Selling and distribution costs increased by 41.4% to $82 million in 2008 compared to $58 million in 2007, representing 6.8% and 9.9% of vanadium segment revenues in 2008 and 2007respectively. The increase in monetary terms was largely due to the contributions of Highveld vanadium operations and Nikom.

Mining Segment

Selling and distribution costs amounted to 1.1% of mining segment revenues in 2008 compared with 1.2% in 2007. The principal factors affecting the mining segment's selling and distribution costs between the periods were:

- Transportation costs increased by 53.8% primarily due to the contributions of Sukha Balka and YuKU.
- Staff costs in 2008 were entirely attributable to the new operations, while in 2007 such costs were immaterial.
- Bad debt expense decreased by 20.0%.
- Other selling costs increased by 180.0% largely due to export sales of coal from YuKU and iron ore from UGOK and Sukha Balka.

Other Operations

Selling and distribution costs amounted to 11.6% of other operations' revenues in 2008 compared with 8.2% in 2007. The increase in selling and distribution costs was largely attributable to the freight and port expenses incurred by Sinano due to increased export sales volumes from Ukraine and exports of coal from Russia.

General and Administrative Expenses

General and administrative expenses increased by 37.5% to $938 million in 2008 compared with $682 million in 2007. As a percentage of consolidated revenues, general and administrative expenses in 2008 and 2007 amounted to 4.6% and 5.3% respectively.

The following table presents general and administrative expenses by segment for 2008 and 2007, including as a percentage of segment revenues.

	Year ended 31 December					
	2008		2007		2008 vs. 2007	
(US$ million, except percentages)	Amount	Percentage of segment revenues	Amount	Percentage of segment revenues	Change	% change
GENERAL AND ADMINISTRATIVE EXPENSES BY SEGMENT						
Steel segment	**(473)**	**(2.6)%**	**(385)**	**(3,2)%**	**(88)**	**22.9%**
Staff costs	(191)	(1.1)%	(148)	(1.2)%	(43)	29.1%
Taxes, other than on income	(91)	(0.5)%	(82)	(0.7)%	(9)	11.0%
Other(1)	(191)	(1.1)%	(155)	(1.3)%	(36)	23.2%
Vanadium segment	**(33)**	**(2.7)%**	**(16)**	**(2.7)%**	**(17)**	**106.3%**
Staff costs	(18)	(1.5)%	(8)	(1.4)%	(10)	125.0%
Taxes, other than on income	(2)	(0.2)%	(1)	(0.2)%	(1)	100.0%
Other(1)	(13)	(1.1)%	(7)	(1.2)%	(6)	85.7%
Mining segment	**(176)**	**(4.8)%**	**(109)**	**(5.7)%**	**(67)**	**61.5%**
Staff costs	(109)	(3.0)%	(57)	(3.0)%	(52)	91.2%
Taxes, other than on income	(17)	(0.5)%	(13)	(0.7)%	(4)	30.8%
Other(2)	(50)	(1.4)%	(39)	(2.0)%	(11)	28.2%
Other operations	**(44)**	**(4.3)%**	**(38)**	**(4.9)%**	**(6)**	**15.8%**
Unallocated(3)	(215)		(137)		(78)	56.9%
Eliminations	3		3		-	0.0%
Total	**(938)**	**(4.6)%**	**(682)**	**(5.3)%**	**(256)**	**37.5%**

(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 2.6% of steel segment revenues in 2008 compared with 3.2% in 2007. The principal factors affecting the changes in the steel segment's general and administrative expenses between the periods were:

- Staff costs increased by 29.1%. The new Ukrainian operations, IPSCO Canada, Claymont Steel and Highveld contributed approximately +20.4%. The remainder of the increase is largely attributable to higher wages and salaries at Evraz Inc. NA (excluding Claymont Steel) and Evraz Vitkovice Steel, together with the appreciation of the average rates of local currencies against the US dollar.
- Taxes, other than on income, including property, land and local taxes, increased by 11.0%. The increase primarily reflects higher property, land and pollution taxes in respect of the Russian operations.
- Other general and administrative expenses increased by 23.2%. The new Ukrainian operations, IPSCO Canada, Claymont Steel and Highveld contributed +17.8% to the increase. The remainder of the increase is largely attributable to fees for professional services incurred by the Russian operations.

The new Ukrainian operations, IPSCO Canada, Claymont Steel and Highveld respectively accounted for $22 million (4.7%), $19 million (4.1%), $14 million (2.9%) and $32 million (6.7%) of the steel segment's general and administrative expenses in 2008.

Vanadium Segment

General and administrative expenses increased by 106.3% to $33 million in 2008 compared with $16 million in 2007, representing 2.7% of vanadium segment revenues in respect of both 2008 and 2007. The increase in general and administrative expenses in 2008 was primarily attributable to the new vanadium operations and to the inclusion of approximately $5 million of staff costs at Stratcor's Hot Springs site, a cost item that was allocated to cost of revenues in 2007.

Mining Segment

General and administrative expenses amounted to 4.8% of mining segment revenues in 2008 compared with 5.7% in 2007. The primary factors affecting the changes in the mining segment's general and administrative expenses between the periods were:

- Staff costs rose by 91.2%, an increase that was primarily attributable to YuKU and Sukha Balka.
- Taxes, other than on income, increased by 30.8%, largely accounted for by YuKU.
- Other expenses increased by 28.2%, primarily attributable to YuKU and Sukha Balka.

Other Operations

General and administrative expenses increased by 15.8% to $44 million in 2008 compared with $38 million in 2007, representing 4.3% and 4.9% of the other operations segment's revenues in 2008 and 2007 respectively. The increase in the segment's general and administrative expenses is largely due to the full year consolidation of ZapSibTETs in 2008 and to the contribution of Prichaly Kominterna, a new subsidiary which is involved in the construction of new port facilities in Ukraine.

ZapSibTETs and Prichaly Kominterna accounted for $6 million (13.7%) and $3 million (7.9%) respectively of the general and administrative expenses of the other operations segment in 2008.

Unallocated

Unallocated general and administrative expenses are primarily attributable to costs of EvrazHolding and OUS (a subsidiary which provides accounting services to Evraz's operations in Russia). Most of EvrazHolding's general and administrative costs relate to wages and salaries in respect of its employees, including Evraz's senior management.

Unallocated general and administrative expenses increased by 56.9% to $215 million in 2008 compared with $137 million in 2007. EvrazHolding and OUS accounted for +31.9% of the increase. The remainder of the increase is primarily attributable to the share option plans of Evraz Group S.A.

Other Operating Income and Expenses

Other operating expenses, net of other operating income, increased to $1,538 million in 2008, representing 7.5% of consolidated revenues, compared with $195 million in 2007, representing 1.5% of consolidated revenues. Other operating income and expenses consist primarily of social and social infrastructure expenses, gains (losses) on the disposal of property, plant and equipment, impairment of assets and gains (losses) in respect of foreign exchange rates. Social and social infrastructure expenses include such items as maintenance of medical centres, recreational centres, employee holiday allowances, sponsorship of sports teams and various charitable events.

The following table presents other operating income and expenses by segment for 2008 and 2007, including as a percentage of segment revenues.

	Year ended 31 December					
	2008		2007		2008 vs. 2007	
(US$ million, except percentages)	Amount	Percentage of segment revenues	Amount	Percentage of segment revenues	Change	% change
OTHER OPERATING INCOME AND EXPENSES BY SEGMENT						
Steel segment						
Social and social infrastructure maintenance expenses	(90)	(0.5)%	(52)	(0.4)%	(38)	73.1%
Loss on disposal of property, plant and equipment	(11)	(0.1)%	(18)	(0.2)%	7	(38.9)%
Impairment of assets	(821)	(4.6)%	(4)	0.0%	(817)	n/m
Foreign exchange gain (loss)	(342)	(1.9)%	(51)	(0.4)%	(291)	n/m
Other income (expense), net	(3)	0.0%	(7)	(0.1)%	4	n/m
Total – Steel Segment	**(1,267)**	**(7.1)%**	**(132)**	**(1.1)%**	**(1,135)**	**859.8%**
Vanadium segment						
Foreign exchange gain (loss)	1	0.1%	1	0.2%	-	0.0%
Other income (expense), net	-	0.0%	1	0.2%	(1)	n/m
Total – Vanadium Segment	**1**	**0.1%**	**2**	**0.3%**	**(1)**	**(50.0)%**
Mining segment						
Social and social infrastructure maintenance expenses	(19)	(0.5)%	(27)	(1.4)%	8	(29.6)%
Loss on disposal of property, plant and equipment	(15)	(0.4)%	(8)	(0.5)%	(7)	87.5%
Impairment of assets	(56)	(1.5)%	(2)	(0.1)%	(54)	n/m
Foreign exchange gain (loss)	10	0.3%	5	0.3%	5	100.0%
Other income (expense), net	(23)	(0.6)%	(23)	(1.2)%	-	0.0%
Total – Mining Segment	**(103)**	**(2.8)%**	**(55)**	**(2.9)%**	**(48)**	**87.3%**
Other operations						
Social and social infrastructure maintenance expenses	(2)	(0.2)%	(2)	(0.3)%	-	0.0%
Loss on disposal of property, plant and equipment	(11)	(1.1)%	-	0.0%	(11)	n/m
Impairment of assets	(3)	(0.3)%	(1)	(0.1)%	(2)	n/m
Foreign exchange gain (loss)	(4)	(0.4)%	1	0.1%	(5)	n/m
Other income (expense), net	(7)	(0.7)%	1	0.1%	(8)	n/m
Total – Other Operations	**(27)**	**(2.6)%**	**(1)**	**(0.1)%**	**(26)**	**n/m**
Unallocated	(141)		(9)		(132)	n/m
Eliminations	(1)		-		(1)	
Total other operating income and expenses, net	**(1,538)**	**(7.5)%**	**(195)**	**(1.5)%**	**(1,343)**	**688.7%**

Total social and social infrastructure expenses increased by 39.0% in 2008 compared to 2007. The increase primarily reflected social and social infrastructure expenses in Russia, while the new Ukrainian operations accounted for +3.7% of the increase.

Impairment of assets increased by $873 million to $880 million in 2008 compared with $7 million in 2007. Impairment in 2008 is largely attributable to impairment of goodwill in the amount of $756 million related to the acquisition of the new operations in North America and Ukraine. Evraz also recognised impairment of assets in the amount of $123 million including impairment due to expected shut downs of certain obsolete and inefficient Russian production facilities (See "Explanation of One-Off Charges" above).

The foreign exchange loss in 2008 related to depreciation of the local currencies of Evraz's Russian, European, Canadian and South African subsidiaries against the US dollar from 31 December 2007 to 31 December 2008. The majority of Evraz's credit portfolio is maintained in US dollars. Consequently, the depreciation of the local currencies of Evraz's subsidiaries against the US dollar resulted in foreign exchange losses of the subsidiaries in relation to bank loans denominated in US dollars. The total foreign exchange loss also included Evraz's losses in respect of intercompany loans issued to subsidiaries, in particular IPSCO Canada, in local currencies.

Profit from Operations

Profit from operations increased by 7.3% to $3,720 million in 2008, representing 18.3% of consolidated revenues, compared with $3,468 million, representing 27.0% of consolidated revenues, in 2007. The decrease in the share of profit from operations as a percentage of consolidated revenues is largely attributable to impairment and foreign exchange losses recognised in 2008.

The following table provides a breakdown of profit from operations by segment in 2008 and 2007, including as a percentage of segment revenues.

	Year ended 31 December					
	2008		2007		2008 vs. 2007	
(US$ million, except percentages)	Amount	Percentage of segment revenues	Amount	Percentage of segment revenues	Change	% change
PROFIT FROM OPERATIONS BY SEGMENT						
Steel segment	2,843	15.9%	3,036	25.5%	(193)	(6.4)%
Vanadium segment	170	14.1%	45	7.7%	125	277.8%
Mining segment	967	26.6%	444	23.3%	523	117.8%
Other operations	83	8.1%	87	11.1%	(4)	(4.6)%
Unallocated	(363)		(146)		(217)	148.6%
Eliminations	20		2		18	
Total	**3,720**	**18.2%**	**3,468**	**27.0%**	**252**	**7.3%**

Steel Segment

Steel segment profit from operations decreased by 6.4% to $2,843 million in 2008 from $3,036 million in 2007. Profit from operations as a percentage of steel segment revenues amounted to 15.9% in 2008 compared with 25.5% in 2007.

The new operations IPSCO Canada, Claymont Steel and the Ukrainian steel and coke assets contributed $143 million, $66 million and $(694) million respectively to the profit from operations of the steel segment in 2008. The significant losses attributable to the Ukrainian assets largely reflected the impairment of goodwill initially recognised on their acquisition. Highveld contributed $287 million in 2008 compared with $117 million in 2007.

Vanadium Segment

Vanadium segment profit from operations increased by 277.8% to $170 million in 2008 from $45 million in 2007. Profit from operations as a percentage of vanadium segment revenues rose from 7.7% in 2007 to 14.1% in 2008.

Mining Segment

Mining segment profit from operations increased by 117.8% to $967 million in 2008 from $444 million in 2007. Profit from operations as a percentage of mining segment revenues increased from 23.3% in 2007 to 26.6% in 2008.

Other Operations

Other operations segment profit from operations decreased by 4.6% to $83 million in 2008 compared with $87 million in 2007. Profit from operations as a percentage of other operations segment revenues decreased from 11.1% in 2007 to 8.1% in 2008. The decrease in operating profit margin was primarily attributable to losses at EvrazEK.

Unallocated

Unallocated losses from operations related to unallocated general and administrative expenses as discussed above and to the foreign exchange loss on an intercompany loan to IPSCO Canada denominated in local currency.

Non-Operating Income and Expense

Non-operating income and expense includes interest income, interest expense, share of profits of associates and joint ventures and gains (losses) on financial assets and liabilities. The table below presents these items for 2008 and 2007, including as a percentage of consolidated revenues.

	Year ended 31 December					
	2008		2007		2008 vs. 2007	
(US$ million, except percentages)	Amount	Percentage of revenues	Amount	Percentage of revenues	Change	% change
Interest income	57	0.3%	41	0.3%	16	39.0%
Interest expense	(655)	(3.2)%	(409)	(3.2)%	(246)	60.1%
Share of profits (losses) of associates and joint ventures, net	198	1.0%	88	0.7%	110	125.0%
Gain/(loss) on financial assets and liabilities, net	(129)	(0.6)%	(71)	(0.6)%	(58)	81.7%
Loss on disposal of assets held for sale	(43)	(0.2)%	(6)	(0.0)%	(37)	616.7%
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	0	0.0%	10	0.1%	(10)	(100.0)%
Other non-operating gain (loss), net	(5)	0.0%	4	0.0%	(9)	(225.0)%
Total	**(577)**	**(2.8)%**	**(343)**	**(2.7)%**	**(234)**	**68.2%**

Interest income increased by 39.0% from $41 million in 2007 to $57 million in 2008, largely due to more efficient cash management policies.

Interest expense increased by 60.1% to $655 million in 2008 compared with $409 million in 2007. The increase primarily resulted from additional borrowings during 2007 and 2008 related to the new acquisitions (See "Liquidity and Capital Resources - Capital Resources").

Share of profits of associates and from joint ventures in 2008 and 2007 primarily relates to income (loss) attributable to Evraz's interest in Raspadskaya ($212 million and $82 million respectively), Kazankovskaya mine - associate of YuKU ($(18) million and $(5) million respectively), YuKU pre-acquisition ($(10) million in 2007) and Highveld pre-acquisition ($20 million in 2007).

Net loss on financial assets and liabilities amounted to $129 million in 2008 and largely related to revaluations of the investments in Delong ($129 million) and Cape Lambert ($21 million). It also included a trading loss in respect of Raspadskaya shares ($27 million), a gain on the selected bond repurchases ($99 million), a loss on the early settlement of the Claymont Steel bond at a premium ($19 million) and other smaller items. In 2007, such losses related to the recalculation of the liability to minority shareholders in respect of Highveld shares ($34 million), the change in the value of the option to acquire a 24.9% ownership interest in Highveld ($17 million) and a change in the value of the call option in respect of 25% less one share ownership interest in Clama/Palini ($21 million). (See "Summary of acquisitions").

Loss on disposal of assets held for sale amounted to $43 million in 2008 and primarily related to the disposal of vanadium assets by Highveld (See "Summary of acquisitions – Divestments").

Income Tax Expense

Income tax expense increased by 28.2% to $1,213 million in 2008 compared with $946 million in 2007. Evraz's effective tax rate, defined as income tax expense as a percentage of profit before tax, increased from 30.3% in 2007 to 38.6% in 2008 due to a higher share of non-deductible expenses in 2008, in particular due to impairment of goodwill related to the acquisition of the new operations in North America and Ukraine.

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 decreased from $2,103 million in 2007 to $1,868 million in 2008.

Net Profit Attributable to Minority Interests

Net profit attributable to minority interests decreased from $76 million in 2007 to $62 million in 2008. Net profit attributable to minority interests as a share of total net profit decreased from 3.5% in 2007 to 3.2% in 2008. The decrease in the share of net profit attributable to minority interests largely reflected the decrease in minority shareholders' interests. Evraz's strategy is to reduce the level of minority interests in its subsidiaries.

The following table presents the Company's effective ownership interests in its major subsidiaries as of 31 December 2008 and 2007:

	Effective ownership interest as of 31 December %		Business activity	Location
Subsidiary	**2008**	**2007**		
Mastercroft	100.00	100.00	Holding Company	Cyprus
NTMK	100.00	100.00	Steel production	Russia
Zapsib	100.00	100.00	Steel production	Russia
NKMK	100.00	100.00	Steel production	Russia
Palini	100.00	100.00	Steel production	Italy
Vitkovice	100.00	100.00	Steel production	Czech Republic
Evraz Inc. NA	100.00	100.00	Steel production	USA
Highveld	85.12	80.92	Steel and vanadium production	S.Africa
Stratcor	72.84	72.84	Vanadium production	USA, S.Africa
KGOK	100.00	100.00	Iron ore mining and processing	Russia
Evrazruda	100.00	100.00	Iron ore mining and processing	Russia
VGOK	100.00	100.00	Iron ore mining and processing	Russia
Yuzhkuzbassugol	100.00	100.00	Coal mining	Russia
Mine 12	100.00	100.00	Coal mining	Russia
Ferrotrade Limited	100.00	100.00	Trading Gibraltar	
Trade House EvrazHolding	100.00	100.00	Trading	Russia
Trade House EvrazResource	100.00	100.00	Trading	Russia
Nakhodka Sea Port	100.00	100.00	Seaport services	Russia
Evraztrans	76.00	76.00	Freight-forwarding	Russia
Sinano	100.00	100.00	Frieght	Cyprus
ZapSibTETs	100.00	100.00	Utilities supply	Russia
EvrazEK	100.00	100.00	Utilities supply	Russia
Metallenergofinance	100.00	100.00	Utilities supply	Russia
Evraz Inc. NA Canada	100.00	-	Steel production	Canada
DMZ	96.03	95.57	Steel production	Ukraine
Sukha Balka	99.42	99.25	Iron ore mining and processing	Ukraine
Dneprokoks	98.65	98.65	Coke production	Ukraine
Bagleykoks	94.37	94.37	Coke production	Ukraine
DKHZ	93.86	93.86	Coke production	Ukraine
Trade House EvrazResource-Ukraine	100.00	-	Trading	Ukraine

Liquidity and Capital Resources

Capital Requirements

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

Evraz's capital expenditure programme is focused on the reconstruction and modernisation of its existing production facilities in order to reduce costs, improve process flows and expand the product range. Evraz also plans capital expenditure projects for increasing the proportion of higher margin products that the Company produces and sells.

In 2008, Evraz's capital expenditure totalled approximately $1,103 million, including $682 million in respect of its steel segment, $382 million in respect of its mining segment and $9 million in respect of its vanadium segment. Evraz's capital expenditure plans are subject to change depending, among other things, on the evolution of market conditions and the cost and availability of funds.

In 2008, the total consideration paid by Evraz in respect of acquisitions amounted to $1,914 million (net of cash acquired) while the total consideration in respect of purchases of minority interests amounted to $120 million.

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.

Net cash provided by operating activities amounted to $4,569 million and $2,994 million in 2008 and 2007 respectively. The increase in net cash provided by operating activities in 2008 was primarily due to increased profit margins and new acquisitions. Cash provided by operating activities before working capital adjustments increased from $3,280 million in 2007 to $4,860 million in 2008. Working capital movement in 2008 was largely driven by new operations and increased prices for raw material inventories, WIP and finished goods.

Net cash used in investing activities totalled $3,736 million and $5,650 million in 2008 and 2007 respectively. Substantially all the cash used in investing activities related to purchases of property, plant and equipment, shares in subsidiaries and an interest in a joint venture.

Net cash from (used in) financing activities amounted to $(127) million and $2,112 million in 2008 and 2007 respectively.

In 2008 and 2007, the most significant credit facilities obtained by Evraz directly from capital markets and from international and Russian banks to finance its capital requirements included:

- *Evraz bonds*
  On 24 April and 27 May 2008, Evraz Group S.A. issued notes for the total amount of $1,300 million due in 2013 and notes for the total amount of $700 million due in 2018. The notes due in 2013 bear semi-annual coupon at the annual rate of 8.875% and must be redeemed at their principal amount on 24 April 2013. The notes due in 2018 bear semi-annual coupon at the annual rate of 9.5% and must be redeemed at their principal amount on 24 April 2018. The proceeds from the issue of the notes were used for financing a portion of the cost of the acquisition of IPSCO Inc. Both Evraz Bonds 2013 and Evraz Bonds 2018 are admitted to the Official List of the U.K. Listing Authority and to trading on the Regulated Market of the London Stock Exchange.
- *VEB Facilities*
  On 21 November 2008, Evraz Group S.A. entered into a $1,006.5 million loan agreement with Russia's State Corporation Bank for Development and Foreign Economic Affairs "Vnesheconombank" (VEB). The loan is granted in five tranches of $201.3 million each to partially refinance the Company's principal installments falling due in 2008 and 2009 under the $3,214 million syndicated loan borrowed in November 2007. The loan is secured with pledge of 99.999993% of Zapsib's shares and assignment of receivables under certain Zapsib and NTMK export contracts, and bears interest at 12-month LIBOR plus a margin of 5% per annum. Each tranche is repayable on the first anniversary of its respective disbursement date, with the final repayment in December 2010.

