IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE EITHER (1) QIBS (AS DEFINED HEREIN) OR (2) PERSONS LOCATED OUTSIDE OF THE UNITED STATES.

IMPORTANT: You must read the following before continuing. The following applies to the prospectus (the "Prospectus") following this page, and you are therefore advised to read this page carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from the Company or any Manager (each as defined in the Prospectus) as a result of such access.

This Prospectus has been prepared solely in connection with the proposed offering to certain institutional and professional investors of the Notes (as defined in the Prospectus).

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN THE UNITED STATES OR ANY OTHER JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE NOTES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND THE NOTES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE OR LOCAL SECURITIES LAWS.

THE ATTACHED PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER AND, IN PARTICULAR, MAY NOT BE FORWARDED TO A PERSON IN THE UNITED STATES OR A U.S. ADDRESS. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS. IF YOU HAVE GAINED ACCESS TO THIS TRANSMISSION CONTRARY TO ANY OF THE FOREGOING RESTRICTIONS, YOU ARE NOT AUTHORISED TO ACCESS THE ATTACHED PROSPECTUS OR USE IT FOR ANY PURPOSE AND WILL NOT BE ABLE TO PURCHASE ANY NOTES.

Confirmation of your representation: In order to be eligible to view the attached Prospectus or make an investment decision with respect to the Notes, prospective investors must be either (1) QIBs (within the meaning of Rule 144A as defined herein) or (2) persons located outside the United States. This Prospectus is being sent to you at your request, and by accessing this Prospectus you shall be deemed to have represented to the Company and the Managers that (1) either (a) you and any customers you represent are QIBs or (b) you and any customers you represent are outside of the United States and the electronic mail address that you have provided and to which this e-mail has been delivered is not located in the United States, its territories and possessions, any State of the United States or the District of Columbia and (2) you consent to delivery of such Prospectus by electronic transmission.

You are reminded that this Prospectus has been delivered to you on the basis that you are a person into whose possession this Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Prospectus to any other person.

The materials relating to this offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer, and the Managers or any affiliate of the Managers is a licensed broker or dealer in the relevant jurisdiction, the offering shall be deemed to be made by the Managers or such affiliate on behalf of the Company in such jurisdiction.

This communication is directed solely at relevant persons (as such term is defined herein). Any investment activity to which this communication relates will only be available to and will only be engaged with relevant persons. Any person who is not a relevant person should not act or rely on this communication.

The attached Prospectus has been sent to you in electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of the Company, any Manager, any person who controls any of them or any director, officer, employee or agent of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Managers.

U.S.$1,050,000,000 8.875% NOTES DUE 2013

US$550,000,000 9.50% NOTES DUE 2018

EVRAZ GROUP S.A.

Issue Price of the 2013 Notes: 100%

Issue Price of the 2018 Notes: 100%

Evraz Group S.A., a company incorporated as a société anonyme under the laws of the Grand Duchy of Luxembourg (the "Company" or the "Issuer"), is issuing an aggregate principal amount of US$1,050,000,000 8.875% Notes due 2013 (the "2013 Notes") and an aggregate principal amount of US$550,000,000 9.50% Notes due 2018 (the "2018 Notes", and together with the 2013 Notes, the "Notes").

The 2013 Notes will be constituted by, and have the benefit of, a trust deed dated 24 April 2008 (the "2013 Trust Deed") and the 2018 Notes will be constituted by, and have the benefit of, a trust deed dated 24 April 2008 (the "2018 Trust Deed") (the 2013 Trust Deed and the 2018 Trust Deed, together the "Trust Deeds"), in each case between the Issuer and BNY Corporate Trustee Services Limited (the "Trustee").

Unless previously redeemed or purchased and cancelled, the 2013 Notes will be redeemed at their principal amount on 24 April 2013. All, but not some only, of the 2013 Notes are subject to redemption at their principal amount (together with interest accrued to but excluding the redemption date) at the option of the Issuer at any time in the event of certain changes affecting taxation in any Relevant Jurisdiction (as defined in Condition 8 of the 2013 Notes (*Taxation*)). The Issuer may also redeem the 2013 Notes, in whole or in part, at any time on at least 30 days' notice but not more than 60 days' notice to Noteholders at their principal amount plus Applicable Premium (as defined in Condition 19 of the 2013 Notes (*Definitions*)), together with accrued interest to the redemption date (see Condition 7.3 of the 2013 Notes (*Redemption at Make-Whole*)). If a Change of Control (as defined in Condition 7.4 of the 2013 Notes (*Change of Control*)) has occurred, each holder of a 2013 Note will have the option to require the Issuer to redeem such 2013 Note on the Put Settlement Date (as defined in Condition 7.4 of the 2013 Notes (*Change of Control*)) at an amount equal to 101% of the principal amount of the 2013 Note together with interest accrued, if any, to the Put Settlement Date, as further described in "Terms and Conditions of the 2013 Notes—Redemption and Purchase—Change of Control".

Unless previously redeemed or purchased and cancelled, the 2018 Notes will be redeemed at their principal amount on 24 April 2018. All, but not some only, of the 2018 Notes are subject to redemption at their principal amount (together with interest accrued to but excluding the redemption date) at the option of the Issuer at any time in the event of certain changes affecting taxation in any Relevant Jurisdiction (as defined in Condition 8 of the 2018 Notes (*Taxation*)). The Issuer may also redeem the 2018 Notes, in whole or in part, at any time on at least 30 days' notice but not more than 60 days' notice to Noteholders at their principal amount plus Applicable Premium (as defined in Condition 19 of the 2018 Notes (*Definitions*)), together with accrued interest to the redemption date (see Condition 7.3 of the 2018 Notes (*Redemption at Make-Whole*)). If a Change of Control (as defined in Condition 7.4 of the 2018 Notes (*Change of Control*)) has occurred, each holder of a 2018 Note will have the option to require the Issuer to redeem such 2018 Note on the Put Settlement Date (as defined in Condition 7.4 of the 2018 Notes (*Change of Control*)) at an amount equal to 101% of the principal amount of the 2018 Note together with interest accrued, if any, to the Put Settlement Date, as further described in "Terms and Conditions of the 2018 Notes—Redemption and Purchase—Change of Control".

Interest on the Notes is payable semi-annually in arrear on 24 April and 24 October of each year commencing on 24 October 2008, as described in Condition 5 of the 2013 Notes and the 2018 Notes (*Interest*). The 2013 Notes will bear interest from, and including, 24 April 2008 at a rate of 8.875% per annum and the 2018 Notes will bear interest from, and including, 24 April 2008 at a rate of 9.50% per annum. The issue price of the Notes is 100% of their principal amount and the issue date is 24 April 2008 (the "Issue Date").

Except as set forth herein, payments in respect of the Notes will be made without any deduction or withholding for or on account of taxes of any Relevant Jurisdiction.

INVESTING IN THE NOTES INVOLVES A HIGH DEGREE OF RISK. SEE "RISK FACTORS" BEGINNING ON PAGE 15.

The 2013 Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and, subject to certain exceptions, may not be offered or sold within the United States. The 2013 Notes may be offered or sold (i) within the United States to qualified institutional buyers ("QIBs") (as defined in Rule 144A under the Securities Act ("Rule 144A")) in reliance on the exemption from registration under the Securities Act provided by Rule 144A (the "2013 Rule 144A Notes"); and (ii) in offshore transactions in reliance on Regulation S under the Securities Act ("Regulation S") (the "2013 Regulation S Notes"). Prospective purchasers of the 2013 Rule 144A Notes are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions, see "Subscription and Sale" and "Transfer Restrictions".

The 2018 Notes have not been, and will not be, registered under the Securities Act, and, subject to certain exceptions, may not be offered or sold within the United States. The 2018 Notes may be offered or sold (i) within the United States to QIBs (as defined in Rule 144A) in reliance on the exemption from registration under the Securities Act provided by Rule 144A (the "2018 Rule 144A Notes") (the 2018 Rule 144A Notes and the 2013 Rule 144A Notes together, the "Rule 144A Notes"); and (ii) in offshore transactions in reliance on Regulation S (the "2018 Regulation S Notes") (the 2018 Regulation S Notes and the 2013 Regulation S Notes together, the "Regulation S Notes"). Prospective purchasers of the 2018 Rule 144A Notes are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of these and certain further restrictions, see "Subscription and Sale" and "Transfer Restrictions".

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 ("FSMA") (the "U.K. Listing Authority") for approval of this document as a prospectus for the purposes of Directive 2003/71/EC (the "Prospectus Directive"). Application has been made for the Notes to be admitted to the Official List of the U.K. Listing Authority and for such Notes to be admitted to trading on the regulated market of the London Stock Exchange plc (the "London Stock Exchange") for the purposes of the Markets in Financial Instruments Directive (2004/39/EC) (the "Regulated Market"). Application has also been made to have the Rule 144A Notes designated as eligible for trading in the Private Offering, Resale and Trading through Automated Linkages ("PORTAL") System of the National Association of Securities Dealers, Inc.

The Notes have been rated BB by Fitch Ratings Limited ("Fitch"), Ba3 by Moody's Investor Services ("Moody's") and BB- by Standard and Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("Standard and Poor's"). A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency.

The Notes will be offered and sold in minimum denominations of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof. The 2013 Regulation S Notes and the 2018 Regulation S Notes will each initially be represented by interests in a global unrestricted note certificate in registered form (together, the "Regulation S Global Note Certificates"), without interest coupons, which will be deposited with a common depositary for, and registered in the name of a nominee of, Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"), on the Issue Date. Beneficial interests in the Regulation S Global Note Certificates will be shown on, and transfer thereof will be effected only through, records maintained by Euroclear or Clearstream, Luxembourg. The 2013 Rule 144A Notes and the 2018 Rule 144A Notes will each initially be represented by a global restricted note certificate in registered form (together, the "Rule 144A Global Note Certificates") (the Rule 144A Global Note Certificates and the Regulation S Global Note Certificates, together the "Global Note Certificates"), without interest coupons, which will be deposited with a custodian for, and registered in the name of a nominee of, the Depository Trust Company ("DTC") on the Issue Date. Beneficial interests in the Rule 144A Global Note Certificates will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its participants. See "Clearing and Settlement". Individual, definitive note certificates in registered form ("Individual Certificates") will only be available in certain limited circumstances as described herein.

Joint Lead Managers

ABN AMRO CALYON Deutsche Bank UBS Investment Bank

The date of this Prospectus is 23 April 2008.

IMPORTANT INFORMATION ABOUT THIS PROSPECTUS

This document (the "Prospectus") comprises a prospectus for the purposes of the Prospectus Directive for the purpose of giving information with respect to the Company, the Company together with its consolidated subsidiaries taken as a whole ("Evraz") and the Notes and which is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Company and Evraz. The Company accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Company, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

THE NOTES ARE OF A SPECIALIST NATURE AND SHOULD ONLY BE BOUGHT AND TRADED BY INVESTORS WHO ARE PARTICULARLY KNOWLEDGEABLE IN INVESTMENT MATTERS. AN INVESTMENT IN THE NOTES IS SPECULATIVE, INVOLVES A HIGH DEGREE OF RISK AND MAY RESULT IN THE LOSS OF ALL OR PART OF THE INVESTMENT.

The Company confirms that (i) this Prospectus contains all information with respect to Evraz and the Notes that is material in the context of the issue and offering of the Notes; (ii) the statements contained in this Prospectus relating to Evraz are in every material respect true and accurate and not misleading; (iii) the opinions, expectations and intentions expressed in this Prospectus with regard to Evraz are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions; (iv) there are no other facts in relation to Evraz or the Notes the omission of which would, in the context of the issue and offering of the Notes, make any statement in this Prospectus misleading in any material respect; and (v) all reasonable enquiries have been made by the Company to ascertain such facts and to verify the accuracy of all such information and statements.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Company or the Managers (as defined in "Subscription and Sale") or the Trustee to subscribe for or purchase any Notes. The distribution of this Prospectus and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Company, the Managers and the Trustee to inform themselves about and to observe any such restrictions. For a description of certain further restrictions on offers and sales of Notes and distribution of this Prospectus, see "Subscription and Sale" below.

No person is authorised to provide any information or to make any representation not contained in this Prospectus, and any information or representation not so contained must not be relied upon as having been authorised by or on behalf of the Company, the Trustee or the Managers. Evraz's websites do not form any part of the contents of this Prospectus.

Neither the delivery of this Prospectus nor any offering, sale or delivery of any Note made in connection herewith shall, under any circumstances, create any implication that the information contained herein is correct as at any time subsequent to its date nor does it imply that there has been no change in the affairs of Evraz since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of Evraz since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

None of the Company or any of its representatives makes any representation to any offeree or purchaser of the Notes offered hereby, regarding the legality of an investment by such offeree or purchaser under applicable legal, investment or similar laws. Each investor should consult with its own advisers as to the legal, tax, business, financial and related aspects of the purchase of the Notes.

Prospective purchasers must comply with all laws that apply to them in any place in which they buy, offer or sell any Notes or possess this Prospectus. Any consents or approvals that are needed in order to purchase any Notes must be obtained. The Company and the Managers are not responsible for compliance with these

legal requirements. The appropriate characterisation of the Notes under various legal investment restrictions, and thus the ability of investors subject to these restrictions to purchase the Notes, is subject to significant interpretative uncertainties. No representation or warranty is made as to whether or the extent to which the Notes constitute a legal investment for investors whose investment authority is subject to legal restrictions, and investors should consult their legal advisers regarding such matters.

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF THE NOTES OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

TO ENSURE COMPLIANCE WITH U.S. TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF UNITED STATES FEDERAL TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

In connection with the issue of the Notes, ABN AMRO Bank N.V. (the "Stabilising Manager") (or any person acting on behalf of it) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or any person acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if commenced, may be discontinued at any time and must be brought to an end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager (or any person acting on behalf of it) in accordance with all applicable laws and rules.

NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, IS MADE BY THE MANAGERS OR ANY OF THEIR AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF AS TO THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS DOCUMENT, AND NOTHING CONTAINED IN THIS DOCUMENT IS, OR SHALL BE RELIED UPON AS, A PROMISE OR REPRESENTATION, WHETHER AS TO THE PAST OR THE FUTURE. NONE OF THE MANAGERS OR ANY OF THEIR AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF ASSUMES ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THE INFORMATION SET FORTH IN THIS DOCUMENT. EACH PERSON RECEIVING THIS PROSPECTUS ACKNOWLEDGES THAT SUCH PERSON HAS NOT RELIED ON THE MANAGERS OR ANY OF THEIR AFFILIATES OR ANY PERSON ACTING ON THEIR BEHALF IN CONNECTION WITH ITS INVESTIGATION OF THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION OR ITS INVESTMENT DECISION. EACH PERSON CONTEMPLATING MAKING AN INVESTMENT IN THE NOTES MUST MAKE ITS OWN INVESTIGATION AND ANALYSIS OF THE CREDITWORTHINESS OF THE COMPANY AND EVRAZ AND ITS OWN DETERMINATION OF THE SUITABILITY OF ANY SUCH INVESTMENT WITH PARTICULAR REFERENCE TO ITS OWN INVESTMENT OBJECTIVES AND EXPERIENCE AND ANY OTHER FACTORS WHICH MAY BE RELEVANT TO IT IN CONNECTION WITH SUCH INVESTMENT.

NOTICE TO UNITED KINGDOM RESIDENTS

This Prospectus is only being distributed to and is only directed at (i) persons who are outside the United Kingdom, (ii) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the "Order"), (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order and (iv) persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) in connection with the issue or sale of any securities of the Company may otherwise lawfully be communicated or cause to be communicated (all such persons together being referred to as "relevant persons"). The Notes are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Notes will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this Prospectus or any of its contents.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO RUSSIAN FEDERATION INVESTORS

Under Russian law, the Notes are securities of a foreign issuer. The Notes are not eligible for initial offering and circulation in the Russian Federation. Neither the issue of the Notes nor a securities prospectus in respect of the Notes has been, or is intended to be, registered with the Federal Service for Financial Markets ("FSFM"). The information provided in this Prospectus is not an offer, or an invitation to make offers, to sell, exchange or otherwise transfer the Notes in the Russian Federation or to any Russian residents except as may be permitted by Russian law.

AVAILABLE INFORMATION

The Company has agreed that, for so long as any Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, it will, during any period in which it is neither subject to Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner or to the Principal Paying Agent (as defined herein) for delivery to such holder, beneficial owner or prospective purchaser, in each case upon the request of such holder, beneficial owner, prospective purchaser or Principal Paying Agent, the information required to be provided by Rule 144A(d)(4) under the Securities Act.

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FORWARD LOOKING STATEMENTS

This Prospectus contains "forward looking statements" within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act which relate to, without limitation, any of Evraz's plans, financial position, objectives, goals, strategies and future operations and performance and the assumptions underlying these forward looking statements (forward looking statements ascribed to Evraz are made by the Issuer). Evraz uses words such as "estimates", "expects", "believes", "intends", "plans", "may", "will", "should" and any similar expressions to identify forward looking statements. These forward looking statements are contained in the "Summary", "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Description of Business" and elsewhere in this Prospectus. Evraz has based these forward looking statements on the current view of its management with respect to future events and financial performance. These views reflect the best judgement of its management but involve uncertainties and are subject to certain known and unknown risks and other important factors beyond Evraz's control, the occurrence of which could cause actual results to differ materially from those predicted in Evraz's forward looking statements and from past results, performance or achievements. Although Evraz believes that the estimates and the projections reflected in such forward looking statements are reasonable, if one or more of the risks or uncertainties materialise or occur, including those identified in this Prospectus, or if any of the underlying assumptions prove to be incomplete or incorrect, Evraz's actual results of operations may vary from those expected, estimated or projected.

Accordingly, prospective purchasers of the Notes should not place undue reliance on these forward looking statements. The important factors that could cause Evraz's actual results, performance or achievements to differ materially from those in these forward looking statements include, but are not limited to, those discussed in "Risk Factors" and "Description of Business". These forward looking statements speak only as at the date of this Prospectus. Evraz expressly disclaims any obligation or undertaking to disseminate after the date of this Prospectus any updates or revisions to any forward looking statements contained herein to reflect any change in its expectation with regard thereto or any change in events, conditions or circumstances on which any such forward looking statements are based, unless required to do so by applicable law.

ENFORCEABILITY OF JUDGMENTS

The Company is a corporation organised under the laws of Luxembourg, as set out on the front cover of this Prospectus. Certain persons referred to herein are residents of the Russian Federation, and certain entities referred to herein are organised under the laws of Luxembourg, the Russian Federation, the European Union, the United States, Canada and South Africa.

Except for certain non-executive directors of the Company, who are residents of the United Kingdom (the "U.K."), the directors and executive officers of the Company are resident outside the U.S. and the U.K., and all or a substantial portion of the assets of such persons, directors, entities and the Company are located outside the U.S. and the U.K. As a result, it may not be possible for investors to effect service of process within the U.S. or the U.K. upon the Company or such persons or to enforce against any of them judgments obtained in the U.S. or U.K. courts.

The enforcement of judgments obtained outside of Luxembourg in Luxembourg is conditional upon obtaining an enforcement order in Luxembourg. In addition, awards of punitive damages in actions brought in the United States or elsewhere may be unenforceable in Luxembourg. Judgments based solely on liabilities arising under the civil liability provisions of United States federal securities laws are unlikely to be enforced in Luxembourg.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Market and Other Statistical Data

Market data used in this Prospectus, as well as certain statistics, including statistics in respect of product sales volumes of third parties and market share, under the captions "Overview of Evraz" on pages 1-6, "Risk Factors" on pages 15-41, "Industry Overview" on pages 84-96 and "Description of Business" on pages 97-155 have been extracted from official and industry sources and other third-party sources the Company believes to be reliable, such as the Central Bank of the Russian Federation (the "CBR") and the International Iron and Steel Institute. Where information in this Prospectus has been sourced from third parties, this information has been accurately reproduced, and as far as the Company is aware and is able to ascertain from the information published by the aforementioned sources, no facts have been omitted which would render the reproduced information, data and statistics inaccurate or misleading. Such information, data and statistics may be approximations or estimates or use rounded numbers.

Presentation of Financial Information

The Company's audited consolidated financial statements in respect of the financial years ended 31 December 2007, 2006 and 2005 (the "Annual Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standards ("IAS") and Interpretations issued by the International Accounting Standards Board. The Annual Financial Statements are included in this prospectus at pages F-1 to F-118.

Evraz's results of operations for the periods presented are significantly affected by certain acquisitions. These acquisitions include the following: Mine 12 (as defined herein) in March 2005; Palini (as defined herein) in August 2005; Vitkovice Steel (as defined herein) in November 2005; Yuzhkuzbassugol (as defined herein), in which Evraz acquired a 50% stake in December 2005 and the remaining 50% stake in June 2007; Highveld (as defined herein), in which Evraz acquired a 24.9% stake in July 2006, increasing it to 80.9% in September 2007; Stratcor (as defined herein), in which Evraz acquired a 72.84% stake in August 2006 and Oregon Steel (as defined herein) which Evraz acquired in January 2007. Results of operations of acquired businesses are generally included in Evraz's consolidated financial statements for the periods after their respective dates of acquisition. However, certain acquisitions, including principally Evrazruda (as defined below), which was acquired in March 2005, represent reorganisations under common control and are therefore accounted for using the uniting of interests method (pooling of interests). As a result, these acquisitions (including the acquisition of Evrazruda) are consolidated with effect from the beginning of the first period presented as if they had occurred at such date. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions".

Acquisitions accounted for as reorganisations under common control, including the acquisition of Evrazruda, are included in Evraz's production, sales and other data from the date of consolidation, which is the beginning of the first period presented, unless otherwise indicated. Evraz's effective ownership in such entities for periods presented is stated as the effective ownership of the entity from which it was acquired.

Currencies

In this Prospectus, all references to "CZK", "Koruna" and "koruna" are to the lawful currency of the Czech Republic; all references to the "€" and "euro" are to the lawful currency of the participating member states of the European Union that adopted the single currency in accordance with the Treaty of Rome establishing the European Economic Community, as amended; all references to the "Rand" and "rand" are to the lawful currency of South Africa; all references to "RUR", "Rouble" and "rouble" are to the lawful currency of the Russian Federation ("Russia"); all references to "S$" are to the lawful currency of Singapore; and all references to "U.S.$", "U.S. dollar" and "dollar" are to the lawful currency of the United States of America.

Exchange Rate Information

The official currency of Russia, where a substantial amount of Evraz's assets are located, is the rouble. However, the Company's consolidated IFRS financial statements are reported in U.S. dollars. As a result, fluctuations in the value of the rouble against the U.S. dollar may affect these results when translated into U.S. dollars. See "Risk Factors—Risks Relating to Evraz's Business and Industry—Currency fluctuations, in particular, the appreciation of the rouble against the U.S. dollar, may materially adversely affect Evraz's results of operations" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures in Respect of Market Risk—Exchange and Interest Rate Risk".

The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the rouble and the U.S. dollar, based on the official exchange rate quoted by the CBR. Fluctuations in the exchange rates between the rouble and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of Evraz's financial statements and other information presented in this Prospectus.

	Roubles per U.S. dollar			
	High	Low	Average[1]	Period End
Year Ended 31 December				
2005	29.00	27.46	28.28	28.78
2006	28.78	26.18	27.18	26.33
2007	26.58	24.26	25.57	24.55
	Roubles per U.S. dollar			
	High	**Low**	**Average[1]**	**Period End**
2008				
January	24.89	24.29	24.50	24.48
February	24.78	24.12	24.53	24.12
March	24.05	23.51	23.76	23.52
April (through April 10)	23.67	23.50	23.58	23.54

Note:

(1) The average of the exchange rates on the last business day of each month for the relevant annual period and on each business day for any other period.

Solely for the convenience of the reader, and except as otherwise stated, this Prospectus contains translations of some rouble amounts into U.S. dollars at a conversion rate of RUR24.55 to U.S.$1.00, which was the rate published by the CBR on 31 December 2007.

No representation is made that the rouble amounts referred to in this Prospectus could have been or could be converted into U.S. dollars at the above exchange rates or at any other rate.

References

All references to the "Company" or the "Issuer" are to Evraz Group S.A., and all references to "Evraz" are to the Company and its consolidated subsidiaries, taken as a whole.

In this Prospectus, all references to "U.S." are to the United States, all references to "U.K." are to the United Kingdom and all references to the "EU" are to the European Union and its member states as of the date of this Prospectus. All references to "CIS" are to the countries that formerly comprised the Union of Soviet Socialist Republics and that are now members of the Commonwealth of Independent States: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

In this Prospectus, all references to "tonnes" are to metric tonnes, and one metric tonne is equal to one thousand kilograms.

Definitions of certain terms used in this Prospectus may be found under "Appendix I: Glossary of Selected Terms".

Rounding

Certain figures included in this Prospectus 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 which precede them.

OVERVIEW OF EVRAZ

This overview may not contain all the information that may be important to prospective purchasers of the Notes and, therefore, should be read in conjunction with this entire Prospectus, including the more detailed information regarding Evraz's business and the financial statements and related notes included elsewhere in this Prospectus. Prospective purchasers of the Notes should also carefully consider the information set forth under the heading "Risk Factors". Certain statements in this Prospectus include forward-looking statements that also involve risks and uncertainties as described under "Forward-Looking Statements".