  On 10 December 2008, Evraz Group S.A. entered into an $800 million loan with VEB. The full facility amount was utilised on 12 December 2008. The facility is secured with pledge of 100% of shares in Evraz Inc. NA Canada, all movable and immovable property of Evraz Inc. NA Canada, as well as suretyships provided by NTMK and Zapsib, and bears interest at 12-month LIBOR plus a margin of 5% per annum. The facility is repayable in one instalment in December 2009. It was utilised to refinance the two $400 million bridge facilities arranged in June 2008 for the acquisition of the IPSCO Tubulars business from SSAB.
- *Evraz Inc. NA*
  On 14 August 2008, Evraz Inc. NA (formerly Evraz Oregon Steel Mills Inc.), obtained a $725 million syndicated loan. The transaction includes a $550 million five-year asset based revolving credit facility and a $175 million five-year term loan facility. The facilities bear interest at the floating rate of LIBOR plus 2.5% p.a. and LIBOR plus 3.25% p.a. respectively and are secured with pledge of various assets of Evraz Inc. NA and its subsidiaries. The revolving credit facility was jointly led by RBS Greenwich Capital and GE Capital with RBS Business Capital and GE as co-collateral agents. The Term Loan was led by RBS Greenwich Capital.
- *VTB*
  On 27 October 2008, NTMK and Zapsib both entered into a credit facility agreement amounting to RUR10,000 million arranged by VTB for the purpose of working capital financing. The total credit facility is split equally between NTMK and Zapsib (RUR5,000 million each). The full facility amount was utilised on 27 October 2008 and bears interest at 16.5% p.a. Final maturity date is 27 October 2009.

Major Facilities in 2007

- On 11 June 2007, Evraz entered into a $200 million credit facility agreement arranged by ABN Amro and Commerzbank AG. The full facility amount was utilised on 13 June 2007, is secured with sales proceeds of Evraz Vitkovice Steel a.s., and bears interest at LIBOR plus a margin of 0.85%. The facility is repayable in 17 equal quarterly installments, with effect from June 2008. This credit re-finances the $200 million bridge facility agreement arranged in January 2006 by the same banks for the acquisition of Evraz Vitkovice Steel.
- On 23 November 2007, Evraz entered into a $3,214 million credit facility agreement 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 $2,714 million secured with sales proceeds of East Metals and repayable in 17 equal quarterly installments, with effect from November 2008, and (ii) unsecured Tranche B of $500 million repayable in 12 equal quarterly installments, with effect from February 2008. Both tranches bear interest at the rate of applicable LIBOR plus a margin of 1.8%. The facility was utilised for
  - (a) re-financing of the $1,800 million bridge facility borrowed in January 2007 for the acquisition of Oregon Steel, and
  - (b) partial financing of the new acquisitions in the US and Ukraine.

Liquidity

As the table below illustrates, Evraz's estimated liquidity, defined as cash and cash equivalents, amounts available under credit facilities and short-term bank deposits with original maturity of more than three months, totalled approximately $2,634 million as of 31 December 2008 and approximately $1,367 million as of 31 December 2007.

As of 31 December 2008, Evraz had unutilised borrowing facilities in the amount of $1,679 million, including $991 million of committed facilities and $688 million of uncommitted facilities.

Committed facilities consisted of $805 million available under the term loan agreement between Evraz Group and Vnesheconombank (VEB) and also of credit facilities available for Russian, Ukrainian, North American and European operations in the amounts of $98 million, $65 million, $17 million and $6 million respectively.

Uncommitted facilities consisted of revolving credit lines of $299 million with western banks for export trade financing at East Metals S.A. and also of credit facilities available for South African, Russian, European and North American operations in the amounts of $225 million, $109 million, $46 million and $9 million respectively.

Evraz's current ratio, defined as current assets divided by current liabilities, increased from 0.85 as of 31 December 2007 to 0.96 as of 31 December 2008. The increase in the current ratio primarily resulted from increases in short-term investments and accumulated cash despite an increase in short-term loans and current portion of long-term loans in 2008.

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.

	As of 31 December	
(US$ million)	**2008**	**2007**
ESTIMATED LIQUIDITY		
Cash and cash equivalents[1]	930	327
Amount available under credit facilities	1,679	1,015
Short-term bank deposits	25	25
Total estimated liquidity	**2,634**	**1,367**

(1) Since 31 December 2008, Evraz has used or agreed to use cash in several ways other than in the ordinary course of business. In January 2009 Evraz received a cash payment from OAO TMK amounting to $508 million in relation to the transaction involving a 49% ownership interest in NS Group. In the first quarter of 2009, Evraz paid dividends in the amount of $56 million.

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 2008 and 31 December 2007 by period:

	As of 31 December 2008					As of 31 December 2007				
(US$ million)	**Total**	**Less than 1 year**	**1-2 years**	**2-5 years**	**More than 5 years**	**Total**	**Less than 1 year**	**1-2 years**	**2-5 years**	**More than 5 years**
OBLIGATIONS IN RESPECT OF BORROWINGS										
Short-term loans and borrowings (including current portion of long-term borrowings)	3,924	3,924	0	0	0	2,103	2,103	-	-	-
Long-term loans and borrowings	6,156	0	1,569	3,240	1,347	4,735	-	1,359	2,570	806
Unamortised debt issue costs[1]	(94)					(82)	-	-	-	-
	9,986					**6,756**				

(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 2008, the Group signed bank loan agreements for $243 million (at the exchange rate as of 26 April 2009), including $100 million in respect of long-term borrowings.

As of 31 December 2008 and 31 December 2007, Evraz possessed equipment with a carrying value of $1,131 million and $121 million respectively, pledged as collateral under loans to the Company. In addition, Evraz had pledged finished goods with a carrying value of $648 million and $415 million as of 31 December 2008 and 31 December 2007 respectively. In addition, as of 31 December 2008, 100% of the shares of Evraz Inc. NA, Evraz Inc. NA Canada (formerly IPSCO Canada) and West Siberian Iron & Steel Plant were pledged as collateral under bank loans. These three subsidiaries represent 37% of the consolidated assets and 34% of the consolidated revenues of the Group.

As of 31 December 2008 and 31 December 2007, Evraz had incurred liabilities in respect of post-employment benefits that the Company provides to employees of certain of its subsidiaries pursuant to collective bargaining agreements of $292 million and $347 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 social fund at the statutory regressive rate in force, 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.

As of 31 December 2008, Evraz had contractual commitments for the purchase of production equipment and construction works for approximately $393 million.

Future minimum lease payments as of 31 December 2008 were as follows:

(US$ million)	As of 31 December 2008 Minimum lease payments	Present value of minimum lease payments
2009	$20	$15
2010-2013	41	34
2014	8	6
Total	69	55
Less: amounts representing finance charges	(14)	–
Total	**$55**	**$55**

Evraz is also involved in a number of social programmes designed to support education, healthcare and the development of the social infrastructure in certain towns where the Company's assets are located. In 2009, Evraz plans to spend approximately $80 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 2009 to 2013, Evraz is obligated to spend approximately $213 million on the replacement of old machinery and equipment which will result in reduced pollution.

Tax Contingencies

The Russian government has initiated reforms of the tax system that have brought about some improvement in the tax climate. Many tax laws and related regulations have been introduced, some of which are subject to varying interpretation and inconsistent enforcement due to the fact that they are not clearly defined. Instances of inconsistent opinions between local, regional and federal tax authorities are not unusual. Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, Evraz has accrued tax liabilities based on management's best estimates. Possible liabilities, which were identified by management at the balance sheet date as those that can be subject to different interpretations of the tax laws and regulations and are not accrued in the accompanying financial statements, could total up to approximately $24 million.

Inflation

While Evraz's revenues depend substantially on international prices for metallurgical products, its costs are closely linked to domestic cost factors. Inflation moderated in Russia during recent years; however it reached 13.3% in 2008 compared with 11.9% in 2007. In 2007 and in the first three quarters of 2008, 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 fourth quarter of 2008 brought a significant drop in prices and demand for metallurgical goods in both Russian and global markets caused by the deepening of the recession and the weakening in international trade.

The table below presents changes in consumer price indices from 2004 through 2008 in countries where Evraz has production facilities.

	2004	2005	2006	2007	2008	2004 to 2008	Source
Russian Consumer Price Index, change in RUB(1)	11.7%	10.9%	9.0%	11.9%	13.3%	71.2%	Fedstat
Ukrainian Consumer Price Index, change in UAH(1)	9.0%	13.5%	9.1%	12.8%	12.8%	71.7%	State Statistics
Committee of Ukraine US Consumer Price Index, change in USD(1)	3.3%	3.4%	2.5%	4.1%	0.1%	14.1%	Bureau of Labor Statistics
Canadian Consumer Price Index, change in CAD(1)	1.8%	2.2%	2.0%	2.2%	2.3%	10.9%	Statistics Canada
Italian Consumer Price Index, change in EUR(1)	2.2%	2.0%	2.1%	1.8%	3.3%	12.0%	Eurostat, Istat,OECD. Stat
Czech Consumer Price Index, change in CZK(1)	2.8%	1.9%	2.5%	2.8%	6.3%	17.3%	Czech Statistical Office
South African Consumer Price Index, change in ZAR(1)	3.3%	3.6%	5.8%	9%	9.5%	35.2%	Statistics South Africa

(1) Represents the change from 31 December of the prior year to 31 December of the indicated year.

The table below presents changes in the nominal exchange rates of national currencies against the US dollar from 2004 through 2008 in countries where Evraz has production facilities.

	2004	2005	2006	2007	2008	2004 to 2008	Source
Nominal RUB/$ exchange rate, change(1)	6.1%	(3.6%)	9.3%	7.3%	(16.5)%	(0.3)%	CBR
Nominal UAH/$ exchange rate, change(1)	0.5%	5.1%	0%	0%	(34.4)%	(30.8)%	National Bank of Ukraine
Nominal CAD/$ exchange rate, change(1)	7.4%	3.2%	0.1%	17.9%	(18.9)%	6.1%	Bank of Canada
Nominal EUR/$ exchange rate, change(1)	7.8%	(13.4)%	11.6%	11.8%	(5.5)%	10.2%	The European Central Bank
Nominal CZK/$ exchange rate, change(1)	14.7%	(9.0)%	17.8%	15.5%	(6.6)%	32.6%	Czech National Bank
Nominal ZAR/$ exchange rate, change(1)	18.1%	(10.8)%	(9.4)%	2.8%	(27.1)%	(28.5)%	The South African Reserve Bank

(1) Represents the change from 31 December of the prior year to 31 December of the indicated year.

Seasonality

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

Quantitative and Qualitative Disclosures in respect of Market Risk

Overview

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

Exchange and Interest Rate Risk

Evraz's presentation currency is the US dollar. The 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, the Euro in respect of Palini, the Rand in respect of Highveld and the South African operations of Stratcor, the Hrivnia in respect of the Ukrainian subsidiaries, the Canadian dollar in respect of Evraz Inc. NA Canada and the US dollar in respect of other subsidiaries.

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

Evraz's products are typically priced in local currencies in respect of domestic sales of Evraz's operations and US dollars and Euros in respect of international sales. Evraz's direct costs, including raw materials, labour and transportation, are incurred primarily in the local currencies of the subsidiaries. Other costs, such as interest expense, are incurred largely in Roubles, US dollars and Euros.

The mix of Evraz's revenues and costs is such that appreciation in real terms of the local currencies of its subsidiaries against the US dollar tends to result in an increase in Evraz's costs relative to its revenues, while depreciation of the local currencies against the US dollar in real terms tends to result in a decrease in Evraz's costs relative to its revenues. For example, the Rouble appreciated in real terms against the US dollar by 16.7% in 2006 and by 15.0% in 2007 and by (1.1)% in 2008 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 local currencies against the US dollar results in a decrease in the reported US dollar value of Evraz's assets (and liabilities) denominated in local currencies while nominal appreciation of the local currencies against the US dollar results in an increase in the reported US dollar value of Evraz's assets (and liabilities) denominated in local currencies. Moreover, nominal appreciation/depreciation of the local currencies against the US dollar has a similar effect when the income statements of Evraz's subsidiaries are translated into US dollars in connection with the preparation of Evraz's consolidated financial statements. For example, the average exchange rate of the Rouble against the US dollar appreciated by 4.1%, 6.3% and 3.1% in nominal terms during 2006, 2007 and 2008 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 of 31 December 2008 and 31 December 2007 (as opposed to the Obligations in respect of borrowings in "Contractual obligations and commercial commitments", this table excludes interest payable and unamortised debt issue costs):

	As of 31 December 2008					As of 31 December 2007				
(US$ million)	US dollar-denominated	Rouble-denominated	Euro-denominated	Denominated in other currencies	Total	US dollar-denominated	Rouble-denominated	Euro-denominated	Denominated in other currencies	Total
Total debt, of which	9,267	360	343	23	9,993	6,177	168	308	145	6,798
Fixed-rate debt	*4,112*	*342*	*134*	*0*	*4,589*	*1,404*	*51*	*95*	*140*	*1,690*
Variable-rate debt	*5,155*	*18*	*209*	*23*	*5,405*	*4,773*	*117*	*213*	*5*	*5,108*

A hypothetical, instantaneous and simultaneous 10% appreciation of the Rouble, Euro and the Czech Koruna against the US dollar as of 31 December 2008 would have resulted in an increase of approximately $81 million in borrowings denominated in Roubles, Euros and the Czech Korunas held as of 31 December 2008.

The following table demonstrates the sensitivity to reasonably possible changes in the respective currencies, with all other variables held constant, of Evraz's profit before tax. In estimating a reasonably possible change for 2007, Evraz assessed the volatility of foreign exchange rates during the three years preceeding the balance sheet date. In 2008, Evraz assessed reasonably possible changes based on the volatility of foreign exchange rates during 2008

	2008		2007	
	Change in exchange rate	Effect on PBT	Change in exchange rate	Effect on PBT
	%	$ million	%	$ million
USD/RUB	(8.98)	(87)	(5.80)	(25)
	8.98	87	4.20	18
EUR/USD	(14.32)	(26)	(7.35)	(14)
	14.32	26	7.35	14
EUR/RUB	(8.63)	34	(5.45)	17
	8.63	(34)	3.25	(10)
EUR/CZK	(10.61)	(5)	(4.10)	(3)
	10.61	5	4.10	3
USD/CZK	(18.52)	40	(9.40)	10
	18.52	(40)	9.40	(10)
USD/ZAR	(28.52)	2	(17.70)	(6)
	28.52	(2)	13.00	5
USD/UAH	(11.77)	24	–	–
	11.77	(24)	–	–
RUB/UAH	(14.73)	(2)	–	–
	14.73	2	–	–
CAD/USD	(15.44)	(249)	–	–
	15.44	249	–	–

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.

	2008		2007	
	Basis points	Effect on PBT	Basis points	Effect on PBT
		$ million		$ million
Liabilities denominated in US dollars				
Decrease in LIBOR	(53)	$ 24	(125)	$ 24
Increase in LIBOR	53	(24)	75	(14)
Decrease in Prime rate	(106)	4	–	–
Increase in Prime rate	106	(4)	–	–
Decrease in Federal Funds Rate	(33)	1	–	–
Increase in Federal Funds Rate	33	(1)	–	–
Liabilities denominated in euro				
Decrease in EURIBOR	(30)	1	(150)	3
Increase in EURIBOR	30	$ (1)	75	$ (1)

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 YuKU 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, the Company's exposure to commodity price risk associated with the purchase and sale of these products will decline. Evraz's ongoing process of vertical integration is an important element in the Company's drive to reduce its exposure to input and output commodity price risk.

Tariff Risk

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

Russian Operations

The Russian electricity sector is currently characterised by distinctly limited competition and regulated prices. Pricing policy is determined by the Federal Tariffs Service, a governmental agency authorised to regulate prices in respect of the power generated by regional electricity companies, power transmission, dispatch services and 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 generating companies that seek to sell a power surplus to regional generating companies with supply deficits as well as industrial companies granted special access to FOREM. Evraz's subsidiary MEF has been granted such access to FOREM.

In 2007 and in 2008, Evraz's Russian operations purchased approximately 8,913 million kWh and 8,620 million kWh of electricity, representing approximately 84% and 80% of their respective requirements, from local electricity companies, former subsidiaries of UES. The latter was the government controlled national holding company for the Russian power sector restructured and liquidated in June 2008. The Government is currently implementing a liberalisation plan for electricity pricing aimed at increasing the proportion of electricity sales made via a market based pricing system. Moreover, according to the Russian Government's 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 4.62 US cents per kWh in 2008. Assuming a price of 6.7 US cents per kWh, Evraz's Russian operations would have incurred additional costs of approximately $266 million and $190 million in the years ended 31 December 2007 and 2008 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 the Company's facilities, from Gazprom's subsidiaries. Gazprom is a state controlled company and is the dominant producer and monopoly distributor of natural gas within Russia. Domestic natural gas prices are regulated by the government and have been rising during recent years. Evraz's average price for natural gas in Russia reached RUR1,532 per thousand cubic metres and RUR1,943 per thousand cubic metres in 2007 and 2008 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's Macroeconomic Long-term Forecast, domestic gas prices for industrial users will reach $96-99 per thousand cubic metres by 2010. Assuming a price of $99 per thousand cubic metres, Evraz's Russian operations would have incurred additional costs of approximately $143 million and $60 million in 2007 and 2008 respectively.

Ukrainian Operations

Evraz, through the purchase of DMZ, DKHZ, Dneprokoks, Bagleykoks and Sukha Balka in 2008, has extended its operations to Ukraine where the electricity and natural gas markets are also characterised by regulated prices.

Natural gas prices have been a matter of negotiation between the Russian state-owned monopoly Gazprom and the Ukrainian Government since winter 2005-2006. The latest announced indicative mid-term price level for Russian natural gas for Ukraine is $450 per thousand cubic metres, more than double current Ukrainian prices on the one hand but comparable to current price levels in Eastern European States (e.g. Czech Republic) on the other. Evraz's Ukrainian operations purchased approximately 148 million cubic metres of natural gas at an average price of UAH1,173 or $222.5 per thousand cubic metres in 2008. Assuming a price of $450 per thousand cubic metres, Evraz's Ukrainian operations would have incurred additional costs of approximately $34 million in 2008.

Higher natural gas prices, inflation and other factors will encourage the authorities to also increase electricity prices. The estimated mid-term indicative price level for the Ukrainian electricity market of 12 US cents per kWh corresponds to inflation trends and to current price levels in Eastern European States (e.g. Czech Republic). Evraz's Ukrainian operations purchased approximately 509 million kWh of electricity at an average price of 7.7 US cents per kWh in 2008. Assuming a price of 12 US cents per kWh, Evraz's Ukrainian operations would have incurred additional costs of approximately $22 million in 2008.

Transportation

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 activities in all of its operating segments have been negatively affected by the global financial and economic crisis. In the fourth quarter of 2008, the recession affected most of the Group's markets and Evraz experienced slower demand for its products. As a result, Evraz's current liabilities, as of 31 December 2008, were $6,538 million (including loans and borrowings of $3,922 million with maturities in 2009) and exceeded current assets by $247 million.

On the other hand, at the end of 2008, Evraz had unutilised borrowing facilities in the amount of $1,679 million and was in full compliance with all of its debt covenants. At the time of issue of this analysis, Evraz has refinanced $241 million of current loans and borrowings through loans with maturities falling due after 31 December 2009. The remaining current maturities are expected to be covered by free cash flows and refinancing of current debts. Taking into consideration the current market situation and expected improvements in market conditions during 2009, management anticipates that the Group will comply with all debt covenants during 2009.

Evraz sells its products to shipping, pipe-making, railway transportation, construction, oil and gas industries, all of which have reported substantially lower customer demand due to the financial crisis and the slowing global economy, although railway transportation has remained more resilient as a result of its reliance on public spending for infrastructure. Energy prices have fallen dramatically and this may reduce oil and gas exploration and development which, in turn, could impact the Group's tubular business. The duration of the crisis and the recovery of these industries will have a significant impact on the Group.

The worldwide financial crisis may result in a further reduction of the available credit facilities as well as substantially higher interest rates. The reduced cash from operations and the reduced availability of credit may increase the cost, delay the timing of, or reduce planned capital expenditures. These factors may also negatively impact the Group's ability to make acquisitions.

While stabilisation measures aimed at providing liquidity and supporting debt refinancing have been introduced by governments, there continues to be uncertainty regarding the access to capital and cost of capital for Evraz and its counterparties, which could affect the Group's financial position, results of operations and business prospects. The unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

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Independent Auditors' Report

To 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 sheet as at December 31, 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31,2008, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

April 27, 2009

A member firm of Ernst & Young Global Limited

Consolidated Income Statement

(In millions of US dollars, except for per share information)

	Notes	Year ended December 31, 2008	2007*	2006
Revenue				
Sale of goods	3	**$ 19,990**	$ 12,627	$ 8,166
Rendering of services	3	**390**	232	126
		20,380	12,859	8,292
Cost of revenue	7	**(13,308)**	(7,976)	(5,163)
Gross profit		**7,072**	4,883	3,129
Selling and distribution costs	7	**(876)**	(538)	(243)
General and administrative expenses	7	**(938)**	(682)	(494)
Social and social infrastructure maintenance expenses		**(114)**	(82)	(86)
Loss on disposal of property, plant and equipment		**(37)**	(26)	(21)
Impairment of assets	5, 9, 10	**(880)**	(7)	(20)
Foreign exchange gains/(losses), net		**(471)**	(55)	48
Other operating income		**28**	14	18
Other operating expenses		**(64)**	(39)	(33)
Profit from operations		**3,720**	3,468	2,298
Interest income	7	**57**	41	27
Interest expense	7	**(655)**	(409)	(229)
Share of profits/(losses) of joint ventures and associates	11	**198**	88	40
Gain/(loss) on financial assets and liabilities, net	7	**(129)**	(71)	26
Gain/(loss) on disposal groups classified as held for sale	12	**(43)**	(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	**–**	10	1
Other non-operating gains/(losses), net		**(5)**	4	1
Profit before tax		**3,143**	3,125	2,087
Income tax expense	8	**(1,213)**	(946)	(637)
Net profit		**$ 1,930**	**$ 2,179**	**$ 1,450**
Attributable to:				
Equity holders of the parent entity		**$ 1,868**	$ 2,103	$ 1,377
Minority interests		**62**	76	73
		$ 1,930	**$ 2,179**	**$ 1,450**
Earnings per share:				
basic, for profit attributable to equity holders of the parent entity, US dollars	20	**$ 15.13**	$ 17.62	$ 11.66
diluted, for profit attributable to equity holders of the parent entity, US dollars	20	**$ 15.07**	$ 17.49	$ 11.58

* The amounts shown here do not correspond to the 2007 financial statements and reflect adjustments made in connection with the completion of initial accounting (Notes 4 and 11) and acquisition of subsidiaries from entities under common control (Note 4).