General

Evraz is a large vertically-integrated steel, mining and vanadium business with operations in the Russian Federation, Europe, the United States, Canada and South Africa and interests in China. Evraz produced approximately 16.4 million tonnes of crude steel in 2007. Management estimates that Evraz ranks as one of the top three producers of steel and steel products by volume in Russia, is the largest Russian producer of long products, such as beams, rebars and rails, by volume, and is among the sixteen largest steel producers in the world by volume. In 2007, Evraz produced approximately 18.9 million tonnes of iron ore products and mined approximately 21.1 million tonnes of coking coal (including full-year figures for coal mined at ZAO Raspadskaya ("Raspadskaya") and Yuzhkuzbassugol). Most of Evraz's iron ore and coking coal products are used in its steel making operations. Evraz also produced 11,752 tonnes of vanadium slag and 11,934 tonnes of vanadium alloys and chemicals in 2007. Evraz's total consolidated revenues for the year ended 31 December 2007 amounted to U.S.$12,808 million, compared to U.S.$8,292 million for the year ended 31 December 2006. Evraz's total assets as at 31 December 2007 amounted to U.S.$16,380 million, compared to U.S.$8,510 million as at 31 December 2006. Evraz's principal assets as of 31 January 2008 were:

- Three steel plants in Russia: Nizhny Tagil Iron and Steel Plant ("NTMK"), which is located in Nizhny Tagil, Sverdlovsk region; West Siberian Iron and Steel Plant ("Zapsib"), which is the largest steel plant in Siberia and the eastern-most steel plant in the Russian Federation, located near Novokuznetsk, Kemerovo region; and Novokuznetsk Iron and Steel Plant ("NKMK"), located in Novokuznetsk;

- Five steel plants outside Russia: Palini e Bertoli ("Palini"), a steel rolling mill, located in Italy and which Evraz acquired in August 2005; Evraz Vitkovice Steel ("Vitkovice Steel"), the largest platemaker in the Czech Republic and which Evraz acquired in November 2005; Evraz Oregon Steel Mills ("Oregon Steel"), located in Oregon, United States, and which Evraz acquired in January 2007; Highveld Steel and Vanadium Corporation ("Highveld"), located in South Africa and in which Evraz acquired a 24.9% stake in July 2006, increasing it to 80.9% by September 2007; and Claymont Steel ("Claymont Steel"), located in Delaware, United States, and in which Evraz acquired a 100% stake in January 2008 via tender offer and short-form merger;

- Three iron ore mining and processing facilities in Russia: Evrazruda ("Evrazruda"), which operates mines in Kemerovo region, the Republic of Khakassia and south Krasnoyarsk Krai; Kachkanarsky Ore Mining and Processing Enterprise ("KGOK"), which is located in Sverdlovsk region near NTMK; and Vysokogorsky Ore Mining and Processing Enterprise ("VGOK"), which is located in Sverdlovsk region near NTMK;

- Two coal producers and an equity interest in a third coal producer in Russia: Mine 12, which is located in the Kemerovo region near Zapsib and NKMK and which Evraz acquired in March 2005; Yuzhkuzbassugol, which is located in Novokuznetsk, Kemerevo region and in which Evraz acquired a 50% stake in December 2005 and the remaining 50% stake in June 2007; and a 40% interest in Raspadskaya, a coking coal producer located in the Kemerovo region that is accounted for on an equity basis;

- Three vanadium producers outside Russia: Highveld, which is located in South Africa and which Evraz acquired as described above; Strategic Minerals Corporation ("Stratcor"), which is headquartered in Danbury, Connecticut, in the United States and has operations in the United States and South Africa and in which Evraz acquired a 72.84% stake in August 2006; and Nikom, a.s. ("Nikom"), a ferrovanadium producer located in the Czech Republic and in which Evraz acquired a 100% stake on 20 December 2007. In accordance with Evraz's commitments to the European Commission in connection with the acquisition of Highveld, Evraz must submit to the European Commission, by 20 April 2008, a plan for divestment of Highveld's vanadium extraction, vanadium oxides and vanadium chemicals plants located at the Vanchem site in Witbank, South Africa (the "Vanchem Operations") and a 50% stake in South Africa Japan Vanadium (Proprietary) Limited ("SAJV"), which account for 100% of Highveld's ferrovanadium and vanadium chemicals output, as well as an equity interest in Mapochs Mine ("Mapochs Mine"). Evraz has submitted its plan for divestment, which is currently under review by the European Commission; and

- Trading and logistics assets, including OAO Nakhodka Commercial Sea Port ("Nakhodka Sea Port"), one of the largest ports in the Russian Far East and through which Evraz ships most of its exports and ZAO Evraztrans ("Evraztrans"), which owns and operates rail cars in the Russian Federation for Evraz.

In December 2007, Evraz announced the signing of an agreement with its controlling shareholder, Lanebrook Limited ("Lanebrook"), to acquire several production assets in Ukraine (the "Ukrainian Assets"), including a 99.25% stake in Sukhaya Balka iron ore mining and processing complex ("Sukhaya Balka"), a 95.57% stake in the Dnepropetrovsk Iron and Steel Works ("DMZP") and significant stakes in three coking plants, which process coal into metallurgical coke for onward use by steelmakers (the "Ukrainian Coking Plants"): 93.74% in Bagleykoks, 98.65% in Dneprkoks and 93.83% in the Dneprodzerzhinsk Coke Chemical Plant ("Dneprodzerzhinsk"). Lanebrook acquired the Ukrainian Assets in anticipation of selling them to Evraz on the same terms. According to the agreement between Evraz and Lanebrook, Evraz agreed to pay U.S.$1.06 billion in cash and to transfer 4,195,150 shares in Evraz (subject to adjustment) as consideration for the Ukrainian Assets. Before the end of 2007, Evraz made a cash prepayment to Lanebrook in connection with the planned purchase of the Ukrainian Assets in the amount of U.S.$1.06 billion, which is reflected in Evraz's consolidated balance sheet as of 31 December 2007 as "other non-current assets". See Notes 14 and 31 to the Annual Financial Statements. On 14 April 2008, Evraz announced that it has closed the acquisition of a 51.4% stake in Cyprus-based Palmrose Limited ("Palmrose"), which holds the Ukrainian Assets, at a cost of U.S.$1.06 billion. The second stage of the transaction, namely, the issuance of new shares in Evraz and their subsequent transfer to Lanebrook in consideration for the remaining 48.6% stake in Palmrose, is subject to regulatory review in Luxembourg. Evraz currently expects the second stage of the transaction to be completed in May 2008.

On 18 February 2008, Evraz purchased for approximately S$211 million (approximately U.S.$150 million, based on the S$/U.S.$ exchange rate on 18 February 2008) an estimated 10% stake in the SGX-listed Delong Holdings Limited ("Delong Holdings"), which owns Delong Steel Limited ("Delong Steel"), an integrated steel mill based in Hebei province, China, as well as a steel trading and procurement company. In addition, under the share purchase agreement, Best Decade Holdings Limited ("Best Decade"), a shareholder in Delong Holdings, has granted Evraz an option (valid for six months following the date of completion of the sale of the 10% stake) to buy an additional 32.08% interest in Delong Holdings for S$677 million (approximately U.S.$480 million, based on the S$/U.S.$ exchange rate on 18 February 2008), pending the approval of China's Ministry of Commerce ("MOFCOM") and State Administration of Industry and Commerce ("SAIC"). Evraz has granted Best Decade a put option with respect to the 32.08%, exerciseable during the same period and at the same price. Following completion of the option and satisfaction of several other conditions, the beneficial shareholders of Best Decade have undertaken to sell to Evraz an additional estimated 8.97% stake for S$189 million (approximately U.S.$134 million, based on the S$/U.S.$ exchange rate on 18 February 2008). Following completion of these transactions, Evraz will own approximately 51.05% of Delong Holdings and expects to apply for MOFCOM approval to launch a

mandatory cash offer to Delong Holdings' shareholders in Singapore (in accordance with Singapore law), which may ultimately raise Evraz's stake in Delong Holdings to approximately 77%.

In March 2008, Evraz announced the acquisition of certain of the assets of IPSCO Inc. ("IPSCO") from Swedish Steel AB ("SSAB") for U.S.$4.025 billion, including, in particular, certain of the assets of IPSCO's Canadian plate and pipe business ("IPSCO Canada"). Pursuant to a back-to-back agreement with OAO "TMK" and its affiliates ("TMK"), Evraz has agreed to sell certain of the acquired IPSCO businesses in the U.S. to TMK for U.S.$1.2 billion. In addition, Evraz signed an option agreement to sell in 2009 the remaining acquired IPSCO businesses in the U.S. to TMK for approximately U.S.$0.5 billion. Assuming that TMK completes such purchase arrangements, the net cost of Evraz's acquisition is expected to be U.S.$2.3 billion (subject to certain closing adjustments and conditions).

Evraz is in the course of receiving corporate and regulatory approvals with respect to the acquisitions of the Ukrainian Assets and IPSCO Canada and expects both transactions to close during 2008. On 14 April 2008, Evraz announced the closing of the first stage of the acquisition of the Ukrainian Assets (as discussed above). Evraz expects to make the further acquisitions of interests in Delong Holdings (as discussed above) during 2008.

For further information about the structure and history of Evraz, see "Description of Business—Overview" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Reorganisation and Formation of the Company".

Competitive Strengths

Evraz believes that it is well-positioned to pursue its strategy of enhancing its position as a world-class steel and mining company and becoming one of the global leaders in the steel, mining and vanadium industries in terms of profitability.

Dominant producer of long products in Russia

As noted above, Evraz believes that it is one of the top three producers of steel in Russia by volume, the largest Russian producer of long products by volume and among the sixteen largest steel producers globally by volume. Evraz believes that it is the leading producer of steel products in the Russian railway products sector and estimates that it had a nearly 100% market share in rails in 2007 by volume as well as a 30% market share in wheels by volume. In the Russian construction sector, Evraz estimates that it had an 82% market share (by volume) in H-beams and a 49% market share (by volume) in channels in 2007, giving Evraz a strong competitive position as a diversified producer of a full range of products in the domestic construction steel market. There is some competition from other Russian long steel producers, but the major Russian steel producers primarily focus on flat products, such as sheets.

Vertically-integrated business

Evraz believes that its strong asset bases in iron ore and coal rank it in the top five largest iron ore producers in Russia by volume and in the top five largest coal producers in Russia by volume. As a vertically-integrated steel producer, Evraz's exposure to high and variable raw materials prices is limited by its significant internal sources of raw materials. Evraz seeks to reduce its dependence on outside suppliers of raw materials through both organic growth and additional acquisitions, such as the upcoming acquisition of Sukhaya Balka in Ukraine.

Evraz is a large iron ore producer, sourcing approximately 77% of its iron ore requirements in 2007 from its own mining segment and with capacity from these operations sufficient to cover approximately 87% of its iron ore requirements in 2007. With the purchase of Sukhaya Balka, Evraz expects to be nearly 100% self-sufficient in iron ore in 2008. Substantially all of the mining segment's iron ore products are produced from iron ore mined by Evraz. Evraz sells the iron ore products that it does not consume internally to third parties and is seeking to increase such sales.

In addition, Evraz is a major producer of coking coal. It is over 100% self-sufficient in coking coal and began selling coking coal to third parties in 2007. Its 100% self-sufficiency in coking coal, in addition to its expected near 100% self-sufficiency in iron ore, gives Evraz the flexibility to supply the amount it chooses from internal sources and sell to third parties at market prices in order to hedge its purchases at market prices.

Evraz is also the only producer of vanadium-rich iron ore in Russia and is among the largest producers of vanadium slag globally.

Geographically diversified business

Evraz believes that, as a result of its acquisitions in Europe, the United States and Canada, it will benefit from greater exposure to the mature and stable European and North American markets. Evraz believes that, due to its product mix, in particular, its emphasis on long products, it is well-positioned to gain from the perceived growth potential in the energy, construction and rail industries in these markets.

Low cost producer

Russia is one of the lowest cost regions for steel production, enabling Evraz to benefit from some of the lowest production costs in the steel industry worldwide, including through the export of low-cost Russian slab to world markets as well as through the synergies created by being able to supply certain of its non-Russian subsidiaries with slab from Evraz's Russian subsidiaries. Moreover, its favourably located mining operations enable Evraz to obtain a stable supply of raw materials on the basis of relatively low transportation costs. Evraz is likely to enhance its position as a low-cost producer due to its acquisition of the Ukrainian Assets. In addition to these cost advantages, as one of the largest producers of steel in Russia, Evraz benefits from economies of scale in production and negotiating power with its suppliers, including those of raw materials. In order to maintain its cost competitiveness, Evraz has made and continues to make significant capital expenditures in upgrading its facilities to increase productivity and yield.

Strong positions in high growth steel markets

Evraz has a leading market position in products with strong growth profiles in Russia, such as construction and railway products. Russia's construction sector, with a 15% average annual growth rate since 2002, has grown faster than GDP in Russia in recent years, and continues to do so, resulting in significant growth in demand for steel products. Evraz also expects demand for its principal railway products (rails and wheels) to increase significantly as the Russian railroad network is upgraded following a long period of underinvestment, particularly in light of the estimated 13.78 trillion rouble (approximately U.S.$561.30 billion) capital expenditure programme through 2030 announced by Joint Stock Company "Russian Railways" ("Russian Railways") that is focused primarily on upgrading and refurbishing infrastructure and rolling stock. Evraz also believes that it is well-positioned in the growing east and southeast Asian markets for slabs and billets as a result of the location of its production facilities and its ownership of Nakhodka Sea Port, which operates on Russia's Pacific coast.

Dynamic and experienced management team

Evraz's management team has a proven track record in managing operations under its control and turning around newly acquired underperforming assets, including Evraz's major production facilities. Evraz's senior management team combines extensive industry and marketing experience with financial and management expertise, and the Company's board of directors (the "Board of Directors") includes individuals who have been involved in Evraz's business as well as three internationally experienced independent non-executive directors.

Strategy

Evraz's strategy is to be a world-class steel and mining company and one of the global leaders in the steel, mining and vanadium industries in terms of profitability. Evraz intends to pursue this strategy by

seeking to enhance its position as a leading low-cost producer of higher margin goods, such as long products, in Russia and the CIS, particularly in the construction and railway sectors, expand its presence in international markets, enhance cost leadership, complete vertical integration and expand its competitive mining platform and achieve world leadership in the vanadium business.

Enhancing position as a leading low-cost producer of higher margin goods, such as long products, in Russia and the CIS

Evraz intends to leverage its leading position in Russia's construction sector, which has grown and continues to grow faster than GDP in Russia. Evraz intends to focus on selling higher-priced, higher value-added products, such as beams and channels, and strengthening its position as a leading full-range supplier of long products to the Russian construction industry. In the railway sector, Evraz intends to capitalise on its current position as the dominant supplier to Russian Railways in light of Russian Railways' announcement of an estimated 13.78 trillion rouble (approximately U.S.$561.30 billion) capital expenditure programme. Evraz plans to continue making selective investments in quality upgrades and product range expansion to maintain its dominant position in railway products.

Expand presence in attractive international markets

Evraz plans to strengthen its global steel business by (i) consolidating and expanding its presence in the steel products market, particularly in the international plate, rail and pipeline markets; (ii) expanding its position as a competitive exporter from Russia of semi-finished products; and (iii) increasing sales of mining products to third parties.

Evraz intends to increase its exposure to the international plate, rail and pipeline markets, particularly in the EU and North America. As part of this strategy, Evraz has made several foreign acquisitions: in August 2005, it acquired Palini, a producer of steel plate products 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 located in Oregon, USA, which makes large quantities of plate, rail and pipe for the construction, rail and pipe-making industries; and in January 2008, it acquired Claymont Steel, a producer of steel plates based in Delaware, U.S.A.

Evraz continues to evaluate opportunities for further acquisitions of steel production assets where such transactions can be made at attractive prices and on acceptable terms. It signed an agreement in December 2007 to purchase DMZP in Ukraine. On 18 February 2008, Evraz purchased an approximate 10% stake in Delong Holdings, which owns Delong Steel as well as a steel trading and procurement company, and expects to raise its stake in Delong Holdings to a majority holding during 2008. In March 2008, Evraz announced the acquisition of certain of the assets of IPSCO Canada, a steel and pipe producer, which is expected to increase Evraz's exposure to the North American pipeline market.

Evraz's management believes that semi-finished products will continue to offer attractive opportunities for Evraz to export from Russia, as these products generally are not subject to protective trade measures. Evraz believes that it has become one of the largest producers of slab in the world. Although Evraz retains the flexibility to switch between slab and billet production, Evraz believes that slab export markets offer it stronger long-term growth prospects and potentially greater margins than billet export markets. In 2007, approximately 79% of Evraz's Russian slab exports were to third parties, with the remaining 21% being shipped to its production facilities abroad. In 2007, approximately 22% of the demand for slab used by Oregon Steel to make plate was met by Evraz's Russian slab production. Evraz's total annual slab production capacity was 6.4 million tonnes at the end of 2007.

Evraz intends to increase its sales of iron ore, coking coal and coke to third parties in order to benefit from favourable market conditions for these products and to develop capabilities for exporting coking coal. As part of this strategy, Evraz completed its acquisition of Yuzhkuzbassugol in June 2007 and signed an agreement in December 2007 to purchase Sukhaya Balka in Ukraine and the Ukrainian Coking Plants.

Enhancing cost leadership position

Evraz's management believes that producing low-cost steel products is essential to ensure the competitiveness of its plants. In the short to medium term, Evraz intends to realise synergies from the integration of recent acquisitions by rationalising production across its plants and making selective investments in improved production technology, such as increasing the use of continuous casting in its steel production, ongoing blast furnace refurbishments and closure of open hearth furnace production facilities. In support of these objectives, Evraz spent approximately U.S.$740 million in capital expenditures in 2007, including U.S.$499 million in respect of its steel segment and U.S.$187 million in respect of its mining segment, and has budgeted to spend an aggregate amount of U.S.$1.068 billion on capital expenditures in 2008, including U.S.$523 million in expenditures on maintenance.

Completing vertical integration and expanding competitive mining platform

Evraz seeks to enhance its profitability and security of supply through vertical integration, in particular, increasing its production of iron ore, such that it produces at least 100% of its iron ore requirements, and coking coal. To accomplish this objective, Evraz plans to intensify production from its existing iron ore and coking coal reserves through capital expenditures targeted at improving production capacity and efficiency, including brownfield expansion at KGOK. In addition, Evraz intends to expand its mining asset base not only through organic growth, but also through acquisitions of additional subsoil licences as well as through selective acquisitions of existing iron ore and coal mining assets, primarily in Russia and the CIS. In the coal sector, Evraz increased its stake in Yuzhkuzbassugol to 100% in June 2007. In addition, Evraz signed an agreement in December 2007 to purchase the iron ore complex Sukhaya Balka and the Ukrainian Coking Plants. In 2007, Evraz was approximately 87% self-sufficient in iron ore. Assuming the completion of the purchase of Sukhaya Balka, Evraz expects to be nearly 100% self-sufficient in iron ore in 2008.

Achieving world leadership in the vanadium business

Evraz strives to be one of the world's leading suppliers of vanadium. Recent acquisitions of Highveld, Stratcor and Nikom added vanadium mines and processing capabilities and technical know-how, allowing Evraz to capitalise on strong trends in the vanadium market. Evraz is the only producer of vanadium-rich iron ore in Russia, and one of the world's largest producers of vanadium slag, a by-product of the steel production process. Vanadium currently enjoys strong demand and higher pricing on the back of growth in steel output, newly-introduced standards for steel construction in China and new applications for high-purity vanadium. Although it is required to dispose of Highveld's Vanchem Operations, its 50% stake in SAJV and an equity interest in Mapochs Mine, Evraz nevertheless believes that it should be able to extract higher margins and cash flows from vanadium products as a result of these acquisitions in the vanadium sector. In 2007 and 2006, vanadium sales comprised approximately U.S.$583 million and U.S.$222 million of Evraz's revenues.

SUMMARY CONSOLIDATED FINANCIAL AND OTHER INFORMATION

The summary consolidated financial information set forth below shows Evraz's historical consolidated financial information and other operating information as of 31 December 2007, 2006 and 2005 and for the years then ended. The summary consolidated financial information has been extracted without material adjustment from, and should be read in conjunction with, the consolidated financial statements as of 31 December 2007, 2006 and 2005 and for the years then ended, prepared in accordance with IFRS. The selected consolidated financial information should also be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Evraz's operating results for the periods presented were significantly affected by certain acquisitions. These acquisitions include the following: Mine 12 in March 2005; Palini in August 2005; Vitkovice Steel in November 2005; Yuzhkuzbassugol in which Evraz acquired a 50% stake in December 2005 and the remaining 50% stake in June 2007; Highveld in which Evraz acquired a 24.9% stake in July 2006, increasing it to 80.9% in September 2007; Stratcor in which Evraz acquired a 72.84% stake in August 2006 and Oregon Steel in January 2007. The operating results of businesses acquired are, in the majority of instances, included in Evraz's consolidated financial statements for the periods post their respective dates of acquisition.

However, certain acquisitions, including principally Evrazruda, which was acquired in March 2005, represent reorganisations under common control and are therefore accounted for using the uniting of interests method (pooling of interests). As a result, these acquisitions (including the acquisition of Evrazruda) are consolidated with effect from the beginning of the first period presented as if they had occurred at such date. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions".

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

	Year ended 31 December		
	2007	2006	2005
	(millions of U.S. dollars, except share and per share data and as noted)		
Other operations income statement data			
Revenues[1]	838	604	645
Cost of revenues[1]	(592)	(376)	(462)
Gross profit	246	228	183
Selling and distribution expenses	(63)	(84)	(43)
General and administration expenses	(152)	(106)	(98)
Other operating expenses, net	(1)	(12)	(8)
Profit from operations	30	26	34
CONSOLIDATED BALANCE SHEET DATA (at period end)			
Total assets	16,380	8,510	6,754
Equity attributable to equity holders of the parent entity	5,986	4,066	2,708
Minority interests	371	169	179
Long term debt, net of current portion	4,653	1,855	1,515
CONSOLIDATED CASH FLOWS DATA			
Net cash flows from operating activities	2,957	2,084	1,496
Net cash flows used in investing activities	(5,636)	(1,569)	(1,753)
Net cash flows from (used in) financing activities	2,135	(341)	607
OTHER MEASURES			
Consolidated Adjusted EBITDA[2]	4,254	2,642	1,859
Steel segment Adjusted EBITDA[2]	3,585	2,223	1,509
Mining segment Adjusted EBITDA[2]	633	415	314
Other operations Adjusted EBITDA[2]	70	45	48
Net Debt[3]	6,280	1,730	1,693
SELECTED RATIOS			
Total Ratio Debt to Consolidated Adjusted EBITDA[2][4]	1.6x	1.0x	1.3x
Net Ratio Debt to Consolidated Adjusted EBITDA[2][4]	1.5x	0.7x	0.9x

Notes:

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

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

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

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

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

(3) Net Debt represents long-term loans, net of current portion, plus short-term loans and current portion of long term loans less cash and cash equivalents and short term bank deposits (excluding restricted deposits). Net Debt is not a balance sheet measure under IFRS and it should not be considered as an alternative to other measures of financial position. Evraz's calculation of Net Debt may be different from the calculation used by other companies and therefore comparability may be limited.

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

Net Debt has been calculated as follows:

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

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

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

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

THE OFFERING

Issuer	Evraz Group S.A.
Issue	U.S.$1,050,000,000 8.875% Notes due 2013 U.S.$550,000,000 9.50% Notes due 2018
Issue Price	100% of the principal amount of the Notes
Maturity Date	24 April 2013 (in the case of the 2013 Notes) 24 April 2018 (in the case of the 2018 Notes)
Trustee	BNY Corporate Trustee Services Limited
Principal Paying Agent(s)	The Bank of New York
Paying Agent	The Bank of New York; The Bank of New York (Luxembourg) S.A.
Registrar	The Bank of New York
Transfer Agent(s)	The Bank of New York; The Bank of New York (Luxembourg) S.A.
Interest	The 2013 Notes will bear interest from and including 24 April 2008 at a rate of 8.875% per annum payable semi annually in arrear on 24 April and 24 October in each year, commencing on 24 October 2008. The 2018 Notes will bear interest from and including 24 April 2008 at a rate of 9.50% per annum payable semi annually in arrear on 24 April and 24 October in each year, commencing on 24 October 2008.
Form and Denomination	The Notes will be issued in registered form, in the denomination of U.S.$100,000 each and integral multiples of $1,000 in excess thereof. The Regulation S Notes will be represented by the Regulation S Global Note Certificates and the Rule 144A Notes by the Rule 144A Global Note Certificates, in each case without coupons. The Global Note Certificates will be exchangeable for Individual Certificates only in the limited circumstances specified in the Global Note Certificates.
Initial Delivery of Notes	On or before the Issue Date, the Regulation S Global Note Certificates will be deposited with The Bank of New York Depository (Nominees) Limited as common depositary for Euroclear and Clearstream, Luxembourg, and the Rule 144A Global Note Certificates will be deposited with The Bank of New York as custodian for DTC.
Risk Factors	**An investment in the Notes involves a high degree of risk. See "Risk Factors".**
Status of the Notes	The Notes are direct, unconditional and unsecured obligations of the Issuer which rank and will rank *pari passu*, without any preference among themselves, with all other outstanding present and future unsecured and unsubordinated obligations of the Issuer.

Covenants	The Terms and Conditions of the 2013 Notes and the Terms and Conditions of the 2018 Notes (together, the "Terms and Conditions") contain restrictions on certain activities of the Issuer and certain subsidiaries of the Issuer, including: (i) limitation on the incurrence of liens; (ii) limitation on the incurrence of indebtedness; (iii) limitation on transactions with affiliates; (iv) limitation on asset sales; (v) limitation on certain mergers and similar transactions; (vi) requirements for the maintenance of authorisations, property and insurance; (vii) requirements for the payment of taxes and other claims; (viii) requirement for the provision of certain financial information; (ix) restriction on change of line of business; and (x) limitation on dividend and other payment restrictions affecting Material Subsidiaries, and an obligation respecting declaration and payment of dividends by Material Subsidiaries. There are significant exceptions to the requirements contained in these covenants. See Condition 4 (*Covenants*) and Condition 19 (*Definitions*) for a further description of the restrictions and definitions set forth above.
Cross Acceleration	The Notes contain a cross acceleration provision in respect of certain indebtedness of the Issuer or any Material Subsidiary (as defined in Condition 19 (*Definitions*)) in excess of U.S.$20 million (or its equivalent in another currency) in the aggregate. See Condition 10 (*Events of Default*).
Ratings	The Notes have been rated BB by Fitch, Ba3 by Moody's and BB- by Standard and Poor's. **A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating agency. The ratings do not address the likelihood that the principal of the Notes will be prepaid or paid on a particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. Any change in the credit ratings of the Notes could adversely affect the price that a subsequent purchaser would be willing to pay for the Notes. The significance of each rating should be analysed independently from any other rating.**
Redemption At Make Whole	The Issuer may redeem the Notes, in whole or in part, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, plus accrued

	and unpaid interest to, the redemption date. See Condition 7.3 (*Redemption at Make-Whole*).
Redemption for Taxation Reasons	The Issuer may redeem the Notes, in whole but not in part, at their principal amount together with interest accrued to but excluding the date of redemption in the event of certain changes in taxation by a Relevant Jurisdiction (see Condition 7.2 (*Redemption for Taxation Reasons*)).
Change of Control	If a Change of Control as defined in Condition 7.4 (*Change of Control*) has occurred, each holder of a Note will have the option to require the Issuer to redeem such Note on the Put Settlement Date as defined in Condition 7.4 (*Change of Control*) at an amount equal to 101% of the principal amount of the Note together with interest accrued, if any, to the Put Settlement Date, as further described in ''Terms and Conditions of the Notes—Redemption and Purchase—Change of Control''.
Listing	Application has been made to the U.K. Listing Authority for the Notes to be admitted to the Official List and to trading on the Regulated Market of the London Stock Exchange.
Selling Restrictions	U.K., United States and Russian Federation. See "Subscription and Sale".
Governing Law and Jurisdiction	The Notes, the Trust Deed and the Agency Agreement (as defined below) are governed by English law and contain provisions for disputes to be referred to the English courts. The provisions of articles 86 to 94-8 of the Luxembourg law of 10 August 1915, as amended, on commercial companies are excluded.
Use of Proceeds	The net proceeds to Evraz from the Offering of the Notes are expected to be approximately U.S.$1,585 million, and Evraz intends to use these net proceeds for general corporate purposes, including funding of capital expenditures and, possibly, acquisitions.
Security Codes	*2013 Notes:* Regulation S International Security Identification Number ("ISIN"): XS0360055056 Common Code: 036005505 CUSIP: L33634 AD5 Rule 144A ISIN: US30050AAC71 Common Code: 036007869 CUSIP: 30050A AC7 *2018 Notes:* Regulation S ISIN: XS0359381331 Common Code: 035938133 CUSIP: L33634 AC7

	Rule 144A ISIN: US30050AAB98 Common Code: 035938362 CUSIP: 30050A AB9
Clearing	Euroclear and Clearstream, Luxembourg (in the case of the Regulation S Notes) and DTC (in the case of the Rule 144A Notes).
Yield	The annual yield of the 2013 Notes when issued is 8.875%. The annual yield of the 2018 Notes when issued is 9.50%.

RISK FACTORS

An investment in the Notes involves a high degree of risk. Prospective investors in the Notes should carefully consider the risks described below and the other information contained in this Prospectus before making a decision to invest in the Notes. Any of the following risks, individually or together, could adversely affect Evraz's business, financial condition and results of operations and accordingly the value of the Notes.

This section describes the risks and uncertainties that Evraz's management believes are material, but these risks and uncertainties may not be the only ones that Evraz faces. Additional risks and uncertainties, including those that Evraz's management currently does not know about or deems immaterial, may also result in decreased revenues, assets and cash inflows, increased expenses, liabilities or cash outflows, or other events that could result in a decline in the value of the Notes, or which could have a material adverse effect on Evraz's business, financial condition, results of operations and prospects. The order in which the risks are presented does not necessarily reflect the likelihood of their occurrence or the magnitude of their potential impact on Evraz's business, financial condition, results of operations and prospects or on the trading price of the Notes.

RISKS RELATING TO EVRAZ'S BUSINESS AND INDUSTRY

The steel, mining and vanadium businesses are cyclical, and any local or global downturn in the steel, mining or vanadium industries may have an adverse effect on Evraz's results of operations and financial condition.

The steel industry is cyclical because the major industries in which the majority of steel customers operate, including the rail and construction industries, are themselves cyclical and sensitive to changes in general economic conditions. The demand for steel products is thus generally correlated with macroeconomic fluctuations in the economies in which steel producers sell products, which are in turn affected by global economic conditions. The prices of steel products are influenced by many factors, including demand, worldwide production capacity, capacity-utilisation rates, raw material costs, exchange rates, trade barriers and improvements in steel-making processes. For example, steel prices, during 2004, reached their highest levels in nearly 20 years, driven to a significant extent by demand in China for imported steel, while global steel production volumes reached their highest levels in the past fifty years. This rapid increase was followed by a significant reduction of global steel prices in the second half of 2005, which continued until the beginning of 2006. While, in 2006, global steel prices increased for a short period of time, the prices continued then to decrease in the second half of 2006 (though not as rapidly as in 2005). During 2007, steel prices rose, reaching levels comparable to the prices in 2004. Steel prices have experienced, and in the future may experience, significant fluctuations as a result of these and other factors, many of which are beyond Evraz's control. For example, a decline in Chinese demand for imported steel could have a significant adverse effect on steel prices. In turn, a decline in steel prices could have a material adverse effect on Evraz and its results of operations.

Evraz's mining business also sells iron ore, and, as a result of the acquisition of Mine 12 and Yuzhkuzbassugol and its ownership interest in Raspadskaya, coal, to third parties. Acquisitions by Evraz of vanadium assets have also allowed it to become a significant participant in the vanadium market. Cyclical and other changes in world market prices of these commodities could affect the results of Evraz's mining activities. Changes in these prices result from factors that are beyond Evraz's control, such as fluctuations in global supply and demand and transportation costs. Prices of these commodities have varied significantly in the past and could vary significantly in the future and are also positively correlated with demand from steel producers. For example, prices of both iron ore and coking coal have increased significantly in recent years and, in 2007, reached their highest levels since the late 1990s, largely as a result of increasing global demand by steel producers. A decline in the prices of the commodities Evraz sells to third parties could have an adverse effect on its results of operations. A decline in steel prices could also adversely affect Evraz's customers for these commodities, in turn resulting in reduced demand for Evraz's products.

Evraz derived approximately 46% of its total consolidated revenues in 2007 from sales to customers in Russia. The Russian economy has experienced significantly fluctuating growth rates over the past ten years. From 1994 to 1998, the Russian economy contracted in real terms at an average rate of 3.7% per year; after the Russian financial crisis in 1998, the economy recovered and grew in real terms at an average rate of approximately 7.03% annually from 2000 to 2007. Production of steel in Russia also suffered a substantial decline from over 77 million tonnes in 1991 to 44 million tonnes in 1998, but then recovered to 71 million tonnes in 2006. Similarly, production of iron ore in Russia decreased from 82 million tonnes in 1992 to 71 million tonnes in 1997 before recovering to 97 million tonnes in 2006, and production of coal in Russia decreased from 92 million tonnes in 1990 to 52 million tonnes in 1998, before recovering to 70 million tonnes in 2006. Further, Evraz's steel products in Russia are mainly used in the rail and construction industries, which are particularly vulnerable to general economic downturns. A significant amount of Evraz's exports (and a majority of its Russian exports) are to Asia and the Middle East, and the economies of these areas, like Russia's, are relatively volatile. Accordingly, any significant decrease in demand for steel products or decline in the price of these products in Russia or in Evraz's principal export markets could result in significantly reduced revenues, thereby materially adversely affecting Evraz's business, financial condition and results of operations.

Evraz has grown rapidly in a relatively short period, and its strategy foresees continued integration of its steel making, mining and vanadium operations as well as further acquisitions. It is not certain that Evraz will be successful in its integration efforts or in identifying suitable acquisition targets.

Evraz has grown rapidly in a short period of time primarily through acquisitions and anticipates further future growth based on acquisitions. Its strategy is based on its ability successfully to integrate these acquisitions in order to enhance its position as a vertically integrated steel, mining and vanadium business. As part of its acquisition strategy, Evraz regularly evaluates potential acquisition opportunities and from time to time engages in preliminary discussions with a variety of potential counterparties.

The integration of newly acquired businesses may be difficult for a variety of reasons, including differing culture or management styles, poor records or internal controls and difficulty in establishing immediate control over cash flows. As a result, the need to integrate recently acquired assets, such as Highveld, Stratcor, Oregon Steel and Claymont Steel, pose significant risks to Evraz's existing operations, including:

- additional demands placed on Evraz's senior management, who are also responsible for managing Evraz's existing operations;
- increased overall operating complexity of Evraz's business, requiring greater personnel and other resources;
- possible inconsistencies in standards, controls, procedures and policies, business cultures and compensation structures resulting from Evraz's recent acquisitions and the need to implement, integrate and harmonise various business-specific operating procedures and systems, as well as company-wide financial, accounting, information and other systems;
- significant cash expenditures to integrate recent acquisitions;
- incurrence of additional debt to finance acquisitions and higher debt service costs related thereto; and
- the ability to attract and retain sufficient numbers of qualified management and other personnel.

Evraz expects to continue to expand, and a significant part of this growth may come through acquisitions. In particular, in December 2007, Evraz announced the signing of an agreement with its controlling shareholder to acquire the Ukrainian Assets, and, on 14 April 2008, it announced the closing of the first stage of the acquisition. See "Description of Business – Overview". In addition, in February 2008, Evraz purchased an approximate 10% stake and an option to acquire a majority stake in Delong Holdings in China. Furthermore, in March 2008, Evraz announced the acquisition of certain of the assets of IPSCO

Canada from SSAB, as well as the entry into a back-to-back agreement and option agreement to sell certain of the acquired IPSCO businesses in the U.S. to TMK. For a discussion of these agreements and risks involved with them, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Requirements". Should these acquisitions proceed, the need to integrate these assets will pose the same risks highlighted above.

When making acquisitions, it has not always been, and will not always be, possible for Evraz to conduct a detailed investigation of the nature of the assets and the profitability of the business being acquired due to, for example, time constraints in making the decision, inadequate financial information about the target and other factors. For these and other reasons, Evraz may become responsible for additional liabilities or obligations not foreseen at the time of an acquisition and may acquire businesses that are less profitable than originally expected. As a result, the impact of Evraz's recent, planned or future acquisitions on its results of operations and financial condition is difficult to predict and may differ from expectations.

Evraz may not be able to identify suitable acquisition targets, and future acquisitions may not be available to Evraz on terms as favourable as in the past. Evraz faces significant competition for potential acquisitions.

In addition, Evraz may not in the future be able to arrange financing for planned acquisitions at an attractive cost or at all. In periods since July 2007, global debt capital markets have experienced a severe reaction initially triggered in part by concerns relating to the valuation and performance of securities backed by or relating to residential mortgages, especially in the United States, concurrent with declines in house prices and in the payment performance of sub-prime residential mortgages in the United States and elsewhere. This reaction has been characterised by severe reductions in liquidity, especially for financial institutions, by the inability of numerous non-investment-grade borrowers to finance themselves in the public capital markets and by a general increase in the cost of borrowing for private-sector borrowers notwithstanding reductions in the discount rate by Federal Reserve banks in the United States. This market reaction may adversely impact the ability of companies such as Evraz to borrow in the bank or capital markets and may increase the cost of such borrowing.

Any failure to conclude acquisitions in the future or successfully to integrate past or future acquisitions could adversely affect Evraz's business, financial condition and results of operations, as well as its prospects and its ability to execute its strategy. Moreover, even if Evraz were successful in integrating newly acquired assets and acquiring additional assets, expected synergies and cost savings may not materialise, resulting in lower than expected profit margins. The geographic spread, revenue mix as between regions and operations, regulatory profile and other important aspects of Evraz's business profile may differ depending on the nature and extent of Evraz's future acquisitions.

The steel industry is highly competitive, and Evraz may not be able to compete successfully.

Evraz faces competition from Russian and foreign steel manufacturers. A number of its Russian competitors are undertaking modernisation and expansion plans, which may make them more efficient or allow them to develop new products. Evraz also faces price-based competition from steel producers in other emerging market countries, including, in particular, Ukraine. Recent consolidation in the steel sector globally has also led to the creation of several large global steel producers, with one of the largest ArcelorMittal created as a result of a merger of Arcelor and Mittal Steel in the summer of 2006. These and some other large international steel companies have greater financial resources and more extensive global operations than Evraz. Moreover, the steel industry has historically suffered from production overcapacity. Increased competition from Russian or international steel producers could result in more competitive pricing, which could materially and adversely affect Evraz's results of operations and prospects.

Equipment failures or other hazards, particularly in Evraz's mining operations, may result in production curtailments, shutdowns and exposure to greater liability.

The manufacturing processes of all steel producers and mine operators depend on critical pieces of equipment, which may, on occasion, be put out of service unexpectedly as a result of failures, unplanned maintenance or otherwise. In addition, the business of mining involves a number of other risks and hazards

normally associated with the exploration, development and production of natural resources, any of which could result in production shortfalls or damage to persons or property. In particular, hazards associated with Evraz's open-pit mining operations include:

- flooding of the open pit;
- collapses of the open-pit wall;
- accidents associated with the operation of large open-pit mining and rock transportation equipment;
- accidents associated with the preparation and ignition of large-scale open-pit blasting operations;
- production disruptions due to weather; and
- hazards associated with the disposal of mineralised waste water, such as groundwater and waterway contamination.

Hazards associated with Evraz's underground mining operations include:

- underground fires and explosions, including those caused by flammable gas;
- cave-ins or ground falls;
- discharges of gases and toxic chemicals;
- flooding;
- sinkhole formation and ground subsidence; and
- other accidents and conditions resulting from drilling, blasting and removing and processing material from an underground mine.

The occurrence of any of these events could result in production curtailments or shutdowns, injury to persons and damage to property, reducing sales, increasing costs or requiring Evraz to make large capital expenditures to remedy the situation. For example, in 2007, two explosions occurred at mines operated by Yuzhkuzbassugol: On 19 March 2007, over 100 people were killed in a methane explosion at the Ulyanovskaya mine and, on 24 May 2007, 39 were killed in a methane explosion at the Yubileinaya mine. In each of these incidents, Rostekhnadzor, the Russian industrial safety regulator, implicated dozens of Yuzkhkuzbassugol officials in the intentional disabling of the mine's safety systems. Yuzhkuzbassugol's mines were the site of several other explosions in recent years: On 8 February 2006, one person was killed in a methane explosion and subsequent fire at the Tomskaya mine; on 9 February 2005, 25 people were killed in an explosion at the Esaulskaya mine; and, on 10 April 2004, 47 died in a rockslide and explosion at the Taizhina mine. Mine 12 was also the site of an accident, where, on 18 May 2005, a methane gas explosion caused the death of one employee, while injuring 10 others. Following the March 2007 explosion, operations were not resumed at the Ulyanovskaya mine until September 2007; similarly, following the May 2007 explosion, operations were not resumed at the Yubileinaya mine until November 2007. The liabilities resulting from any of these risks may not be adequately covered by insurance, and no assurance can be given that Evraz will be able to obtain additional insurance coverage at rates it considers to be reasonable or at all. As a result of equipment failures and other industrial hazards, Evraz may incur significant costs that could have a material adverse effect upon its business, results of operations and financial condition.

Steel production and mining and vanadium operations are capital intensive, and Evraz's substantial capital investment programme may not be implemented on schedule or within budget.

Steel production and mining and vanadium operations are capital intensive. Evraz plans to continue to invest in its production facilities. It intends to make selective investments designed to optimise production and improve production technologies, such as increasing the use of continuous casting in its steel production, refurbishing blast furnaces and modernising its rolling mills. See "Description of Business—Steel Business

—Production Facilities" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital requirements". Total capital expenditures for 2008 are expected to be approximately U.S.$1,068 million, of which U.S.$633 million, U.S.$386 million, U.S.$16 and U.S.$33 million are allocated for capital expenditures in the steel segment, mining segment,vanadium segment and logistics, respectively.

Evraz may not be able to implement its capital investment programme on schedule or within budget as a result of, among other factors, the following: changes in the terms of existing financing arrangements; changes in economic conditions; fluctuations in the Russian or global steel markets; regulatory developments; delays in project completion; cost overruns; and defects in design or construction. The capital expenditures are expected to be funded from cash flow from operating activities, borrowings and the proceeds from the issuance of the Notes. It is possible that these sources of financing may not be available in the future in the amounts Evraz requires or at an acceptable cost. In particular, as noted above, in periods since July 2007, global debt capital markets have experienced a severe reaction initially triggered in part by concerns relating to the valuation and performance of securities backed by or relating to residential mortgages, especially in the United States, concurrent with declines in house prices and in the payment performance of sub-prime residential mortgages in the United States and elsewhere. This market reaction may adversely impact the ability of companies such as Evraz to borrow in the bank or capital markets and may increase the cost of such borrowing.

If Evraz is unable to finance planned capital expenditures, or to finance such expenditures at an attractive cost, it may have an adverse impact on Evraz's prospects and ability to execute its strategy of expansion.

Evraz's licences may be suspended, amended or terminated prior to the end of their terms or may not be renewed.

Evraz's business depends on the issuance, validity and renewal of its licences, including subsoil licences for its global mining operations. Evraz currently conducts its mining operations in Russia and South Africa under licences that expire over time, and, in accordance with the agreement to acquire Sukhaya Balka, Evraz may also commence mining operations in Ukraine. See "Description of Business—Mining Business—Production Facilities—Sukhaya Balka". The continued validity and extension of these licences are conditional upon Evraz's compliance with their terms, which generally include obligations to restore the mined land, maintain a certain level of production, implement certain investment commitments, recruit qualified personnel, maintain necessary equipment and a system of quality control, comply with environmental laws and periodically submit information to licensing authorities. Evraz's failure to comply with any of these conditions could result in the suspension, amendment, termination or non-renewal of a mining licence or could compel Evraz to incur substantial costs in eliminating or remedying violations, which may have a material adverse effect on its business, financial condition and results of operations.

Evraz is exposed to certain uncertainties that are specific to licence procurement in Russia. Evraz's Russian subsoil licences currently expire between 2012 and 2026 (except for one held by Yuzhkuzbassugol which expires in 2053). The Russian regulatory authorities often have little experience analysing regulatory issues arising from commercial transactions and exercise considerable discretion in the timing of licence issuance and renewal and in monitoring compliance by licensees with licence terms. These authorities may impose costly and/or time-consuming requirements that may result in delays in the commencement or continuation of exploration or production operations. For example, the risk exists that Zapsib's water-use licence, which expires on 30 April 2008, will not be renewed due to a 2006 court ruling that ordered Zapsib to decrease its pollution of nearby bodies of water and to establish a clean-up programme. See "Description of Business—Environmental Matters". Moreover, legislation on Russian subsoil rights remains internally inconsistent and vague, and the acts and instructions of the country's licensing authorities and procedures by which licences are issued are often arguably inconsistent with legislation.

In certain circumstances, state authorities in Russia may seek to interfere with the issuance of licences, for example, by initiating legal proceedings where the issuance of a licence may allegedly violate the civil rights or legal interests of a person or legal entity. The Russian licensing process may also be

influenced by outside commentary, political pressure and other extra-legal factors. In the case of subsoil licences, unsuccessful applicants may bring direct claims against the issuing authorities that the licence was issued in violation of applicable law or regulation. If successful, such proceedings and claims may result in the revocation or invalidation of the licence. Accordingly, licences that Evraz requires in Russia may be invalidated or may not be issued or renewed. Licences that are issued or renewed in Russia may not be issued or renewed in a timely fashion or may involve conditions that restrict Evraz's ability to conduct its operations or to do so profitably.

In most cases, the Russian authorities may suspend or terminate a licence held by one of Evraz's Russian subsidiaries if the licensee does not comply with the "significant" or "material" terms of the licence. However, the Ministry of Natural Resources of the Russian Federation has not issued any interpretive guidance on the meaning of "significant" or "material" terms of licences. Court decisions on the meaning of these terms have been inconsistent and, under Russia's civil law system, do not have significant value as precedents for future judicial proceedings. These deficiencies result in the Russian regulatory authorities, prosecutors and courts having significant discretion over enforcement and interpretation of the law, which may be used arbitrarily to challenge the rights of subsoil licensees. As a result, no assurance can be given that, in the future, Evraz will continue to hold all material licences necessary for its existing operations in Russia or to obtain all necessary approvals and licences required in connection with its expansion plans.

Any or all of these factors may affect Evraz's ability to obtain, maintain or renew necessary licences. If Evraz is unable to obtain, maintain or renew necessary licences or is only able to obtain or renew them with newly-introduced material restrictions, it may be unable to benefit fully from its reserves, and its results of operations and prospects could be materially adversely affected.

Evraz faces protective trade restrictions in the export of its steel products.

Evraz faces protective tariffs, duties and quotas that reduce its competitiveness in, and limit its access to, particular markets. For example, the EU has a quota system in place, restricting imports of certain Russian steel products to 2.9 million tonnes in 2008 and 3.03 million tonnes in 2009.

In the past, Russia's steel industry has faced various restrictions on trade that have since expired. For example, U.S. quotas on imports of Russian pig iron, cold-rolled steel, slabs and other steel products expired in July 2004; China's anti-dumping measures on imports of cold-rolled steel from Russia expired in December 2004; and South Korea's tariffs on Russian H-beam imports expired in June 2005. Although these restrictions have expired, there is no assurance that these countries, in addition to others, will not introduce new trade restrictions in the future. See "Industry Overview—Steel Industry—Trade Restrictions".

Most of Evraz's Russian-made exports of steel products are semi-finished products, primarily slabs and billets, which generally are not subject to protective measures (including tariffs and quotas) in Evraz's principal historical export markets or in the EU. However, there can be no assurance that these products will not be subject to such protective measures in the future. The introduction of additional protective measures could have a material adverse effect on Evraz's business, results of operations and prospects.

Evraz benefits from tariffs and duties imposed on steel that is imported into Russia and that may be eliminated in the future.

Russia has in place import tariffs with respect to certain steel products imported from outside of Russia, excluding certain other CIS countries. These tariffs generally amount to 5% of the value of the products, but also increase to up to 20% of the value for certain higher value-added products. In May 2005, the Russian government introduced anti-dumping duties on channels imported from Ukraine at the rates of 12.3% and 17.4% for OJSC Azovstal Iron and Steel Plant ("Azovstal") and for other Ukrainian producers, respectively. These import duties are effective from 7 July 2005 and are currently scheduled to expire in July 2008. In addition, imports of certain types of pipes from Ukraine are currently subject to anti-dumping duties (set to expire in January 2011), and imports of large-diameter pipes are currently subject to an 8% duty (not applicable to imports from developing countries) (set to expire in December 2009).

Evraz believes that it benefits from these tariffs and duties because they prevent subsidised imports from reducing the prices that Evraz can obtain for these products in Russian markets. These tariffs and duties may be reduced or eliminated in the future, which could materially adversely affect Evraz's results of operations and prospects.

In May 2004, Russia and the EU agreed on trade policy measures to be adopted in preparation for Russia's entry into the World Trade Organisation ("WTO") and, according to press reports, Russia may complete its negotiations with other countries to be able to join the WTO by 2009. Russia's future accession to the WTO could negatively affect Evraz's business and prospects, in particular by requiring that Russia lower or remove tariffs and duties on steel products, resulting in increased competition in the Russian steel market from foreign producers. See also "—Increased electricity and other energy prices could adversely affect Evraz's business".

Estimates of Evraz's mining reserves are subject to uncertainties.

The estimates concerning Evraz's iron ore and coal reserves contained in this Prospectus are subject to considerable uncertainties. These estimates are based on interpretations of geological data obtained from sampling techniques and projected rates of production in the future. Actual production results may differ significantly from reserves estimates. In addition, it may take many years from the initial phase of drilling and exploration before production is possible. During that time, the economic feasibility of exploiting a discovery may change as a result of changes in the market price of iron ore or coal.

In addition, some of Evraz's iron ore and coal deposits have not yet been evaluated in accordance with international methodologies. Information relating to Evraz's iron ore and coal in these deposits has been prepared on the basis of Russian reserves methodologies, which differ significantly from international methodologies and the standards applied by the United States Securities and Exchange Commission, among others. See "Description of Business—Mining Business—Iron ore reserves".

Evraz is controlled by Lanebrook whose interests could conflict with those of the Noteholders.

The Company is controlled by Lanebrook, which held as at 31 March 2008 a 72.9% shareholding in the Company. As a result of its controlling interest in Evraz, Lanebrook has the ability to exert significant influence over certain actions requiring shareholder approval, including, but not limited to, increasing or decreasing the authorised share capital of the Company (and disapplying pre-emptive rights), the election of directors, declaration of dividends, the appointment of management and other policy decisions. While transactions with the controlling shareholder can benefit the Company, such as with respect to the purchase of the Ukrainian Assets (see "Description of Business—Overview"), the interests of the controlling shareholder could at times conflict with the interests of Noteholders. Although Evraz has in the past sought and continues to seek to conclude all related party transactions on an arm's-length basis, and the Company has adopted procedures for entering into transactions with related parties, conflicts of interest may arise between Evraz, its affiliates and the Company's principal shareholder or its affiliates, resulting in the conclusion of transactions on terms not determined by market forces. See "Directors and Management—Corporate Governance" and "Related Party Transactions". Any such conflict of interest could adversely affect Evraz's business, financial condition and results of operations, and therefore the value of an investment in the Notes.

Evraz's competitive position and future prospects are heavily dependent on its senior management's experience and expertise.

Evraz's ability to maintain its competitive position and to implement its business strategy is dependent to a significant extent on the services of certain members of its senior management team. Evraz depends on its current senior management for the implementation of its strategy and the operation of its day-to-day activities, and personal connections and relationships of members of senior management are important to the conduct of its business. However, there can be no assurance that these individuals will continue to make their services available to Evraz in the future. Evraz maintains accident and medical insurance for its senior managers, but no life insurance. Evraz holds corporate director & liability insurance ("D&O Insurance")

covering all subsidiaries up to a limit of U.S.$75 million, except for Highveld, which maintains similar coverage under its standalone D&O Insurance.