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

Consolidated Balance Sheet

(In millions of US dollars)

	Notes	Year ended December 31, 2008	2007*	2006
ASSETS				
Non-current assets				
Property, plant and equipment	*9*	**$ 9,012**	$ 10,107	$ 3,655
Intangible assets other than goodwill	*10*	**885**	806	37
Goodwill	*5*	**2,387**	2,145	112
Investments in joint ventures and associates	*11*	**551**	592	1,494
Deferred income tax assets	*8*	**44**	22	11
Other non-current assets	*13*	**278**	240	272
		13,157	13,912	5,581
Current assets				
Inventories	*14*	**2,416**	1,619	864
Trade and other receivables	*15*	**1,369**	1,802	556
Prepayments		**76**	196	82
Loans receivable		**108**	48	19
Receivables from related parties	*16*	**137**	60	54
Income tax receivable		**262**	86	51
Other taxes recoverable	*17*	**397**	351	331
Short-term investments	*18*	**589**	25	25
Cash and cash equivalents	*19*	**930**	327	842
		6,284	4,514	2,824
Assets of disposal groups classified as held for sale	*12*	**7**	211	105
		6,291	4,725	2,929
Total assets		**$ 19,448**	**$ 18,637**	**$ 8,510**
EQUITY AND LIABILITIES				
Equity				
Equity attributable to equity holders of the parent entity				
Issued capital	*20*	**$ 332**	$ 320	$ 318
Treasury shares	*20*	**(9)**	–	–
Additional paid-in capital	*20*	**1,054**	286	531
Revaluation surplus	*4*	**218**	211	–
Legal reserve	*20*	**30**	29	28
Accumulated profits		**4,448**	4,108	2,750
Translation difference		**(1,344)**	996	439
		4,729	5,950	4,066
Minority interests		**245**	406	169
		4,974	6,356	4,235
Non-current liabilities				
Long-term loans	*21*	**6,064**	4,653	1,855
Deferred income tax liabilities	*8*	**1,329**	1,690	277
Finance lease liabilities	*22*	**40**	54	42
Employee benefits	*23*	**292**	347	117
Provisions	*25*	**153**	132	39
Other long-term liabilities	*26*	**58**	55	47
		7,936	6,931	2,377
Current liabilities				
Trade and other payables	*27*	**1,479**	1,242	462
Advances from customers		**107**	305	67
Short-term loans and current portion of long-term loans	*21*	**3,922**	2,103	741
Payables to related parties	*16*	**322**	1,204	176
Income tax payable		**156**	76	77
Other taxes payable	*28*	**154**	209	96
Current portion of finance lease liabilities	*22*	**15**	15	11
Provisions	*25*	**63**	55	8
Amounts payable under put options for shares of subsidiaries	*4*	**–**	6	175
Dividends payable by the parent entity to its shareholders		**309**	80	38
Dividends payable by the Group's subsidiaries to minority shareholders		**11**	16	24
		6,538	5,311	1,875
Liabilities directly associated with disposal groups classified as held for sale	*12*	**–**	39	23
		6,538	5,350	1,898
Total equity and liabilities		**$ 19,448**	**$ 18,637**	**$ 8,510**

* The amounts shown here do not correspond to the 2007 financial statements and reflect adjustments made in connection with the completion of initial accounting (Notes 4 and 11), acquisition of subsidiaries from entities under common control (Note 4) 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)

	Notes	Year ended December 31, 2008	2007*	2006*
Cash flows from operating activities				
Net profit		**$ 1,930**	$ 2,179	$ 1,450
Adjustments to reconcile net profit to net cash flows from operating activities:				
Deferred income tax (benefit)/expense	8	**(381)**	(87)	(41)
Depreciation, depletion and amortisation	7	**1,215**	749	303
Loss on disposal of property, plant and equipment		**37**	26	21
Impairment of assets		**880**	7	20
Foreign exchange (gains)/losses, net		**471**	55	(48)
Interest income		**(57)**	(41)	(27)
Interest expense		**655**	409	229
Share of (profits)/losses of associates and joint ventures, net		**(198)**	(88)	(40)
(Gain)/loss on financial assets and liabilities, net		**129**	71	(26)
Loss on disposal groups classified as held for sale	12	**43**	6	77
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition		**–**	(10)	(1)
Other non-operating (gains)/losses, net		**5**	(4)	(1)
Bad debt expense		**59**	9	5
Changes in provisions, employee benefits and other long-term assets and liabilities		**25**	(8)	5
Share-based payments	24	**35**	5	17
Other		**12**	2	–
		4,860	3,280	1,943
Changes in working capital:				
Inventories		**(605)**	(111)	208
Trade and other receivables		**323**	(80)	(140)
Prepayments		**100**	(66)	(16)
Receivables from/payables to related parties		**165**	–	(25)
Taxes recoverable		**(355)**	37	113
Other assets		**(3)**	3	(1)
Trade and other payables		**238**	(9)	96
Advances from customers		**(203)**	4	19
Taxes payable		**51**	(74)	(113)
Other liabillities		**(2)**	10	–
Net cash flows from operating activities		**4,569**	2,994	2,084
Cash flows from investing activities				
Issuance of loans receivable to related parties		**(1)**	(31)	–
Proceeds from repayment of loans issued to related parties, including interest		**32**	1	6
Issuance of loans receivable		**(147)**	(94)	(20)
Proceeds from repayment of loans receivable, including interest		**33**	58	3
Purchases of subsidiaries, net of cash acquired	4, 11, 13	**(1,914)**	(4,755)	(113)
Purchases of minority interests		**(120)**	(421)	(96)
Purchase of interest in associates/joint venture		**–**	–	(736)
Purchases of other investments		**(896)**	(2)	–
Sale of other investments		**99**	1	–
Restricted deposits at banks in respect of investing activities		**3**	(1)	(207)
Short-term deposits at banks, including interest		**29**	24	18
Purchases of property, plant and equipment and intangible assets		**(1,103)**	(744)	(651)
Proceeds from disposal of property, plant and equipment		**27**	34	10
Proceeds from sale of disposal groups classified as held for sale, net of transaction costs	12	**161**	223	–
Dividends and advances in respect of future dividends received		**70**	57	212
Other investing activities, net		**(9)**	–	5
Net cash flows used in investing activities		**(3,736)**	(5,650)	(1,569)

* The amounts shown here do not correspond to the 2007 financial statements and reflect adjustments made in connection with the completion of initial accounting (Notes 4 and 11), acquisition of subsidiaries from entities under common control (Note 4) and certain reclassifications.

Continued on the next page

Consolidated Cash Flow Statement (continued)

(In millions of US dollars)

	Notes	Year ended December 31, 2008	2007*	2006*
Cash flows from financing activities				
Issue of shares, net of transaction costs of $1 million, $0 and $0, respectively	4, 20, 24	**$ (1)**	$ 35	$ 26
Repurchase of vested share options	20, 24	**(77)**	(21)	–
Purchase of treasury shares	20	**(197)**	(8)	–
Sale of treasury shares	20	**81**	2	–
Distribution to a shareholder	4	**(68)**	–	–
Proceeds from loans provided by related parties		**–**	3	8
Repayment of loans provided by related parties, including interest		**(21)**	(1)	–
Net proceeds/(repayment) from bank overdrafts and credit lines, including interest		**(54)**	212	(1)
Proceeds from bank loans and guaranteed notes		**5,657**	4,638	708
Repayment of bank loans and guaranteed notes, including interest		**(3,949)**	(1,771)	(684)
Restricted deposits at banks in respect of financing activities		**–**	9	23
Dividends paid by the parent entity to its shareholders		**(1,276)**	(916)	(352)
Dividends paid by the Group's subsidiaries to minority shareholders		**(81)**	(48)	(40)
Payments under finance leases, including interest		**(20)**	(22)	(19)
Payments of restructured liabilities, including interest		**(121)**	–	(10)
Net cash flows from/(used in) financing activities		**(127)**	2,112	(341)
Effect of foreign exchange rate changes on cash and cash equivalents		**(103)**	29	27
Net increase/(decrease) in cash and cash equivalents		**603**	(515)	201
Cash and cash equivalents at beginning of year		**327**	842	641
Cash and cash equivalents at end of year		**$ 930**	**$ 327**	**$ 842**
Supplementary cash flow information:				
Cash flows during the year:				
Interest paid		**$ (565)**	$ (392)	$ (211)
Interest received		**44**	42	23
Income taxes paid		**(1,680)**	(1,084)	(656)

* The amounts shown here do not correspond to the 2007 financial statements and reflect adjustments made in connection with the completion of initial accounting (Notes 4 and 11), acquisition of subsidiaries from entities under common control (Note 4) and certain reclassifications.

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

Consolidated Statement of Changes in Equity

(In millions of US dollars)

	Notes	Issued capital	Treasury shares	Additional paid-in capital	Revaluation surplus	Legal reserve	Unrealised gains and losses	Accumulated profits	Translation difference	Total	Minority interests	Total Equity
		Attributable to equity holders of the parent entity										
At December 31, 2007 (as previously reported)		**$ 320**	**$ –**	**$ 286**	**$ 233**	**$ 29**	**$ –**	**$ 4,124**	**$ 994**	**$ 5,986**	**$ 371**	**$ 6,357**
Adjustments to provisional values	*4*	–	–	–	(22)	–	–	(36)	2	(56)	(4)	(60)
Acquisition of subsidiaries from entities under common control	*4*	–	–	–	–	–	–	20	–	20	39	59
At December 31, 2007 (as restated)		**320**	**–**	**286**	**211**	**29**	**–**	**4,108**	**996**	**5,950**	**406**	**6,356**
Net losses on available-for-sale financial assets	*13*	–	–	–	–	–	(150)	–	–	(150)	–	(150)
Net losses on available-for-sale financial assets removed from equity recognised in net profit	*7, 13*	–	–	–	–	–	150	–	–	150	–	(150)
Deferred income tax benefit resulting from reduction in tax rate recognised in equity		–	–	–	7	–	–	–	–	7	–	7
Effect of exchange rate changes		–	–	–	–	–	–	–	(2,340)	(2,340)	(78)	(2,418)
Total income and expense for the period recognised directly in equity		–	–	–	7	–		–	(2,340)	(2,333)	(78)	(2,411)
Net profit		–	–	–	–	–	–	1,868	–	1,868	62	1,930
Total income and expense for the period		–	–	–	7	–	–	1,868	(2,340)	(465)	(16)	(481)
Issue of share capital	*4, 20*	12	–	746	–	–	–	–	–	758	–	758
Transaction costs in respect of the issue of shares	*20*	–	–	(1)	–	–	–	–	–	(1)	–	(1)
Acquisition of minority interests in existing subsidiaries	*4, 6, 20*	–	–	21	–	–	–	(37)	–	(16)	(62)	(78)
Decrease in minority interests arising due to change in ownership within the Group		–	–	–	–	–	–	3	–	3	(3)	–
Distribution to a shareholder	*4*	–	–	–	–	–	–	(18)	–	(18)	–	(18)
Change in the fair value of liability to a shareholder	*4*	–	–	–	–	–	–	215	–	215	–	215
Share-based payments	*24*	–	–	2	–	–	–	–	–	2	–	2
Purchase of treasury shares	*20*	–	(197)	–	–	–	–	–	–	(197)	–	(197)
Sale of treasury shares	*20*	–	108	–	–	–	–	(39)	–	69	–	69
Exercise of share options	*20*	–	80	–	–	–	–	(145)	–	(65)	–	(65)
Appropriation of net profit to legal reserve	*20*	–	–	–	–	1	–	(1)	–	–	–	–
Dividends declared by the parent entity to its shareholders	*20*	–	–	–	–	–	–	(1,506)	–	(1,506)	–	(1,506)
Dividends declared by the Group's subsidiaries to minority shareholders	*20*	–	–	–	–	–	–	–	–	–	(80)	(80)
At December 31, 2008		**$ 332**	**(9)**	**$ 1,054**	**$ 218**	**$ 30**	**–**	**$ 4,448**	**$ (1,344)**	**$ 4,729**	**$ 245**	**$ 4,974**

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

Consolidated Statement of Changes in Equity (continued)

(In millions of US dollars)

	Notes	Attributable to equity holders of the parent entity										
		Issued capital	Treasury shares	Additional paid-in capital	Revaluation surplus	Legal reserve	Unrealised gains and losses	Accumulated profits	Translation difference	Total	Minority interests	Total Equity
At December 31, 2006		**$ 318**	**$ –**	**$ 531**	**$ –**	**$ 28**	**$ –**	**$ 2,750**	**$ 439**	**$ 4,066**	**$ 169**	**$ 4,235**
Effect of exchange rate changes*		–	–	–	–	–	–	–	557	557	9	566
Revaluation surplus on acquisition of a controlling interest in associates*	4	–	–	–	211	–	–	–	–	211	–	211
Total income and expense for the year recognised directly in equity*		–	–	–	211	–	–	–	557	768	9	777
Net profit*		–	–	–	–	–	–	2,103	–	2,103	76	2,179
Total income and expense for the year*		–	–	–	211	–	–	2,103	557	2,871	85	2,956
Acquisition of minority interests in existing subsidiaries*	6	–	–	–	–	–	–	–	–	–	(10)	(10)
Minority interests arising on acquisition of subsidiaries*	4	–	–	–	–	–	–	–	–	–	298	298
Minority interests arising on acquisition of a single asset entity	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*	4, 6	–	–	–	–	–	–	(151)	–	(151)	(305)	(456)
Recognition of minority interests in respect of the expired put options*	4	–	–	–	–	–	–	78	–	78	170	248
Distribution to a shareholder*	4	–	–	–	–	–	–	(50)	–	(50)	–	(50)
Change in the fair value of liability to a shareholder*	4	–	–	–	–	–	–	76	–	76	–	76
Share-based payments	24	–	–	5	–	–	–	–	–	5	–	5
Purchase of treasury shares	20	–	(8)	–	–	–	–	–	–	(8)	–	(8)
Exercise of share options	20, 24	2	8	33	–	–	–	(27)	–	16	–	16
Appropriation of net profit to legal reserve	20	–	–	–	–	1	–	(1)	–	–	–	–
Dividends declared by the parent entity to its shareholders	20	–	–	(283)	–	–	–	(675)	–	(958)	–	(958)
Dividends declared by the Group's subsidiaries to minority shareholders	20	–	–	–	–	–	–	–	–	–	(40)	(40)
At December 31, 2007*		**$ 320**	**$ –**	**$ 286**	**$ 211**	**$ 29**	**$ –**	**$ 4,108**	**$ 996**	**$ 5,950**	**$ 406**	**$ 6,356**

* The amounts shown here do not correspond to the 2007 financial statements and reflect adjustments made in connection with the completion of initial accounting (Notes 4 and 11) and acquisition of subsidiaries from entities under common control (Note 4).

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

Consolidated Statement of Changes in Equity (continued)

(In millions of US dollars)

	Notes	Attributable to equity holders of the parent entity										
		Issued capital	Treasury shares	Additional paid-in capital	Revaluation surplus	Legal reserve	Unrealised gains and losses	Accumulated profits	Translation difference	Total	Minority interests	Total Equity
At December 31, 2005		**$ 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
Acquisition of minority interests in existing subsidiaries	*6, 20*	–	–	1	–	–	–	(42)	–	(41)	(56)	(97)
Minority interests arising on acquisition of subsidiaries	*4*	–	–	–	–	–	–	–	–	–	42	42
Derecognition of minority interests in subsidiaries	*6*	–	–	–	–	–	–	(64)	–	(64)	(42)	(106)
Acquisition of minority interests by an associate	*20*	–	–	1	–	–	–	–	–	1	–	1
Sale of shares in a joint venture's subsidiary	*20*	–	–	58	–	–	–	–	–	58	–	58
Reorganisation of ownership structure within a joint venture		–	–	–	–	–	–	(1)	–	(1)	–	(1)
Allocation of losses of prior periods to minority shareholders	*20*	–	–	–	–	–	–	5	–	5	–	5
Share-based payments	*24*	–	–	17	–	–	–	–	–	17	–	17
Exercise of share options	*20, 24*	2	–	24	–	–	–	–	–	26	–	26
Appropriation of net profit to legal reserve		–	–	–	–	6	–	(6)	–	–	–	–
Dividends declared by the parent entity to its shareholders	*20*	–	–	(117)	–	–	–	(270)	–	(387)	–	(387)
Dividends declared by the Group's subsidiaries to minority shareholders	*20*	–	–	–	–	–	–	–	–	–	(50)	(50)
At December 31, 2006		**$ 318**	**$ –**	**$ 531**	**$ –**	**$ 28**	**$ –**	**$ 2,750**	**$ 439**	**$ 4,066**	**$ 169**	**$ 4,235**

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

Notes to the Consolidated Financial Statements Year Ended December 31, 2008

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 27, 2009.

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 produces vanadium products and owns and operates certain mining assets. The Group is one of the largest steel producers globally.

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

Subsidiary	Effective ownership interest, %			Business activity	Location
	2008	2007	2006		
OAO Nizhny Tagil Iron & Steel Plant	100.00	100.00	95.00	Steel production	Russia
OAO West Siberian Iron & Steel Plant	100.00	100.00	100.00	Steel production	Russia
OAO Novokuznetsk Iron & Steel Plant	100.00	100.00	98.75	Steel production	Russia
Evraz Vitkovice Steel a.s.	100.00	100.00	100.00	Steel production	Czech Republic
Highveld Steel and Vanadium Corporation*	85.12	80.92	24.90	Steel production	South Africa
Dnepropetrovsk Iron and Steel Works	96.03	95.57	–	Steel production	Ukraine
Evraz Inc. NA	100.00	100.00	–	Steel mill	USA
Evraz Inc. NA Canada	100.00	–	–	Steel mill	Canada
ZAO Yuzhkuzbassugol*	100.00	100.00	50.00	Coal mining	Russia
OAO Kachkanarsky Mining-and-Processing Integrated Works	100.00	100.00	97.11	Ore mining and processing	Russia
OAO Evrazruda	100.00	100.00	100.00	Ore mining	Russia
Sukha Balka	99.42	99.25	–	Ore mining	Ukraine

In the years ended December 31, 2008, 2007 and 2006, approximately 1%, 5% and 8%, 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 16.

At December 31, 2008, the Group employed approximately 134,000 employees, excluding joint venture’s and associates’ employees.

Going Concern

These consolidated financial statements have been prepared on a going concern basis that contemplates the realisation of assets and satisfaction of liabilities and commitments in the normal course of business. The Group’s activities in all of its operating segments have been adversely affected by uncertainty and instability in international financial, currency and commodity markets resulting from the global financial crisis. In the fourth quarter of 2008, the willingness of financial institutions to extend committed finance on a long-term basis has reduced significantly. At the same time, the recession affected most of the Group’s markets and the Group experienced lower demand for its products. As a result, at December 31, 2008, the Group’s current liabilities were $6,538 million (including loans and borrowings of $3,922 million with maturities in 2009) and exceeded current assets by $247 million.

As of the date of authorisation of issue of these financial statements, the Group refinanced $241 million of current loans and borrowings through loans with the maturities falling due after December 31, 2009. The remaining current maturities are expected to be covered by free cash flows and refinancing of current debts.

As of December 31, 2008, the Group had unutilised borrowings in the amount of $1,679 million, including $991 million of committed facilities and $688 million of uncommitted facilities (Note 21).

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

At the end of 2008, the Group was in full compliance with all of its debt covenants. Taking into consideration the current market situation and expected improvement of the market conditions during 2009, management anticipates that the Group will comply with all debt covenants during 2009. If market conditions do not improve as management expects and the global economic slowdown continues, the Group may be faced with the breach of covenants in respect of certain loans and borrowings. The management monitors the compliance with the debt covenants on an ongoing basis and intends to react to potential non-compliance threat pre-emptively.

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 measured at fair value, 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.

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

In April 2008, the Group acquired certain steel, coking coal producing and mining enterprises located in Ukraine, from Lanebrook Limited. The Group applied the pooling of interests method with respect to this acquisition and presented its consolidated financial statements as if the transfer of controlling interests in the subsidiaries had occurred from the date of acquisition of the subsidiaries by the transferring entity, which was December 11, 2007 (Note 4). As a result, the Group has re-presented its financial position at December 31, 2007 and results for the year then ended.

Completion of Initial Accounting

In 2008, the Group finalised its purchase price allocation for the acquisition of ownership interests in Yuzhkuzbassugol and Highveld Steel and Vanadium Corporation Limited. As a result, the Group recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities of these entities at the dates of acquisition and restated consolidated financial statements as of December 31, 2007 and for the year then ended (Note 4).

In addition, the consolidated balance sheet at December 31, 2007 as presented in the interim consolidated financial statements for the six-month period ended June 30, 2008 was adjusted in respect of the acquisition of the Ukrainian businesses, for which the initial accounting was completed.

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, 2008. In addition, certain standards have been early adopted by the Group. The changes in accounting policies result from adoption of the following new or revised standards and interpretations:

- The Group has early adopted the revised IAS 23 "Borrowing Costs" as of January 1, 2008. The revised standard requires that all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset must be capitalised. In accordance with the transitional requirements of this standard, this has been adopted as a prospective change. Therefore, borrowing costs have been capitalised on qualifying assets with a commencement date on or after January 1, 2008. No changes have been made for borrowing costs incurred prior to this date. During 2008, borrowing costs in the amount of $18 million have been capitalised.
- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective from January 1, 2008) provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 "Employee Benefits". This Interpretation had no impact on the financial position or performance of the Group.

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);
- 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 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" – Reclassification of Financial Assets (effective for financial years beginning on or after July 1, 2008);
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" – Eligible Hedged Items (effective from July 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);
- Amendments to IFRS 1 "First-time Adoption of Internatioanl Financial Reporting Standards" and IAS 27 "Consolidated Financial Statements" – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective from January 1, 2009);
- IFRIC 13 "Customer Loyalty Programmes" (effective for financial years beginning on or after July 1, 2008);
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (effective for financial years beginning on or after October 1, 2008);

- IFRIC 17 “Distributions of Non-Cash Assets to Owners” (effective from July 1, 2009);
- IFRIC 18 “Transfer of Assets from Customers” (effective from July 1, 2009);
- Amendments to IFRS 7 “Improving Disclosures about Financial Instruments” (effective from January 1, 2009);
- Amendments to standards following the 2007 “improvement to IFRSs” project.

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 the sale of Nerungriugol does not constitute a discontinued operation (Note 12).
- 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).
- The Group determined that a 49% ownership interest in NS Group does not represent an investment in an associate (Note 4).
- The Group determined that the probability of Delong put option being exercised is remote and no provision for onerous contract should be booked for that reason (Note 13).

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 cashgenerating 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 2008, 2007 and 2006, the Group recognised an impairment loss of $117 million, $7 million and $20 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 2008, the change in estimates of useful lives of property, plant and equipment resulted in an additional depreciation expense of approximately $22 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, 2008, 2007 and 2006 was $2,387 million, $2,145 million and $112 million, respectively. More details are provided in Note 5. In 2008, the Group recognised an impairment loss in respect of goodwill in the amount of $756 million (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 23).

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, 2008, 2007 and 2006, allowances for doubtful accounts in respect of trade and other receivables have been made in the amount of $89 million, $79 million and $59 million, respectively (Notes 15 and 16).

The Group makes an allowance for obsolete and slow-moving raw materials and spare parts. As of December 31, 2008, 2007 and 2006, the allowance for the obsolete and slowmoving items was $71 million, $12 million and $13 million, respectively (Note 14). 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. More details are provided in Note 31.

Current Taxes

Russian and Ukrainian 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 and Ukraine 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 31.

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 currencies of the Group's subsidiaries are the Russian rouble, US dollar, euro, Czech koruna, South African rand, Canadian dollar and Ukrainian hryvnia. 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 exchange rates that approximate the exchange rates at the dates of the transactions. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a subsidiary with the functional currency other than the US dollar, the deferred cumulative amount recognised in equity relating to that particular subsidiary is recognised in the income statement.

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

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

Basis of Consolidation

Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than 50% of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All 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 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.

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-today 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.

	Useful lives (years)	Weighted average remaining useful life (years)
Buildings and constructions	15-60	21
Machinery and equipment	4-45	11
Transport and motor vehicles	7-20	12
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. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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.

Sometimes the fair value of the Group's share of the net assets acquired in a business combination exceeds the cost of acquisition. Such excess is recognised in the consolidated income statement.

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.

	Useful lives (years)	Weighted average remaining useful life (years)
Customer relationships	1-15	11
Trade names and trademarks	5	4
Water rights and environmental permits with definite lives	5	3
Patented and unpatented technology	5	3
Contract terms	1-49	30
Other	5-10	7

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 shortterm fluctuations in price are classified as held for trading and included in the category "financial assets at fair value through profit or loss". Investments which are included in this category are subsequently carried at fair value; gains or losses on such investments are recognised in income.

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

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

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis. After initial recognition available-for-sale investments are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Reversals of impairment losses in respect of equity instruments are not recognised in the income statement. Impairment losses in respect of debt instruments are reversed through profit or loss if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

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

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

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis and includes expenditure incurred in acquiring or producing 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.

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.

Prior to 2008, borrowing costs were expensed as incurred. Since January 1, 2008 borrowing costs relating to qualifying assets are capitalised (Note 2, Changes in Accounting Policies).

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.

Employee Benefits

Social and Pension Contributions

Defined contributions are made by the Group to the Russian and Ukrainian state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force (approximately 23%), 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.

Employee 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 nonmonetary 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 sharebased 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 24. 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.

Cash-settled share-based payment transactions represent transactions in which the Group acquires goods or services by incurring a liability to transfer cash or other assets to the supplier of those goods or services for amounts that are based on the price (or value) of the Group's shares or other equity instruments. The extended portion of the options under Plan 2005 (Note 24) can be settled in cash.

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes-Merton model. This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each balance sheet date up to and including the settlement date with changes in fair value recognised in the income statement.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (Note 20).

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 eleven steel mills. Mining segment includes iron ore and coal mining and enrichment. Other operations include energy generating companies, sea ports, shipping and railway transportation companies.

In 2008, the Group decided to disclose vanadium operations as a business segment which includes extraction of vanadium ore and production of vanadium products. Vanadium slag arising in steel-making process was also allocated to vanadium segment.

The vanadium segment does not meet the criteria of a reportable segment under IFRS. Despite this fact, management has designated the vanadium segment as a reportable segment based on the future plans to develop this business segment.

In addition, the Group changed the presentation of certain general and administrative expenses from other operations to unallocated expenses. As a result, the Group represented segment information for 2007 and 2006.

In 2006 – 2008, 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, 2008, 2007, and 2006.

	Year ended December 31, 2008					
US$ million	Steel production	Mining	Vanadium products	Other operations	Eliminations	Total
Revenue						
Sales to external customers	$ 17,623	$ 1,290	$ 1,201	$ 266	$ –	$ 20,380
Inter-segment sales	302	2,344	5	756	(3,407)	–
Total revenue	**17,925**	**3,634**	**1,206**	**1,022**	**(3,407)**	**20,380**
Result						
Segment result	**$ 2,843**	**$ 967**	**$ 170**	**$ 83**	**$ 20**	**$ 4,083**
Unallocated expenses						(363)
Profit from operations						**$ 3,720**
Share of profits/(losses) of joint ventures and associates	–	198	–	–	–	198
Other income/(expenses), net						(775)
Income tax expense						(1,213)
Net profit						**$ 1,930**
Assets and liabilities						
Segment assets	$ 12,791	$ 3,684	$ 478	$ 547		$ 17,500
Investments in joint ventures and associates	10	541	–	–		551
Unallocated assets						1,397
Total assets						**$ 19,448**
Segment liabilities	$ 1,881	$ 460	$ 101	$ 70		$ 2,512
Unallocated liabilities						11,962
Total liabilities						**$ 14,474**
Other segment information						
Additions to property, plant and equipment and intangible assets	$ 761	$ 415	$ 9	$ 30		$ 1,215
Property, plant and equipment and intangible assets acquired in business combinations	1,289	–	–	–		1,289
Depreciation, depletion and amortisation	(798)	(380)	(43)	(24)		(1,245)
Impairment of assets	(821)	(56)	–	(3)		(880)

US$ million	Year ended December 31, 2007					
	Steel production	Mining	Vanadium products	Other operations	Eliminations	Total
Revenue						
Sales to external customers	$ 11,743	$ 371	$ 583	$ 162	$ –	$ 12,859
Inter-segment sales	165	1,532	–	621	(2,318)	–
Total revenue	**11,908**	**1,903**	**583**	**783**	**(2,318)**	**12,859**
Result						
Segment result	**$ 3,036**	**$ 444**	**$ 45**	**$ 87**	**$ 2**	**$ 3,614**
Unallocated expenses						(146)
Profit from operations						**$ 3,468**
Share of profits/(losses) of joint ventures and associates	20	68	–	–		88
Other income/(expenses), net						(431)
Income tax expense						(946)
Net profit						**$ 2,179**
Assets and liabilities						
Segment assets	$ 11,957	$ 4,473	$ 469	$ 692		$ 17,591
Investments in joint ventures and associates	4	588	–	–		592
Unallocated assets						454
Total assets						**$ 18,673**
Segment liabilities	$ 1,846	$ 421	$ 116	$ 41		$ 2,424
Unallocated liabilities						9,857
Total liabilities						**$ 12,281**
Other segment information						
Additions to property, plant and equipment and intangible assets	$ 460	$ 192	$ 7	$ 131		$ 790
Property, plant and equipment and intangible assets acquired in business combinations	3,339	3,175	–	306		6,820
Depreciation, depletion and amortisation	(478)	(213)	(30)	(36)		(757)
Impairment of assets	(4)	(2)	–	(1)		(7)

US$ million	Year ended December 31, 2006					
	Steel production	Mining	Vanadium products	Other operations	Eliminations	Total
Revenue						
Sales to external customers	$ 7,938	$ 121	$ 147	$ 86	$ –	$ 8,292
Inter-segment sales	76	1,026	–	518	(1,620)	–
Total revenue	**8,014**	**1,147**	**147**	**604**	**(1,620)**	**8,292**
Result						
Segment result	**$ 1,964**	**$ 351**	**$ (2)**	**$ 76**	**$ (42)**	**$ 2,347**
Unallocated expenses						(49)
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	$ 4,585	$ 1,043	$ 268	$ 255		$ 6,151
Investments in joint ventures and associates	233	1,261	–	–		1,494
Unallocated assets						865
Total assets						**$ 8,510**
Segment liabilities	$ 683	$ 169	$ 78	$ 35		$ 965
Unallocated liabilities						3,310
Total liabilities						**$ 4,275**
Other segment information						
Additions to property, plant and equipment and intangible assets	$ 509	$ 133	$ –	$ 29		$ 671
Property, plant and equipment and intangible assets acquired in business combinations	107	3	–	40		150
Depreciation, depletion and amortisation	(221)	(63)	(7)	(15)		(306)
Impairment of assets	(19)	(1)	–	–		(20)

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	**2008**	**2007**	**2006**
Russia	**$ 981**	$ 586	$ 629
Ukraine	**81**	69	–
South Africa	**53**	62	–
USA	**52**	39	2
Czech Republic	**19**	13	31
Canada	**15**	5	–
Other countries	**19**	6	14
	$ 1,220	**$ 780**	**$ 676**

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	**2008**	**2007**	**2006**
Russia	**$ 7,575**	$ 5,954	$ 4,217
USA	**3,232**	1,964	289
Canada	**1,283**	91	15
Ukraine	**913**	186	33
Korea	**760**	400	149
South Africa	**649**	319	7
Taiwan	**504**	373	572
Thailand	**479**	175	465
Germany	**417**	263	184
Austria	**415**	173	24
Italy	**343**	361	379
Kazakhstan	**327**	380	259
Czech Republic	**295**	277	263
United Arab Emirates	**289**	27	–
Vietnam	**234**	82	89
Turkey	**192**	87	188
Great Britain	**173**	119	54
China	**172**	72	98
Poland	**166**	179	77
Philippines	**149**	144	194
Indonesia	**143**	75	32
Slovakia	**119**	33	19
Syria	**104**	2	3
Switzerland	**94**	1	3
Iran	**81**	461	292
Other countries	**1,272**	661	387
	$ 20,380	**$ 12,859**	**$ 8,292**

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

US$ million	**2008**	**2007**	**2006**
Russia	**$ 8,252**	$ 8,813	$ 5,674
USA	**3,604**	3,125	159
Canada	**2,412**	–	–
Ukraine	**1,533**	3,399	–
South Africa	**1,052**	1,515	332
Luxembourg	**723**	39	720
Switzerland	**646**	475	51
Czech Republic	**613**	577	451
Italy	**415**	414	368
Cyprus	**159**	212	252
Other countries	**39**	68	503
	$ 19,448	**$ 18,637**	**$ 8,510**

4. Business Combinations

Strategic Minerals Corporation

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

As a result, the financial position and the results of operations of Stratcor were included in the Group's consolidated financial statements beginning August 23, 2006. The table below sets forth the fair values of Stratcor consolidated identifiable assets, liabilities and contingent liabilities at the date of acquisition:

US$ million	**August 23, 2006**
Property, plant and equipment	$ 81
Intangible assets	27
Other non-current assets	3
Inventories	57
Accounts and notes receivable	31
Cash	39
Total assets	**238**
Non-current liabilities	46
Deferred income tax liabilities	22
Current liabilities	39
Total liabilities	**107**
Minority interests	**8**
Net assets	**$ 123**
Fair value of net assets attributable to 72.84% ownership interest	**$ 89**
Purchase consideration	**$ 125**
Goodwill	**$ 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 2008 and 2007, the change in the fair value of the contingent consideration amounting to $(2) million and $11 million, respectively, was recorded as an adjustment to goodwill recognised on acquisition (Note 5).

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. In 2008, the subsidiary was renamed into Evraz Inc. NA.

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.

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**
Non-current liabilities	155
Deferred income tax liabilities	359
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 2007, 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 financial statements for the year ended December 31, 2007, did not complete purchase price allocation in accordance with IFRS 3 "Business Combinations".

In 2008, the Group finalised its purchase price allocation on the acquisition of Highveld and recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities at April 26, 2007, which were as follows:

US$ million	*Notes*	**Carrying amounts immediately before the business combination**	**Provisional fair values**	**Final estimation of fair values**
Property, plant and equipment		$ 207	$ 431	$ 431
Intangible assets		–	419	419
Other non-current assets		2	2	2
Inventories		70	81	81
Accounts and notes receivable		161	168	168
Cash and cash equivalents		75	75	75
Assets of disposal groups classified as held for sale	*12*	170	338	295
Total assets		**685**	**1,514**	**1,471**
Deferred income tax liabilities		36	191	181
Non-current liabilities		42	54	54
Current liabilities		316	329	329
Liabilities directly associated with disposal groups classified as held for sale	*12*	24	44	44
Total liabilities		**418**	**618**	**608**
Net assets		**$ 267**	**$ 896**	**$ 863**

On April 26, 2007, the Group recognised revaluation surplus amounting to $27 million in respect of the change in fair values of identifiable assets, liabilities and contingent liabilities of Highveld allocated to the previously acquired stakes.

As a result of completion of the purchase price allocation, the overall value of net assets acquired decreased by $33 million, goodwill increased by $8 million and revaluation surplus decreased by $7 million as compared to the amounts presented in the consolidated financial statements of the Group for the year ended December 31, 2007.

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 $101 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**	**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	802	863	–
Goodwill	34	8	–	–

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 $181 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 $56 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 $78 million was credited to accumulated profits.

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 13) 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.

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.

The fair values of the identifiable assets, liabilities and contingent liabilities as at the date of acquisition were as follows:

US$ million	**May 3, 2007**
Property, plant and equipment	$ 306
Other non-current assets	1
Inventories	3
Accounts and notes receivable	2
Cash	13
Total assets	**325**
Non-current liabilities	1
Deferred income tax liabilities	60
Current liabilities	5
Total liabilities	**66**
Net assets	**$ 259**
Fair value of net assets attributable to 93.35% ownership interest	**$ 242**
Purchase consideration	**$ 232**
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 $17 million and accrued a liability to the minority shareholders in the amount of $17 million.

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.

Yuzhkuzbassugol

On June 8, 2007, the Group acquired an additional 50% ownership interest in ZAO Yuzhkuzbassugol ("Yuzhkuzbassugol"), the Group's associate, increasing the Group's ownership interest in Yuzhkuzbassugol to 100%. Yuzhkuzbassugol is a vertically integrated group being one of the largest coking coal producers in Russia. Cash consideration amounted to $871 million, including transaction costs of $9 million.

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).

In 2007, 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 financial statements for the year ended December 31, 2007, did not complete purchase price allocation in accordance with IFRS 3 "Business Combinations".

In 2008, the Group finalised its purchase price allocation on the acquisition of Yuzhkuzbassugol and recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities at the date of acquisition. The table below sets forth the fair values of Yuzhkuzbassugol's consolidated identifiable assets, liabilities and contingent liabilities at June 8, 2007:

US$ million	*Notes*	**Carrying amounts immediately before the business combination**	**Provisional fair values**	**Final estimation of fair values**
Mineral reserves		$ 1,170	$ 1,403	$ 1,661
Other property, plant and equipment		663	856	856
Investments in associates	*11*	154	204	18
Other non-current assets		45	45	45
Inventories		35	38	38
Accounts and notes receivable		97	115	105
Cash		17	17	17
Total assets		**2,181**	**2,678**	**2,740**
Non-current liabilities		180	192	196
Deferred income tax liabilities		298	402	462
Current liabilities		321	327	326
Total liabilities		**799**	**921**	**984**
Minority interests		**9**	**15**	**14**
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 $184 million in respect of the change in fair values of identifiable assets, liabilities and contingent liabilities of Yuzhkuzbassugol allocated to the previously acquired stake.

As a result of completion of the purchase price allocation, the revaluation surplus decreased by $15 million as compared to the amounts presented in the consolidated financial statements of the Group for the year ended December 31, 2007.

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 $96 million.

Steel and Mining Businesses in Ukraine

On December 11, 2007, Lanebrook Limited ("Lanebrook"), the ultimate parent of the Group, acquired majority shares in selected production assets in Ukraine which include the following:

- a 99.25% ownership interest in Sukha Balka iron ore mining and processing complex;
- a 95.57% ownership interest in Dnepropetrovsk Iron and Steel Works;
- three coking plants (Bagleykoks – 94.37%, Dneprokoks – 98.65%, and Dneprodzerzhinsk Coke Chemical Plant – 93.86% of shares outstanding).

Lanebrook has acquired these production assets (“Palmrose”) on the working capital free and debt free basis. Under the share purchase agreement, the seller had 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. Total consideration for the acquisition of Palmrose amounted to $2,108 million, comprising cash in the amount of $1,060 million paid by the Group on behalf of Lanebrook and 4,195,150 Evraz Group’s shares with the fair value at the date of acquisition of $1,048 million.

In December 2007, the Group signed an agreement with Lanebrook to acquire Palmrose. Under that agreement, total consideration for the acquisition of Palmrose from Lanebrook comprised cash in the amount of $1,110 million and 4,195,150 Evraz Group’s shares that should have been issued for the settlement of this acquisition.

On April 14, 2008, the Group acquired a 51.4% share in Palmrose for cash consideration of $1,110 million. In June 2008, that agreement was amended increasing the cash portion of the consideration payable to Lanebrook by $18 million.

The Group obtained control over Palmrose on April 14, 2008. The acquisition of 51.4% and 48.6% ownership interests in Palmrose were considered as linked transactions and were accounted for as a single transaction in these financial statements. As a result, on April 14, 2008, the Group effectively acquired 100% ownership interest in Palmrose with a deferred consideration in respect of 48.6% ownership interest. In accordance with the accounting policy (Note 2), the Group accounted for this acquisition by applying the pooling of interests method and presented its consolidated financial statements as if the transfer of controlling interest in the subsidiary had occurred from the date of acquisition of the subsidiary by Lanebrook, which was December 11, 2007.

As a result, the financial position and the results of operations of Palmrose were included in the Group’s consolidated financial statements beginning December 11, 2007. In the interim consolidated financial statements for the six-month period ended June 30, 2008, the acquisition of Palmrose was accounted for based on provisional values as the Group, as of the date of authorisation of issue of the interim financial statements, has not completed purchase price allocation in accordance with IFRS 3 “Business Combinations”. In these financial statements, the Group finalised its purchase price allocation for the acquisition of Palmrose and recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities at the date of acquisition.

The table below sets forth the fair values of Palmrose’s consolidated identifiable assets, liabilities and contingent liabilities at December 11, 2007:

US$ million	**Initial estimation of fair values**	**Final estimation of fair values**
Mineral reserves	$ 431	$ 429
Other property, plant and equipment	1,161	1,307
Receivables from the seller	822	822
Total assets	**2,414**	**2,558**
Non-current liabilities	127	57
Deferred income tax liabilities	306	377
Current liabilities	839	839
Total liabilities	**1,272**	**1,273**
Minority interests	34	**40**
Net assets	**$ 1,108**	**$ 1,245**
Purchase consideration	**$ 2,108**	**$ 2,108**
Goodwill	**$ 1,000**	**$ 863**

In 2007, cash flow on acquisition was as follows:

US$ million	
Net cash acquired with the subsidiary	$ -
Cash paid	(1,060)
Net cash outflow	**$ (1,060)**

$68 million paid by the Group to Lanebrook in 2008 was recorded as a distribution to a shareholder in the consolidated cash flow statement.

The excess of the consideration paid by the Group to its shareholder over the historical cost of net assets transferred to the Group, including the Predecessor's goodwill, was charged to accumulated profits and recorded as a distribution to a shareholder in the amount of $18 million and $50 million in the consolidated statements of changes in equity for the years ended December 31, 2008 and 2007, respectively.

On September 9, 2008, the remaining 48.6% ownership interest in Palmrose was transferred to the Group in exchange for new shares issued by Evraz Group S.A. The liability to Lanebrook in respect of the 48.6% ownership interest in Palmrose was measured at the fair value of Evraz Group’s shares and amounted to $972 million as of December 31, 2007. The change in the fair value of that liability was credited to accumulated profits in the amount of $215 million and $76 million in the consolidated statements of changes in equity for the years ended December 31, 2008 and 2007, respectively.

In addition, in 2008, the Group purchased minority interests in Dnepropetrovsk Iron and Steel Works (0.46%) and Sukha Balka (0.17%) for a total cash consideration of $3 million. The excess of the amounts of consideration over the carrying values of minority interests acquired amounting to $1 million was charged to accumulated profits.

For the period from December 11 to December 31, 2007, the newly acquired Ukrainian businesses reported net loss amounting to $7 million.

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 plate producer located in the United States.

In accordance with the US legislation, following the acquisition of the controlling interest in Claymont Steel, all the 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. The company then merged with the Group's wholly owned subsidiary. Total cash consideration for the acquisition of a 100% ownership interest in Claymont Steel amounted to $420 million, including transaction costs of $7 million.

As a result, the financial position and the results of operations of Claymont Steel were included in the Group's consolidated financial statements beginning January 16, 2008. In the interim consolidated financial statements for the six-month period ended June 30, 2008, the acquisition of Claymont Steel was accounted for based on provisional values as the Group, as of the date of authorisation of issue of the interim financial statements, has not completed purchase price allocation in accordance with IFRS 3 "Business Combinations". In these financial statements, the Group finalised its purchase price allocation on the acquisition of Claymont Steel and recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities at the date of acquisition.

The table below sets forth the fair values of identifiable assets, liabilities and contingent liabilities of Claymont Steel at January 16, 2008:

US$ million	**Initial estimation of fair values**	**Final estimation of fair values**
Property, plant and equipment	$ 36	$ 161
Intangible assets	4	40
Other non-current assets	4	–
Inventories	54	52
Accounts and notes receivable	44	44
Cash and cash equivalents	5	5
Total assets	**147**	**302**
Non-current liabilities	136	136
Deferred income tax liabilities	2	58
Current liabilities	56	59
Total liabilities	**194**	**253**
Net assets/(liabilities)	**$ (47)**	**$ 49**
Purchase consideration	**$ 420**	**$ 420**
Goodwill	**$ 467**	**$ 371**

In 2008, cash flow on acquisition was as follows:

US$ million	
Net cash acquired with the subsidiary	$ 5
Cash paid	(420)
Net cash outflow	**$ (415)**

For the period from January 16, 2008 to December 31, 2008, Claymont Steel reported net loss amounting to $4 million.

IPSCO Inc.

In March 2008, the Group entered into an agreement with SSAB, a Swedish steel company, to acquire IPSCO's Canadian plate and pipe business. IPSCO is a leading North American producer of steel plates, as well as pipes for the oil and gas industry.

Under the structure of the transaction, the Group and OAO TMK ("TMK"), the Russian leading tubular player, acquired plate and pipe businesses for $4,211 million (excluding transaction costs and working capital adjustment to purchase consideration paid by TMK, if any) comprising certain Canadian plate and pipe businesses and a US metal scrap company (together – "IPSCO Inc."), and US tubular and pipe businesses. The Group has also entered into a back-to-back agreement with TMK and its affiliates, which consisted of an on-sale of the acquired US tubular and pipe businesses, including 51% in NS Group, to TMK for $1,250 million.

In addition, the Group signed an option agreement that gave it the right to sell and gave TMK the right to buy 49% in NS Group for approximately $511 million plus interest at an annual rate ranging from 10% to 12% accrued from June 12, 2008 to the date when the option is exercised. The put option could be exercised by the Group in respect of the whole stake held by the Group and not earlier than October 22, 2009. The call option could be exercised by TMK in respect of any shareholding in NS Group starting from June 12, 2008.

On June 12, 2008, the acquisition was completed. As a result, the net cost of the acquisition of 100% of IPSCO Inc. for the Group amounted to $2,450 million, including transaction costs of $65 million.

The financial position and the results of operations of IPSCO Inc. were included in the Group's consolidated financial statements beginning June 12, 2008. The acquisition of the subsidiary 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 IPSCO's consolidated identifiable assets, liabilities and contingent liabilities at June 12, 2008 as compared with those values recorded in the Group's interim consolidated financial statements for the six-month period ended June 30, 2008.

The investment in a 49% ownership interest in NS Group was included in short-term investments caption of the consolidated balance sheet as of December 31, 2008. In 2009, TMK exercised its option for a 49% ownership interest in NS Group (Note 18).

The table below sets forth the provisional fair values of consolidated identifiable assets, liabilities and contingent liabilities of IPSCO Inc. at the date of acquisition:

US$ million	**Initial estimation of fair values**	**Adjusted provisional fair values**
Property, plant and equipment	$ 333	$ 726
Intangible assets		362
Other non-current assets	–	18
Inventories	430	432
Accounts and notes receivable	210	184
Cash and cash equivalents	2	2
Total assets	**975**	**1,724**
Non-current liabilities	8	4
Deferred income tax liabilities	19	221
Current liabilities	152	167
Total liabilities	**179**	**392**
Net assets	**$ 796**	**$ 1,332**
Purchase consideration	**$ 2,413**	**$ 2,450**
Goodwill	**$ 1,617**	**$ 1,118**

In 2008, cash flow on acquisition was as follows:

US$ million	
Net cash acquired with the subsidiary	$ 2
Cash paid	(1,501)
Net cash outflow	**$ (1,499)**

$938 million of purchase consideration was paid by a bank on behalf of the Group directly to the seller. As of December 31, 2008, accounts payable include $11 million of unpaid transaction costs.