The loss of, or a diminution in, the services of members of Evraz's senior management team or an inability to attract and retain additional or replacement senior management personnel could have a material adverse effect on Evraz's business, financial condition, results of operations or prospects. Moreover, competition, particularly in Russia, for personnel with relevant expertise is intense due to the relatively small number of available qualified individuals, and therefore Evraz's ability to retain its existing senior management and attract additional suitably qualified senior management personnel may be limited. As a result of these factors, the departure of key members of management could have a material adverse effect on the business, results of operations or prospects of Evraz.

If competition authorities in any of the jurisdictions in which Evraz operates were to conclude that Evraz acquired or created a new company in contravention of anti-monopoly legislation or were to increase the level of control it exerts over certain of Evraz's operations, Evraz could face administrative sanctions, be required to divest certain assets or be subject to limitations in its operating flexibility.

Evraz's business has grown substantially both through the acquisition of companies abroad and the acquisition and founding of companies incorporated and operating in the Russian Federation, many of which required the prior approval or subsequent notification of the relevant competition authorities.

In September 2007, Evraz increased its stake in Highveld to 80.9%. In response to this acquisition, the European Commission's competition authority ordered Evraz to sell Highveld's Vanchem Operations and a 50% stake in SAJV, which account for 100% of Highveld's ferrovanadium and vanadium chemicals output, as well as an equity interest in Mapochs Mine. The share in the global market of the vanadium assets of which Evraz must divest is approximately 8% for finished vanadium products and approximately 30% for vanadium chemicals. In addition, Evraz's ongoing purchase of the Ukrainian Assets, Delong Holdings and IPSCO Canada are subject to the approval of the relevant national regulatory bodies.

Evraz's acquisition and founding of companies in Russia require either prior approval or subsequent notification of the Russian Federal Antimonopoly Service (the "FAS"). In part, relevant anti-monopoly legislation restricts the acquisition or founding of companies by groups of companies or individuals acting in concert without this approval or notification. Some of Evraz's Russian subsidiaries are included in the register of entities holding market shares in excess of 35% in a particular product market that is maintained by the FAS. An entity included in the register that holds a market share in excess of 65% in a particular product market is presumed to hold a dominant position in such market and is prohibited from abuse of this position. Several of Evraz's Russian subsidiaries have market shares in excess of 65% in certain product markets, including, among other products, Zapsib in respect of certain types of reinforced steel, NTMK in respect of H-beams, channels, tyres and wheels, NKMK in respect of rails and KGOK in respect of high-vanadium content iron ore. The legislation and regulations of the FAS (and its predecessor agencies) with respect to such matters are vague in certain parts and subject to varying interpretations. There can be no assurance that the FAS will not conclude that an acquisition or the creation of a new company was done in contravention of applicable legislation and that competition has been reduced as a result. Any such finding could result in the imposition of administrative sanctions or require the divestiture of such newly acquired or created company or other assets, which could materially and adversely affect Evraz's business, results of operations and prospects.

Evraz's acquisitions of certain assets in Russia have also been subject to various conditions imposed by the FAS. For example, the FAS has ordered Evraz not to reduce the production volumes of rails at NTMK and NKMK, of H-beams and channels at NTMK and Zapsib and of high-vanadium iron ore, sinter and pellets at KGOK. The FAS has also ordered Evraz not to discriminate against purchasers of these products as well as customers of Nakhodka Sea Port as compared to its internal customers. Evraz must also provide certain information to the FAS about its production volumes and increases in the prices of these products on a regular basis. There can be no assurance that the FAS will not in the future impose restrictions on Evraz which it has imposed on other Russian companies, such as, for example, demanding that the company reduce the price of goods it sells, requiring prior notification to the FAS before it increases the price of any of its

products or requiring prior notification to the FAS before the acquisition of shares in certain companies. Furthermore, there can be no assurance that in the future Evraz will remain in compliance with the requirements established by the FAS with respect to its operations or that its past conduct will not be challenged.

Requirements imposed by the competition authorities in the various jurisdictions in which Evraz operates, or any changes to these requirements, such as limitations on further acquisitions or specific pricing requirements, or on the ability of Evraz to adjust its production and pricing to respond to changed market conditions, could have a material adverse effect on the results of operations and prospects of Evraz.

In the event that the title to any company acquired by Evraz through privatisation, bankruptcy sale or otherwise is successfully challenged, Evraz may lose its ownership interest in that company or its assets.

Almost all of Evraz's steel making and mining assets in Russia consist of companies that have been privatised or that Evraz acquired through bankruptcy proceedings or directly or indirectly from others who acquired them through privatisation or bankruptcy proceedings, and Evraz may seek to acquire additional companies in Russia or outside Russia that have been privatised, such as the Ukrainian Assets, or that have undergone bankruptcy proceedings.

Most of Evraz's principal Russian subsidiaries are companies that have been privatised. Privatisation legislation in Russia is generally considered to be vague, internally inconsistent and in conflict with other elements of Russian legislation. As a result, many privatisations in Russia are arguably deficient and may be subject to challenge, at least on technical grounds, including through selective action by governmental authorities motivated by political or other extra-legal considerations. Additionally, several of Evraz's Russian assets were subject to bankruptcy procedures prior to their acquisition by Evraz, including NTMK, Zapsib and KGOK, and Evraz acquired the assets of Kuznetsk Iron and Steel Plant ("KMK") through a bankruptcy auction process. Due to their cumbersome nature, it may be difficult to be in full compliance with regulations governing Russian insolvency proceedings.

In particular, Evraz faces legal action with respect to its ownership of KGOK. Evraz's subsidiary, Evraz Holding, was named as a defendant in a civil action that was filed in November 2004. In that action, the plaintiffs alleged conversion and violations of the United States Racketeer Influenced and Corrupt Organizations Act ("RICO") with regard to ownership and control of KGOK. The plaintiffs alleged that they lost their ownership in KGOK as a result of alleged fraud, extortion, bribery and false bankruptcy proceedings that purportedly occurred between 1999 and 2003. While these alleged events occurred prior to Evraz's acquisition of control over KGOK, the plaintiffs alleged that Evraz Holding was owned or controlled by one or more of the defendants in the matter. The plaintiffs also claimed that they had sold KGOK shares to one or more of the defendants without having actual knowledge as to the identity of the purchaser. The plaintiffs sought damages in excess of U.S.$500 million, which could have been trebled if the claims under RICO had been substantiated. In addition, in June 2005, the same plaintiffs initiated proceedings in Luxembourg, seeking to arrest Evraz's shares in KGOK; these proceedings were dismissed in July 2005. The District Court in Delaware dismissed the civil action in March 2006, which dismissal was affirmed by the United States Court of Appeals for the Third Circuit (the "Third Circuit") on 23 May 2007.

However, in April 2005, the plaintiffs commenced an action in the Delaware Chancery Court asserting related claims based on the same factual allegations. Although the defendants requested the District Court in Delaware to issue an injunction barring the plaintiffs from pursuing their claims in any other court in the United States, including the Delaware Chancery Court, the District Court in Delaware refused to do so on jurisdictional grounds. On 23 May 2007, the Third Circuit concluded that the District Court in Delaware did have a jurisdictional basis for entertaining the defendants' motion for an injunction and remanded the case to the District Court in Delaware to determine whether the injunction is appropriate. In the meantime, the Chancery Court action is stayed pending the outcome of the injunction motion in the District Court in Delaware. See "Description of Business—Legal Proceedings".

While Evraz believes that it has complied with applicable legislation and regulations with respect to the acquisitions of its assets and that assets privatised were done so in accordance with applicable legislation, if any of such acquisitions or privatisations were challenged as having been improperly conducted and Evraz

were unable successfully to defend such acquisitions or the legitimacy of such privatisations, Evraz may lose its ownership interests, which could materially adversely affect its business and results of operations.

Evraz depends on the provision of uninterrupted transportation services for the transportation of its materials and end products across significant distances, and the prices for such services could increase.

For Evraz's subsidiaries, railway transportation is the principal means of transporting raw materials and steel products to their facilities and customers around the world. In particular, Evraz's Russian subsidiaries rely significantly on railway transportation to deliver raw materials and products to their facilities and customers located in Russia and the CIS, as well as to ports for onward transportation overseas. Moreover, Evraz's Russian production facilities are located at a greater distance from their primary markets and seaports than are many of Evraz's competitors in the Russian market. As a result, Evraz's transportation costs are generally higher than those of its Russian peers. For example, while two of Evraz's major Russian competitors, OAO Severstal ("Severstal") and Novolipetsk Iron and Steel Works ("NLMK"), ship their products to export markets via Baltic sea ports that are located relatively close to their major production facilities, Evraz ships most of its Russian products for non-CIS sales via sea ports in Russia's Far East (primarily Nakhodka Sea Port and Vladivostok) that are comparatively more distant from its Russian production facilities. As a result, increases in transportation costs may adversely affect Evraz's ability to compete successfully both on the Russian and CIS and non-CIS markets.

Russian railway tariffs are currently regulated by the government and consist of two parts: infrastructure costs and carriage costs. According to current government policy, annual tariff increases should be line with inflation, though, in recent years, the increases have been less than inflation. There can be no assurance, however, that this policy will be maintained. Moreover, the Russian government is considering plans to increase competition in the railway sector through the privatisation of Russian Railways, into whose share capital the assets of several state-owned railway enterprises were contributed in 2004. If the privatisation of Russian Railways or other factors were to result in increased railway transport costs, Evraz's results of operations could be materially adversely affected. There can be no assurance that Evraz will be able to use its leverage as a principal supplier to Russian Railways to avoid such increases in transportation costs.

In addition, Russian rolling stock is generally in a poor state of repair. Evraz owns and leases railcars and rents additional railcars in order to reduce its dependence on rolling stock owned by Russian Railways, but such assets are sufficient for only a portion of Evraz's total transportation requirements. The failure of Russian Railways to upgrade its rolling stock within the next few years could result in a shortage of available working rolling stock or a disruption in transportation of Evraz's raw materials and products and could cause rail tariffs to increase. Any such occurrences could materially and adversely affect Evraz's results of operations and prospects.

Furthermore, any disruption in railway services that affect Evraz's non-Russian subsidiaries may have an impact on their ability to receive raw materials as well as deliver raw materials and steel products to customers and thus may also adversely Evraz's results of operations and prospects.

Evraz is dependent on Russian Railways as its principal purchaser of railway products in Russia.

Evraz sells most of its railway products in Russia to Russian Railways (pursuant to multi-year contracts, the current one of which expires in 2010), which is the primary customer for rails made by Evraz's Russian subsidiaries, accounting for approximately 82% of its total Russian sales of rails by volume in 2007. While demand from Russian Railways for railway products has generally been consistent over the last five years, any reduction in Russian Railways' investment budget or the introduction of requirements to decrease the purchase prices of railway products could have an adverse effect on Evraz's results of operations and prospects. Furthermore, in the past, Evraz has used its position as the leading supplier of railway products to Russian Railways in order to avoid increases in transportation costs. If Evraz were to lose this leverage, including due to the entry of new rail producers into the market for railway products, Evraz's transportation costs may rise, which may have a material adverse effect on its business and results of operations.

More stringent environmental laws and regulations or more stringent enforcement of existing environmental laws and regulations may have a significant negative effect on Evraz's operating results.

Evraz's operations and properties are subject to environmental, health and safety and other laws and regulations in the jurisdictions in which it operates. Evraz's operations generate large amounts of pollutants and waste, some of which are hazardous, such as benzapiren, sulphur oxide, sulphuric acid, sulphates, phenicols and sludges (including sludges containing chrome, copper, nickel and zinc). The discharge, storage and disposal of such hazardous waste are subject to environmental regulations, including some that require the clean-up of contamination and reclamation. Pollution risks and related clean-up costs are often impossible to assess unless environmental audits have been performed and the extent of liability under environmental laws is clearly determinable.

Evraz's mines and plants in Russia are subject to statutory limits on air emissions and the discharge of liquids and other substances. Russian authorities may permit, in accordance with the relevant Russian laws and regulations, a particular Evraz facility to exceed these statutory limits, provided that Evraz develops a plan for the reduction of the emissions or discharge and pays a fee based on the amount of contaminants released in excess of the limits. Fees are assessed on a sliding scale: the lowest fees are imposed for pollution within the statutory limits, intermediate fees are imposed for pollution within individually approved limits and the highest fees are imposed for pollution exceeding such limits. It is within the discretion of the Russian authorities to permit pollution in excess of statutory limits, and any request may be denied. Moreover, the payment of fees for exceeding these limits does not relieve Evraz from its responsibility to take environmental protection measures and undertake restoration and clean-up activities. Though it has been enhanced since the Soviet era, environmental legislation in Russia is generally weaker and less consistently enforced than in the EU or the United States. However, more stringent standards may be introduced or enforcement increased in Russia in the future.

As Evraz has transformed itself into a global business, it has become subject to environmental legislation in a greater number of jurisdictions, including the EU, United States, Canada and South Africa. These jurisdictions generally have more stringent environmental regulations in place and are likely to enforce such regulations more actively. Consequently, Evraz's costs in complying with applicable environmental legislation will likely rise as it continues to acquire assets in multiple jurisdictions. Furthermore, as Evraz expands into Ukraine and China, it will be subject to environmental legislation specific to these jurisdictions.

Compliance with environmental regulations, including EU, North American and South African regulations applicable to Evraz, is an ongoing process. New laws and regulations (including the Kyoto Protocol to the United Nations Framework Convention on Climate Change, which came into force in February 2005 and to which all countries in which Evraz operates, except the United States, are signatories), tougher licensing requirements, increasingly strict enforcement or new interpretations of existing environmental laws, regulations and licences and/or the discovery of previously unknown contamination may require further expenditure to modify operations, install pollution control equipment, perform site clean-ups, curtail or cease certain operations, pay fees or fines or make other payments for discharges or other breaches of environmental laws or regulations. Measures required to be taken by Evraz to comply with environmental regulations could require additional expenditures beyond those anticipated or result in the shutdown of certain of Evraz's facilities. For example, with respect to acquired businesses, Evraz has generally not been indemnified for environmental liabilities or any required land reclamation expenses arising from activities occurring prior to Evraz's acquisition of such businesses, except for small amounts concerning the acquisition of foreign assets. Significant additional unbudgeted expenditures or shutdowns of facilities could have a material adverse effect on Evraz's business, financial condition and results of operations.

Based on the existing regulatory environment, as of 31 December 2007, Evraz has made provisions of U.S.$128 million for site restoration and land reclamation activities at its mining and steel facilities. Any change in the current regulatory environment could result in actual costs and liabilities for which Evraz has not provided or planned. Moreover, in the course of, or as a result of, an environmental investigation, regulatory authorities in Russia and in the other jurisdictions in which Evraz operates can issue an order reducing or halting production at a facility that has violated environmental standards, impose fines or

demand the establishment of clean-up programmes. For example, Zapsib, on the basis of a court ruling in 2006, has been ordered to decrease its pollution of nearby bodies of water and to establish a clean-up programme. Furthermore, as a result of its inspection of EvrazEK, an energy-generating company acquired by Evraz in 2006 that provides natural gas, coke-oven gas, steam and electricity to certain of Evraz's subsidiaries, including NKMK, the Federal Service for the Supervision of Environmental Use ("Rosprirodnadzor") has filed a penalty claim against EvrazEK for 141.2 million roubles (U.S.$5.8 million) for allegedly causing harm to water sources in the Kemerevo and Krasnoyarsk regions. In 2008 and 2009, Evraz intends to construct a water treatment plant at EvrazEK in order to halt the drainage of waste waters into two local rivers. See "Description of Business – Environmental Matters". In the event that production at one of Evraz's facilities or at a facility operated by a principal supplier or counterparty of Evraz were to be partially or wholly prevented or that Evraz is required to pay fines or set up costly environmental protection programmes, Evraz's business could suffer significantly, and its operating results would be negatively affected.

Currency fluctuations, in particular, the appreciation of the rouble against the U.S. dollar, may materially adversely affect Evraz's results of operations.

Many large multinational companies face to some extent a mismatch of the currencies in which their revenues and costs are denominated. As a result, they are vulnerable to some degree to margin erosion if the currencies in which their costs are denominated appreciate against the currencies in which their revenues are denominated.

Evraz's presentation currency is the U.S. dollar. Its functional currency varies, depending on the subsidiary. The currency in which its direct costs and other costs, such as interest expenses are denominated likewise depends on the subsidiary. The mix of Evraz's revenues and costs is such that appreciation of the Rouble against the U.S. dollar tends to result in an increase in Evraz's costs relative to its revenues, while depreciation of the Rouble against the U.S. dollar tends to result in a decrease in Evraz's costs relative to its revenues. The Rouble appreciated against the U.S. dollar by 5.9% in 2007, 3.9% in 2006 and 8% in 2005, according to the CBR. However, in recent years, the effect of the appreciation of the Rouble against the U.S. dollar has been more than offset by increased prices for Evraz's steel products, both in Russia and internationally. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for the Years Ended 31 December 2007 and 2006" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Inflation". Further appreciation of the Rouble against the U.S. dollar may materially adversely affect Evraz's financial condition and results of operations.

In addition, depreciation of the Rouble against the U.S. dollar results in a decrease in the reported U.S. dollar value of Evraz's Rouble-denominated assets (and liabilities) and appreciation of the Rouble against the U.S. dollar results in an increase in the reported U.S. dollar value of Evraz's Rouble-denominated assets (and liabilities). Moreover, appreciation and depreciation of the Rouble against the U.S. dollar has a similar effect when the income statements of Evraz's Russian subsidiaries are translated into U.S. dollars in connection with the preparation of Evraz's consolidated financial statements.

Sustained periods of high inflation could adversely affect Evraz's business.

A significant amount of Evraz's production activities are located in Russia, and a majority of Evraz's direct costs are incurred in Russia. Russia has experienced high levels of inflation since the early 1990s. Inflation increased dramatically after the 1998 financial crisis, reaching a rate of 84.4% in that year. In 2007, 2006 and 2005, inflation in Russia was 11.9%, 9% and 10.9%, respectively. Evraz tends to experience inflation-driven increases in certain of its costs, such as salaries, that are linked to the general price level in Russia. Evraz may not be able to increase the prices that it receives for its products sufficiently in order to preserve operating margins, particularly in the case of Evraz's Russian export sales, especially when such inflation is accompanied by appreciation of the rouble against the U.S. dollar. Accordingly, high rates of inflation in Russia could increase Evraz's costs and decrease Evraz's operating margins.

Increased electricity and other energy prices, or disruption of supply of energy or electricity sources, could adversely affect Evraz's business.

For steel and mining companies, energy costs, particularly the cost of electricity, comprise a significant portion of the cash cost of production. In 2007, Evraz's energy costs represented 7.7% of the cost of revenues of Evraz's steel segment.

Evraz generally faces much higher electricity prices for the operation of its non-Russian facilities than it does for its Russian subsidiaries. As Evraz continues to expand outside Russia, there can be no assurance that Evraz's electricity costs will not increase at a faster rate than if it had carried out its expansion programme only within Russia. Furthermore, due to its significant operations in Russia, Evraz purchases a significant amount of its electricity from Russian suppliers. Since 1998, the Russian electricity market has been the subject of reform, the primary purposes of which are to introduce competition, liberalise the wholesale electricity market and move from regulated pricing to a market-based system. The rules governing the Russian electricity industry, which have undergone significant change, stipulate that, for the half-year ended 1 June 2008 and the half-year ended 31 December 2008, electricity generators must sell 80-85% and 70-75%, respectively, of their planned 2008 electricity output at regulated tariffs, with the remaining output to be sold in the free market. According to the rules, the Russian government should further liberalise the market by reducing semi-annually the percentage of planned output that must be sold at below-market tariffs. These semi-annual reductions are expected to be within the range of 5-20% of the planned yearly output for each generator, with full liberalisation expected to occur by 2011. Once deregulation has occurred, electricity tariffs for industrial users are expected to rise due both to price liberalisation and an increase in demand. If prices for electricity do rise in Russia, Evraz may lose some of the advantage it currently enjoys as a low-cost producer of steel and mining products.

In 2007, Evraz's Russian operations purchased approximately 8,913 million kWh of electricity, representing approximately 84% of their requirements, from local subsidiaries of RAO UES ("UES"), the government-controlled national holding company for the Russian power sector, as well as from other third parties. Domestic electricity prices are regulated by the Russian government. In 2007, Evraz's average cost of electricity for its Russian operations was 3.8 U.S. cents per kWh. Assuming a price of 6.7 U.S. cents per kWh in 2007, Evraz's Russian operations would have incurred approximately U.S.$258 million in additional costs in 2007. Further price increases for electricity in Russia may also occur in the future as the industry continues to be restructured and controlled to a greater extent by the private sector. In the year ended 31 December 2007, Evraz obtained approximately 16% of its total electricity requirements from internal sources and plans to increase this share further. See "Description of Business—Steel Business—Russia—Raw Materials—Energy—Electricity". Such internal sources, however, represent only a minor proportion of Evraz's total electricity requirements. If Evraz is required to pay higher prices for electricity in the future, its costs will rise and its business and prospects could be materially and adversely affected.

In addition, disruptions in the supply of electricity or other energy sources could adversely impact Evraz's business. For example, as Evraz expands into Ukraine, there can be no assurance that it will not face interruptions in the supply of natural gas to the Ukrainian Assets due to periodic disputes that may arise between Ukraine and its principal natural gas supplier, Russia. Moreover, Highveld has experienced intermittent interruptions to its electricity supply.

Evraz's operations also purchase significant amounts of natural gas, primarily for the production of electricity and heat energy at Evraz's facilities. Evraz generally faces higher natural gas prices for the operation of its non-Russian facilities than it does for its Russian subsidiaries. As Evraz continues to expand outside Russia, there can be no assurance that Evraz's natural gas costs will not increase at a faster rate than if it had expanded only within Russia. For its Russian subsidiaries, Evraz purchases most of its gas from subsidiaries of OAO Gazprom ("Gazprom"). Gazprom is a government-controlled company and the dominant producer and monopoly transporter of natural gas within Russia. Domestic natural gas prices are regulated by the government and have been rising over the last few years. The average natural gas price for industrial consumers in Russia was approximately RUR1,532 (approximately U.S.$62.40) per thousand cubic metres in 2007, an increase of approximately 75.5% from 15 February 2002. According to the Russian Government Macroeconomic Long-term Plan, domestic gas prices for industrial users are to be increased to

U.S.$96-99 per thousand cubic metres by 2010. Assuming a price of U.S.$99 per thousand cubic metres in 2007, Evraz's Russian operations would have incurred approximately U.S.$143 million in additional costs. If Evraz is required to pay a higher price for natural gas, whether through continued expansion into countries with relatively high natural gas prices or through the increase in the Russian price for natural gas, its costs will rise, and its results of operations and prospects could be adversely affected.

Evraz's accounting systems and internal controls may be inadequate to ensure timely and accurate financial reporting.

Evraz's current system of internal control over financial reporting below the corporate level is not primarily designed for the preparation of consolidated IFRS financial statements. For example, Evraz does not have integrated information systems, and each subsidiary has its own accounting platform and chart of accounts. Evraz's Russian subsidiaries prepare separate financial statements under Russian accounting standards for statutory purposes, and Evraz's non-Russian subsidiaries prepare separate financial statements under local GAAP for statutory purposes as well. The preparation of IFRS consolidated financial statements is a manual process that occurs primarily at the corporate level and involves, first, the transformation of the statutory financial statements of Evraz's subsidiaries into IFRS financial statements through accounting adjustments and, second, a consolidation of all subsidiaries' financial statements. This process is complicated and time-consuming, and it requires significant attention from Evraz's senior accounting personnel at its corporate headquarters and subsidiaries.

Evraz is currently taking steps to automate and integrate its financial statement close process as it relates to the preparation of IFRS financial statements, with the goal of improving the overall internal control environment over this process. However, as a result of Evraz's rapid expansion historically and more recently in 2007 and 2008, including its acquisition of controlling stakes in Oregon Steel, Yuzhkuzbassugol and Highveld, the purchase of Claymont Steel, its agreement to purchase the Ukrainian Assets and IPSCO Canada and its purchase of a 10% stake in Delong Steel (which may be increased during 2008 and 2009), the consolidation process as well as the maintenance of adequate internal controls may become more complex and time-consuming for Evraz.

Given Evraz's expectations of continued growth and the current shortcomings in Evraz's accounting systems and internal controls, if Evraz is unsuccessful in its implementation of internal controls, it may not be able to detect or prevent a material misstatement in its annual or interim IFRS consolidated financial statements, and this could adversely affect the quality of the financial information made publicly available.

Notwithstanding the above risk, Evraz believes that its financial systems are sufficient to ensure compliance with the requirements of the UKLA's Disclosure and Transparency Rules as a company with GDRs admitted to trading on the London Stock Exchange's regulated market for listed securities and in particular on the regulated market segment of the International Order Book and admitted to the Official List of the FSA.

For the preparation of IFRS financial information, Evraz depends on key accounting staff, who may leave the group.

The preparation of Evraz's IFRS financial information is a difficult task requiring IFRS-experienced accounting personnel at each of Evraz's principal subsidiaries and at its Moscow corporate offices. However, only a small number of accounting personnel with IFRS expertise are available in Russia. Moreover, there is an increasing demand for such personnel as more Russian companies begin to prepare financial statements on the basis of IFRS or other international standards. Such competition, combined with the remote locations of Evraz's Russian subsidiaries, which such personnel may not find suitable in comparison to other opportunities, makes it difficult for Evraz to hire and retain such personnel in Russia. Any inability to hire or retain qualified accounting staff could disrupt Evraz's capacity to timely and accurately report IFRS financial information and thus adversely affect Evraz's business and the value of the Notes.

Evraz's subsidiaries in Russia are in many cases the largest employers in their respective regions, and as a result Evraz may be limited in its ability to make rapid and significant reductions in numbers of its employees.