For the period from June 12 to December 31, 2008, IPSCO Inc. reported net loss amounting to $16 million.

Other Acquisitions

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 $46 million. Goodwill of $40 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

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

US$ million	Notes	Carrying amount
At December 31, 2005		**$ 67**
Goodwill recognised on acquisitions of subsidiaries	4	37
Translation difference		8
At December 31, 2006		**112**
Goodwill recognised on acquisitions of subsidiaries	4	1,122
Goodwill previously recognised in investments under the equity method	11	42
Goodwill allocated to disposal groups classified as held for sale	11	(16)
Goodwill in respect of subsidiaries acquired from entities under common control	4	863
Adjustment to contingent consideration	4	11
Translation difference		11
At December 31, 2007		**2,145**
Goodwill recognised on acquisitions of subsidiaries	4	1,489
Adjustment to contingent consideration	4	(2)
Impairment		(756)
Palmrose		*(466)*
Claymont Steel		*(187)*
OSM Tubular – Portland Mill		*(103)*
Translation difference		(489)
At December 31, 2008		**$ 2,387**

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	2008	2007	2006
Evraz Inc. NA (former Oregon Steel Mills)	**$ 1,183**	$ 1,082	$ –
Oregon Steel Portland Mill	***412***	*412*	–
OSM Tubular – Portland Mill	**–**	*103*	–
Rocky Mountain Steel Mills	***410***	*410*	–
OSM Tubular – Camrose Mills	***157***	*157*	–
Claymont Steel	***184***	–	–
General Scrap (was a part of IPSCO at the time of IPSCO acquisition)	***20***	–	–
Evraz Inc. NA Canada (former IPSCO)	**920**	–	–
Palmrose	**99**	863	–
Dnepropetrovsk Iron and Steel Works	***24***	*512*	–
Dneprodzerzhinsk Coke Chemical Plant	***27***	*114*	–
Bagleykoks	***32***	*151*	–
Dneprokoks	***16***	*86*	–
Palini e Bertoli	**80**	84	75
Strategic Minerals Corporation	**45**	47	36
Nikom, a.s.	**38**	40	–
Highveld Steel and Vanadium Corporation	**21**	28	–
Evro-Aziatskaya Energy Company	**1**	1	1
	$ 2,387	**$ 2.,145**	**$ 112**

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 as of December 31, 2008. Events and circumstances that led to recognition of impairment are disclosed in Note 31, Operating Environment of the Group.

For the purpose of impairment testing the recoverable amount of goodwill has been determined based on value in use. Value in use has been calculated using cash flows projections based on the actual operating results and business plans approved by management and appropriate discount rates reflecing time value of money and risks associated with respective cash generating units. For mining operations management business plans cover the full life of mines. The key assumptions used by the management in value in use calculation are presented in the table below. For the periods not covered by management business plans, cash flow projections have been estimated by extrapolating the respective business plans results using a zero real growth rate.

	Period of forecast, years	Pre-tax discount rate, %	Commodity	Average price of the commodity per ton
Evraz Inc. NA	9	12.93-14.95	steel products	$ 924
Evraz Inc. NA Canada	9	13.57	steel products	$ 1,380
Palmrose:				
Dnepropetrovsk Iron and Steel Works	5	16.59	steel products	$ 522
Coking plants	5	16.76 - 17.19	coke	$ 160
Palini e Bertoli	5	15.36	steel plates	€ 612
Strategic Minerals Corporation	5	14.95	ferrovanadium products	$ 32,817
Nikom, a.s.	5	13.59	ferrovanadium products	$ 27,241
Highveld Steel and Vanadium Corporation	5	15.47	ferrovanadium products	$ 15,213
			steel products	$ 593

In respect of OSM Tubular – Portland Mill within Evraz Inc. NA, for which an impairment loss was recognised in 2008, the discount rate used in the previous estimate of value in use was 10.4%.

The calculations of value-in-use are most sensitive to the following assumptions:

Discount Rates

Discount rates reflect the current market assessment of the risks specific to each cash generating unit. The discount rates have been determined using the Capital Asset Pricing Model and analysis of industry peers.

Reasonable changes in discounts rates could lead to further impairment of goodwill at Palmrose and Evraz Inc. NA cash generating units. A 10% increase in the discount rates would lead to an additional impairment of $201 million.

Sales Prices

The prices of the products sold by the Group were estimated using industry research. Average 2009 prices are assumed to be 20%-40% lower than average 2008 prices with a higher decline related to lower value added products. The Group expects that in 2009-2010 the nominal prices will grow on average by 7% and in 2012 and thereafter – by 3%. Reasonable changes in the assumptions for products prices could lead to an additional impairment at Palmrose and Evraz Inc. NA cash generating units. If the prices assumed for 2009 and 2010 in the impairment test were 10% lower, this would lead to an additional impairment of $104 million.

Sales Volumes

The management assumed that the sales volumes would decline on average by 25% during 2009 and would grow evenly during the following four years to reach normal asset capacity thereafter. Reasonable changes in sales volumes could lead to an additional impairment at Palmrose and Evraz Inc. NA cash generating units. If the sales volumes were 10% lower than those assumed for 2009 and 2010 in the impairment test, this would lead to an additional impairment of $29 million.

Cost Control Measures

The recoverable amounts of cash generating units are based on the business plans approved by management. The reasonable deviation of cost from these plans could lead to an additional impairment at Palmrose and Evraz Inc. NA cash generating units. If the actual costs were 10% higher than those assumed for 2009 and 2010 in the impairment test, this would lead to an additional impairment of $131 million.

6. Acquisitions of Minority Interests in Subsidiaries

Vitkovice Steel

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.

Minority Interests Derecognised in 2006

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 West Siberian Iron and Steel Plant ("ZapSib") and 97.72% shares of Kachkanar Mining-and-Processing Integrated Works ("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 consolidated 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 2006, the Group acquired a 2.62% minority interest in Nizhny Tagil Iron and Steel Plant ("NTMK") for cash consideration of $79 million. The excess of the amount of consideration over the carrying value of minority interest acquired amounting to $37 million was charged to accumulated profits.

In 2006, the Group acquired a 7.61% minority interest in Vysokogorsky Mining-and-Processing Integrated Works ("VGOK") 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, the Group acquired a 0.6% minority interest in Nakhodka Trade Sea Port ("Nakhodka Port"). This acquisition had no significant impact on the Group's financial statements.

In March 2007, the Group made voluntary offers to minority shareholders of NTMK, VGOK and Nakhodka Port) to sell their stakes to the Group.

At the dates of voluntary offers, the Group derecognised minority interests in NTMK, VGOK and Nakhodka 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.

US$ million	**Minority interests derecognised**	**Fair value of liability at the date of derecognition**	**Charged to accumulated profits**
NTMK	$ 92	$ 162	$ 70
VGOK	9	9	–
Nakhodka 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 NTMK, VGOK and Nakhodka 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.

Buy Out 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 buy out of minority shares of its five Russian subsidiaries (NTMK, ZapSib, KGOK, VGOK and Nakhodka Port). The buy outs have been successfully completed in October 2007.

LDPP

In 2007, the Group acquired an additional minority interest of 19.9% in OAO Large Diameter Pipe Plant ("LDPP") for cash consideration of $10 million, which approximates the carrying value of the net assets attributable to the acquired shares.

Highveld

In 2008, the Group acquired an additional minority interest of 4.2% in Highveld (Note 4) for cash consideration of $69 million. The excess of the amounts of consideration over the carrying values of minority interests acquired amounting to $35 million was charged to accumulated profits.

Exercise of Potential Voting Rights

The Group exercised options in respect of ownership interests in Caplink Limited and Velcast Limited registered in Cyprus for a total cash consideration of $6 million. The difference between the carrying values of minority interests acquired and the purchase consideration in the amount of $21 million was included in additional paid-in capital and $1 million was charged to accumulated profits.

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	2008	2007	2006
Cost of inventories recognised as expense	**$ (6,373)**	$ (4,892)	$ (2,900)
Staff costs, including social security taxes	**(2,154)**	(1,532)	(909)
Depreciation, depletion and amortisation	**(1,215)**	(749)	(303)

In 2008, the amount of a write-down of finished goods to net realisable value together with the allowance for obsolete and slow-moving inventories that were recognised as expense amounted to $314 million. In 2007 and 2006, these write-downs and allowances were not significant.

In 2008, other operating expenses included a write-off of a prepayment to the Russian State Mineral Resources Agency amounting to $12 million, which was used to secure the licence to develop the Mezhegey coal deposit.

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

US$ million	2008	2007	2006
Bank interest	**$ (392)**	$ (285)	$ (98)
Interest on guaranteed notes	**(221)**	(97)	(108)
Finance charges payable under finance leases	**(7)**	(8)	(6)
Interest on liabilities relating to employee benefits and expected return on plan assets	**(17)**	(10)	(6)
Discount adjustment on provisions	**(10)**	(4)	(2)
Interest on contingent consideration	**(2)**	(1)	(1)
Other	**(6)**	(4)	(8)
	$ (655)	**$ (409)**	**$ (229)**

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

US$ million	2008	2007	2006
Interest on bank accounts and deposits	**$ 37**	$ 24	$ 25
Interest on loans receivable	**15**	7	1
Interest on accounts receivable	**1**	9	–
Other	**4**	1	1
	$ 57	**$ 41**	**$ 27**

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

US$ million	Notes	2008	2007	2006
Impairment of available-for-sale financial assets	*13*	**$ (150)**	$ –	$ –
Gain/(loss) on extinguishment of debts	*21, 26*	**80**	–	13
Loss on trading with Raspadskaya shares		**(27)**	–	–
Change in the fair value of derivatives		**(10)**	–	–
Impairment of financial instrument relating to the transaction with 49% ownership interest in NS Group	*18*	**(3)**	–	–
Re-measurement of liabilities to minority shareholders at fair value	*4, 6*	**–**	(72)	12
Other		**(19)**	1	1
		$ (129)	**$ (71)**	**$ 26**

8. Income Taxes

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

	2008	2007	2006
Russia	**24.00%**	24.00%	24.00%
Canada	**29.32%**	–	–
Cyprus	**10.00%**	10.00%	10.00%
Czech Republic	**21.00%**	24.00%	24.00%
Italy	**31.40%**	37.25%	37.25%
South Africa	**28.00%**	29.00%	29.00%
Switzerland	**10.04%**	12.60%	11.60%
Ukraine	**25.00%**	25.00%	–
USA	**35.00%**	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.

In November 2008, a reduction of income tax rate from 24% to 20% was announced by the Russian government. The new rate is effective from January 1, 2009. As such, the respective deferred tax assets and liabilities were measured using the announced tax rate.

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

US$ million	2008	2007	2006
Current income tax expense	**$ (1,622)**	$ (1,064)	$ (676)
Adjustment in respect of income tax of previous years	**28**	31	(2)
Deferred income tax benefit relating to changes in tax rates	**107**	5	–
Less: deferred income tax recognised directly in equity	**(7)**	–	–
Deferred income tax benefit relating to origination and reversal of temporary differences	**281**	82	41
Income tax expense reported in the consolidated income statement	**$ (1,213)**	**$ (946)**	**$ (637)**

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	2008	2007	2006
Profit before income tax	**$ 3,143**	$ 3,125	$ 2,087
At the Russian statutory income tax rate of 24%	**(754)**	(750)	(501)
Deferred income tax benefit resulting from reduction in tax rate, net of amount recognised directly in equity	**100**	5	–
Adjustment in respect of income tax of previous years	**28**	31	(2)
Effect of non-deductible expenses and other non-temporary differences	**(363)**	(70)	(102)
Effect of the difference in tax rates on dividend income from associates and joint ventures	**23**	31	10
Tax on dividends distributed by the Group's subsidiaries to parent company	**(153)**	(78)	(45)
Effect of the difference in tax rates in countries other than the Russian Federation	**(102)**	(37)	7
Deferred income tax provided for undistributed earnings of the Group's subsidiaries	**(11)**	(54)	(11)
Share of profits in joint ventures and associates	**25**	(12)	(1)
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**–**	5	–
Utilisation of previously unrecognised tax losses	**5**	–	6
Change in allowance for deferred tax asset	**(10)**	(17)	2
Benefit arising from early payment of income tax	**6**	–	–
Tax paid on dividends to minorities	**(7)**	–	–
Income tax expense reported in the consolidated income statement	**$ (1,213)**	**$ (946)**	**$ (637)**

The effect of non-deductible expenses includes $(181) million in respect of impairment of goodwill and $(94) million in respect of non-deductible foreign exchange losses related to Canadian and Luxembourg entities.

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

US$ million	2008	Change recognised in income statement	Change recognised in equity	Change due to business combinations	Translation difference	2007	Change recognised in income statement	Change due to business combinations	Translation difference	2006
Deferred income tax liabilities:										
Valuation and depreciation of property, plant and equipment	$ 1,266	(229)	(7)	169	(267)	$ 1,600	(60)	1,293	55	$ 312
Valuation and amortisation of intangible assets	258	(37)	–	112	(43)	226	(24)	240	3	7
Undistributed earnings of subsidiaries	11	(43)	–	–	–	54	43	–	–	11
Other	57	(59)	–	15	(5)	106	(19)	100	3	22
	1,592	(368)	(7)	296	(315)	1,986	(60)	1,633	61	352
Deferred income tax assets:										
Tax losses available for offset	100	24	–	10	(4)	70	23	18	(1)	30
Accrued liabilities	147	(3)	–	7	(15)	158	(1)	111	5	43
Impairment of accounts receivable	24	2	–	–	(7)	29	10	2	5	12
Other	93	–	–	–	(15)	108	12	63	1	32
	364	23	–	17	(41)	365	44	194	10	117
Valuation allowance	(57)	(10)	–	–	–	(47)	(17)	–	1	(31)
	307	13	–	17	(41)	318	27	194	11	86
Net deferred income tax asset	44	27	–	–	(5)	22	9	–	2	11
Net deferred income tax liability	$ 1,329	(354)	(7)	279	(279)	$ 1,690	(78)	1,439	52	$ 277

As of December 31, 2008, 2007 and 2006, deferred income taxes have been provided for in respect of undistributed earnings of the Group's subsidiaries amounting to $199 million, $1,046 million and $255 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, 2008, the Group has not recognised a deferred tax liability and deferred tax asset in respect of temporary differences of $4,118 million and $2,770 million, respectively (2007: $3,685 million and $857 million, respectively, 2006: $3,177 million and $353 million, respectively). These differences are associated with investments in subsidiaries and were not recognised as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

The current tax rate on intra-group dividend income varies from 0% to 10%.

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies, except for the companies registered in Cyprus where group relief can be applied. As of December 31, 2008, the unused tax losses carry forward approximated $730 million (2007: $369 million, 2006: $152 million). The Group recognised deferred tax asset of $43 million (2007: $23 million, 2006: $2 million) in respect of unused tax losses. Deferred tax asset in the amount of $57 million (2007: $45 million, 2006: $28 million) has not been recorded as it is not probable that sufficient taxable profits will be available in the foreseeable future to offset these losses. Tax losses of $390 million (2007: $283 million, 2006: $146 million) for which deferred tax asset was not recognised arose in companies registered in Luxembourg, Cyprus and Russia. Losses in the amount of $386 million (2007: $270 million, 2006: $130 million) are available indefinitely for offset against future taxable profits of the companies in which the losses arose and $4 million (2007: $13 million, 2006: $16 million) will expire during 2016 – 2018.

9. Property, Plant and Equipment

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

US$ million	**2008**	**2007**	**2006**
Cost:			
Land	**$ 159**	$ 147	$ 62
Buildings and constructions	**2,379**	2,200	1,224
Machinery and equipment	**4,970**	5,153	2,258
Transport and motor vehicles	**429**	461	257
Mining assets	**2,603**	3,170	350
Other assets	**102**	115	69
Assets under construction	**691**	728	474
	11,333	11,974	4,694
Accumulated depreciation and depletion:			
Buildings and constructions	**(571)**	(324)	(149)
Machinery and equipment	**(1,217)**	(1,161)	(753)
Transport and motor vehicles	**(133)**	(98)	(55)
Mining assets	**(359)**	(237)	(36)
Other assets	**(35)**	(39)	(38)
	(2,315)	(1,859)	(1,031)
Government grants:			
Machinery and equipment, net	**(6)**	(8)	(8)
	$ 9,012	**$ 10,107**	**$ 3,655**

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of $145 million, $114 million and $117 million as of December 31, 2008, 2007 and 2006, respectively.

The movement in property, plant and equipment for the year ended December 31, 2008 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, 2007, cost, net of accumulated depreciation and government grants	**$ 147**	**$ 1,876**	**$ 3,984**	**$ 363**	**$ 2,933**	**$ 76**	**$ 728**	**$ 10,107**
Reclassifications	**–**	**160**	**(130)**	**(18)**	**(3)**	**(13)**	**4**	**–**
Additions	**–**	**9**	**47**	**3**	**32**	**1**	**1,126**	**1,218**
Assets acquired in business combination	**31**	**170**	**629**	**1**	**–**	**19**	**37**	**887**
Assets put into operation	**–**	**162**	**665**	**67**	**122**	**11**	**(1,027)**	**–**
Disposals	**(2)**	**(10)**	**(26)**	**(4)**	**(5)**	**(1)**	**(21)**	**(69)**
Depreciation and depletion charge	**–**	**(178)**	**(630)**	**(52)**	**(220)**	**(22)**	**–**	**(1,102)**
Impairment loss	**–**	**(16)**	**(45)**	**(1)**	**(53)**	**–**	**(2)**	**(117)**
Transfer to assets held for sale	**2**	**1**	**6**	**–**	**–**	**1**	**–**	**10**
Change in site restoration provision	**–**	**–**	**–**	**–**	**21**	**–**	**–**	**21**
Translation difference	**(19)**	**(366)**	**(753)**	**(63)**	**(583)**	**(5)**	**(154)**	**(1,943)**
At December 31, 2008, cost, net of accumulated depreciation and government grants	**$ 159**	**$ 1,808**	**$ 3,747**	**$ 296**	**$ 2,244**	**$ 67**	**$ 691**	**$ 9,012**

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

US$ million	Land	Buildings and constructions	Machinery and equip-ment	Transport and motor vehicles	Mining as-sets	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	–	665	722
Assets acquired in business combination	88	654	2,359	107	2,530	51	238	6,027
Assets put into operation	–	175	392	72	34	16	(689)	–
Disposals	(6)	(13)	(20)	(7)	(3)	(2)	(4)	(55)
Depreciation and depletion charge	–	(95)	(405)	(37)	(98)	(21)	–	(656)
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	6	96	163	14	123	1	41	444
At December 31, 2007, cost, net of accumulated depreciation and government grants	**$ 147**	**$ 1,876**	**$ 3,984**	**$ 363**	**$ 2,933**	**$ 76**	**$ 728**	**$ 10,107**

The movement in property, plant and equipment for the year ended December 31, 2006 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, 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 combi-nation	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 and 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**

Impairment losses relate to certain items of property, plant and equipment that were recognised as functionally obsolete in the respective financial year. In 2008, impairment losses include $72 million identified as a result of the testing at the level of cash generating units.

10. Intangible Assets Other Than Goodwill

Intangible assets consisted of the following as of December 31:

US$ million	**2008**	**2007**	**2006**
Cost:			
Customer relationships	**$ 911**	$ 714	$ 7
Trade names and trademarks	**31**	31	3
Water rights and environmental permits	**63**	63	6
Patented and unpatented technology	**9**	10	10
Contract terms	**68**	66	1
Other	**53**	46	17
	1,135	930	44
Accumulated amortisation:			
Customer relationships	**(189)**	(87)	(1)
Trade names and trademarks	**(12)**	(6)	–
Water rights and environmental permits	**(3)**	(2)	–
Patented and unpatented technology	**(4)**	(3)	(1)
Contract terms	**(9)**	–	–
Other	**(33)**	(26)	(5)
	(250)	(124)	(7)
	$ 885	**$ 806**	**$ 37**

As of December 31, 2008 and 2007, water rights and environmental permits with a carrying value $56 million had an indefinite useful life.

The movement in intangible assets for the year ended December 31, 2008 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, 2007, cost, net of accumulated amortisation	**$ 627**	**$ 25**	**$ 61**	**$ 7**	**$ 66**	**$ 20**	**$ 806**
Additions	**–**	**–**	**–**	**–**	**–**	**2**	**2**
Assets acquired in business combination	**366**	**–**	**–**	**–**	**29**	**7**	**402**
Amortisation charge	**(117)**	**(6)**	**(1)**	**(2)**	**(10)**	**(8)**	**(144)**
Emission allowances granted	**–**	**–**	**–**	**–**	**–**	**12**	**12**
Emission allowances used for the period	**–**	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Impairment loss	**–**	**–**	**–**	**–**	**–**	**(7)**	**(7)**
Translation difference	**(154)**	**–**	**–**	**–**	**(26)**	**(5)**	**(185)**
At December 31, 2008, cost, net of accumulated amortisation	**$ 722**	**$ 19**	**$ 60**	**$ 5**	**$ 59**	**$ 20**	**$ 885**

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 environmental 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 did not qualify for a business combination as the acquired company does not constitute a business. The company's assets comprised only rights under a long-term lease of land to be used for a construction of a commercial sea port in Ukraine. These rights were valued at $65 million (at the exchange rate as of the date of the purchase) 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 relation-ships	Trade names and trademarks	Water rights and environmental 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**

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	*Notes*	Corber	Yuzhkuz-bassugol	Highveld	Kazankov-skaya	Other as-sociates	Total
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	*19*	–	1	–	–	–	1
Sale of shares in a subsidiary to minority shareholders	*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	*4*	–	–	–	19	2	21
Acquisition of controlling interests	*4*	–	(682)	(686)	–	(5)	(1,373)
Translation difference		34	13	8	1	–	56
Investment at December 31, 2007		**573**	**–**	**–**	**15**	**4**	**592**
Share of profit/(loss)		212	–	–	(14)	–	198
Dividends paid		(95)	–	–	–	–	(95)
Return of capital to a shareholder		(35)	–	–	–	–	(35)
Assets acquired in business combination	*4*	–	–	–	–	7	7
Translation difference		(114)	–	–	(1)	(1)	(116)
Investment at December 31, 2008		**$ 541**	**$ –**	**$ –**	**$ –**	**$ 10**	**$ 551**

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	**2008**	**2007**	**2006**
Mineral reserves	$ 935	$ 1,163	$ 1,148
Other property, plant and equipment	643	587	474
Other non-current assets	5	10	9
Inventories	56	51	27
Accounts and notes receivable	268	245	365
Cash	73	84	56
Total assets	**1,980**	**2,140**	**2,079**
Non-current liabilities	333	328	52
Deferred income tax liabilities	188	297	296
Current liabilities	102	107	363
Total liabilities	**623**	**732**	**711**
Minority interests	**277**	**260**	**216**
Net assets	**$ 1,080**	**$ 1,148**	**$ 1,152**

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

US$ million	**2008**	**2007**	**2006**
Revenue	$ 1,200	$ 784	$ 472
Cost of revenue	(362)	(374)	(271)
Other expenses, including income taxes	(311)	(194)	(116)
Net profit	**$ 527**	**$ 216**	**$ 85**
Attributable to:			
Equity holders of the parent entity	$ 420	$ 170	$ 79
Minority interests	107	46	6
Net profit	**$ 527**	**$ 216**	**$ 85**
50% of unrealised profits on transactions with the joint venture	2	(3)	–
Group's share of profits of the joint venture	**$ 212**	**$ 82**	**$ 39**

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.