Evraz's Russian subsidiaries are in many instances the largest employers in the cities in which they operate, for example, NTMK in Nizhny Tagil, Zapsib and NKMK in Novokuznetsk and KGOK in Kachkanar. While Evraz does not have any specific legal or social obligations or responsibilities with respect to these regions, its ability to effect alterations in the numbers of its employees may nevertheless be subject to political and social considerations. Any inability to make planned reductions in numbers of employees or other changes to Evraz's operations in such regions could have an adverse effect on its results of operations and prospects.

Evraz's business may be affected by labour disruptions, shortages of skilled labour and labour cost inflation.

Competition for skilled labour is intense in the steel and mining industries, and labour costs are increasing significantly, particularly in Russia. The demand and, hence, costs for skilled engineers, construction works and operators will continue to increase, reflecting the significant demand from other industries and public infrastructure projects. Continual high demand for skilled labour and continued increases in labour costs could have a material adverse effect on Evraz's business, financial condition and results of operations.

At the end of 2007, a majority of Evraz's employees were members of trade unions. There can be no assurance that work slowdowns, stoppages or strikes will not occur, and management is unable to estimate the effect of any such work slowdown, stoppage or strike on Evraz's production levels. Significant work slowdowns, stoppages or other labour-related developments could have an adverse effect on Evraz's business, financial condition and results of operations.

The Company or its non-Russian subsidiaries could be deemed to be tax residents of Russia or have a permanent establishment in Russia.

The Company and its subsidiaries incorporated outside of Russia are generally considered to be non-residents of Russia for tax purposes. There can be no assurance that Russian tax authorities will not deem the Company or any of its non-Russian subsidiaries to have a permanent establishment in Russia as a result of the exercise of management and control from within Russia, for example, by virtue of the location of Evraz's corporate headquarters activities in Russia. There are instances where foreign companies that perform holding or finance functions and are managed and controlled from Russia have been challenged by Russian tax authorities as having a permanent establishment in Russia. Such a challenge with respect to Evraz could result in the Company or one or more of its non-Russian subsidiaries being subject to Russian profits tax computed under Russian tax principles and Russian income tax withholding being assessed on dividend, interest and other similar payments paid from such companies. Such occurrences could increase Evraz's tax liabilities and adversely affect Evraz's business and results of operations and the value of the Notes.

Changes in the application or interpretation of the Cypriot tax system could materially adversely affect Evraz's business and the value of the Notes.

All of the Company's Russian subsidiaries are held indirectly through the Company's wholly-owned subsidiary Mastercroft, which is incorporated in Cyprus. Cyprus became a member of the European Union on 1 May 2004, as a result of which it has harmonised its legislation with EU directives and guidelines and has reformed its tax system. Moreover, as a result of its accession to the EU, Cyprus will adhere to decisions of the European Court of Justice and any amendments to, or newly introduced, EU directives with respect to taxation. Such judicial decisions and legislative changes may adversely affect the tax treatment of Evraz's Cypriot subsidiaries and of transactions with such Cypriot companies.

In addition, in accordance with Cypriot income tax laws, a company is tax resident in Cyprus if its management and control is exercised in the Republic of Cyprus. There is no definition in the Cyprus income

tax laws as to what constitutes management and control. Evraz has received advice that the Cyprus tax authorities follow the OECD model convention with respect to taxes on income and capital, which refers to a "place of effective management". The commentary on that model convention states: "The place of effective management is the place where key management and commercial decisions that are necessary for the conduct of the entity's business are in substance made. The place of effective management will ordinarily be the place where the most senior person or group of persons (for example a board of directors) makes its decisions, the place where the actions to be taken by the entity as a whole are determined; however, no definitive rule can be given and all relevant facts and circumstances must be examined to determine the place of effective management. An entity may have more than one place of management, but it can have only one place of effective management at any one time". Based on this definition, management and control may be considered to be exercised where the board of directors of a company meets and makes decisions. There can be no assurance that the tax treatment of Evraz's Cypriot subsidiaries will not be challenged on the basis of where they conduct "effective management".

A company that is tax resident in Cyprus is subject to Cypriot taxation and qualifies for benefits available under the Cypriot tax treaty network, including the double-taxation treaty with Russia. In addition, an EU parent company may be able to claim tax benefits under EU tax directives with respect to dividends paid from Cypriot resident companies or gains from the sale of shares in Cypriot resident companies.

In the event the tax residency of a company incorporated in Cyprus is challenged, such Cypriot company would be required to establish that it is managed and controlled from Cyprus. If the tax residency of any of the Company's Cypriot subsidiaries, including Mastercroft, were to be challenged and Evraz was unable to establish that such company qualified as a Cypriot tax resident, such company could be subject to tax in its place of tax residency and would be unable to make use of the Cypriot tax treaty network. If the relevant Cypriot company is not tax resident in a EU member state, tax benefits under the EU tax directives referred to above may be restricted or eliminated.

Adverse changes in the application or interpretation of Cypriot tax law, or a finding that a subsidiary of the Company that is incorporated in Cyprus does not qualify as a Cypriot tax resident or for tax-treaty-based benefits, may significantly increase Evraz's tax burden and adversely affect its financial condition and results of operations.

Incomplete, unreliable or inaccurate official data and statistics could create uncertainty.

Evraz relies on and refers to information and statistics from various third party sources and its own internal estimates. For example, substantially all the information contained in this Prospectus concerning Evraz's competitors has been derived from publicly available information, including press releases. Management believes that these sources and estimates are reliable, but has not independently verified them. There can be no assurance that statistics derived from third party sources are true and accurate in all material respects.

RISKS RELATING TO THE NOTES AND THE TRADING MARKET

The Notes may not be a suitable investment for all investors.

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus;
- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact such investment will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes;
- understand thoroughly the terms of the Notes and be familiar with the behaviour of the relevant financial markets; and
- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Payments under the Notes are effectively subordinated to secured indebtedness of the Company and structurally subordinated to secured and unsecured indebtedness of the Company's subsidiaries.

The obligations of the Company under the Notes, for which there is no guarantor, are effectively subordinated to the existing secured obligations of the Company to the extent of the collateral over which security has been given and structurally subordinated to the existing obligations, both secured and unsecured, of the Company's subsidiaries. As of 31 December 2007, the principal amount of Evraz's consolidated indebtedness (consisting for the purposes of this paragraph of long-term and short-term interest bearing loans) amounted to U.S.$6,654 million, of which approximately U.S.$2,714 million (approximately 41% of Evraz's consolidated indebtedness) consisted of secured debt of the Company and approximately U.S.$6,240 million (consisting of direct subsidiary indebtedness of U.S.$2,051 million and guarantees of U.S.$4,189 million) (approximately 94% of Evraz's consolidated indebtedness) consisted of both secured and unsecured debt of the Company's subsidiaries, all of which would, in substance, rank prior to the Notes.

Subject to certain limitations set forth in the Terms and Conditions, the Company may be able to incur substantial additional secured debt, and its subsidiaries may be able to incur substantial additional structurally senior debt, secured or unsecured, in the future. The incurrence of additional indebtedness by either the Company or any of its subsidiaries, including in particular indebtedness that is structurally or effectively senior to the Notes, may have a material adverse effect on the value of an investment in the Notes. See "Terms and Conditions of the Notes".

In addition, the Company is a holding company with limited assets other than the shares of its subsidiaries and accordingly, will depend upon payments from its subsidiaries to make payments on the Notes. The subsidiaries of the Company are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to the Notes or to make any funds available for these purposes, whether by dividends, loans, distributions or other payments, and do not guarantee the payment of interest on, or principal of, the Notes. Any right that the Company has to receive any assets of any operating subsidiary upon liquidation or reorganisation, and the consequent right of holders of Notes to realise proceeds from the sale of such a subsidiary's assets, will be effectively subordinated to claims of that subsidiary's creditors, including trade creditors and holders of debt issued by that subsidiary.

The Notes may not have an active trading market, which may have an adverse impact on the value of the Notes.

There may not be an existing market for the Notes at the time they are issued. The Notes have not been registered under the Securities Act or any U.S. state securities laws and, unless so registered, may not be offered or sold except in a transaction exempt from, or not subject to, the registration requirements of the Securities Act and applicable state securities laws. The Notes are expected to be listed on the Official List of the U.K. Listing Authority and admitted to trading on the Regulated Market of the London Stock Exchange. However, there can be no assurance that a liquid market will develop for the Notes, that holders of the Notes will be able to sell their Notes or that such holders will be able to sell their Notes for a price that reflects their value.

The Terms and Conditions include certain restrictions on Evraz's operations that may have a material adverse effect on Evraz's business, financial condition, results of operations or prospects.

The Terms and Conditions will, among other things, restrict, with certain exceptions, the ability of the Issuer and in certain cases its Subsidiaries (as defined in Condition 19 (*Definitions*)) to (i) incur liens; (ii) incur indebtedness; (iii) engage in transactions with affiliates; (iv) sell assets; and (v) undertake certain mergers and similar transactions. In addition, the conditions of notes issued by Evraz Securities S.A. due in 2009 (the "2009 Notes") and guaranteed by Mastercroft, NTMK, Zapsib, NKMK, KGOK and Ferrotrade Limited and of notes issued by Evraz Group S.A. due in 2015 (the "2015 Notes") and guaranteed by Mastercroft restrict, up to their respective scheduled redemption dates, with certain exceptions, the ability of the Issuer and its Material Subsidiaries (as defined in the Terms and Conditions of the 2009 Notes and the Conditions of the 2015 Notes, respectively) to (i) incur liens; (ii) incur indebtedness (which restriction, with respect to the 2015 Notes, applies to Subsidiaries, as such term is defined in the Conditions of the 2015 Notes); (iii) engage in transactions with affiliates; (iv) sell assets; and (v) undertake certain mergers and similar transactions.

Although these restrictions are intended to preserve the creditworthiness of Evraz and the Notes, as well as of the 2009 Notes and 2015 Notes, they may also hinder the ability of Evraz to implement its business strategy and could have a material adverse effect on Evraz's business, financial condition, results of operations or prospects.

To the extent that Evraz does not comply with the Terms and Conditions of the Notes, the 2009 Notes, the 2015 Notes or any other indebtedness and is not able to obtain a waiver, the relevant indebtedness (including the Notes) as well as other indebtedness may become immediately repayable. Any such acceleration of Evraz's indebtedness would have a material adverse effect on its business, financial condition, results of operations and prospects.

The Notes may be subject to prepayment.

In the event that the Issuer is obliged to increase the amounts payable under the Notes, including in the event that any tax is or becomes applicable to such payments, the Issuer may, at its option, prepay the Notes. If the Issuer redeems the Notes under such circumstances, the redemption prices will be equal to 100% of the principal amount of the Notes plus any accrued interest and additional amounts due. See "Terms and Condition of the Notes—Redemption and Purchase—Redemption for Taxation Reasons". The Issuer may also redeem the Notes, in whole or in part, at any time on at least 30 days' notice but not more than 60 days' notice to Noteholders at their principal amount plus Applicable Premium (as defined in Condition 19 (*Definitions*)) together with accrued interest to the redemption date. See "Terms and Conditions of the Notes —Redemption and Purchase—Redemption at Make-Whole".

Evraz may be unable to repurchase the Notes as required upon a change of control and the occurrence of certain other events.

If Evraz were to experience a Change of Control (as such term is defined in the "Terms and Conditions of the Notes"), it would be required to make an offer to repurchase all outstanding Notes at 101 per cent. of their principal amount plus accrued and unpaid interest, if any, to the date of the repurchase. Evraz may be unable to do so, however, because it might not have enough available funds at the time of such change of control to make the required purchase of the Notes. In addition, certain of Evraz's other outstanding and future indebtedness may limit its ability to repurchase the Notes upon a change of control or may require that they be repaid upon a change of control.

The trading prices of emerging market debt are subject to substantial volatility.

Historically, the markets for emerging market debt have been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Notes. There can be no assurance that the market for the Notes will not be subject to similar disruptions. Any such disruptions may have an adverse effect on holders of the Notes.

Interest rate risks.

As the Notes bear a fixed rate of interest, an investment in the Notes involves the risk that subsequent changes in market interest rates may adversely affect the value of the Notes.

Exchange rate risks and exchange controls.

The Issuer will pay principal and interest on the Notes in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "Investor's Currency") other than U.S. dollar. These include the risk that exchange rates may significantly change (including changes due to devaluation of the U.S. dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the U.S. dollar would decrease (i) the Investor Currency's equivalent yield on the Notes; (ii) the Investor's Currency equivalent value of the principal payable on the Notes; and (iii) the Investor's Currency equivalent market value of the Notes.

Changes to the credit ratings of the Company or the Notes may adversely affect the value of the Notes.

The Notes have been rated BB by Fitch, Ba3 by Moody's and BB- by Standard & Poor's.

The foregoing credit ratings do not mean that the Notes are a suitable investment. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal at any time by the assigning rating organisation. The ratings do not address the likelihood that the principal on the Notes will be prepaid, paid on an expected final payment date or paid on any particular date before the legal final maturity date of the Notes. The ratings do not address the marketability of the Notes or any market price. The significance of each rating should be analysed independently from any other rating.

Any changes in the credit ratings of the Company or the Notes could adversely affect the value of the Notes and the price that a subsequent purchaser will be willing to pay for the Notes.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to investment laws and regulations, or to the review by, or regulation of, certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments to it; (ii) Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk based capital or similar rules.

The Notes may only be transferred in accordance with the procedures of the depositaries in which the Notes are deposited.

Except in limited circumstances, the Notes will be issued only in global form with interests therein held through the facilities of Euroclear, Clearstream, Luxembourg and/or DTC. Ownership of beneficial interests in the Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by Euroclear, Clearstream, Luxembourg and/or DTC or their nominees and the records of their participants. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. These laws may impair the ability to transfer beneficial interests in the Notes. Because Euroclear, Clearstream, Luxembourg and/or DTC can only act on behalf of their participants, which, in turn, act on behalf of owners of beneficial interests held through such participants and certain banks, the ability of a person having a beneficial interest in a note to pledge or transfer such interest to persons or entities that do not participate in the Euroclear, Clearstream, Luxembourg and/or DTC systems may be impaired.

Emerging markets such as Russia, Ukraine, China and South Africa are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt Evraz's business, as well as cause the price of the Notes to suffer.

Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Investors should also note that emerging markets are subject to rapid change and that the information set out in this Prospectus may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in capital markets of all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in emerging markets and adversely affect the economies of emerging markets. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, even if the economy in Russia or any other emerging market in which Evraz operates remains relatively stable, financial turmoil in any other emerging market country could seriously disrupt Evraz's business, as well as result in a decrease in the price of the Notes.

RISKS RELATING TO THE RUSSIAN FEDERATION AND OTHER EMERGING MARKETS

Like other large multinational companies, Evraz sells its products throughout the world and produces them in many countries. Evraz has production facilities in Russia, where most of its fixed assets are located, the Czech Republic, Italy, South Africa, the United States and Canada. Additionally, in December 2007, it signed an agreement to purchase the Ukrainian Assets (see "Description of Business—Steel Business—Production Facilities—DMZP", "Description of Business—Steel Business—Production Facilities—Ukrainian Coking Plants" and "Description of Business—Mining Business—Production Facilities—Sukhaya Balka); in February 2008, it purchased a stake in a Chinese steel concern (see "Description of Business—Steel Business—Production Facilities—Delong Steel"); and, in March 2008, it announced the purchase of certain of the assets of IPSCO Canada (see "Description of Business—Steel Business—Production Facilities—IPSCO Canada"). Because a substantial amount of Evraz's assets are located in Russia, Evraz continues to face significant risks specific to the Russian Federation. Similar risks, common to most emerging markets, also exist in South Africa, Ukraine and China.

Political and Social Risks

Political and governmental instability in Russia could adversely effect Evraz's business, financial condition and operating results

Since 1991, Russia has sought to transform itself from a one-party state with a centrally planned economy to a market-oriented economy. The Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups. The course of political, economic and other reforms has, in some respects, been uneven and the composition of the Russian government – the Prime Minister and the other heads of federal ministries – has, at times, been unstable. For example, six different Prime Ministers led the Russian government between March 1998 and May 2000.

Since Mr. Putin came to power, first as acting President of Russia on 31 December 1999 and then as President in March 2000, Russia has experienced a growing centralisation of power in the hands of the President and his allies. The elections to the State Duma in December 2003 resulted in a substantial majority for parties supportive of Mr. Putin. In 2004, Mr. Putin issued a presidential decree that significantly reduced the number of federal ministries, redistributed certain functions amongst various agencies of the government and announced plans for a major overhaul of the federal administrative system. Many of these changes have since been implemented. In addition, a new law was adopted pursuant to which the executives of sub-federal political units (e.g., governors) are nominated by the President of Russia and confirmed by the legislature of the sub-federal political unit. Moreover, pursuant to legislation that came into force on 7 December 2006, single-member-district elections for the State Duma were eliminated and all votes are now cast on a party-list basis. The most recent State Duma elections held on 2 December 2007 resulted in a further increase in

the share of the aggregate vote received by United Russia and other political parties allied with the President, bringing that percentage to more than two thirds. On 2 March 2008, the presidential elections were held, resulting in Mr. Putin's chosen successor, Dmitry Medvedev, being elected as president. Although the new President has publicly announced that he will continue the former President's policies, there can be no assurance that significant changes in economic and political environment will not occur. The potential instability during the transition period and during the early stages of Mr. Medvedev's presidency, and shifts in governmental policy and regulation in Russia, which are less predictable than in many Western countries, could negatively affect the economic and political environment in the near term.

Future changes in the composition of the Russian government or a lack of consensus between the President, the Russian government, Russia's parliament and powerful economic groups could lead to political instability, which could have a material adverse effect on the value of investments in Russia generally and on Evraz in particular.

The reversal of reform policies or the adoption of government policies or arbitrary exercise of governmental discretion targeted at specific individuals or companies could harm Evraz's business as well as investments in Russia more generally.

Major policy shifts could hinder or reverse political, economic and regulatory reforms. As a result of the Duma elections in December 2007 and presidential elections in March 2008 or otherwise, the authorities may adopt policies that could adversely affect private sector companies generally or in any particular sector, or in which there is significant non-Russian ownership. For example, the Russian government has submitted to the Duma a bill that is drafted to limit foreign ownership of commercial entities designated to have strategic importance for the country's national security, which may include the metals industry, in addition to the oil and gas and defense industries. The draft law considers entities that produce or sell goods used in railway transportation and entities that possess a dominant position in research, production and sale of materials and alloys bearing specific characteristics for use in manufacturing weapons and military vehicles to be "of strategic importance". The nature and scope of this bill, as well as any limitations it may impose on Evraz, are still unclear. The Duma passed the bill in its second reading on 21 March 2008. In the event that any such policies were to be adopted, Evraz's business, financial condition and results of operations could be materially and adversely affected.

Moreover, regulatory authorities in Russia have a high degree of discretion and at times appear to exercise their discretion selectively or arbitrarily, without hearing or prior notice, and in a manner that is contrary to law or influenced by political or commercial considerations. Such arbitrary governmental actions have reportedly included denial or withdrawal of licences, sudden and unexpected tax audits, criminal prosecutions and civil actions. In this environment, Evraz's competitors may receive preferential treatment from the Russian government and governmental authorities, potentially giving them a competitive advantage. Unlawful, selective or arbitrary government action, if directed at Evraz's operations in Russia, could have a material adverse effect on its business, results of operations and prospects and on the value of the Notes.

Furthermore, the government has the power in certain circumstances to interfere with the performance of, nullify or terminate contracts and, through its tax, environmental and prosecutorial arms, has engaged in selective investigations and prosecutions of particular companies or persons. Russian authorities have recently challenged some Russian companies and prosecuted their executive officers and shareholders on tax evasion and related charges. In some cases, the results of such prosecutions and challenges have been significant claims against companies for unpaid taxes and the imposition of prison sentences on individuals. Some observers speculate that in certain cases these challenges and prosecutions were intended to punish, and deter, opposition to the government or the pursuit of disfavoured political or economic agendas or to further the interests of the Russian government and individual officials or business groups. Some observers have also speculated that certain environmental challenges brought recently by Russian authorities in the oil and gas sector have been targeted at specific Russian businesses under non-Russian control, with a view to bringing them under state control. More generally, some observers have noted that takeovers in recent years of major private sector companies in the oil and gas, metals and manufacturing sectors by state-controlled companies following tax, environmental and other challenges may reflect a shift in official policy in favour

of state control at the expense of individual or private ownership, at least where large and important enterprises are concerned.

In the international sphere, Russia has adopted a more assertive approach to the definition and pursuit of its interests. To some observers, Russia has appeared on several occasions to have used economic leverage or control over oil and gas supplies to achieve political objectives. If Russia were to adopt restrictive economic measures against countries that are important to the Evraz's business, or if trade between Russia and such countries were otherwise to be interrupted for political reasons, Evraz's business, financial condition and results of operations could be materially and adversely affected.

The reversal of reforms, arbitrary government action or the use of government power, if directed at Evraz, its major shareholders or its beneficial owners, could have a material adverse effect on the value of investments in Russia generally and on Evraz's business, financial condition and operating results.

Political, social and other conflicts, and corruption, create an uncertain operating environment that hinders Evraz's long-term planning ability and could adversely affect the value of its investments in Russia.

Russia is a federation of sub-federal political units, consisting of republics, territories, regions, districts, cities of federal importance and an autonomous region. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, conflicting laws have been enacted in the areas of privatisation, securities, corporate legislation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus hinders Evraz's long-term planning efforts and creates uncertainties in Evraz's operating environment, both of which may prevent Evraz from effectively and efficiently carrying out its business strategy. See also "—Risks Relating to Evraz's Business and Industry—In the event that the title to any company acquired by Evraz through privatisation, bankruptcy, sale or otherwise is successfully challenged, Evraz may lose its ownership interest in that company or its assets" and "—Legislative and Legal Risks—Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity in Russia and thus could have a material adverse effect on Evraz's business and the value of the Notes".

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases in southern Russia, military conflict. As a result, a number of fatal terrorist attacks have been carried out in Moscow and other Russian regions. The further intensification of violence, including terrorist attacks and suicide bombings, or its continued spread, could have significant political consequences, including the imposition of a state of emergency in some or all of Russia. Moreover, any terrorist attacks and the resulting heightened security measures may cause disruptions to domestic commerce and exports from Russia and could materially adversely affect Evraz's business, financial condition and operating results.

The implementation of Russia's economic reforms has also led from time to time to social protest. For example, in 1998, miners in several regions of Russia, demanding payment of overdue wages, resorted to strikes which included blocking major railroads, and, in early 2005, pensioners in cities across Russia protested the replacement of certain in-kind benefits with cash allowances. The escalation of social unrest could have an adverse effect on Evraz's ability to conduct its business in Russia.

Finally, the Russian and international media have reported high levels of corruption in Russia and elsewhere in the CIS. Moreover, certain members of the Russian media appear to have published biased articles in exchange for payment. In addition, persons who are hostile to Evraz and/or its management and/or its beneficial owners may allege, in the press or elsewhere, that Evraz and/or its beneficial owners have engaged in illegal activities. Demands of corrupt officials, claims that Evraz or its management or its beneficial owners have been involved in corruption or illegal activities or biased articles and negative publicity could adversely affect Evraz's ability to conduct its business in Russia and the value of the Notes.

Economic Risks

Economic instability in Russia could adversely affect Evraz's business.

During the 1990s, economic conditions in Russia were highly volatile. The Russian economy experienced a sustained deterioration, including a large contraction in gross domestic product, hyperinflation, an unstable currency and a high level of state debt relative to gross domestic debt. The Russian steel industry was materially and adversely affected by these events. See "—Risks Relating to Evraz's Business and Industry—The steel, mining and vanadium businesses are cyclical, and any local or global downturn in the steel, mining or vanadium industries may have an adverse effect on Evraz's results of operations and financial condition."

The Russian economy has also been subject to abrupt downturns. In particular, on 17 August 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its Rouble-denominated securities, the CBR stopped its support of the Rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the Rouble, a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and the inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the near collapse of the Russian banking sector after the events of 17 August 1998, as evidenced by the revocation of the banking licences of a number of Russian banks. This further impaired the ability of the banking sector to act as a reliable and consistent source of liquidity to Russian companies and resulted in the loss of bank deposits in some cases.

In the course of its recovery from the downturn in 1998, the Russian economy has exhibited positive trends, such as an increase in gross domestic product, budgets and current accounts in surplus, rouble appreciation and a reduction in inflation. Nevertheless, because Russia produces and exports large quantities of oil and natural gas, the Russian economy is vulnerable to fluctuations in the price of oil and natural gas on the world market, and a decline in the price of oil and natural gas could significantly slow or disrupt the Russian economy. Any general market downturn or economic slowdown could limit Evraz's access to capital and adversely affect Russia's economy as well as Evraz's business and operating results in the future.

The Russian banking system remains underdeveloped and susceptible to volatility, which could place severe liquidity constraints on Evraz's operations in Russia.

Russia's banking and other financial systems are not well developed or regulated. Many Russian banks do not meet international banking standards, and the transparency of the Russian banking sector in some respects still lags behind international banking standards. Aided by inadequate supervision by the regulators, many banks do not follow existing CBR regulations with respect to lending criteria, credit quality, loan loss reserves or diversification of exposure. Furthermore, in Russia, bank deposits made by corporate entities generally are not insured.

Within the past 10 years, the Russian banking sector has experienced considerable volatility. The financial crisis in August 1998 resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. Again, in 2004, the Russian banking sector experienced turmoil, which resulted in the CBR revoking the licences of certain Russian banks and many investors withdrawing their savings.

Recently, there has been a rapid increase in lending by Russian banks, which many believe has been accompanied by a deterioration in the credit quality of the borrowers. It has also caused Russian banks to become more dependent on foreign sources of funding and, therefore, more susceptible to volatility on the international credit markets. Due to the recent global credit crisis, it may be increasingly difficult for Russian banks to accumulate sufficient capital to sustain their lending operations.

There are currently a limited but increasing number of sufficiently capitalised, creditworthy Russian banks. Evraz seeks to reduce its risk by receiving and holding its funds that are located in Russia, including its Rouble-denominated funds, with subsidiaries of foreign banks, which it generally believes to be more stable and less risky than Russian banks. Nevertheless, continued underdevelopment of or future volatility in

the Russian banking sector could result in the loss of Evraz's deposits or affect its ability to complete banking transactions in Russia, which could have a material adverse effect on Evraz's financial condition and results of operations.

Russia's physical infrastructure is in poor condition, which could disrupt Evraz's normal business activities.

Russia's physical infrastructure largely dates back to Soviet times, and has not been adequately funded and maintained since the dissolution of the Soviet Union. Russia's poor physical infrastructure disrupts the transportation of goods and supplies as well as communications and adds costs to doing business in Russia. Particularly affected are the rail and road networks, power generation and transmission, communication systems and building stock. Road conditions throughout Russia are poor, with many roads not meeting minimum requirements for use and safety. Power disruptions also occur: On 25 May 2005, a failure in the power transmission network interrupted electricity supplies in Moscow and four other regions of Russia, causing significant disruptions to business activity; and, in January 2006, electricity supplies to certain industrial customers in Moscow were reduced as a result of extreme cold in Moscow. Service reductions, breakdowns and failures of any part of Russia's physical infrastructure may disrupt normal business activity.

In order to improve infrastructure, the Russian government is reorganising the country's electricity system and is considering plans to reorganise the country's railway and telephone systems. Such reorganisations may result in increased charges and tariffs and may not be supported by the anticipated capital investment that is needed to adequately repair, maintain and improve these systems. Significant increases in charges and tariffs or further deterioration in the Russia's infrastructure may limit economic growth and interrupt business operations of Evraz, its customers and suppliers, any or all of which could have a material adverse effect on Evraz's business and the value of the Notes.

Legislative and Legal Risks

Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity in Russia and thus could have a material adverse effect on Evraz's business and the value of the Notes.

Russia is still developing the legal framework required to support a market economy. The following risks relating to the Russian legal system create uncertainties with respect to the legal and business decisions that Evraz makes, many of which do not exist in countries with more developed market economies:

- inconsistencies among (1) federal laws; (2) decrees, orders and regulations issued by the Russian president, the Russian government and federal ministries; and (3) regional and local laws, rules and regulations;
- limited judicial and administrative guidance on interpreting Russian legislation;
- substantial gaps in the regulatory structure due to delay or absence of implementing regulations;
- the relative inexperience of judges and courts in interpreting new principles of Russian legislation and complex commercial arrangements;
- a lack of judicial independence from political, social and commercial forces;
- a high degree of discretion on the part of governmental authorities;
- bankruptcy procedures that are not well developed and are subject to abuse; and
- difficulty in enforcing court judgements.

Additionally, several fundamental laws in Russia have only recently become effective. The enactment of new legislation in the context of a rapid evolution to a market economy and the lack of consensus about the scope, content and pace of economic and political reforms have resulted in ambiguities, inconsistencies

and anomalies in the overall Russian legal system. Many new laws remain untested. Moreover, courts have limited experience in interpreting and applying many aspects of business and corporate law. Russian legislation also often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. All of these weaknesses could affect Evraz's ability to enforce its legal rights in Russia, including rights under its contracts, or to defend against claims by others in Russia.

The independence of the judicial system and the prosecutor general's office and their immunity from economic, political and nationalistic influences in Russia is also not well-established. The court system is understaffed and underfunded; judicial precedents generally have no binding effect on subsequent decisions; and most court decisions are not readily available to the public. Enforcement of court judgements can in practice be very difficult in Russia. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political aims, and law enforcement agencies do not always enforce or follow court judgements. Evraz may be subject to such claims and may not be able to receive a fair trial.

These uncertainties also extend to property rights. While legislation has been enacted to protect private property against expropriation and nationalisation, due to the lack of experience in enforcing these provisions and due to potential political changes, these protections may not be enforced in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any of Evraz's entities in Russia, their assets or portions thereof, potentially without adequate compensation, could have a material adverse effect on Evraz's business and prospects and on the value of the Notes.

Moreover, the regulation and supervision of the securities market, financial intermediaries and issuers are considerably less developed in Russia than in the United States or Western Europe. Securities laws, including those relating to corporate governance, disclosure and reporting requirements, have only recently been adopted, whereas laws relating to anti-fraud safeguards, insider trading restrictions and fiduciary duties are rudimentary.

Russian corporate and securities rules and regulations can change rapidly, which may adversely affect Evraz's ability to conduct securities-related transactions. While some important areas are subject to virtually no oversight, the regulatory requirements imposed on Russian issuers in certain other areas of corporate and securities laws and regulations result in delays in conducting securities offerings and in accessing the capital markets. It is often unclear whether, or how, regulations, decisions and letters issued by the various regulatory authorities apply to Evraz. As a result, Evraz may be subject to fines or other enforcement measures despite its best efforts at compliance.

Shareholder liability under Russian legislation could cause the Company to become liable for the obligations of its Russian subsidiaries.

The Russian Civil Code, the Law on Joint Stock Companies and the Law on Limited Liability Companies generally provide that shareholders in a Russian joint stock company or limited liability company are not liable for the obligations of the company and bear only the risk of loss of their investment. This may not be the case, however, when one person (an "effective parent") is capable of determining decisions made by another (an "effective subsidiary"). The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between the companies; and
- the effective parent gives obligatory directions to the effective subsidiary.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt as a result of the action or inaction of an effective parent. This is the case regardless of how the effective parent's capability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent that caused the effective subsidiary to act or fail to act, knowing

that such action or inaction would result in losses. Accordingly, in the Company's position as an effective parent, it could be liable in some cases for the debts of its effective subsidiaries in Russia.

Weaknesses and changes in the Russian tax system could materially adversely affect Evraz's business and the value of the Notes.

Generally, taxes payable by Russian companies are substantial and numerous. These taxes include, among others, income taxes, value-added tax ("VAT"), excise taxes, payroll taxes and property taxes.

The tax environment has historically been complicated because various authorities have often issued contradictory interpretations of tax legislation. This uncertainty potentially exposes Evraz to the risk of significant fines, penalties and enforcement measures and could result in a greater than expected tax burden.

Because of the political changes that have occurred in Russia over the past several years, there have recently been significant changes to the Russian taxation system. Global tax reforms in Russia commenced in 1999 with the introduction of Part One of the Russian Tax Code, which sets out general taxation guidelines. Since then, Russia has been in the process of replacing legislation regulating the application of major taxes. New chapters of the Tax Code on VAT, unified social tax and personal income tax came into force on 1 January 2001; new chapters on the profit tax and mineral extraction tax came into force on 1 January 2002; and new chapters on the land tax and water tax came into force on 1 January 2005. Although these tax reforms have been completed to a large extent, some significant changes may still be introduced to Russian tax law. Among the most important recent changes are amendments to the chapters on VAT and on income tax, effective as of 1 January 2008, as well as changes to Part One of the Tax Code (tax administration provisions) effective as of 1 January 2007.

In practice, Russian tax authorities often have their own interpretation of the tax laws that rarely favours taxpayers, who often have to resort to court proceedings to defend their position against the tax authorities. Differing interpretations of tax regulations exist both among and within government ministries and organisations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with related documentation such as customs declarations, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges.

In its decision of 25 July 2001, the Russian Constitutional Court introduced, but did not define, the concepts of a ''taxpayer acting in bad faith'' and a ''bona fide taxpayer.'' Tax authorities are increasingly using these concepts to invalidate a taxpayer's reliance on the letter of the tax law. In an effort to clarify and develop the meaning of "bona fide taxpayer, on 12 October 2006, the Plenum of the Supreme Arbitration Court issued Resolution No. 53. Resolution No. 53 also introduced the concept of an "unjustified tax benefit", intending to set out a 'substance over form' approach for determining if a tax benefit is unjustified. The tax authorities and the courts have provided little practice or guidance for the interpretation of these new concepts. There is no assurance that tax authorities will not actively seek to apply the "unjustified tax benefit" concept when challenging in courts tax positions taken by taxpayers. Furthermore, while the intent of Resolution No. 53 was to combat abuse of tax law in practice, there is no assurance that the tax authorities will not seek to apply the concepts contained therein in a broader sense than may have been intended by the Supreme Arbitration Court. On 28 December 2006, the Plenum of the Supreme Court passed another resolution, Resolution No. 64, "On Practice of the Application of the Liability for the Tax Crimes", which attempts to broaden the application of criminal liability for tax violations.

Generally, taxpayers are subject to a tax audit for a period of three calendar years of their activities which immediately preceded the year in which the audit is carried out. However, previous audits do not completely exclude the possibility of subsequent claims relating to the audited period, as Russian tax law authorises upper-level tax inspectorates to review the results of tax audits conducted by subordinate tax inspectorates. As a result, the statute of limitations is not entirely effective. In addition, on 14 July 2005, the Russian Constitutional Court issued a decision that allows the statute of limitations for tax liabilities to be extended beyond the three-year term set forth in the tax laws if a court determines that a taxpayer has obstructed or hindered a tax audit. Furthermore, recent amendments to the Tax Code, effective 1 January 2007, allow an extension of the three-year term in cases where actions of the audited taxpayer created

insurmountable obstructions to a tax audit. Tax authorities may therefore have broad discretion to argue that a taxpayer has "obstructed" or "hindered" an audit or created "insurmountable obstructions" surrounding an audit and ultimately seek penalties for periods beyond the three-year statutory term. In addition, in some instances, new tax regulations have been given retroactive effect.

Moreover, financial statements of Russian companies are not consolidated for tax purposes. Therefore, each of the Company's Russian subsidiaries pays its own Russian taxes and may not offset its profit or loss against the loss or profit of another entity in the consolidated Evraz group, which may result in higher taxes for Evraz than if taxes were assessed on a consolidated basis. In addition, intercompany dividends are subject to a withholding tax of 9%, if distributed to Russian residents, and 15%, if distributed to non-Russian residents, subject to double tax treaty relief. With effect from January 2008, dividend income of Russian entities is subject to 0% tax rate in Russia, provided that (i) the parent company owns not less than 50% of the shares of the subsidiary paying the dividends for a period of not less than 365 days as at the date the dividends are declared; and (ii) that the consideration paid for the shares in the company paying the dividend exceeded RUR500 million. In addition, if a Russian company that receives intercompany dividends itself pays a dividend, it may offset the withholding tax paid against its own withholding liability for the dividend that it pays to Russian companies and individuals resident in Russia, though not against any withholding made on a distribution to foreign companies or non-resident individuals.

The foregoing ambiguities in the application and interpretation of Russian tax law and regulations and other conditions create tax risks in Russia that are more significant than typically found in countries with more developed tax systems, imposing additional burdens and costs on Evraz's operations, including management resources. There can be no assurance that current taxes will not be increased, that additional tax charges will not be imposed on Evraz or that additional sources of revenue or income, or other activities, will not be subject to new taxes, charges or similar fees in the future. For a further discussion of the risks and uncertainties associated with the enforcement and application of the tax regime in Russia, see "—Legislative and Legal Risks—Weaknesses and changes in the Russian tax system could materially adversely affect Evraz's business and the value of the Notes". Furthermore, these risks and uncertainties complicate Evraz's tax planning and related business decisions, potentially exposing Evraz to significant fines and penalties and enforcement measures despite its best efforts at compliance, and could adversely affect Evraz's business and results of operations and the value of the Notes.

Evraz may be subject to vaguely drafted Russian transfer pricing rules.

Russian transfer pricing rules give Russian tax authorities the right to review, make transfer pricing adjustments and impose additional tax liabilities in respect of transactions between related parties and certain other types of transactions between independent parties (such as foreign trade transactions and transactions that have significant price fluctuations), if the transaction price deviates by more than 20% from the market price. Transfer pricing rules also apply to transactions involving securities and derivatives, and the rules applicable to such transactions may be more complex and restrictive than with respect to other transactions.

Russian transfer pricing rules are vaguely drafted, leaving wide scope for interpretation by Russian tax authorities and courts. Due to the uncertainties in interpretation of transfer pricing legislation, the tax authorities may challenge the prices of certain of Evraz's transactions and propose adjustments. If such price adjustments are upheld by Russian courts and implemented, Evraz's effective tax rate could increase and future financial results could be adversely affected. In addition, Evraz could face significant losses associated with the assessed amount of prior tax underpaid and related interest and penalties, which could have a material adverse effect on its business, financial condition and operating results. See also "—Risks Relating to the Russian Federation—Legislative and Legal Risks—Weaknesses and changes in the Russian tax system could materially adversely affect Evraz's business and the value of the Notes".

USE OF PROCEEDS

The net proceeds to Evraz from the Offering of the Notes are expected to be approximately U.S.$1,585 million. Evraz intends to use these net proceeds for general corporate purposes, including funding of capital expenditures and, possibly, acquisitions.

CAPITALISATION

The following table sets forth, at 31 December 2007, (a) Evraz's consolidated historical cash and cash equivalents, short- and long-term borrowings, equity and total capitalisation, and (b) Evraz's consolidated cash and cash equivalents, short- and long-term borrowings, equity and total capitalisation as adjusted to reflect the Offering and the application of the net proceeds thereof.

	At 31 December 2007	
	Historical	**As adjusted[1]**
	(millions of U.S. dollars)	
Cash and cash equivalents	327	1,927
Short term borrowings (including current portion of long term borrowings)	1,958	1,958
Long term borrowings, net of current portion	4,653	6,253
Equity		
Issued capital	320	320
Additional paid in capital	286	286
Revaluation surplus	233	233
Legal reserve	29	29
Accumulated profits	4,124	4,124
Translation difference	994	994
Minority interests	371	371
Total equity	6,357	6,357
Total capitalisation[2]	11,010	12,610

Notes:

(1) Adjusted to give effect to the issuance of the Notes and the receipt of the proceeds of the Offering, but not adjusted for any other changes subsequent to 31 December 2007. The proceeds to the Company of U.S.$1,600 thousand, before taking account of commissions and expenses, have been added to cash pending their use as described under "Use of Proceeds".

(2) Sum of long-term borrowings, net of current portion and total equity.

There has been no material change in Evraz's consolidated total capitalisation since 31 December 2007.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information set forth below shows Evraz's historical consolidated financial information and other operating information as of 31 December 2007, 2006 and 2005 and for the years then ended. The selected consolidated financial information has been extracted without material adjustment from, and should be read in conjunction with, the consolidated financial statements as of 31 December 2007, 2006 and 2005 and for the years then ended, prepared in accordance with IFRS. IFRS differs in certain significant respects from U.S. GAAP. The selected consolidated financial information should also be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" below.

Evraz's operating results for the periods presented were significantly affected by certain acquisitions. These acquisitions include the following: Mine 12 in March 2005; Palini in August 2005; Vitkovice Steel in November 2005; Yuzhkuzbassugol in which Evraz acquired a 50% stake in December 2005 and the remaining 50% stake in June 2007; Highveld in which Evraz acquired a 24.9% stake in July 2006, increasing it to 80.9% in September 2007; Stratcor in which Evraz acquired a 72.84% stake in August 2006 and Oregon Steel in January 2007. The operating results of businesses acquired are, in the majority of instances, included in Evraz's consolidated financial statements for the periods post their respective dates of acquisition.

However, certain acquisitions, including principally Evrazruda (as defined below), which was acquired in March 2005, represent reorganisations under common control and are therefore accounted for using the uniting of interests method (pooling of interests). As a result, these acquisitions (including the acquisition of Evrazruda) are consolidated with effect from the beginning of the first period presented as if they had occurred at such date. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions".

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

	Year ended 31 December		
	2007	2006	2005
CONSOLIDATED BALANCE SHEET DATA (at period end)			
Total assets	16,380	8,510	6,754
Equity attributable to equity holders of the parent entity	5,986	4,066	2,708
Minority interests	371	169	179
Long term debt, net of current portion	4,653	1,855	1,515
CONSOLIDATED CASH FLOWS DATA			
Net cash flows from operating activities	2,957	2,084	1,496
Net cash flows used in investing activities	(5,636)	(1,569)	(1,753)
Net cash flows from (used in) financing activities	2,135	(341)	607
OTHER MEASURES			
Consolidated Adjusted EBITDA[(2)]	4,254	2,642	1,859
Steel segment Adjusted EBITDA[(2)]	3,585	2,223	1,509
Mining segment Adjusted EBITDA[(2)]	633	415	314
Other operations Adjusted EBITDA[(2)]	70	45	48
Net Debt[(3)]	6,280	1,730	1,693
SELECTED RATIOS			
Total Ratio Debt to Consolidated Adjusted EBITDA[(2)(4)]	1.6x	1.0x	1.3x
Net Ratio Debt to Consolidated Adjusted EBITDA[(2)(4)]	1.5x	0.7x	0.9x

Notes:

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

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

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

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

	Year ended 31 December		
	2007	2006	2005
	(millions of U.S. dollars)		
Consolidated Adjusted EBITDA reconciliation			
Profit from operations	3,523	2,298	1,582
Add:			
Depreciation, depletion and amortisation	698	303	245
Impairment of assets	7	20	8
Loss (gain) on disposal of property, plant & equipment	26	21	24
Consolidated Adjusted EBITDA	4,254	2,642	1,859
Steel segment Adjusted EBITDA reconciliation			
Profit from operations	3,069	1,962	1,308
Add:			
Depreciation and amortisation	496	227	183
Impairment of assets	4	19	—
Loss (gain) on disposal of property, plant & equipment	16	15	18
Steel segment Adjusted EBITDA	3,585	2,223	1,509

	Year ended 31 December		
	2007	2006	2005
	(millions of U.S. dollars)		
Mining segment Adjusted EBITDA reconciliation			
Profit from operations	458	351	259
Add:			
Depreciation, depletion and amortisation	165	59	50
Impairment of assets	2	1	1
Loss (gain) on disposal of property, plant & equipment	8	4	4
Mining segment Adjusted EBITDA	633	415	314
Other operations Adjusted EBITDA reconciliation			
Profit from operations	30	26	34
Add:			
Depreciation and amortisation	37	17	12
Impairment of assets	1	—	—
Loss (gain) on disposal of property, plant & equipment	2	2	2
Other operations Adjusted EBITDA	70	45	48

(3) Net Debt represents long-term loans, net of current portion, plus short-term loans and current portion of long term loans less cash and cash equivalents and short term bank deposits (excluding restricted deposits). Net Debt is not a balance sheet measure under IFRS and it should not be considered as an alternative to other measures of financial position. Evraz's calculation of Net Debt may be different from the calculation used by other companies and therefore comparability may be limited.

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

Net Debt has been calculated as follows:

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

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

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of Evraz's financial condition and results of operations should be read in conjunction with the consolidated financial statements as of 31 December 2007, 2006 and 2005 and for the years then ended, the notes thereto and the other information included elsewhere in this Prospectus. 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, including those described under "Risk Factors" and "Forward-Looking Statements".

Overview

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

Evraz listed GDRs, representing approximately 8.3% of its issued share capital, on the Official List of the London Stock Exchange on 2 June 2005, thereby raising U.S.$422 million from new investors. Each GDR represents an interest in one-third of one share. In January 2006, Crosland Global Limited ("CGL"), a former major shareholder in the Company, placed further GDRs, equivalent to approximately 6% of the Company's issued share capital, on the London Stock Exchange. The total number of GDRs listed on the LSE represented approximately 27.1% of Evraz's issued share capital as of 31 December 2007.

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

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

Reorganisation and Formation of the Company

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

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

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

Business Structure

Segments

Evraz's business is divided into two principal segments:

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

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

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

Inter-segment sales

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

Summary of Acquisitions

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

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

Acquisitions/start-ups prior to 2006

- *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 U.S.$379 million. Evraz acquired a further 2.62% interest for a consideration of U.S.$79 million in 2006. Evraz's effective interest in NTMK as of 31 December 2007 amounted to 100.00%.

- *West Siberian Iron and Steel Plant*. Zapsib 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 U.S.$139 million. Evraz's effective interest in Zapsib as of 31 December 2007 amounted to 100.00%.

- *Novokuznetsk Iron and Steel Plant*. NKMK is an integrated steel plant that specialises in the production of rolled long metal products for the railway sector as well as semi-finished products. NKMK, formed in May 2003, commenced steel operations in October 2003 having acquired certain property, plant and equipment from KMK for a consideration of U.S.$45 million subsequent to the dissolution of the latter in bankruptcy proceedings in June 2003. Evraz's effective interest in NKMK as of 31 December 2007 amounted to 100.00%.

- *Vysokogorsky Mining and Processing Integrated Works*. VGOK is an iron ore mining and processing complex that produces sinter from its iron ore resources and from iron ore purchased from other producers. During 1998-2005, Evraz acquired an 87.39% interest in VGOK for a consideration of $2 million. Evraz's effective interest in VGOK as of 31 December 2007 amounted to 100.00%.

- *Nakhodka Commercial Sea Port.* The Nakhodka Sea Port is located in the Far East of Russia from where Evraz ships the majority of its export sales. By the end of 2005, Evraz had acquired an ownership interest of 93.61% in Nakhodka Sea Port for a total consideration of U.S.$17 million. In 2006, Evraz acquired additional minority interests in Nakhodka Sea Port of 0.6%. Evraz's effective interest in Nakhodka Sea Port as of 31 December 2007 amounted to 100.00%.

- *Ferrotrade Limited 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. The principal markets of the traders are South-East Asia, North America and the Middle East. Evraz's effective interest in both Ferrotrade and EastMetals S.A. as of 31 December 2007 amounted to 100.00%.

- *Raspadskaya*. Raspadskaya, which produces coking coal, is one of the largest coal mines in Russia. On 10 March 2004, as part of a joint venture agreement, Evraz acquired a 50% interest in Corber Enterprises Limited ("Corber"), a joint venture created for the purpose of exercising joint control over the business activities of Raspadskaya, in which Corber owned 72.03% of the ordinary shares, and other subsidiaries of Corber owned the remaining interest. Evraz acquired its interest for a total consideration of U.S.$140 million. Corber acquired a further 4.90% interest in Raspadskaya during 2004-2005 for a total consideration of U.S.$6.8 million. On 31 May 2006, Corber acquired a 100% ownership interest in Mezhdurechenskaya Ugolnaya Company – 96 ("MUK-96") from Adroliv, one of Corber's shareholders, in exchange for its own newly issued 7,200 ordinary shares and 4,800 preferred shares with par value of U.S.$1 each. As part of the transaction, Corber paid to Adroliv preferred dividends of U.S.$318 million. The total cost of the business combination, including cash consideration and fair value of equity instruments exchanged, amounted to U.S.$770 million. On 31 May 2006, Evraz acquired 3,600 newly issued ordinary shares of Corber for cash consideration of U.S.$225 million and retained its 50% ownership interest in Corber. Evraz's effective interest in Raspadskaya as of 31 December 2007 amounted to 40.00%.

- *Kachkanarsky Ore Mining and Processing Enterprise "Vanady"*. KGOK 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 U.S.$190.3 million and purchased restructured debts of KGOK with a fair value of RUR597.0 million (approximately U.S.$20.6 million at the exchange rate at the date of the transaction), the nominal value being RUR1,283.0 million (approximately U.S.$44.3 million at the date of the transaction). Evraz acquired further interests in KGOK amounting to 14.12% of the ordinary shares during 2004-2005 for a total consideration of U.S.$32 million. Evraz's effective interest in KGOK as of 31 December 2007 amounted to 100.00%.

- *Evrazruda*. Evrazruda is an iron ore mining and processing complex that produces iron ore concentrate and sinter. In March 2005, Evraz acquired a 99.90% interest in Evrazruda for a consideration of U.S.$32 million from entities under common control with Evraz and a 0.10% interest from third parties for an additional U.S.$32 thousand. This has resulted in Evrazruda being consolidated with Evraz with effect from 31 December 2001 as it existed at such date, with acquisitions by Evrazruda subsequent to 31 December 2001 being accounted for by Evraz under the purchase method. Evraz's effective interest in Evrazruda as of 31 December 2007 amounted to 100.00%.

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

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

- *Yuzhkuzbassugol*. Yuzhkuzbassugol, which produces coking and steam coal, is one of the largest coal mines in Russia. On 30 December 2005, Evraz acquired a 50% ownership interest in Yuzhkuzbassugol for cash consideration of U.S.$675 million payable to Crondale Overseas Limited ("Crondale"), an entity under common control with Evraz. (See "– Acquisitions in 2007").

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

Acquisitions in 2006

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

- *Highveld*. Highveld is one of the largest steel producers in South Africa and a leading producer of vanadium products. On 13 July 2006, Evraz acquired a 24.9% ownership interest in Highveld from Anglo American plc for a cash consideration of U.S.$216 million, including U.S.$10 million of transaction costs. In addition, Evraz entered into share option agreements

with the major shareholders of Highveld to increase this stake to 79% within the next 24 months (subject to receipt of all necessary regulatory approvals), should the Board of Directors choose to do so. See "—Acquisitions in 2007".

- *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 U.S.$34 million.

Acquisitions in 2007

- *Oregon Steel.* Headquartered in Portland, Oregon, United States, Oregon Steel is one of the most diversified steel manufacturers in North America. Due to a diverse range of manufacturing capabilities, it can produce over 1.5 million tonnes of higher margin specialty and commodity steel products (plate, coiled plate, welded and seamless pipe for oil and gas applications, structural tubing, rail and wire rods and bars) annually. From 1988 to January 2007, Oregon Steel Mills, Inc. was publicly-held, and its shares were traded on the New York Stock Exchange (the "NYSE"). In January 2007, following a successful tender offer by the Company, it became a wholly-owned subsidiary of the Company and changed its name to Oregon Steel. Subsequently, Oregon Steel's securities were de-listed from the NYSE and de-registered. Total cash consideration for the acquisition of 100% ownership interest in Oregon Steel amounted to U.S.$2,276 million, including $10 million of transaction costs. Evraz's effective interest in Oregon Steel as of 31 December 2007 amounted to 100.00%.