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. The Group determined that its ownership interest in Yuzhkuzbassugol represents the purchase of an associate and accounted for the investment under the equity method.

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)**

Kazankovskaya

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

In 2007, the investment in Kazankovskaya was accounted for based on provisional values as the Group, as of the date of authorisation of issue of financial statements for the year ended December 31, 2007, did not complete purchase price allocation in accordance with IFRS 3 "Business Combinations". In 2008, the Group finalised its purchase price allocation on the acquisition of Yuzhkuzbassugol and recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities of Kazankovskaya at the date of acquisition of Yuzhkuzbassugol.

The table below sets forth the fair values of Kazankovskaya's identifiable assets, liabilities and contingent liabilities as of June 8, 2007:

US$ million	**Provisional fair values**	**Final estimation of fair values**
Mineral reserves	$ 556	$ 69
Other property, plant and equipment	59	59
Inventories	1	1
Accounts receivable	13	13
Other current assets	2	2
Total assets	**631**	**144**
Non-current liabilities	83	83
Deferred income tax liabilities	130	13
Current liabilities	11	11
Total liabilities	**224**	**107**
Net assets	**$ 407**	**$ 37**

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

US$ million	**2008**	**2007**
Mineral reserves	$ 38	$ 72
Other property, plant and equipment	46	59
Inventories	2	1
Accounts receivable	1	8
Other current assets	1	3
Total assets	**88**	**143**
Non-current liabilities	83	92
Deferred income tax liabilities	–	10
Current liabilities	13	11
Total liabilities	**96**	**113**
Net assets	**$ (8)**	**$ 30**

The table below sets forth Kazankovskaya's income and expenses for the periods from acquisition of the controlling interest in Yuzhkuz-bassugol:

US$ million	*Notes*	**Year ended December 31, 2008**	**Period from June 8 to December 31, 2007**
Revenue		$ 15	$ 7
Cost of revenue		(24)	(11)
Other expenses, including income taxes		(27)	(5)
Net loss		**$ (36)**	**$ (9)**
Group's share of loss of the associate		**$ (18)**	**$ (5)**
including: share of loss allocated against loan receivable from Kazankovskaya	*13*	(4)	–

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.

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

US$ million	*Notes*	**July 13, 2006**
Property, plant and equipment		$ 419
Intangible assets		352
Other non-current assets		4
Inventories		74
Accounts and notes receivable		149
Cash and cash equivalents		108
Assets of disposal groups classified as held for sale		170
Total assets		**1,276**
Non-current liabilities		32
Deferred income tax liabilities		184
Current liabilities		323
Liabilities directly associated with disposal groups classified as held for sale		6
Total liabilities		**545**
Net assets		**$ 731**
Fair value of net assets attributable to 24.9% ownership interest		**$ 182**
Purchase consideration		**$ 216**
Goodwill	5	**$ 34**
including goodwill associated with disposal groups subsequently classified as held for sale		$ 16

The table below sets forth Highveld's assets and liabilities as of December 31, 2006:

US$ million	**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.

In 2007, the increase in the beneficial interest in Highveld was accounted for based on provisional values as the Group, as of the date of authorisation of issue of the financial statements for the year ended December 31, 2007, had not completed valuation of assets of the associate in accordance with IFRS 3.

In 2008, the Group completed purchase price allocation and recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities of Highveld as of February 26, 2007.

US$ million	**Provisional fair values**	**Final estimation of fair values**
Property, plant and equipment	$ 413	$ 413
Intangible assets	385	385
Other non-current assets	2	2
Inventories	71	71
Accounts and notes receivable	184	184
Cash and cash equivalents	58	58
Assets of disposal groups classified as held for sale	330	287
Total assets	**1,443**	**1,400**
Non-current liabilities	55	55
Deferred income tax liabilities	180	169
Current liabilities	335	335
Liabilities directly associated with disposal groups classified as held for sale	39	39
Total liabilities	**609**	**598**
Net assets	**$ 834**	**$ 802**
Fair value of net assets attributable to 54.1% beneficial ownership interest	**$ 451**	**$ 434**
Purchase consideration consisting of a liability under the option agreements	**$ 442**	**$ 442**
Goodwill/(excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition)	**$ (9)**	**$ 8**

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).

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	**$ 20**	**$ 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	**2008**	**2007**	**2006**
Land	**$ –**	$ 1	$ 5
Other property, plant and equipment	**7**	139	71
Goodwill	**–**	15	–
Other non-current assets	**–**	–	9
Current assets	**–**	56	20
Assets classified as held for sale	**7**	**211**	**105**
Liabilities directly associated with assets classified as held for sale	**–**	**39**	**23**
Net assets classified as held for sale	**$ 7**	**$ 172**	**$ 82**

At December 31, 2008 and 2007, receivables in respect of the sold assets in the amount of $10 million and $16 million, respectively, were included in accounts receivable and receivables from related parties, respectively.

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 total disposal consideration amounted to $84 million. Upon completion of the transaction, the Group recognised additional loss representing the difference between the estimated fair value less cost to sell 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.

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). Both divisions were included in the steel segment of the Group's operations. Transalloys division was sold in July 2007 for cash consideration of $139 million, resulting in a loss of $11 million. Rand Carbide was sold in February 2008 for cash consideration of $39 million, which approximated the carrying value of the disposed assets.

In addition, 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 included 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. At December 31, 2007, the assets and liabilities of these business units were classified as assets and liabilities of disposal groups held for sale (Notes 4 and 11). The Highveld divestment package was included in the vanadium segment of the Group's operations.

On April 21, 2008, Highveld concluded agreements with an associated company of Duferco Group, for the sale of the above mentioned vanadium production facilities, together with the 50% shareholding in SAJV, and a 35% non-dividend equity interest in Mapochs Mine (Pty) Ltd. The selling price was $110 million (at the exchange rate as of the date of disposal), transaction costs amounted to $10 million, including $3 million paid in 2007. On August 21, 2008, all regulatory consents were obtained, and the effective date of the disposal was August 29, 2008. In 2008, the Group recognised a loss of $45 million representing the difference between the estimated fair value less costs to sell of the disposal group as of December 31, 2007 and actual proceeds.

The table below demonstrates the carrying values of assets and liabilities, at the dates of disposal, of the subsidiaries and other business units disposed of in 2008 and 2007.

US$ million	**2008**	**2007**
Property, plant and equipment	$ 91	$ 74
Goodwill	13	–
Other non-current assets	–	8
Inventory	35	–
Accounts and notes receivable	33	20
Assets held for sale acquired in business combinations	36	137
Total assets	**208**	**239**
Deferred income tax liabilities	10	–
Current liabilities	12	7
Total liabilities	**22**	**7**
Net assets	**$ 186**	**$ 232**

Cash flow on disposal of subsidiaries and other business units was as follows:

US$ million	**2008**	**2007**
Net cash disposed with subsidiaries	$ –	$ –
Transaction costs	(7)	(3)
Cash received	168	226
Net cash inflow	**$ 161**	**$ 223**

13. Other Non-Current Assets

Other non-current assets were as follows as of December 31:

US$ million	*Notes*	**2008**	**2007**	**2006**
Deposit to secure put option for the shares of OAO Vanady		**$ 105**	$ 126	$ –
Investments in Delong Holdings Limited		**23**	–	–
Investments in Cape Lambert Iron Ore		**10**	–	–
Prepayment for a contribution to a newly established joint venture		**28**	–	–
Deposit to secure put option for the Highveld's shares	4	**–**	–	207
Restricted deposits at banks		**2**	5	12
Long-term input VAT		**2**	2	19
Loans issued to related parties	29	**38**	46	1
Loans receivable	29	**5**	12	7
Trade and other receivables	29	**40**	27	–
Defined benefit plan asset	23	**4**	–	–
Other		**21**	22	26
		$ 278	**$ 240**	**$ 272**

Deposit to Secure Put Option for the Shares of OAO Vanady

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 (the call option) and OOO SGMK-Engineering has the right to sell to the Group (the put option) 90.84% of shares of OAO Vanady for 3,140 million roubles ($107 million at the exchange rate as of December 31, 2008). The options expired on December 31, 2008 and were extended to December 31, 2009. The exercise of the options 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 options were not exercisable. To secure the put option the Group provided the seller with a non-interest bearing deposit in the amount of 3,091 million roubles ($121 million at the exchange rate as of the payment date and $105 million at the exchange rate as of December 31, 2008). The deposit is repayable to the Group if neither the call option nor the put option is exercised before their expiration.

Investments in Delong Holdings Limited

On February 18, 2008, the Group entered into a share purchase agreement to acquire up to approximately 51.05% of the issued share capital of Delong Holdings Limited ("Delong"), a flat steel producer, headquartered in Beijing (the People's Republic of China – "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 included an initial sale to the Group of 10.01% 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 transaction). This transaction was completed on February 28, 2008.

Best Decade has also granted the Group a call option to acquire an additional 32.08% of the issued share capital of Delong. The Group has granted Best Decade a put option with respect to 32.08% of the issued share capital of Delong, exercisable during the same period. The call option and put option are subject to the satisfaction of certain conditions, including obtaining antitrust approval and clearance from Ministry of Commerce and State Administration of Industry and Commerce of China. 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 ($469 million at the exchange rate as of December 31, 2008).

Initially, the options were exercisable within six months after February 18, 2008. In August 2008, this period was extended for a period of another six months and in February 2009 the period of exercise was extended to August 18, 2009.

In addition, the beneficial shareholders of Best Decade have agreed to sell in the future approximately 8.96% 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 estimated at S$3.9459 per share or S$189 million ($131 million at the exchange rate as of December 31, 2008).

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 ($336 million at the exchange rate as of December 31, 2008), assuming a full acceptance of the mandatory offer.

The investments in Delong were classified as available-for-sale financial assets and measured at fair value based on market quotations. The change in the fair value of these shares was initially recorded in equity. At December 31, 2008, the Group assessed the recoverability of these financial assets and considered them as impaired due to a significant and prolonged decline in the fair value of the investments. The cumulative loss of $129 million, being the difference between the acquisition cost and fair value of the shares at the reporting date, was recognised in gain/(loss) on financial assets and liabilities caption of the consolidated income statement for the year ended December 31, 2008, within impairment of available-for-sale financial assets (Note 7). The foreign exchange gain amounted to $2 million.

In addition, the put option agreement for the shares of Delong was considered as onerous contract, in which the unavoidable costs of meeting the obligations exceed the economic benefits expected to be received under it. The Group did not recognise any provision for onerous contract, because the probability of the exercise of the put option is assessed as remote.

Investments in Cape Lambert Iron Ore

In March – June 2008, the Group purchased quoted shares and options to acquire quoted shares of Cape Lambert Iron Ore, an Australian mining company, for a total purchase consideration of $19 million. The Group recognised a gain of $5 million, representing the change in the fair value of options, in gain/(loss) on financial assets and liabilities caption of the consolidated income statement, within change in the fair value of derivatives disclosed in Note 7. In July 2008, the Group additionally paid $15 million and, thereby, converted all of the options into shares.

The shares of Cape Lambert Iron Ore were classified as available-for-sale financial assets and measured at fair value based on market quotations. The change in the fair value of these shares was initially recorded in equity. At December 31, 2008, the Group assessed the recoverability of these financial assets and considered them as impaired due to a significant and prolonged decline in the fair value of the investments. The cumulative loss of $21 million, being the difference between the acquisition cost and fair value of the shares at the reporting date, was recognised in gain/(loss) on financial assets and liabilities caption of the consolidated income statement for the year ended December 31, 2008, within impairment of available-for-sale financial assets (Note 7).

The foreign exchange loss amounted to $8 million.

As of December 31, 2008, investments in Cape Lambert Iron Ore represented a 13.65% ownership interest in the entity.

Deposit to Secure Put Option for the Highveld’s Shares

Deposit to secure put option for the Highveld’s shares did not earn interest and matured upon the completion of the transaction (Note 4).

Loans Issued to Related Parties

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. In 2008, the Group recognised an impairment loss of $4 million in respect of this loan, which was included in other operating expense in the consolidated income statement for the year ended December 31, 2008.

14. Inventories

Inventories consisted of the following as of December 31:

US$ million	2008	2007	2006
Raw materials and spare parts, at cost	**$ 1,222**	$ 773	$ 431
Work-in-progress, at cost	**490**	210	106
Finished goods:			
– at cost	**508**	648	334
– at net realisable value	**267**	–	6
	2,487	1,631	877
Allowance for obsolete and slow-moving items	**(71)**	(12)	(13)
	$ 2,416	**$ 1,619**	**$ 864**

As of December 31, 2008, 2007 and 2006, certain items of inventory with an approximate carrying amount of $648 million, $415 million and $194 million, respectively, were pledged to banks as collateral against loans provided to the Group (Note 21).

15. Trade and Other Receivables

Trade and other receivables consisted of the following as of December 31:

US$ million	2008	2007	2006
Trade accounts receivable	**$ 1,365**	$ 1,156	$ 586
Other receivables	**90**	723	29
	1,455	1,879	615
Allowance for doubtful accounts	**(86)**	(77)	(59)
	$ 1,369	**$ 1,802**	**$ 556**

Ageing analysis and movement in allowance for doubtful accounts are provided in Note 29.

16. Related Party Disclosures

For the purposes of these financial statements, parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

Amounts owed by/to related parties at December 31 were as follows:

	Amounts due from related parties			Amounts due to related parties		
US$ million	**2008**	**2007**	**2006**	**2008**	**2007**	**2006**
Corber	**$ –**	$ –	$ –	**$ –**	$ 70	$ 151
Evrazmetall-Centre	**–**	–	1	**–**	–	–
Evrazmetall-Sibir	**–**	–	18	**–**	–	–
Evrazmetall-Ural	**–**	–	11	**–**	–	–
Lanebrook Limited	**81**	–	–	**–**	1,022	–
Marens	**–**	31	–	**–**	–	–
Raspadsky Ugol	**1**	–	–	**56**	24	3
SEAR-MF	**–**	–	–	**–**	19	–
Sojitz Noble Alloys Corp.	**–**	2	–	**23**	3	8
Yuzhkuzbassugol	**–**	–	–	**–**	–	7
Yuzhny GOK	**37**	–	–	**231**	–	–
Other entities	**21**	29	24	**12**	66	7
	140	62	54	**322**	1,204	176
Less: allowance for doubtful accounts	**(3)**	(2)	–	**–**	–	–
	$ 137	**$ 60**	**$ 54**	**$ 322**	**$ 1,204**	**$ 176**

Transactions with related parties were as follows for the years ended December 31:

	Sales to related parties			Purchases from related parties		
US$ million	**2008**	**2007**	**2006**	**2008**	**2007**	**2006**
Evrazmetall-Centre	**$ –**	$ 144	$ 141	**$ –**	$ –	$ –
Evrazmetall-Chernozemie	**–**	65	53	**–**	–	–
Evrazmetall-Povolzhie	**–**	65	62	**–**	–	–
Evrazmetall-Severo-Zapad	**–**	46	45	**–**	–	–
Evrazmetall-Sibir	**–**	137	146	**–**	–	–
Evrazmetall-Ural	**–**	157	150	**–**	–	–
Evro-Aziatskaya Energy Company	**–**	–	23	**–**	–	104
Raspadsky Ugol	**–**	–	–	**354**	192	80
Sojitz Noble Alloys Corp.	**52**	–	18	**1**	1	1
Yuzhkuzbassugol	**–**	1	12		121	279
Yuzhny GOK	**57**	–	–	**631**	–	–
Other entities	**20**	17	14	**77**	55	59
	$ 129	**$ 632**	**$ 664**	**$ 1,063**	**$ 369**	**$ 523**

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 13.

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.

Crondale is an entity under control of an ultimate principal shareholder of the Group. In 2006, the Group fully repaid its liabilities to Crondale for the purchase of 50% share in Yuzhkuzbassugol (Note 11).

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 and 2006, the Group sold approximately 5% and 7%, 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.

Lanebrook Limited is a controlling shareholder of the Company. The amounts receivable from Lanebrook Limited represent overpayments for the acquired working capital of the Ukrainian businesses (Note 4). In addition, in 2008, the Group acquired a 1% ownership interest in Yuzhny GOK for cash consideration of $38 million. As part of the transaction, the Group signed a put option agreement that gives the Group the right to sell these shares back to Lanebrook Limited for the same amount. The put option expires on December 31, 2009.

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. In 2008, the loan was repaid to the Group.

OOO Raspadsky Ugol ("Raspadsky Ugol"), a subsidiary of the Group's joint venture, sells coal to the Group. Raspadsky Ugol represents approximately 20% of volume of the Group's coal purchases. The 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, which were settled in 2008.

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. Sojitz acts as a sales agent of Stratcor. At December 31, 2008, 2007 and 2006, other long-term liabilities (Note 26) 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. The Group sold coal to processing mills of Yuzhkuzbassugol. The transactions were made at prevailing market prices at the dates of transactions. In 2007, Yuzhkuzbassugol became the Group's subsidiary (Note 4).

Yuzhny GOK, the ore mining and processing plant, is an entity under significant influence of Lanebrook Limited. The Group sold steel products to Yuzhny GOK and purchased iron ore from the entity. The transactions were based on market prices.

Compensation to Key Management Personnel

Key management personnel totalled 60, 48 and 46 persons as at December 31, 2008, 2007 and 2006, 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	*Notes*	**2008**	**2007**	**2006**
Salary		**$ 22**	$ 25	$ 18
Performance bonuses		**29**	20	21
Social security taxes		**1**	1	1
Share-based payments	*24*	**18**	3	11
Termination benefits		**–**	10	–
Other benefits		**1**	–	3
		$ 71	**$ 59**	**$ 54**

17. Other Taxes Recoverable

Taxes recoverable consisted of the following as of December 31:

US$ million	**2008**	**2007**	**2006**
Input VAT	**$ 257**	$ 209	$ 264
Other taxes	**140**	142	67
	$ 397	**$ 351**	**$ 331**

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.

18. Short-term Investments

Short-term investments included the following as of December 31:

US$ million	*Notes*	**2008**	**2007**	**2006**
Financial instrument relating to the transaction with a 49% ownership interest in NS Group	*4*	**$ 508**	$ –	$ –
Investments in Yuzhny GOK	*16*	**38**	–	–
Bank deposits		**25**	25	25
Financial assets at fair value through profit or loss		**18**	–	–
		$ 589	**$ 25**	**$ 25**

Financial Instrument Relating to the Transaction With a 49% Ownership Interest in NS Group

This financial instrument represents investment amounting to $511 million in a 49% ownership interest in NS Group (Note 4) which was sold on January 30, 2009 for cash consideration of $508 million. The Group recognised an impairment loss of $3 million, which was included in gain/(loss) on financial assets and liabilities caption of the consolidated income statement for the year ended December 31, 2008 (Note 7).

19. Cash and Cash Equivalents

Cash and cash equivalents, mainly consisting of cash at banks, were denominated in the following currencies as of December 31:

US$ million	**2008**	**2007**	**2006**
US dollar	**$ 536**	$ 72	$ 632
South African rand	**177**	105	42
Russian rouble	**124**	55	110
Euro	**45**	83	36
Canadian dollar	**27**	–	–
Ukrainian hryvnia	**12**	–	–
Czech koruna	**7**	10	19
Other	**2**	2	3
	$ 930	**$ 327**	**$ 842**

20. Equity

Share Capital

Number of shares	**2008**	**2007**	**2006**
Authorised ordinary shares of €2 each	**157,204,326**	157,204,326	157,204,326
Issued and fully paid ordinary shares of €2 each	**122,504,803**	118,309,653	117,499,606

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.

Acquisition of the Ukrainian Businesses

On September 9, 2008, the Company issued 4,195,150 shares with par value of €2 each to settle the remaining liability for the acquisition of Palmrose (Note 4). Share premium on this issue, being the difference between the fair value of the shares measured based on market quotations at that date and nominal value of the issued shares, amounted to $746 million. Transaction costs were $1 million.

Scrip Dividends

On January 30, 2009, the Extraordinary General Meeting approved the modification of the method of payment of the 2008 interim dividends: euro equivalent of the outstanding dividends of $2.25 per share could be either exchanged for new shares of Evraz Group S.A. or paid in cash to the shareholders who voted against or abstained from voting.

The voluntary partial scrip dividend alternative was voted for in respect of 97,553,473 shares, representing 79.62% of the Company's share capital, entitling the holders to subscribe to 9,755,347 new shares issued at a price of $22.50 per share. The new shares are ranked pari passu with the existing ordinary shares of Evraz Group S.A. The Company's major shareholder, Lanebrook Limited, subscribed to 9,193,477 shares, and its holding of the Company's voting shares after the subscription became 77.60%.

Share-based Payment Transactions

In 2006, some of the share options granted under the Company's Incentive Plan 2005 (Note 24) 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 (in the form of global depositary receipts) on the open market for the grantees or repurchases the share options after vesting.

In 2008 and 2007, 275,994 and 243,872 share options, respectively, have been repurchased after vesting. The cash spent on repurchase of vested options, amounting to $77 million and $21 million in 2008 and 2007, respectively, was charged to accumulated profits.

Treasury Shares

During 2008 and 2007, the Group purchased 1,037,498 and 55,656 treasury shares, respectively, for $197 million and $8 million, respectively, and sold 970,604 and 55,119 treasury shares, respectively, including 253,104 and 55,119 shares, respectively, that were sold to the plan 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 $107 million and $6 million in 2008 and 2007, respectively, was charged to accumulated profits. As of December 31, 2008 and 2007, the Group had 67,431 and 537 treasury shares, respectively.

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.

In 2006 – 2008, share options granted to participants of the Group's Incentive Plans (Note 24) 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:

	2008	2007	2006
Weighted average number of ordinary shares for basic earnings per share	**123,495,726**	119,363,489	118,118,371
Effect of dilution: share options	**435,504**	903,146	838,450
Weighted average number of ordinary shares adjusted for the effect of dilution	**123,931,230**	**120,266,635**	**118,956,821**
Profit for the year attributable to equity holders of the parent, US$ million	**$ 1,868**	$ 2,103	$ 1,377
Basic earnings per share	**$ 15.13**	$ 17.62	$ 11.66
Diluted earnings per share	**$ 15.07**	$ 17.49	$ 11.58

The weighted average number of ordinary shares for 2008 and 2007 includes the shares that were issued as part of the cost of a business combination (Note 4). When calculating earnings per share, it was assumed that the shares were issued on the date of acquisition of the Ukrainian businesses (December 11, 2007), since this is the date from which the results of the newly acquired entities were recognised in the consolidated income statement.

The fair value of shares issued as a scrip alternative on January 30, 2009 exceeded the cash alternative, thus giving rise to a bonus element in the issue of shares. The per share figures for all the periods presented have been restated to include a bonus element of 1,045,216 shares in the calculation of basic earnings per share from the beginning of the earliest period presented.

Dividends

Dividends declared by Evraz Group S.A. were as follows:

	Date of declaration	To holders registered at	Dividends declared, US$ million	US$ per share
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
Final for 2007	15/05/2008	14/05/2008	497	4.20
Interim for 2008	29/08/2008	18/09/2008	1,011	8.25

Interim dividends for 2008 include $2 million in respect of treasury shares.

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, certain subsidiaries of the Group declared dividends. The share of minority shareholders in those dividends in 2008, 2007 and 2006 was $80 million, $40 million and $50 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 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 2008 and 2006, the Group acquired minority interests in certain subsidiaries (Note 6). The excess of acquired minority interests over the consideration amounting to $21 million and $1 million, respectively, was recorded as additional paid-in capital and the excess of consideration over the carrying value of minority interests amounting to $37 million and $42 million, respectively, was charged to accumulated profits. The purchase consideration for the minority interests acquired in 2007 (Note 6) approximated the carrying value of the net assets attributable to the acquired shares.

Allocation of Losses of Prior Periods to Minority Shareholders

Prior to 2006, losses of the minority in Caplink, the Group's subsidiary, exceeded the minority interest in Caplink's consolidated equity. These losses were allocated to the Group, because the minority had no obligations to cover losses. In 2006, the minority shareholder paid $5 million to the charter capital of Caplink and the Group recovered the accumulated losses.

21. Loans and Borrowings

Short-term and long-term loans and borrowings were as follows as of December 31:

US$ million	2008	2007	2006
Bank loans	**$ 7,163**	$ 5,748	$ 1,556
8.875 per cent notes due 2013	**1,245**	–	–
8.25 per cent notes due 2015	**725**	750	750
9.5 per cent notes due 2018	**560**	–	–
10.875 per cent notes due 2009	**300**	300	300
Unamortised debt issue costs	**(94)**	(82)	(40)
Interest payable	**87**	40	30
	$ 9,986	**$ 6,756**	**$ 2,596**

As of December 31, 2008, 2007 and 2006, total interest bearing loans and borrowings consisted of short-term loans and borrowings in the amount of $2,495 million, $1,260 million and $608 million, respectively, and long-term loans and borrowings in the amount of $7,498 million, $5,538 million and $1,998 million, respectively, including the current portion of long-term liabilities of $1,346 million, $804 million and $104 million, respectively.

The average effective annual interest rates were as follows in the years ended December 31:

	Long-term borrowings			Short-term borrowings		
	2008	2007	2006	2008	2007	2006
Russian rouble	**–**	9.1%	8.6%	**16.50%**	8.0%	7.1%
US dollar	**6.56%**	7.9%	8.3%	**6.40%**	6.2%	6.6%
Euro	**5.54%**	5.9%	5.6%	**6.06%**	5.5%	3.8%
South African rand	**–**	–	–	**–**	12.5%	–
Canadian dollar	**–**	7.3%	–	**–**	–	–
Czech koruna	**–**	–	–	**3.49%**	–	–
Ukrainian hryvnia	**–**	–	–	**–**	–	–

The liabilities are denominated in the following currencies:

US$ million	2008	2007	2006
Russian rouble	**$ 364**	$ 182	$ 24
US dollar	**9,345**	6,200	2,308
Euro	**348**	311	304
Canadian dollar	**–**	5	–
Czech koruna	**23**	–	–
Ukrainian hryvnia	**–**	140	–
Unamortised debt issue costs	**(94)**	(82)	(40)
	$ 9,986	**$ 6,756**	**$ 2,596**

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, 2008, the Group's borrowings included a loan from Unicredit Bank Ukraine and Bank Pekao with the carrying amount of $150 million. In the fourth quarter of 2008, one of the technical loan covenants related to the level of the sales proceeds passing through the lender's account was breached. On December 30, 2008, the Group obtained a waiver from the lender in respect of this covenant violation.

At December 31, 2008, the Group's borrowings included a loan from Citibank with the carrying amount of $11 million. In the third quarter of 2008, one of the technical loan covenants related to the timing of closing of certain bank accounts was breached by one of the Group's subsidiaries. On August 29, 2008, the Group obtained a waiver 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, 2008, 2007 and 2006, the Group had equipment with a carrying value of $1,131 million, $121 million and $39 million, respectively, pledged as collateral under the loan agreements. In addition, the Group pledged inventory with a carrying value of $648 million, $415 million and $194 million as of December 31, 2008, 2007 and 2006, respectively. In addition, as of December 31, 2008, 100% shares of Evraz Inc. NA, Evraz Inc. NA Canada and West Siberian Iron & Steel Plant were pledged as collateral under bank loans. These three subsidiaries represent 37% of the consolidated assets and 34% of the consolidated revenues of the Group. At December 31, 2008, the total amount of net assets (including intra-group balances) of Evraz Inc. NA, Evraz Inc. NA Canada and West Siberian Iron & Steel Plant was $2,230 million.

Notes and Bonds

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. 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, KGOK, East Metals S.A. and Yuzhkuzbassugol 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 guaranteed the due and punctual payments of all amounts in respect of the notes. In December 2008, the Group re-purchased notes due 2015 with the nominal amount of $25 million for cash consideration of $14 million. As a result, the Group recognised gain on extinguishment of debts in the amount of $11 million within gain/(loss) on financial assets and liabilities caption of the consolidated income statement for the year ended December 31, 2008.

On April 24 and May 27, 2008, Evraz Group S.A. issued notes for the total amount of $1,300 million due in 2013 and notes for the total amount of $700 million due in 2018. The notes due in 2013 bear semi-annual coupon at the annual rate of 8.875% and must be redeemed at their principal amount on April 24, 2013. The notes due in 2018 bear semi-annual coupon at the annual rate of 9.5% and must be redeemed at their principal amount on April 24, 2018. The proceeds from the issue of the notes were used for financing a portion of the cost of the acquisition of IPSCO Inc. (Note 4).

In December 2008, the Group re-purchased notes due 2013 with the nominal amount of $55 million for cash consideration of $30 million and notes due 2018 with the nominal amount of $140 million for cash consideration of $77 million. As a result, the Group recognised a gain on extinguishment of debts in the amount of $88 million within gain/(loss) on financial assets and liabilities caption of the consolidated income statement for the year ended December 31, 2008.

In August 2008, the Group repaid the liabilities of Claymont Steel (Note 4) under the bonds with the nominal value of $105 million due in February 2015 at a premium of 14.75%. This premium together with the transaction costs, amounting to $19 million, was recorded in loss on extinguishment of debts in the consolidated income statement for the year ended December 31, 2008.

Loans from the Russian State Banks

In November and December 2008, the Group signed loan agreements for $1,807 million with Vnesheconombank ("VEB") and 10,000 million Russian roubles ($340 million as of December 31, 2008) with VTB. The facilities mature in one year from the dates of disbursement. The loans bear interest of one year LIBOR plus 5% per annum (VEB) and 16.50% per annum (VTB). At December 31, 2008, the Group utilised $1,342 million under these loan agreements. These facilities were used for refinancing of loans due for payment in 2008.

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	**2008**	**2007**	**2006**
Unutilised borrowing facilities	**$ 1,679**	$ 1,015	$ 2,428

22. 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 1 to 14 years. The estimated remaining useful life of leased assets varies from 3 to 20 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	**2008**	**2007**	**2006**
Machinery and equipment	**$ 16**	$ 17	$ 10
Transport and motor vehicles	**73**	93	75
	$ 89	**$ 110**	**$ 85**

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:

US$ million	2008 Minimum lease payments	2008 Present value of minimum lease payments	2007 Minimum lease payments	2007 Present value of minimum lease payments	2006 Minimum lease payments	2006 Present value of minimum lease payments
Not later than one year	**$ 20**	**$ 15**	$ 22	$ 15	$ 16	$ 11
Later than one year and not later than five years	**41**	**34**	57	46	47	39
Later than five years	**8**	**6**	9	8	3	3
	69	**55**	88	69	66	53
Less: amounts representing finance charges	**(14)**	**–**	(19)	–	(13)	–
	$ 55	**$ 55**	**$ 69**	**$ 69**	**$ 53**	**$ 53**

In the years ended December 31, 2008, 2007 and 2006, the average interest rates under the finance lease liabilities were 10.0%, 9.6% and 10.4%.

23. Employee Benefits

Russian Plans

In 2008, 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 remuneration 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. The lifetime pension payments have been 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 have been 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.

Defined contribution plans represent payments made by the Group to the Russian Federation state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force, based on gross salary payments. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits.

Ukrainian Plans

The Ukrainian subsidiaries make regular contributions to the State Pension Fund thereby partially compensating preferential pensions paid by the fund to employees who worked under harmful and hard conditions. The amount of such pension depends on years of service and salary. The Ukrainian enterprises gradually increase these compensations and in 2012 they will compensate 100% of preferential pensions. In addition, employees receive lump-sum payments on retirement under collective bargaining agreements. These benefits are based on years of service and level of compensation. All these payments are considered as defined benefit plans.

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. Benefits are based on pensionable years of service, pensionable compensation, or a combination of both depending on the individual plan. Certain employees that were hired after specified dates 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 2-3% 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	2008	2007	2006
Expense under defined contribution plans	**$ 283**	$ 220	$ 181

Defined Benefit Plans

The Russian, Ukrainian and the Other defined benefit plans are mostly unfunded and the USA and Canadian plans are partially funded.

The components of net benefit expense recognised in the consolidated income statement for the years ended December 31, 2008, 2007 and 2006 and amounts recognised in the consolidated balance sheet as of December 31, 2008, 2007 and 2006 for the defined benefit plans were as follows:

Net benefit expense (recognised in cost of sales and general and administrative expenses)

Year ended December 31, 2008 US$ million	Russian plans	Ukrainian plans	USA & Canadian plans	Other plans	Total
Current service cost	**$ (8)**	**$ (4)**	**$ (11)**	**$ (1)**	**$ (24)**
Interest cost on benefit obligation	**(11)**	**(4)**	**(24)**	**(3)**	**(42)**
Expected return on plan assets	**–**	**–**	**25**	**–**	**25**
Net actuarial gains/(losses) recognised in the year	**(2)**	**–**	**(13)**	**1**	**(14)**
Past service cost	**1**	**(11)**	**–**	**–**	**(10)**
Curtailment gain	**13**	**–**	**–**	**–**	**13**
Net benefit expense	**$ (7)**	**$ (19)**	**$ (23)**	**$ (3)**	**$ (52)**

Year ended December 31, 2007 US$ million	Russian plans	Ukrainian 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	Ukrainian 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)**

Actual return on plan assets was as follows:

US$ million	2008	2007	2006
Actual return on plan assets	**$ (101)**	$ 19	$ 2
including:			
USA & Canadian plans	**(101)**	18	2
Russian plans	**–**	1	–

Benefit liability

December 31, 2008 US$ million	Russian plans	Ukrainian plans	USA & Canadian plans	Other plans	Total
Benefit obligation	**$ 150**	**$ 72**	**$ 475**	**$ 20**	**$ 717**
Plan assets	**(1)**	**–**	**(324)**	**–**	**(325)**
	149	**72**	**151**	**20**	**392**
Unrecognised net actuarial gains/ (losses)	**(31)**	**(12)**	**(59)**	**(5)**	**(107)**
Unrecognised past service cost	**18**	**(15)**	**–**	**–**	**3**
Benefit asset	**–**	**–**	**4**	**–**	**4**
Benefit liability	**$ 136**	**$ 45**	**$ 96**	**$ 15**	**$ 292**

December 31, 2007 *US$ million*	**Russian plans**	**Ukrainian plans**	**USA & Canadian plans**	**Other plans**	**Total**
Benefit obligation	$ 183	$ 56	$ 275	$ 21	$ 535
Plan assets	(2)	–	(199)	–	(201)
	181	56	76	21	334
Unrecognised net actuarial gains/ (losses)	(24)	–	18	(3)	(9)
Unrecognised past service cost	22	–	–	–	22
Benefit liability	**$ 179**	**$ 56**	**$ 94**	**$ 18**	**$ 347**

December 31, 2006 *US$ million*	**Russian plans**	**Ukrainian 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**

Movements in benefit obligation

US$ million	**Russian plans**	**Ukrainian plans**	**USA & Canadian plans**	**Other plans**	**Total**
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
Change in liability due to business combinations	70	56	235	14	375
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**	**56**	**275**	**22**	**535**
Interest cost on benefit obligation	11	4	24	3	42
Current service cost	8	4	11	1	24
Past service cost	(1)	33	–	–	32
Change in liability due to business combinations	–	–	229	–	229
Benefits paid	(21)	(5)	(21)	(2)	(49)
Actuarial (gains)/losses on benefit obligation	13	17	(35)	2	(3)
Curtailment gain	(14)	–	–	–	(14)
Translation difference	(28)	(37)	(8)	(6)	(79)
At December 31, 2008	**$ 150**	**$ 72**	**$ 475**	**$ 20**	**$ 717**

The amount of contributions expected to be paid to the defined benefit plans during 2009 approximates $55 million.

Changes in the fair value of plan assets

US$ million	Russian plans	Ukrainian plans	USA & Canadian plans	Other plans	Total
At December 31, 2005	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**
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
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**
Change in plan assets due to business combinations	–	–	235	–	235
Expected return on plan assets	–	–	25	–	25
Contributions by employer	21	5	17	2	45
Benefits paid	(21)	(5)	(21)	(2)	(49)
Actuarial gains/(losses) on plan assets	–	–	(125)	–	(125)
Curtailment gain	(1)	–	–	–	(1)
Translation difference	–	–	(6)	–	(6)
At December 31, 2008	**$ 1**	**$ –**	**$ 324**	**$ –**	**$ 325**

The major categories of plan assets as a percentage of total plan assets were as follows at December 31:

	2008	2007	2006
USA & Canadian plans:			
Equity funds and investment trusts	**76%**	58%	6%
Corporate bonds and notes	**11%**	22%	25%
Shares	**4%**	8%	67%
Property	**4%**	9%	2%
Cash	**5%**	3%	–

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	2008	2007	2006	2005	2004
Defined benefit obligation	**$ 717**	$ 535	$ 131	$ 81	$ 52
Plan assets	**325**	201	24	–	–
(Deficit)/surplus	**(392)**	(334)	(107)	(81)	(52)
Experience adjustments on plan liabilities	**(38)**	(18)	11	–	–
Experience adjustments on plan assets	**16**	5	–	–	–

The principal assumptions used in determining pension obligations for the Group's plans are shown below:

	2008				2007				2006		
	Russian Plans	Ukrainian plans	USA & Canadian plans	Other plans	Russian Plans	Ukrainian plans	USA & Canadian plans	Other plans	Russian Plans	USA & Canadian plans	Other plans
Discount rate	8.5%	10.85%	5.75-7.5%	4.3%	6.8%	8%	5.0-6.4%	4.7-8.3%	6.8%	5.8%	3.9-4.0%
Expected rate of return on assets	12%	–	6.75-8.5%	–	12%	–	7.8-8.5%	–	12%	7.8%	–
Future benefits increases	6%	7-10%	0-7.75%	3.9%	5%	–	0%	0-3%	5%	0%	0-3%
Future salary increase	6%	10%	3-4%	3.2%	5%	5%	3-4%	3-5%	5%	4%	3-4%
Healthcare costs increase rate	–	–	8-10%	–	–	–	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.

24. 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
May 12, 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 general, in the event of a participant's employment termination, all options granted to that participant, whether vested or not, expire on termination date. Under Plan 2005, unless otherwise determined by the Board of directors, all options which are not vested on the grantee's termination date become vested and remain exercisable within the period of one year. The options which are vested on the grantee's termination date remain exercisable and expire automatically as of the date of expiration. All options granted to the participants, whether vested or not, become immediately exercisable in the event of a change in the controlling shareholder.

In 2008 and 2006, the vesting date of the share options held by certain participants resigned from the Group was accelerated. On April 21, 2008, the Board of Directors resolved to delay the exercise of 17.5% of the options under Incentive Plan 2005. The extended portion has been granted in the form of global depositary receipts ("GDR") that are purchased and held by the Group on behalf of the participants for a period of up to 15 months starting from the end of April 2008. Subject to participants' instructions, during the period from April 21, 2009 to July 21, 2009, the Group will sell these GDRs to the participants at a fixed price of $14.5 or will sell them in the market and transfer the difference between the market price and option price to the participants. If the market price is below $100 per GDR, then a participant may claim indemnification from the Company of the margin between the actual sale price and the price of $100 per GDR. In addition, the participants have the right to receive dividends in respect of the extended portion and the right to vote under these GDRs.

This modification of Incentive Plan 2005 was treated as a cash-settled award. At December 31, 2008, the liability in respect of that award was $33 million. This amount was recognised in the consolidated income statement.

There have been no other modifications or cancellations to the plans during 2006 – 2008.

The revised expected time schedule of exercise of the share options outstanding at December 31, 2008 is presented below:

Number of shares	Incentive Plan 2006	Incentive Plan 2005
Immediately exercisable	–	5,029
April 16, 2009	122,086	–
April 21, 2009	–	243,225
	122,086	**248,254**

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 options under the extended portion was $272.34 per share. The fair value of these options was estimated at the date of grant using the Black-Scholes-Merton option pricing models 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

The liability under cash-settled award was measured using the following assumptions:

	December 31, 2008
Dividend yield (%)	n/a
Expected volatility (%)	84.10
Risk-free interest rates (%)	2.59
Expected life of options (years)	0.3
Market prices of the shares at the reporting date	$25.32

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.

	2008	2008	2007	2007	2006	2006
	No.	WAEP	No.	WAEP	No.	WAEP
Outstanding at January 1	**933,284**	**$ 48.72**	**2,266,580**	**$ 48.29**	**2,567,131**	**$ 43.10**
Granted during the year	–	–	–	–	496,369	65.37
Forfeited during the year	(33,846)	45.13	(224,258)	65.37	(137,955)	43.50
Exercised during the year:	(529,098)	47.55	(1,109,038)	44.48	(658,965)	41.98
by issue of shares	–		*(810,047)*		*(595,280)*	
by sale of shares by the Company's parent	–		–		*(63,685)*	
by purchase of shares on the open market	*(253,104)*		*(55,119)*		–	
by repurchase of vested share options	*(275,994)*		*(243,872)*		–	
Outstanding at December 31	**370,340**	**$ 50.71**	**933,284**	**$ 48.72**	**2,266,580**	**$ 48.29**
Vested at December 31	92,751	$ 45.96	176,842	$ 45.00	813,915	$ 43.50
Exercisable at December 31	5,029	43.50	42,619	44.02	537,703	43.50

The weighted average share price at the dates of exercise was $310.22, $111.33 and $69.92 in 2008, 2007 and 2006, respectively.

The weighted average remaining contractual life of the share options outstanding as at December 31, 2008, 2007 and 2006 was 0.30, 0.54 and 0.82 years, respectively.

In the years ended December 31, 2008, 2007 and 2006, compensation expense, arising from the share option plans, was as follows:

US$ million	2008	2007	2006
Expense arising from equity-settled share-based payment transactions	**$ 2**	$ 5	$ 17
Expense arising from cash-settled share-based payment transactions	**33**	–	–
	$ 35	**$ 5**	**$ 17**

25. Provisions

In the years ended December 31, 2008, 2007 and 2006, the movement in provisions was as follows:

US$ million	Site restoration costs	Legal claims	Other provisions	Total
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	82	13	50	145
Utilised in the year	(2)	(2)	(25)	(29)
Unused amounts reversed	–	(9)	(7)	(16)
Translation difference	5	–	–	5
At December 31, 2007	**134**	**15**	**38**	**187**
Additional provisions	41	6	36	83
Increase from passage of time	9	–	–	9
Effect of change in the discount rate	(10)	–	–	(10)
Effect of changes in estimated costs and timing	11	–	(1)	10
Utilised in the year	(5)	(3)	(9)	(17)
Unused amounts reversed	–	(13)	(3)	(16)
Translation difference	(27)	(1)	(2)	(30)
At December 31, 2008	**$ 153**	**$ 4**	**$ 59**	**$ 216**

Site Restoration Costs

Under the legislation, mining companies and steel mills have obligations to restore mining and certain other sites. As of December 31, 2008, 2007 and 2006, the Group accrued a provision for site restoration costs in the amount of $153 million, $134 million and $38 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 2008, the discount rates varied from 6.85% to 11.90%.

26. Other Long-Term Liabilities

Other long-term liabilities consisted of the following as of December 31:

US$ million	Notes	2008	2007	2006
Earn out and synergy payments	4	**$ 34**	$ 34	$ 22
Dividends payable under cumulative preference shares of a subsidiary to a related party	16	**14**	14	15
Employee income participation plans and compensations		**16**	15	9
Tax liabilities		**18**	13	1
Restructured liabilities assumed in business combination		**–**	127	–
Other liabilities		**7**	7	1
		89	210	48
Less: current portion	27	**(31)**	(155)	(1)
		$ 58	**$ 55**	**$ 47**

Gain on Extinguishment of Debts

In 2006, the Group repaid its liabilities under the Settlement Agreement to Sibtek Insaat Ticaret below their carrying value. Gain arising from the repayment of liabilities under the Settlement Agreement was included in gain on extinguishment of debts in the amount of $13 million in the consolidated income statement for year ended December 31, 2006.

27. Trade and Other Payables

Trade and other payables consisted of the following as of December 31:

US$ million	*Notes*	**2008**	**2007**	**2006**
Trade accounts payable		**$ 1,094**	$ 729	$ 308
Promissory notes with current maturities		**5**	4	–
Accrued payroll		**208**	201	102
Termination benefits		**2**	–	13
Other long-term obligations with current maturities	*26*	**31**	155	1
Other payables		**139**	153	38
		$ 1,479	**$ 1,242**	**$ 462**

Maturity profile of the accounts payable is shown in Note 29.

28. Other Taxes Payable

Taxes payable were mainly denominated in roubles and consisted of the following as of December 31:

US$ million	**2008**	**2007**	**2006**
Social insurance taxes	**$ 31**	$ 39	$ 27
VAT and related fines and penalties	**72**	113	27
Property tax	**15**	15	12
Land tax	**9**	10	10
Personal income tax	**10**	13	8
Other taxes, fines and penalties	**17**	19	12
	$ 154	**$ 209**	**$ 96**

29. 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. There are no significant concentrations of credit risk within the Group. The Group defines counterparties as having similar characteristics if they are related entities. The major customers are Russian Railways and Carbofer (3.9% and 4.4% of total sales, respectively). Concentration of credit risk did not exceed 5% of gross monetary assets at any time during the year.

Some part of the Group's sales is 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.

The maximum exposure to credit risk is equal to the carrying amount of financial assets, which is disclosed below.

US$ million	**2008**	**2007**	**2006**
Restricted deposits at banks	**$ 2**	$ 5	$ 219
Financial instruments included in other non-current assets	**–**	3	–
Long-term and short-term investments	**622**	25	25
Trade and other receivables	**1,409**	1,829	556
Loans receivable	**113**	60	26
Receivables from related parties	**156**	88	55
Cash and cash equivalents	**930**	327	842
	$ 3,232	**$ 2,337**	**$ 1,723**

Receivables from related parties in the table above do not include prepayments in the amount of $19 million, $18 million and $0 million as of December 31, 2008, 2007 and 2006, respectively.