- *West Siberian Heat and Power Plant ("ZapsibTETs").* ZapsibTETs was built as a substation of Zapsib, which at present consumes 42% of the heat and over 25% of the electricity produced by ZapsibTETs. The technological processes of Zapsib and ZapsibTETs are closely interconnected. Zapsib supplies ZapsibTETs with coking and blast furnace gas, takes part in the steam refrigeration, and gives it room for an ashes dump. ZapsibTETs can meet up to 85% of Zapsib's electricity requirements and fully satisfy its demand for heat. On 3 May 2007, Evraz acquired a 93.33% ownership interest in ZapsibTETs for cash consideration of 5,945 million Roubles (U.S.$231 million at the exchange rate as of the date of the transaction) in addition to U.S.$1 million in transaction costs. In accordance with Russian legislation, on 12 November 2007, Evraz commenced the buy-out of minority shares and completed the transaction in January 2008. Evraz's effective interest in ZapsibTETs as of 31 December 2007 amounted to 100.00%.

- *Highveld*. On 20 February 2007, the European Commission approved the proposed acquisition of the controlling interest in Highveld, subject to certain conditions. Evraz is obliged to submit a plan for divestment of Highveld's Vanchem Operations (see "Overview of Evraz—General") along with an equity interest in the Mapochs Mine, which guarantees supply of ore to the Vanchem Operations. See "—Related Developments". The divestment package also includes a ferrovanadium smelter located on the site of the Highveld steel facility and Highveld's 50% shareholding in SAJV, a joint venture between Highveld and two Japanese partners which own another ferrovanadium smelter at the same site. On 26 April 2007, Evraz obtained the regulatory approvals of the South African competition authorities and the share options became exercisable. As a result, the financial position and results of operations of Highveld were included in Evraz's consolidated financial statements beginning 26 April 2007 as the Company effectively exercised control over Highveld's operations since that date. On 4 May 2007, the Company exercised its option and acquired a 29.2% ownership interest in Highveld for cash consideration of U.S.$238 million from Anglo American plc. In addition, the Company paid transaction costs amounting to U.S.$2 million.

  In accordance with applicable South African legislation, an acquiror, which purchases 35% of the acquiree's share capital, is obliged to offer to minority shareholders to sell their holdings. On 4 June 2007, the Company made an offer to acquire the entire share capital of Highveld, other than those shares already held by the Company, at a price of $11.40 per share. On 16 July

2007, the Company increased the offer price from the South African rands equivalent of $11.40 per share to 93 South African rands (U.S.$13.03 at the exchange rate as of 4 June 2007) which represented an approximately 14% increase to the previous offer price. As a result of this offer, the Company acquired 1,880,750 shares of Highveld (1.91% of the share capital) for 175 million South African rands (U.S.$25 million at the exchange rates as of the dates of the transactions).

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

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

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

Buy Out of Minority Interests in Subsidiaries in 2007

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

Acquisitions in 2008

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

Current Acquisitions

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

Factors affecting Evraz's Results of Operations

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

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

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

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

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

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

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

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

Note:

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

Revenues

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

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

The following table shows the average price trends of Evraz's principal products in 2007, 2006 and 2005 (encompassing semi-annual breakdowns of both the Russian and non-CIS export markets), which illustrates an uneven distribution of revenues during the periods under consideration:

	Year ended 31 December					
	2007		2006		2005	
	2nd half	1st half	2nd half	1st half	2nd half	1st half
	(U.S. dollars per tonne)					
Average Russian prices for Evraz's Russian operations products[1]						
Construction products						
Rebars	609	607	480	380	357	404
H-Beams	1,031	972	725	707	656	679
Channels	762	654	505	452	427	428
Angles	687	585	448	408	395	421
Wire rods	569	546	422	376	376	446
Wire	657	624	511	419	410	479
Railway products						
Rails	624	591	489	485	460	457
Wheels	1,427	1,293	1,187	1,191	1,122	1,076
Flat-rolled products						
Plates	624	602	539	446	469	555
Semi-finished products						
Slabs	491	425	401	305	290	347
Pig Iron	344	308	260	211	200	296
Pipe blanks	577	522	430	370	378	445
Other steel products						
Grinding balls	689	567	465	445	428	464
Rounds	613	538	469	382	377	437
Vanadium in slag	15,083	15,337	14,049	16,724	25,185	34,972
Average export prices for Evraz's Russian operations products[2]						
Construction products						
H-beams	597	486	490	366	366	408
Rebars	587	486	490	366	366	408
Wire rods	508	446	435	369	369	425
Semi-finished products						
Billets	530	429	411	350	348	384
Slabs	541	457	472	334	342	490
Pig Iron	404	351	332	266	264	329
Flat-rolled products						
Plates	605	510	504	416	410	525

	Year ended 31 December					
	2007		2006		2005	
	2nd half	1st half	2nd half	1st half	2nd half	1st half
	(U.S. dollars per tonne)					
Average prices for Evraz's non-Russian operations products[3]						
Flat-rolled products						
Vitkovice Steel – plates	950	929	843	731	755	
Palini – plates.....	891	821	762	622	585	
Oregon Steel – commodity plates	840	866				
Oregon Steel – speciality plates	2,033	1,289				
Tubular products						
Oregon Steel – large diameter pipes	1,386	1,344				
Vanadium products						
Stratcor – Vanadium in alloys	38,387	36,751	38,502			

Notes:

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

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

(3) Prices for sales denominated in euro, korunas and rands are converted into U.S. dollars at the average exchange rate to the U.S. dollar for the period under consideration as stated by the relevant central bank.

The following table presents Evraz's consolidated revenues by segment for 2007, 2006 and 2005:

	Year ended 31 December						
	2007	2006	2007 v 2006		2005	2006 v 2005	
	(millions of U.S. dollars, except percentages)						
Revenues by segment							
Steel segment							
To third parties.....	12,278	8,085	4,193	51.9%	6,133	1,952	31.8%
To mining segment	102	67	35	52.2%	77	(10)	(13.0)%
To other operations	53	9	44	488.9%	11	(2)	(18.2)%
Total	12,433	8,161	4,272	52.3%	6,221	1,940	31.2%
Mining segment							
To third parties.....	369	121	248	205.0%	147	(26)	(17.7)%
To steel segment	1,527	1,020	507	49.7%	836	184	22.0%
To other operations	5	6	(1)	(16.7)%	6	0	0.0%
Total	1,901	1,147	754	65.7%	989	158	16.0%
Other operations							
To third parties.....	161	86	75	87.2%	228	(142)	(62.3)%
To steel segment	504	394	110	27.9%	312	82	26.3%
To mining segment	173	124	49	39.5%	105	19	18.1%
Total	838	604	234	38.7%	645	(41)	(6.4)%
Eliminations.....	(2,364)	(1,620)	(744)	45.9%	(1,347)	(273)	20.3%
Consolidated revenues	**12,808**	**8,292**	**4,516**	**54.5%**	**6,508**	**1,784**	**27.4%**
% from steel segment	95.8%	97.5%			94.2%		
% from mining segment	2.9%	1.5%			2.3%		
% from other operations	1.3%	1.0%			3.5%		

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

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

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

Steel segment

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

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

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

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

Notes:

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

(2) Includes rails and wheels.

(3) Includes plates and coils

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mining segment

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

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

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

Notes:

(1) Prices for sales denominated in Roubles are converted into U.S. dollars at the average semi-annual exchange rate of the Rouble to the U.S. dollar as stated by the CBR.

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

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

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

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

Other operations

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

Cost of revenues and gross profit

Evraz's consolidated cost of revenues amounted to U.S.$7,785 million and U.S.$5,163 million in 2007 and 2006, respectively. Cost of revenues as a share of consolidated revenues decreased from 62.3% in 2006 to 61.5% in 2007. This decrease was primarily attributable to margin growth with respect to steel products due to both positive price and product mix improvements in 2007 compared to 2006, while Evraz's own iron ore and coal production served, to a considerable extent, to shield Evraz's consolidated gross profits from the impact of increased raw materials prices.

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

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

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

Notes:

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

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

(3) Includes auxiliary materials and repairs and maintenance.

Steel segment

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

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

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

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

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

Transportation costs decreased by 13.0%. A large part of these costs relates to railway tariffs in respect of the transportation of Evraz's steel products from the Russian plants to the relevant ports, which declined due to the reduction in export sales volumes of steel products from Russia and related transportation costs. This decline was partly compensated by the contribution of about U.S.$34 million of additional transportation costs at the new subsidiaries Oregon Steel and Highveld.

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

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

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

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

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

Mining segment

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

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

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

Transportation costs increased by 114.0%. A substantial majority of the increase was attributable to post-acquisition transportation costs at Yuzhkuzbassugol. The rest of the increase was attributable to the transportation of raw iron ore between branches of Evrazruda for further processing, the enlargement of open

extraction operations at Mine 12 and the increased internal traffic at VGOK, all of which were subject to increases in railway tariffs, and to appreciation of the rouble against the U.S. dollar.

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

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

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

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

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

Other operations

The other operations segment's cost of revenues increased by 57.4% to U.S.$592 million in 2007, representing 70.6% of other operations revenues, compared to U.S.$376 million, representing 62.3% of other operations revenues, in 2006. In 2007, the new subsidiaries EvrazEK and ZapsibTETs contributed U.S.$148 million (25.0% of the segment cost of revenues) and U.S.$59 million (10.0% of the segment cost of revenues), respectively, to the other operations segment cost of revenues.

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

The gross profit of the other operations segment increased by 7.9% to U.S.$246 million in 2007 from U.S.$228 million in 2006. In 2007, the new subsidiary EvrazEK contributed U.S.$14.5 million (5.9% of the segment's gross profit) and the new subsidiary ZapsibTETs reduced the other operations segment's gross profit by U.S.$7.0 million.

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

Selling and distribution costs

Selling and distribution costs increased by 121.8% to U.S.$539 million (4.2% of consolidated revenues) in 2007, compared to U.S.$243 million (2.9% of consolidated revenues) in 2006, primarily due to the integration of Oregon Steel and Highveld. Selling and distribution costs consist largely of transportation expenses related to Evraz's selling activities.

The following table presents selling and distribution costs by segment for 2007, 2006 and 2005, including as a percentage of segment revenues.

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

Note:

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

Steel segment

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

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

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

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

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

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

Mining segment

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

Other operations

Selling and distribution costs amounted to 7.5% and 13.9% of other operations' revenues in 2007 and 2006, respectively. The decrease in selling and distribution costs was largely attributable to the reduction of Sinano's business activities due to lower export sales volumes of the Russian operations in 2007 as compared to 2006. Most of Sinano's costs are allocated to selling and distribution costs, which consist primarily of freight expenses, ship management services and ship hire fees.

General and administrative expenses

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

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

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

Notes:

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

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

(3) Relates principally to accounting and consulting fees.

Steel segment

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

- Staff costs increased by 41.8%. A substantial majority of the increase was attributable to the new subsidiaries Oregon Steel, Highveld and Stratcor. The rest of the increase was primarily attributable to the appreciation of the rouble against the U.S. dollar at the Russian operations.

- Taxes, other than on income, including property, land and local taxes, increased by 27.7%. The increase primarily reflected higher property, land and pollution taxes at the Russian operations.

- Management fees charged by EvrazHolding increased by 4.5% mainly due to the strengthening of the rouble against the U.S. dollar.

- Other general and administrative expenses increased by 42.9% due to contributions of the new subsidiaries Oregon Steel and Stratcor.

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

Mining segment

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

- Staff costs increased by 124.0%. Nearly all of the increase was attributable to new subsidiaries, including Yuzhkuzbassugol. The rest of the increase was primarily attributable to appreciation of the rouble against the U.S. dollar.

- Taxes, other than on income, increased by 46.2% mainly due to the post-acquisition contribution of Yuzhkuzbassugol.

- Management fees to EvrazHolding increased by 38.5%.

- Other expenses increased by 68.2% mainly due to the contribution of post-acquisition costs at Yuzhkuzbassugol and the outsourcing of accounting services to the other operations segment in 2007.

Other operations

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

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

Unallocated

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

Other operating income and expenses

Other operating expenses, net of other operating income, increased by 102.1% to U.S.$190 million in 2007, representing 1.5% of consolidated revenues, compared to U.S.$94 million in 2006, representing 1.1% of consolidated revenues. Other operating income and expenses consist primarily of social and social

infrastructure expenses, gain (loss) on the disposal of property, plant and equipment, impairment of assets and gain (loss) in respect of changes in foreign exchange rates. Social and social infrastructure expenses include such items as maintenance of medical centres, recreational centres and employee holiday allowances and the sponsorship of sports teams and athletic and charitable events.

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

	Year ended 31 December									
	2007		2006		2007 v 2006		2005		2006 v 2005	
Other operating income and expenses by segment	**Amount**	**Percentage of segment revenues**	**Amount**	**Percentage of segment revenues**	**Change**	**% Change**	**Amount**	**Percentage of segment revenues**	**Change**	**% change**
	(millions of U.S. dollars, except percentages)									
Steel segment										
Social and social infrastructure maintenance expenses	(51)	(0.4)%	(67)	(0.8)%	16	(23.9)%	(62)	(1.0)%	(5)	8.1%
Loss on disposal of property, plant and equipment	(16)	(0.1)%	(15)	(0.2)%	(1)	6.7%	(18)	(0.3)%	3	(16.7%)
Impairment of assets	(4)	0.0%	(19)	(0.2)%	15	(78.9)%	–	–	(19)	–
Foreign exchange gain (loss)	(50)	(0.4)%	25	0.3%	(75)	(300.0)%	(1)	(0.0)%	26	(2,600)%
Other income (expense), net	(9)	(0.1)%	(26)	(0.3)%	17	(65.4)%	5	0.1%	(31)	(620.0)%
Total	**(130)**	**(1.0)%**	**(102)**	(1.2)%	**(28)**	**27.5%**	**(76)**	**(1.2)%**	**(26)**	**34.2%**
Mining segment										
Social and social infrastructure maintenance expenses	(24)	(1.3)%	(15)	(1.3)%	(9)	60.0%	(11)	(1.1)%	(4)	36.4%
Other income (expense), net	(22)	(1.1)%	1	0.1%	(23)	(2,300.0)%	(2)	(0.2)%	3	(150.0)%
Total	**(46)**	**(2.4)%**	**(14)**	**(1.2)%**	**(32)**	**228.6%**	**(13)**	**(1.3)%**	**(1)**	**7.7%**
Other operations										
Social and social infrastructure maintenance expenses	(3)	(0.4)%	(4)	(0.7)%	1	(25.0)%	(3)	(0.5)%	(1)	33.3%
Other income (expense), net	2	0.3%	(8)	(1.3)%	10	(125.0)%	(5)	(0.7)%	(3)	60.0%
Total	**(1)**	**(0.1)%**	**(12)**	**(2.0)%**	**11**	**91.7%**	**(8)**	**(1.2)%**	**(4)**	**50.0%**
Unallocated	(13)		34		(47)	(138.2)%	(9)		43	477.8%
Total other operating income and expenses, net	**(190)**		**(94)**		**(96)**	**102.1%**	**(106)**		**12**	**(11.3)%**

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

Profit from operations

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

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

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

Steel segment

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

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

Mining segment

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

Other operations

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

Non-operating income and expense

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

	Year ended 31 December									
	2007		2006		2007 v 2006		2005		2006 v 2005	
	Amount	Percentage of revenues	Amount	Percentage of revenues	Change	% Change	Amount	Percentage of revenues	Change	% change
	(millions of U.S. dollars, except percentages)									
Interest income	41	0.3%	27	0.3%	14	51.9%	15	0.2%	12	80.0%
Interest expense	(409)	(3.2)%	(229)	(2.8)%	(180)	78.6%	(142)	(2.1)%	(87)	61.3%
Share of profits (losses) of associates and joint ventures, net	88	0.7%	40	0.5%	48	120.0%	57	0.9%	(17)	(29.8)%
Gain/(loss) on financial assets and liabilities, net	(71)	(0.6)%	26	0.3%	(97)	(373.1)%	8	0.1%	18	225.0%
Loss on disposal groups classified as held for sale	6	0.1%	(77)	(0.8)%	83	(107.8)%	–	–	(77)	–
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	19	0.1%	1	0.0%	18	1,800%	15	0.2%	(14)	(93.3)%
Other non-operating gain (loss), net	4	0.1%	1	0%	3	300%	(7)	(0.1)%	8	(114.3)%
Total	**(322)**	**(2.5)%**	**(211)**	**(2.5)%**	**(111)**	**52.6%**	**(54)**	**(0.8)%**	**(157)**	**290.7%**

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

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

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

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

Income tax expense

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

Net profit attributable to equity holders of the parent entity

As a result of the factors set forth above, Evraz's net profit attributable to equity holders of the parent entity increased to U.S.$2,144 million in 2007 from U.S.$1,377 million in 2006 .

Net profit attributable to minority interests

Net profit attributable to minority interests amounted to U.S.$73 million as a share of total net profit in each of 2007 and 2006. Net profit attributable to minority interests as a share of total net profit decreased to 3.3% in 2007 from 5.0% in 2006. The decrease in net profit attributable to minority interests as a share of total net profit reflected the decrease in minority shareholders' interests. Evraz's strategy is to reduce the level of minority interests in its subsidiaries.

The following table presents the Company's effective ownership interests in its major subsidiaries as of 31 December 2007 and 2006 and actual ownership interests as of 31 December 2007:

	Actual ownership interest as of 31 December	Effective ownership interest as of 31 December, %			
Subsidiary	**2007**	**2007**	**2006**	**Business activity**	**Location**
Mastercroft	100.00	100.00	100.00	Holding Company	Cyprus
NTMK	100.00	100.00	95.00	Steel production	Russia
ZapSib	100.00	100.00	100.00	Steel production	Russia
NKMK	100.00	100.00	98.75	Steel production	Russia
Palini	100.00	100.00	100.00	Steel production	Italy
Vitkovice Steel	100.00	100.00	100.00	Steel production	Czech Republic
Oregon Steel	100.00	100.00	–	Steel production	U.S.
Highveld	80.92	80.92	24.90	Steel and vanadium production	S.Africa
Stratcor	72.84	72.84	–	Vanadium production	U.S. S.Africa
Nikom	100.00	100.00	–	Ferrovanadium production	Czech Republic
KGOK	100.00	100.00	97.11	Iron ore mining and processing	Russia
Evrazruda	100.00	100.00	100.00	Iron ore mining and processing	Russia
VGOK	100.00	100.00	85.00	Iron ore mining and processing	Russia
Yuzhkuzbassugol	100.00	100.00	50.00	Coal mining	Russia
Mine 12	100.00	100.00	100.00	Coal mining	Russia
Ferrotrade Limited	100.00	100.00	100.00	Trading	Gibraltar
Trade House EvrazHolding	100.00	100.00	100.00	Trading	Russia
Trade House EvrazResource	100.00	100.00	100.00	Trading	Russia
Nakhodka Sea Port	100.00	100.00	93.03	Seaport services	Russia
Evraztrans	76.00	76.00	76.00	Freight-forwarding	Russia
Sinano	100.00	100.00	100.00	Freight	Cyprus
ZapsibTETs	97.79	100.00	–	Utilities supply	Russia
EvrazEK	100.00	100.00	–	Utilities supply	Russia
Metallenergofinance	100.00	100.00	100.00	Utilities supply	Russia

Summary Results of Operations for the years ended 31 December 2006 and 2005.

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

substantial majority of Evraz's consolidated EBITDA in 2006 resulted was derived from sales to customers located in Russia.

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

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

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

Liquidity and Capital Resources

Capital requirements

In addition to meeting its working capital requirements, Evraz expects that repayments of outstanding debt, capital expenditure and acquisitions will represent the Company's most significant use of funds for a period of several years. See "—Contractual obligations and commercial commitments" for a description of the amount and term of Evraz's obligations in respect of outstanding debt. Evraz's capital expenditure programme is aimed at the reconstruction and modernisation of its existing production facilities to reduce costs, improve process flows and expand the product range. Evraz also plans to make capital expenditures to increase the share of higher margin products it produces and sells.

In 2007, Evraz made capital expenditures of approximately U.S.$740 million, including U.S.$499 million in respect of its steel segment and U.S.$187 million in respect of its mining segment. In 2007, Evraz also paid approximately U.S.$4,752 million for acquisitions (net of cash acquired) of new subsidiaries and U.S.$423 million for purchases of minority interests.

For 2008, Evraz has budgeted capital expenditures of approximately U.S.$1,068 million, of which U.S.$633 million, U.S.$386 million, U.S.$16 million and U.S.$33 million are allocated for capital expenditures in the steel segment, mining segment, vanadium segment and logistics, respectively. These amounts do not include planned or anticipated expenditures for businesses acquired or to be acquired. Evraz's capital expenditure plans are subject to change depending, among other things, on acquisitions (existing and potential), the evolution of market conditions and the cost and availability of funds.

Before year end 2007, Evraz made a cash prepayment to Lanebrook in the amount of U.S.$1.06 billion in connection with the planned acquisition of the Ukrainian Assets, the completion of the first stage of which was announced on 14 April 2008 (See "Description of Business—Overview"); in January 2008 Evraz acquired 100% of the outstanding ordinary shares of Claymont Steel for total cash consideration of approximately U.S.$422 million; and in February 2008 Evraz purchased an approximate 10% stake in Delong Holdings for approximately U.S.$150 million.

Evraz expects to pay approximately U.S.$614 million for the acquisition of an interest of 51.05% in Delong Holdings and to incur additional expenditures to the extent that in accordance with Singapore law it makes a mandatory cash tender offer to Delong Holdings' shareholders in Singapore. In addition, Evraz expects to pay U.S.$4,025 million (subject to certain closing adjustments) for the acquisition of certain IPSCO businesses from SSAB, of which Evraz expects to recover U.S.$1,200 million in 2008 pursuant to its back-to-back agreement with TMK relating to certain IPSCO businesses in the United States and a further U.S.$500 million in 2009 pursuant to its option agreement with TMK relating to the remainder of the IPSCO businesses in the United States. Certain banks, including ABN AMRO Bank N.V. and CALYON, are parties to a commitment letter and related agreements (the "IPSCO Bridge Commitment") pursuant to which they have agreed to provide an acquisition bridge facility in the amount of U.S.$2,100 million in connection with the pending acquisition of IPSCO Canada. Under the IPSCO Bridge Commitment, the commitments of the

lenders will be reduced by an amount equal to the proceeds of the offer and sale of the Notes. See "Subscription and Sale". It is possible that Evraz may be required to complete its purchase of certain of the assets of IPSCO Canada from SSAB under circumstances in which TMK is not required to complete its purchase from Evraz of certain IPSCO businesses in the United States pursuant to the back-to-back agreement relating to such business or its purchase of the remaining IPSCO businesses in the U.S. pursuant to the option agreement relating to such businesses. The conditions to TMK's obligations to buy are that (a) Evraz be in compliance with its obligations, (b) the closing of Evraz's purchase of certain assets of IPSCO Canada shall have occurred without waiver of material conditions by Evraz, (c) the transactions shall not be prevented by law or order, or be the subject of an action by a governmental authority seeking to prevent them, and (d) waiting periods under antitrust laws shall have expired and required approvals shall have been obtained. There is thus a risk that Evraz could be required to complete its purchase of the IPSCO businesses in circumstances where TMK would be excused from completing its purchases of certain IPSCO businesses in the United States – for example if TMK is prevented by law from completing such purchase but Evraz is not so prevented from completing its purchase of IPSCO Canada. If Evraz is required to complete its purchase of certain of the assets of IPSCO Canada under circumstances in which TMK either is not required to or fails to complete its purchase of IPSCO businesses in the United States, Evraz may need to secure up to U.S.$1.7 billion in additional financing to complete its purchase of IPSCO Canada.

Capital resources

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

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

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

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

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

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

- On 1 June 2006, Evraz entered into a U.S.$225 million credit facility arranged by Natexis Banques Populaires and Bank Natexis (ZAO). The full facility amount was utilised on 6 June 2006. The facility is repayable in 42 equal monthly instalments, starting from December 2007, and bears interest at a fixed annual rate of 6.681%. The amount borrowed by Evraz under the agreement was applied towards the refinancing of a payment made by it as consideration for the 3,600 shares of Corber Enterprises Limited purchased pursuant to a share purchase agreement dated 28 April 2006.

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

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

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

Liquidity

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

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

The reduction in cash balances was mainly due to the cash payments for the purchase of shares in Highveld, Yuzhkuzbassugol, ZapsibTETs and partially for the acquisition of Oregon Steel. See "—Summary of Acquisitions". Evraz's corporate treasury monitors the financial requirements of Evraz's various subsidiaries and has a variety of instruments at its disposal to ensure that each subsidiary has sufficient liquidity to meet its obligations and capital requirements.

Estimated Liquidity	As at 31 December 2007	As at 31 December 2006
	(millions of U.S. dollars)	
Cash and cash equivalents[(1)]	327	842
Amount available under credit facilities[(2)]	863	388
Short-term bank deposits	25	24
Total estimated liquidity	**1,215**	**1,254**

Notes:

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

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

Contractual obligations and commercial commitments

The following table sets forth the amount of Evraz's obligations in respect of loans and borrowings as of 31 December 2007 and 31 December 2006 by period:

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

Note:

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

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

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

As of 31 December 2007 and 31 December 2006, Evraz had incurred liabilities in respect of post-employment benefits that the Company provides to employees of certain of its subsidiaries pursuant to collective bargaining agreements of U.S.$291 million and U.S.$117 million, respectively. These amounts represent the present value of Evraz's defined benefit obligation less the fair value of plan assets and adjusted for unrecognised actuarial loss and past service costs, discounted to present value.

Evraz also makes defined contributions to Russia's state pension, social insurance and medical insurance at the statutory rates in force (approximately 24% as of 31 December 2007), based on gross salary payments. Evraz is only required to make these contributions as they fall due, and the Company does not retain any legal or constructive obligation to pay future benefits. These contributions are expensed as incurred.