The ageing analysis of trade and other receivables, loans receivable and receivables from related parties is presented in the table below.

	2008		**2007**		**2006**	
US$ million	**Gross amount**	**Impairment**	**Gross amount**	**Impairment**	**Gross amount**	**Impairment**
Not past due	**$ 1,035**	**$ (8)**	$ 1,834	$ (3)	$ 519	$ (2)
Past due	**736**	**(85)**	222	(76)	177	(57)
less than six months	500	(13)	133	(4)	101	(3)
between six months and one year	166	(7)	16	(4)	13	(7)
over one year	70	(65)	73	(68)	63	(47)
	$ 1,771	**$ (93)**	**$ 2,056**	**$ (79)**	**$ 696**	**$ (59)**

In the years ended December 31, 2008, 2007 and 2006, the movement in allowance for doubtful accounts was as follows:

US$ million	**2008**	**2007**	**2006**
At January 1	**$ 79**	$ 59	$ 54
Charge for the year	**35**	15	7
Utilised	**(7)**	–	(6)
Translation difference	**(14)**	5	4
At December 31	**$ 93**	**$ 79**	**$ 59**

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 as they arise. In 2008, in response to the global financial crisis, the Group introduced a daily monitoring of cash proceeds and payments. The Group maintains credit lines and overdraft facilities that can be drawn down to meet short-term financing needs. As these facilities were significantly reduced, the Group plans to replace them with term loans. In addition, the Group's objective is to refinance its short-term debt by long-term borrowings.

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.

Year ended December 31, 2008

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	**$ 8**	**$ 61**	**$ 1,727**	**$ 120**	**$ 1,333**	**$ 1,338**	**$ 4,587**
Interest	**–**	**54**	**357**	**239**	**633**	**366**	**1,649**
Finance lease liabilities	**–**	**2**	**3**	**3**	**7**	**8**	**23**
Financial instruments included in long-term liabilities	**1**	**–**	**16**	**4**	**13**	**29**	**63**
Total fixed-rate debt	**9**	**117**	**2,103**	**366**	**1,986**	**1,741**	**6,322**
VARIABLE-RATE DEBT							
Loans and borrowings							
Principal	**414**	**627**	**1,004**	**1,445**	**1,907**	**9**	**5,406**
Interest	**–**	**59**	**146**	**121**	**131**	**–**	**457**
Finance lease liabilities	**–**	**4**	**11**	**11**	**20**	**–**	**46**
Total variable-rate debt	**414**	**690**	**1,161**	**1,577**	**2,058**	**9**	**5,909**
NON-INTEREST BEARING DEBT							
Financial instruments included in long-term liabilities	**6**	**–**	**–**	**–**	**–**	**–**	**6**
Trade and other payables	**519**	**670**	**49**	**–**	**–**	**–**	**1,238**
Payables to related parties	**104**	**56**	**24**	**–**	**–**	**–**	**184**
Dividends payable	**320**	**–**	**–**	**–**	**–**	**–**	**320**
Total non-interest bearing debt	**949**	**726**	**73**	**–**	**–**	**–**	**1,748**
	$ 1,372	**$ 1,533**	**$ 3,337**	**$ 1,943**	**$ 4,044**	**$ 1,750**	**$ 13,979**

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	$ –	$ 42	$ 268	$ 412	$ 176	$ 792	$ 1,690
Interest	–	23	108	110	202	191	634
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	–	66	395	527	399	1,023	2,410
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	127	–	1	–	–	134
Trade and other payables	145	695	46	–	–	–	886
Payables to related parties	76	68	2	–	–	–	146
Amounts payable under put options for shares of subsidiaries	6	–	–	–	–	–	6
Dividends payable	96	–	–	–	–	–	96
Total non-interest bearing debt	329	890	48	1	–	–	1,268
	$ 329	**$ 1,442**	**$ 2,047**	**$ 1,680**	**$ 3,056**	**$ 1,039**	**$ 9,593**

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	–	–	175	–	–	–	175
Dividends payable	62	–	–	–	–	–	62
Total non-interest bearing debt	154	250	204	–	–	–	608
	$ 155	**$ 328**	**$ 1,041**	**$ 543**	**$ 1,008**	**$ 1,079**	**$ 4,154**

Payables to related parties in the tables above do not include advances received in the amount of $138 million, $86 million and $151 million as of December 31, 2008, 2007 and 2006, respectively. In addition, payables to related parties in the table as of December 31, 2007 do not include a liability to Lanebrook in respect of the 48.6% ownership interest in Palmrose, which was settled by the issue of shares (Note 20).

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. 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. Due to the ongoing world liquidity crisis the Group has a limited ability to negotiate interest rates.

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 assets 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.

In estimating reasonably possible changes for 2007 and 2006 the Group assessed the volatility of interest rates during the three years preceding the balance sheet dates. In 2008, the Group assessed reasonably possible changes based on the volatility of interest rates during 2008.

	2008		2007		2006	
	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	**(53)**	**$ 24**	(125)	$ 24	(100)	$ 9
Increase in LIBOR	**53**	**(24)**	75	(14)	50	(5)
Decrease in Prime rate	**(106)**	**4**	–	–	–	–
Increase in Prime rate	**106**	**(4)**	–	–	–	–
Decrease in Federal Funds Rate	**(33)**	**1**	–	–	–	–
Increase in Federal Funds Rate	**33**	**(1)**	–	–	–	–
Liabilities denominated in euro						
Decrease in EURIBOR	**(30)**	**1**	(150)	3	(50)	1
Increase in EURIBOR	**30**	**$ (1)**	75	$ (1)	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 US dollars and euro.

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.

The Group's exposure to currency risk determined as the net monetary position in respective currencies was as follows:

US$ million	2008	2007	2006
USD/RUR	**$ 967**	$ 430	$ 147
EUR/USD	**180**	193	185
EUR/RUR	**(390)**	(313)	(245)
EUR/CZK	**48**	71	56
USD/CZK	**(216)**	(102)	(180)
USD/ZAR	**(7)**	36	(88)
USD/UAH	**(203)**	–	–
RUR/UAH	**12**	–	–
CAD/USD	**1,611**	–	–

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 reasonably possible changes for 2007 and 2006 the Group assessed the volatility of foreign exchange rates during the three years preceding the balance sheet dates. In 2008, the Group assessed reasonably possible changes based on the volatility of foreign exchange rates during 2008.

	2008		2007		2006	
	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/RUR	**(8.98)**	**(87)**	(5.80)	(25)	(6.10)	(8)
	8.98	**87**	4.20	18	4.50	7
EUR/USD	**(14.32)**	**(26)**	(7.35)	(14)	(9.25)	(17)
	14.32	**26**	7.35	14	9.25	17
EUR/RUR	**(8.63)**	**34**	(5.45)	17	(7.00)	17
	8.63	**(34)**	3.25	(10)	4.70	(11)
EUR/CZK	**(10.61)**	**(5)**	(4.10)	(3)	(3.50)	(2)
	10.61	**5**	4.10	3	3.50	2
USD/CZK	**(18.52)**	**40**	(9.40)	10	(8.40)	15
	18.52	**(40)**	9.40	(10)	10.10	(18)
USD/ZAR	**(28.52)**	**2**	(17.70)	(6)	(15.00)	13
	28.52	**(2)**	13.00	5	15.00	(13)
USD/UAH	**(11.77)**	**24**	–	–	–	–
	11.77	**(24)**	–	–	–	–
RUR/UAH	**(14.73)**	**(2)**	–	–	–	–
	14.73	**2**	–	–	–	–
CAD/USD	**(15.44)**	**(249)**	–	–	–	–
	15.44	**249**	–	–	–	–

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 loans receivable and payable, promissory notes, and restructured taxes, approximate their fair value. The following table shows financial instruments whith carrying amounts different from fair values.

	2008		2007		2006	
US$ million	Carrying amount	Fair Value	Carrying amount	Fair Value	Carrying amount	Fair Value
Long-term fixed-rate bank loans	**$ 423**	**$ 354**	$ 436	$ 423	$ 462	$ 406
Long-term variable-rate bank loans	**4,686**	**3,824**	3,998	3,910	472	472
8.875 per cent notes due 2013	**1,260**	**668**	–	–	–	–
8.25 per cent notes due 2015	**718**	**374**	742	747	740	776
9.5 per cent notes due 2018	**567**	**284**	–	–	–	–
10.875 per cent notes due 2009	**314**	**302**	314	316	314	330
	$ 7,968	**$ 5,806**	**$ 5,490**	**$ 5,396**	**$ 1,988**	**$ 1,984**

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 used for valuation of financial instruments were as follows:

Currency in which financial assets are denominated	2008	2007	2006
USD	**10.0 – 16.8%**	7.7%	7.9%
EUR	**6.6%**	6.5%	5.8%
RUR	**23.0%**	9.1%	–

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.

30. 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	*Notes*	2008	2007	2006
Liabilities for purchases of property, plant and equipment		**$ 124**	$ 50	$ 20
Liabilities for purchases of shares in subsidiaries and other entities		**15**	38	6
Issue of shares to settle the liability for the acquisition of the Ukrainian businesses	*4*	**757**	–	–
Loans provided in the form of payments by banks for the subsidiaries acquired by the Group	*4*	**938**	–	–
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	*4, 13*	**–**	207	–
Offset of loan receivable with amounts payable for the purchase of non-current assets		**–**	13	–
Offset of income tax payable against other taxes		**52**	–	–
Loans paid by banks to vendors for property, plant and equipment		**–**	–	11

31. Commitments and Contingencies

Operating Environment of the Group

The Group is one of the largest steel producers globally and is the largest steel producer in Russia. Its major subsidiaries are located in Russia, Ukraine, the European Union, the USA, Canada and the Republic of South Africa.

Russia and Ukraine are considered to be developing markets with higher economic and political risks. The Russian and Ukrainian economies are characterised by relatively high inflation and the existence of currency controls, which cause the national currency to be illiquid outside of the respective countries. These two countries continue to implement economic reforms and the development of legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian and Ukrainian economies is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by governments. The developing economies are vulnerable to market downturns and economic slowdowns elsewhere in the world.

The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia and Ukraine. The volatile global economic climate is having significant negative effects on the Group's business in North America and Europe.

The Group sells its products to shipping, pipe-making, railway transportation, construction, oil and gas industries, all of which have reported substantially lower customer demand due to the financial crisis and the slowing global economy. Energy prices have fallen dramatically and this may reduce oil and gas exploration and development, which in turn could impact the Group's tubular business. In addition to slackening demand by the end customers, some of the Group's customers are experiencing difficulty in obtaining credit, which has further reduced their purchases from the Group even beyond that resulting from the decline in their sales. The duration of the crisis and the recovery of these industries will have a significant impact on the Group.

The worldwide financial crisis may result in a further reduction of the available credit facilities as well as substantially higher interest rates. The reduced cash from operations and the reduced availability of credit may increase the cost, delay the timing of, or reduce planned capital expenditures. These factors may also negatively impact the Group's ability to make acquisitions.

While the stabilisation measures aimed at providing liquidity and supporting debt refinancing have been introduced by the governments, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects. The unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

Taxation

Russian and Ukrainian 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 $24 million.

Contractual Commitments

At December 31, 2008, the Group had contractual commitments for the purchase of production equipment and construction works for an approximate amount of $393 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 2009, the Group plans to spend approximately $80 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 2009 to 2013, the Group is obligated to spend approximately $213 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, together with several other corporations and individuals, was named as a defendant in a civil action related to bankruptcy proceedings at KGOK that occurred between 1999 and 2003, prior to the Group's acquisition of KGOK and the alleged conversion and violations of the United States Racketeer Influenced and Corrupt Organisations Act ("RICO"). This law suit was filed in November 2004 in the United States District Court for the District of Delaware (the "District Court"). The plaintiffs seek damages in excess of $500 million.

On April 26, 2005, the plaintiffs filed another suit with the Delaware Chancery Court (the "Chancery Court") against the same defendants, including the Group, based on the same factual allegations. However, in October 2005, the Chancery Court granted the defendant's motion to stay the action pending the developments of the litigation between the parties in the District Court. In April 2006, the District Court dismissed the claim based on a decision that the plaintiffs' claim arises from the conduct of business in Russia and, therefore, the Russian jurisdiction is an adequate forum for the plaintiffs' claim, however, the District Court did not issue an injunction sought by the defendants that would bar plaintiffs from pursuing any additional litigations in the United States. Upon getting such a decision in the District Court, the plaintiffs filed an appeal on that decision and the defendants cross-appealed on the injunction issue. The plaintiffs made another attempt to continue the proceeding in the Chancery Court, which was not upheld: in August 2006 the Chancery Court has issued his opinion denying the plaintiffs' motion to lift the stay. In May 2007, the plaintiffs' appeal was dismissed.

During 2008 the plaintiffs wrote to the Delaware District Court concerning the English High Court decision held that litigation of a dispute between two other defendants in the Delaware District Court action (Messrs. Chernoi and Deripaska) should proceed in England because of the risk that Russian courts would not provide an adequate forum for that litigation. In their letter, the plaintiffs asked the Delaware District Court to postpone its decision on the injunction issue, and suggested that the English High Court's judgment may have some impact on the matters already decided by the Delaware District Court and affirmed by the Court of Appeals. In September 2008, the Delaware District Court denied the plaintiffs' request for related discovery, holding that it would be irrelevant to the pending injunction motion. The plaintiffs further wrote to the Delaware District Court in 2009, inquiring about the status of the pending injunction motion. To date, the Delaware District Court has taken no action in response to the plaintiffs' letter.

As a result, the federal action under the RICO statute is over. The case is now before the District Court exclusively on the narrow issue of whether to grant the injunction barring the plaintiffs from pursuing their claims in any other courts of the United States, including the pending action in the Chancery Court.

Consequently, management believes that the ultimate resolution of the lawsuit will not have a significant impact on the financial position of the Group. Therefore, no provision is recognised in the financial statements in respect of this case.

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. Accounts receivable of Vitkovice Steel include 409 million Czech koruna ($21 million at the exchange rate as of December 31, 2008) due from OSINEK, the former parent company of Vitkovice Steel. The recoverability of this receivable is subject to successful resolution of the dispute between OSINEK and ArcelorMittal Ostrava a.s. over the price of pig iron supplied in 2003 and in the period from January 1 to February 20, 2004. Management believes that this receivable will be recovered.

Stratcor, the Group's subsidiary, together with IBM Corporation, Anglo American 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 a conspiracy with the Apartheid-era government of South Africa in violation of international law and participated in genocide, expropriation and other wrongful acts. Plaintiffs sought unspecified compensatory damages and exemplary damages of $10,000 million. The Group's potential losses under this litigation were limited to the net assets of Stratcor being $81 million as of December 31, 2008. On March 9, 2009, the court dismissed that action based upon the plaintiffs' failure to prosecute the case.

32. Subsequent Events

Borrowings

Subsequent to December 31, 2008, the Group signed bank loan agreements for $243 million (at the exchange rate as of April 26, 2009), including $100 million in respect of long-term borrowings.

Repurchase of Notes

Starting from January 1, 2009 till the date of authorisation of issue of these financial statements, the Group re-purchased notes due 2009, 2013, 2015 and 2018 with the nominal amount of $381 million for cash consideration of $294 million.

Subsequent Pledges

Subsequent to December 31, 2008, the Group pledged certain items of inventory with an approximate carrying value of $260 million as collateral against loans provided to the Group.

Responsibility Statement of the Directors in respect of the Annual Report and the Financial Statements

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and profit of the Company and the undertakings included in the consolidation taken as a whole;
- the management report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By order of the Board

Alexander Frolov
Chief Executive Officer
30 April 2009

Abbreviations and Acronyms

AGM – Annual General Meeting

BRIC – Brazil, Russia, India and China

CAD – The Canadian dollar

CEO – Chief Executive Officer

CIS – The Commonwealth of Independent States

CO2 – Carbon dioxide

CZK – The Czech koruna

EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortisation

EGM – Extraordinary General Meeting

ERM – Enterprise Risk Management

EU – European Union

EUR or € – The Euro

EURIBOR – The Euro Interbank Offered Rate

GDP – Gross Domestic Product

GDR – Global Depositary Receipts

HRC – Hot rolled coil

IAS – International Accounting Standard

IFRS – International Financial Reporting Standards

kt – Thousand tonnes

kWh – Kilowatt-hour

LIBOR – The London Interbank Offered Rate

LSE – London Stock Exchange plc

M or mln – Million

Mt – Million tonnes

p.a. – Per annum, annually

RoW – Rest of the world

RZD – Joint Stock Company “Russian Railways”

RUB – The Russian rouble

S$ – The Singapore dollar

t – Tonne. In this document, unless stated otherwise, all references to “tonnes” are to metric tonnes. One metric tonne is equal to one thousand kilograms, or 2,204.6 pounds

UK – United Kingdom of Great Britain and Northern Ireland

US or USA – The United States of America

UAH – The Ukrainian hryvnia

USD, US$ or $ – The US dollar

V – Vanadium

VAT – Value added tax

VEB – Russia's State Corporation Bank for Development and Foreign Economic Affairs “Vnesheconombank”

ZAR – The South African rand

Glossary of Selected Terms

Angle
Angle shaped section for construction

Billet
A usually square, semi-finished steel product obtained by continuous casting or rolling of blooms. Sections, rails, wire rod and other rolled products are made from billets

Blast furnace
The blast furnace is the classic production unit to reduce iron ore to molten iron, known as 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, coal or other carbon containing materials are sometimes injected with this hot air

Bloom
A usually square, semi finished product obtained by continuous casting or rolling of ingots. Blooms are used to make billets and in the manufacture of structural steel products

Brownfield project
A development or exploration project in the vicinity of an existing operation

Channel
U shaped section for construction

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 which makes it ideal for use in a blast furnace

Concentrate
A product resulting from ore enrichment, with a high grade of extracted mineral

Construction products
Include beams, channels, angles, rebars, wire rods, wire and other goods

Consumption
The physical use of steel by end users

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 and desulfurisation, and add strength. Examples: ferrochrome, ferromanganese, ferrosilicon and ferrovanadium

Flat products or Flat-rolled steel products
Include commodity plate, specialty plate and other products in flat shape 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. Only extremely 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

Long products
Include bars, rods and structural products that are “long” rather than “flat” and are produced from blooms or billets

Open-hearth furnace
A vessel used to produce steel, which has been largely superseded by substantially more efficient basic oxygen furnace (BOF)

Other steel products
Include rounds, grinding balls, mine uprights, strips etc.

Pellets
An enriched form of iron ore shaped into small balls or pellets. Pellets are used as raw material in the steel making process

Pig iron
The solidified iron produced from a blast furnace used for steel production. In liquid form, pig iron is known as hot metal

Railway products
Include rails, rail fasteners, wheels, tyres and other goods for the railway sector

Rebar
Reinforcing bar, a commodity grade steel used to strengthen concrete in highway and building construction

Scrap
Iron containing recyclable materials (mainly industrial or household waste)) that is generally remelted and processed into new steel

Semi-finished steel products
The first solid product forms in the steel making process such as slabs, blooms, billets or pipe blanks that are further processed into more finished products including beams, bars, sheets, tubing etc.

Sinter
An iron rich clinker formed by heating iron ore fines and-coke in a sinter line, to be used for blast furnace. A process that combines iron-bearing particles recovered from environmental control filters into small pellets. The pellets can be used as charge in a blast furnace

Slab
A common type of semi-finished steel product which can be further rolled into sheet and plate products

Slag
Slag is a byproduct generated when non-ferrous substances in iron ore, limestone and coke are separated from the hot metal in metallurgical production. Slag is used in cement and fertiliser production as well as for base course material in road construction

Tubular products
Include large diameter line pipes, ERW pipes and casings, seamless pipes and other tubular products

Vanadium
A grey metal that is normally used as an alloying agent for iron and steel. It is also used to strengthen titanium-based alloys

Vanadium pentoxide
The chemical compound with the formula V2O5: this orange solid is the most important compound of vanadium. Upon heating, it reversibly loses oxygen

Information in respect of the Company

Evraz Group S.A. is the parent company of the Evraz group of companies. All references to “Evraz”, the “Company”, the “Group”, ‘we’ or ‘us’ relate to Evraz Group S.A. and its consolidated subsidiaries.

The registered address of Evraz Group S.A. is 1 Allee Schef-fer L-2520, Luxembourg, tel. +352 24 14 33 1. The Company is registered with the Luxembourg Register of Commerce and Companies under Number B105615. London Stock Exchange symbol: ‘EVR’.

EvrazHolding LLC is a centralised management company overseeing the management of Evraz’s assets.

EvrazHolding in Russia:
Address:
15 Dolgorukovskaya str., bld. 4-5,
Moscow 127006
tel. +7 495 234 4631
www.evraz.com

Evraz is a Component of the Following Recognised Market Indices:

Dow Jones
Emerging Markets Metals & Mining Titans 30 Index

Dow Jones
Emerging Markets Basic Materials Titans 30 Index

S&P Russia 10 Index

FTSE Russia IOB Index (10 constituents)

The DAXglobal Russia+Index (Bloomberg ticker: DXRPUS)

Russian Industrial Leaders Index, 30 components, (RUXX), calculated by Dow Jones Indexes

Further Information

GDR Programme

The Bank of New York Mellon
Depositary Receipts Division
101 Barclay Street 22nd floor
New York, NY 10286 USA
www.adrbny.com

The Bank of New York Mellon
Shareowner Services
PO Box 11258
Church Street Station
New York, NY 10286-1258 USA
www.stockbny.com

External Auditor
Ernst & Young LLC
Sadovnicheskaya Nab., 77, bld. 1
Moscow 115035 Russia
www.ey.com/russia

Availability of Annual Report

Evraz Group’s Annual Report for 2008 and those for previ-ous years can be downloaded from the website www.evraz.com/investor/reports.

To obtain a copy of the Company’s Annual Report, free of charge, or to submit any queries, please contact:

Investor Relations:
tel. +7 495 232 1370,
ir@evraz.com

Cautionary Statements

The Evraz Group S.A. Annual Report and Accounts for 2008 contains certain "forward looking statements" which include all statements other than the statements of historical facts that relate to Evraz's plans, financial position, objectives, goals, strategies, future operations and performance together with the assumptions underlying such matters. The Company generally uses words such as "estimates", "expects", "believes", "intends", "plans", "may", "will", "should" and other similar expressions to identify forward looking statements.

Evraz Group has based these forward looking statements on the current views of its management with regard to future events and performance. These views reflect mangement's best judgement but involve uncertainties and are subject to certain known and unknown risks together with other important factors outside the Company's control, the occurrence of which could cause actual results to differ materially from those expressed in Evraz's forward looking statements.

Competitive Position

Statements referring to Evraz's competitive position reflect the Company's beliefs and, in some cases, rely on a range of sources, including investment analysts' reports, independent market studies and the Company's internal estimates of market share based on publicly available information regarding the financial results and performance of various market participants.

Rounding

Certain figures included in this document have been subject to rounding adjustments. Accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

www.evraz.com