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

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

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

Evraz is also involved in a number of social programmes designed to support education, healthcare and the development of social infrastructure in certain towns where Evraz's assets are located. In 2008, Evraz plans to spend approximately U.S.$133 million under these programmes.

Evraz has a constructive obligation to reduce environmental pollution and contamination in accordance with an environmental protection programme. During the period 2008 to 2012, Evraz is obligated to spend approximately U.S.$245 million on the replacement of old machinery and equipment which is expected to 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 because they are not clearly defined. Instances of inconsistent opinions between local, regional and federal tax authorities are not unusual. Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, Evraz has accrued tax liabilities based on management's best estimates. Possible liabilities, which were identified by management at the balance sheet date as those that can be subject to different interpretations of the tax laws and regulations and are not accrued in the accompanying financial statements, could amount to approximately U.S.$19 million.

Inflation

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

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

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

Note:

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

Sources: Fedstat; CBR.

Seasonality

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

Quantitative and Qualitative Disclosures in Respect of Market Risk

Overview

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

Exchange and Interest Rate Risk

Evraz's presentation currency is the U.S. dollar. The functional currency of Evraz's Russian subsidiaries is the Rouble, while the functional currencies of Evraz's subsidiaries located in other countries are the Czech Koruna in respect of Vitkovice Steel, the euro in respect of Palini, the Rand in respect of Highveld and the South African operations of Stratcor and the U.S. dollar in respect of other subsidiaries.

The Rouble is not a fully convertible currency outside the territory of the Russian Federation. Within the Russian Federation, official exchange rates are determined daily by the CBR. Market rates may differ from the official rates but the differences are, generally, within narrow parameters monitored by the CBR. See "Presentation of Financial and Other Information—Exchange Rate Information".

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

The mix of Evraz's revenues and costs is such that appreciation in real terms of the Rouble against the U.S. dollar tends to result in an increase in Evraz's costs relative to its revenues, while depreciation of the Rouble against the U.S. dollar in real terms tends to result in a decrease in Evraz's costs relative to its revenues. The Rouble appreciated in real terms against the U.S. dollar by 3.9% in 2005, 16.7% in 2006 and 15.0% in 2007, according to the CBR. However, in recent years the effect of the real appreciation of the Rouble against the U.S. dollar has been more than offset by increased prices for Evraz's steel products, both in Russia and internationally.

In addition, nominal depreciation of the Rouble against the U.S. dollar results in a decrease in the reported U.S. dollar value of Evraz's Rouble denominated assets (and liabilities) while nominal appreciation of the Rouble against the U.S. dollar results in an increase in the reported U.S. dollar value of Evraz's Rouble denominated assets (and liabilities). Moreover, nominal appreciation/depreciation of the Rouble against the U.S. dollar has a similar effect when the income statements of Evraz's Russian subsidiaries are translated into U.S. dollars in connection with the preparation of Evraz's consolidated financial statements. The average exchange rate of the Rouble against the U.S. dollar appreciated by 1.9%, 4.1% and 6.3% in nominal terms in 2005, 2006 and during 2007, respectively, according to the CBR.

The following table summarises Evraz's outstanding interest-bearing debt, including loans and other borrowings, by currency and interest rate method as at 31 December 2007 and 31 December 2006. This table excludes interest payable and unamortised debt issue costs, as opposed to the obligations in respect of borrowings. See "—Liquidity and Capital Resources—Contractual obligations and commercial commitments":

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

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

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

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

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

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

Commodity Price Risk

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

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

As Evraz increases the proportion of raw materials acquired from internal sources, Evraz's exposure to commodity price risk associated with the purchase and sale of these products will decline. Evraz's ongoing process of vertical integration, including the acquisitions of KGOK in 2004, Evrazruda, Mine 12, Palini and Vitkovice Steel in 2005 and Yuzhkuzbassugol, Oregon Steel and Highveld in 2007, is an important element in Evraz's drive to reduce its exposure to input and output commodity price risk.

Tariff Risk

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

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

In 2007 and in 2006, Evraz's Russian operations purchased approximately 8,913 million kWh and 9,047 million kWh of electricity, respectively, representing approximately 84% and 90% of their requirements, respectively, from local subsidiaries of UES, the government-controlled national holding company for the Russian power sector. The Russian government is currently implementing a restructuring plan for the power sector aimed at introducing competition, liberalising the wholesale electricity market and moving from regulated pricing to a market-based system. Moreover, according to the Russian government Macroeconomic Long-term Forecast, electricity tariffs for industrial users will reach 6.5-6.7 U.S. cents per kWh by 2010. Evraz's average cost of electricity in Russia was 3.8 U.S. cents per kWh in 2007 and 3.1 U.S. cents per kWh in 2006. Assuming a price of 6.7 U.S. cents per kWh, Evraz's Russian operations would have incurred additional costs of approximately U.S.$266 million and U.S.$328 million in the years ended 31 December 2007 and 2006, respectively. Further electricity price increases may occur in the future as the industry is restructured and controlled to a greater extent by the private sector.

Evraz's Russian operations also purchase significant amounts of natural gas, primarily for the production of electricity and heat energy at Evraz's facilities, from Gazprom's subsidiaries. Gazprom is a state controlled company and is the dominant producer and monopoly distributor of natural gas within Russia. Domestic natural gas prices are regulated by the government and have been rising during recent years. Evraz's average price for natural gas in Russia reached RUR1,532 per thousand cubic metres and RUR1,294 per thousand cubic metres in 2007 and in 2006, respectively. Despite these recent price increases, natural gas prices in Russia remain significantly below western European levels, a factor that helps to provide Evraz with a cost advantage over its competitors. According to the Russian Government Macroeconomic Long-term Forecast, domestic gas prices for industrial users will reach U.S.$96-99 per thousand cubic metres by 2010. Assuming a price of U.S.$99 per thousand cubic metres, Evraz's Russian operations would have incurred additional costs of approximately U.S.$143 million and U.S.$161 million in 2007 and 2006, respectively.

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

Critical Accounting Policies

Evraz's financial statements are prepared in accordance with IFRS. Accounting policies applied in the preparation of the IFRS financial statements are described in Note 2 to the Annual Financial Statements. The application of certain of these policies requires management to make assumptions and judgements that can significantly affect the amounts reported in the financial statements. Management believes that the following are the critical policies where the assumptions and judgements made may significantly affect the consolidated financial statements.

Impairment of Property, Plant and Equipment

Evraz assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, Evraz makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks

specific to the assets. In 2007, 2006 and 2005, Evraz recognised an impairment loss of U.S.$7 million, U.S.$20 million and U.S.$7 million, respectively.

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 Evraz 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

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

In 2005, the change in estimates of useful lives of property, plant and equipment resulted in an additional depreciation expense of approximately U.S.$33 million. No such changes took place in 2006 and 2007.

Fair Values of Assets and Liabilities Acquired in Business Combinations

Evraz 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

Evraz 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 Evraz to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at December 31, 2007, 2006 and 2005 was U.S.$1,271 million, U.S.$112 million and U.S.$67 million, respectively.

Mineral Reserves

Mineral reserves are a material factor in Evraz's computation of depreciation, depletion and amortisation charge. Evraz 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

Evraz 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

Evraz 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 payment of lump-sum amounts at retirement date after 2008-2009.

Allowances

Evraz makes allowances for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As of December 31, 2007, 2006 and 2005, allowances for doubtful accounts in respect of trade and other receivables have been made in the amount of U.S.$79 million, U.S.$59 million and U.S.$54 million, respectively.

Evraz makes an allowance for obsolete and slow-moving raw materials and spare parts. As of December 31, 2007, 2006 and 2005, the allowance for the obsolete and slow-moving items was U.S.$12 million, U.S.$13 million and U.S.$21 million, respectively. In addition, certain finished goods of Evraz 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.

Litigation

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

Current Taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the

transactions and activity of Evraz's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and Evraz's entities may be assessed additional taxes, penalties and interest, which can be significant. In Russia the periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

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 judgements 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.

Operational Outlook

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

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

Inventories increased by 84% at 31 December 2007 compared to the balance at 31 December 2006. Approximately three-quarters of this increase was attributable to contributions of the new subsidiaries Oregon Steel, Highveld and Yuzhkuzbassugol and approximately one-fifth of this increase was due to higher prices for raw materials and steel goods. Evraz's management will continue to focus on working capital management and ongoing improvements in efficiency.

Most of Evraz's investment programme is designed to increase the efficiency of its production facilities and to reduce cost of production per tonne. Evraz's mining segment currently supplies approximately 77% of the steel segment's iron ore requirements. Evraz's requirements for coking coal can be fully covered by the mining segment and purchases from Raspadskaya, which is accounted for under the equity method. Investments in power-generation assets, including ZapsibTETs and EvrazEK, are expected to significantly reduce Evraz's dependence on external sources of electricity and heat. These factors are expected to mitigate the impact of increasing costs in respect of raw materials and energy.

Evraz expects other cost factors, such as salaries, construction materials and natural gas, to continue growing in line with inflation in Russia in respect of its Russian subsidiaries and in line with inflation in the respective countries where Evraz's foreign subsidiaries are located. Evraz also expects the recent acquisitions of Stratcor, Oregon Steel and Highveld to have a positive impact on Evraz's revenues and results of operations in 2008.

Recent Developments

On 15 April 2008, Evraz issued a press release concerning operational results for the first quarters of 2007 and 2008. Operational data extracted from that press release is presented in the tables below. The decreases in volumes of pig iron, crude steel and semi-finished products produced in Russia and in volumes of crude steel produced in Europe, as shown in the table below, reflect to a significant extent a shift in production from semi-finished to higher value-added rolled products, as well as the closure of the open hearth furnace at NKMK in 2007.

PRODUCTION VOLUMES*

Product, '000 tonnes unless otherwise stated	**1Q 2008**	**1Q 2007**	**1Q 2008/1Q 2007 change**	**4Q 2007**	**1Q 2008/4Q 2007 change**
Steel division					
Pig iron	3,372	3,293	2.4%	3,332	1.2%
Crude steel	4,472	4,306	3.9%	4,267	4.8%
Rolled products, net of re-rolled volumes	4,224	3,904	8.2%	3,998	5.7%
Semi-finished products	1,221	1,434	(14.9)%	1,143	6.8%
Construction products	1,447	1,201	20.5%	1,317	9.9%
Railway products	600	486	23.5%	621	(3.4)%
Flat-rolled products	618	469	31.8%	582	6.2%
Tubular products	148	99	49.5%	131	13.0%
Other steel products	191	215	(11.2)%	203	(5.9)%
Russia					
Pig iron	3,190	3,293	(3.1)%	3,144	1.5%
Pig iron (saleable)	253	311	(18.6)%	272	(7.0)%
Crude steel	3,742	3,878	(3.5)%	3,620	3.4%
Rolled products, net of re-rolled volumes	3,325	3,419	(2.7)%	3,223	3.2%
Semi-finished products	1,328	1,612	(17.6)%	1,319	0.7%
Construction products	1,230	1,104	11.4%	1,120	9.8%
Railway products	484	377	28.4%	500	(3.2)%
Flat-rolled products	121	110	10.0%	124	(2.4)%
Tubular products	2	3	(33.3)%	2	0.0%
Other steel products	162	211	(23.2)%	157	3.2%
Europe					
Crude steel	195	229	(14.8)%	219	(11.0)%
Rolled products	326	298	9.4%	346	(5.8)%
Construction products	37	30	23.3%	39	(5.1)%
Flat-rolled products	268	265	1.1%	274	(2.2)%
Other steel products	22	3	n/a	34	(35.3)%
North America[1]					
Crude steel	343	198	73.2%	221	55.2%
Rolled products	518	366	41.5%	429	20.7%
Construction products	110	68	61.8%	96	14.6%
Railway products	116	109	6.4%	120	(3.3)%
Flat-rolled products	145	94	54.3%	84	72.6%
Tubular products	146	96	52.1%	129	13.2%
South Africa[2]					
Pig iron	182	n/a	n/a	188	(3.2)%
Crude steel	193	n/a	n/a	207	(6.8)%
Rolled products	162	n/a	n/a	175	(7.4)%
Construction products	70	n/a	n/a	62	12.9%
Flat-rolled products	84	n/a	n/a	101	(16.8)%
Other steel products	8	n/a	n/a	12	(33.3)%

Product, '000 tonnes unless otherwise stated	**1Q 2008**	**1Q 2007**	**1Q 2008/1Q 2007 change**	**4Q 2007**	**1Q 2008/4Q 2007 change**
Mining division					
Iron ore (saleable products)					
Concentrate	831	647	28.4%	914	(9.1)%
Sinter	1,932	2,235	(13.6)%	1,794	7.7%
Pellets	1,561	1,557	0.3%	1,416	10.2%
Coal[3]					
Coking coal (mined)	2,421	142	n/a	1,931	25.4%
Steam coal (mined)	1,534	58	n/a	1,142	34.3%
Concentrate (production)	1,273	n/a	n/a	881	44.5%
Steam concentrate (production)	216	0	n/a	0	n/a
Vanadium (tonnes of V)[4]					
Vanadium in slag (saleable)	2,733	2,888	(5.4)%	2,889	(5.4)%
Vanadium in alloys and chemicals	4,408	1,385	218.3%	3,916	12.6%
Russia					
Vanadium in slag (saleable)	2,733	2,888	(5.4)%	2,889	(5.4)%
Europe					
Vanadium in alloys and chemicals (saleable)	456	0	n/a	0	n/a
North America					
Vanadium in alloys and chemicals (saleable)	549	530	3.6%	520	5.6%
South Africa					
Vanadium in alloys and chemicals (saleable)	3,403	855	298.0%	3,395	0.2%
Equity investment					
Raspadskaya[5]					
Coking Coal (mined)	2,909	3,273	(11.1)%	3,258	(10.7)%

* All information on production volumes of the enterprises presented in the press release concerns only the period of their operation with Evraz Group.

The total volume of rolled steel products excludes those re-rolled at other Group's plants. These volumes are eliminated as intercompany sales for purposes of Evraz's consolidated operating results.

1. Operational results of Evraz Oregon Steel Mills are consolidated into the Group since 12 January 2007. Operational results of Claymont Steel are consolidated into the Group since January 2008.
2. Operational results of Highveld Steel and Vanadium Corporation are consolidated since May 2007.
3. Operational results of Yuzhkuzbassugol are consolidated into the Group since 8 June 2007.
4. Calculated in pure vanadium equivalent.
5. Evraz Group holds a 40% effective interest in OAO Raspadskaya.

AVERAGE SELLING PRICES

USD/tonne (ex works) unless otherwise stated	**1Q 2008**	**1Q 2007**	**4Q 2007**
Steel division			
Russia			
Pig iron	367	253	323
Rolled products			
Semi-finished products	512	397	467
Construction products	714	578	677
Railway products	844	658	755
Flat-rolled products	617	522	592
Tubular products	765	668	694
Other steel products	703	516	649
Europe			
Rolled products			
Construction products	1,063	832	1,027
Flat-rolled products	1,023	827	949
Other steel products	1,035	925	894
North America			
Rolled products			
Construction products	753	664	655
Railway products	877	809	821
Flat-rolled products	1,505	1,088	1,783
Tubular products	1,417	1,333	1,383
South Africa			
Rolled products			
Construction products	878	n/a	884
Flat-rolled products	627	n/a	701
Other steel products	625	n/a	597
Mining division			
Iron ore			
Concentrate	86	67	71
Sinter	106	82	88
Pellets	107	82	88
Coal			
Coking coal	71	42	50
Steam coal	60	53	26
Concentrate	149	n/a	109
Steam concentrate	76		
Vanadium (USD/t of V)			
Russia			
Vanadium in slag	26,469	12,000	14,049
Europe			
Vanadium in alloys and chemicals	66,397		
North America			
Vanadium in alloys and chemicals	48,533	36,074	39,351
South Africa			
Vanadium in alloys and chemicals	42,395	33,191	35,368

Notes:
Semi-finished products include slabs, billets, pipe blanks and other semi-finished products.
Construction products include beams, channels, angles, rebars, wire rods, wire, and other construction products.
Railway products include rails, wheels, tyres and other railway products.
Flat-rolled products include commodity plate, speciality plate and other flat products.
Tubular products include large diameter line pipes, ERW pipes and casings, seamless pipes and other tubular products.
Other steel products include rounds, grinding balls, mine uprights, strips etc. For Europe they also include slab and crane rails; for South Africa – billets and rails.

On April 17, 2008, Evraz issued a press release announcing that the Board of Directors had recommended that the annual general meeting of shareholders to be held on 15 May 2008 approve a final dividend of US$4.20 per common share, or US$1.40 per GDR, in respect of the year ended 31 December 2007, payable to shareholders on the share register record date of 14 May 2008. When added to the interim dividend, this will make a total dividend for the year of US$9.00 per common share, or US$3.00 per GDR.

On 14 April 2008, Evraz announced that it has closed the acquisition of a 51.4% stake in Cyprus-based Palmrose Limited ("Palmrose"), which holds the Ukrainian Assets, at a cost of U.S.$1.06 billion. The second stage of the transaction, namely, the issuance of new shares in Evraz and their subsequent transfer to Lanebrook in consideration for the remaining 48.6% stake in Palmrose, is subject to regulatory review in Luxembourg. Evraz currently expects the second stage of the transaction to be completed in May 2008.

In accordance with Evraz's commitments to the European Commission in connection with the acquisition of Highveld, Evraz must submit to the European Commission, by 20 April 2008, a plan for divestment of Highveld's Vanchem Operations and a 50% stake in SAJV, which account for 100% of Highveld's ferrovanadium and vanadium chemicals output, as well as an equity interest in Mapochs Mine. Evraz has submitted its plan for divestment, which is currently under review by the European Commission.

The following information includes extracts from publicly available information, data and statistics and has been extracted from official sources and other sources the Company believes to be reliable. The Company accepts responsibility for accurately reproducing such information, data and statistics and as far as the Company is aware no facts have been omitted which would render such information misleading, but the Company accepts no further responsibility in respect of such information, data and statistics. Such information, data and statistics may be approximations or use rounded numbers.

Steel Industry

Global Overview

Steel is one of the most important, multi-functional and adaptable materials in use today and is generally considered to be a backbone of industrial development. Steel is highly versatile, as it is hot and cold formable, weldable, hard, recyclable and resistant to corrosion, water and heat. The industries in which steel is used include construction, transportation (including railway) and engineering. Steel is also used in the production of power lines, pipelines, white goods and containers.

The steel industry is affected by a combination of factors, including periods of economic growth or recession, worldwide production capacity and the existence of, and fluctuations in, steel imports and protective trade measures. Steel prices respond to supply and demand and fluctuate in response to general and industry-specific economic conditions. Despite periods of price fluctuation, steel prices have steadily risen during the past four years. During 2004, steel prices reached their highest levels in nearly 20 years, due primarily to an increase in demand from China, while global steel production volumes reached their highest levels in the past fifty years. This rapid increase was followed by a significant reduction of global steel prices in 2005, which continued until the beginning of 2006. While, in 2006, global steel prices increased for a short period of time, the prices continued then to decrease in the second half of 2006 (though not as rapidly as in 2005). Steel prices increased in 2006 by 7%.

The steel industry operates predominantly on a regional basis as a result of the high cost of transporting steel. However, despite the limitations associated with transportation costs, as well as the restrictive effects of protective tariffs, duties and quotas, global imports and exports have generally increased in the last decade as production has shifted towards low-cost production regions such as Russia, Ukraine, China and Southeast Asia.

While steel production has historically been concentrated in the EU, North America, Japan and the former Soviet Union, steel production in China and elsewhere in Asia has grown in importance over the past decade. In 2006, China was the largest single producer of steel in the world, producing approximately 423 million tonnes of crude steel, as well as the largest consumer of steel, consuming over 419 million tonnes of crude steel. World steel production in 2006 increased by 12.5% from 2005, to 1,250 million tonnes, according to the International Iron and Steel Institute, and production in China increased by 19.8%, to approximately 423 million tonnes, reaching 33.8% of global steel production. The following table sets forth crude steel production data by country or region for 2000 through 2006:

	2000	2001	2002	2003	2004	2005	2006
				(million tonnes)			
China	127	151	182	220	272	353	423
EU[(1)]	163	158	159	161	194	187	173
Japan	106	103	108	111	113	112	116
United States	102	90	92	94	99	93	99
Russia	59	59	60	63	64	66	71
South Korea	43	44	45	46	48	48	49
Other Asia[(2)]	56	56	68	63	51	57	89
Other non CIS Europe[(3)]	47	47	49	49	28	29	–
Other	145	142	141	161	166	166	–
Total	**848**	**850**	**904**	**968**	**1,035**	**1,111**	**1,250**

Source: International Iron and Steel Institute

Notes:

(1) Data for 2004 include production of 28 million tonnes in the ten states that joined the EU on 1 May 2004.

(2) Excludes production in China, Japan and South Korea.

(3) Excludes EU member states. Data for periods prior to 2004 include production in the ten states that joined the EU on 1 May 2004.

Steel consumption has historically been focused in the EU, Japan and the United States. In recent years, steel consumption in Asia, and in particular China, has increased significantly. Moreover, while production in Europe, Japan and the United States remains significant, steel producers in those regions have increasingly focused on rolling and finishing of semi-finished products. The following table sets forth estimated crude steel consumption data by country or region for 2000 through 2006.

	2002	2003	2004	2005	2006
			(million tonnes)		
China	182	222	280.5	356	419
EU	159	161	169	165	173
United States	92	94	100	95	98.5
Japan	108	110.5	113	112.5	116
South Korea	45	46	47.5	48	48.5
Russia	60	61.5	66	66	71
Other Asia[1]	60	63	69	75	82.5
Other non CIS Europe[2]	49	53	57	55.5	62
Other	149	159	167	166	170.5
Total	**904**	**970**	**1,069**	**1,139**	**1,241**

Source: International Iron and Steel Institute, SBB, Tex, Metal Bulletin

Notes:

(1) Excludes China, Japan and South Korea.

(2) Excludes EU member states.

Despite producing significant quantities of steel, the United States is a net importer of steel, while China, Japan and Russia are net exporters of steel. China traditionally was a net importer of steel; it became a net exporter in 2006 but a net importer again in 2007. The major traded steel products worldwide include semi-finished products, hot and cold-rolled sheets and coils, steel tubes and fittings, galvanised sheet, wire rod and angles and sections.

The strategy and product mix of steel producers generally varies between producers in industrial countries and producers in emerging markets. Historically, commodity steel producers in industrialised countries had limited export markets due to the high cost of transporting steel relative to the low value of commodity steel grades. In the second half of the twentieth century, producers in emerging markets began to compete with steel producers in industrialised countries as they took advantage of the lower manufacturing costs in their countries to offset high transportation costs. In response, producers in Western Europe and Japan invested heavily in new technology and capacity to produce high value-added steel grades in order to differentiate their product portfolio and protect their margins by reducing their exposure to commodity steel prices. However, these similar and simultaneous investments resulted in production overcapacity and put pricing pressures on value added segments. Recently, the growth and consolidation of both steel consumers and raw material suppliers has weakened the bargaining power of steel producers and put further pressure on their margins. Steel producers have responded with a phase of industry consolidation. In 2002, Usinor, Arbed and Aceralia in Europe merged to form Arcelor, and Kawasaki Steel and NKK in Japan merged to form JFE. In 2002 Nucor acquired the assets of Birmingham Steel, and International Steel Group ("ISG") acquired the assets of Acme, LTV and Bethlehem Steel in the United States. In late 2004, Ispat International N.V. and LNM Holdings N.V., which comprised the LNM Group, merged to form Mittal Steel and in early 2005 Mittal Steel merged with ISG. In 2006, Arcelor and Mittal Steel merged, forming the world's largest steel company. In April 2007, India's Essar Group purchased the Algoma Steel Corporation and the Tata Group acquired the Corus Group (formed as a result of the 1999 merger between Kononklijke Hoogovens N.V. and British Steel Plc).

Consolidation has enabled steel companies to lower their production costs and allowed for more stringent supply-side discipline, including through selective capacity closures. Despite the recent consolidation, the global steel market remains highly fragmented. According to the International Iron and Steel Institute in 2006, the five largest producers – ArcelorMittal Steel (116 million tonnes); POSCO (33

million tonnes); Nippon Steel (35 million tonnes); JFE (32 million tonnes); and Baosteel (29 million tonnes) – accounted for approximately 18% of total worldwide steel production, with ArcelorMittal Steel, the largest, accounting for approximately 9%.

The Russian Steel Industry

Following the collapse of the Soviet Union, the Russian steel industry experienced a substantial decline in production, from over 77 million tonnes in 1991 to 44 million tonnes in 1998. Since then, output has increased by nearly 65%, and, in 2006, Russia produced 70.8 million tonnes of crude steel, or 5.7% of world production, making it the world's fourth largest producer of crude steel. According to the Ministry of Industry and Energy, Russia produced nearly 58.2 million tonnes of rolled products in 2006, operating at approximately 90.4% of installed capacity. Of this amount, approximately 28.4 million tonnes (or 48.8% of the total output of rolled steel) was exported. Overall, the Russian steel industry benefits from geographical proximity to strong global markets, particularly in Asia, which is the most significant export market for Russian producers. Ferrous metals represent the third largest sector in the Russian economy, after the oil & gas and power industries. They account for 10% of Russia's total industrial output and 20% of its export revenues.

Russia is generally considered to be among the lowest-cost steel-producing regions, largely due to relatively low labour and energy costs. Russian steel producers tend to focus on vertical integration, which ensures that they have access to a stable supply of certain raw materials, particularly coking coal and iron ore. While the share of open-hearth furnaces in total steel production in Russia decreased from 53% in 1990 to 18% in 2006, and the share of continuous casting increased from 23% to 76% during the same period, Russian steel producers also have in many cases not yet implemented the latest production technologies. As a result, some Russian steel producers have significant potential for productivity improvements from increased capital investment.

Steel Producers

There are three main steel production regions in Russia:

– Urals: where OAO Magnitogorsk Iron and Steel Works ("MMK"), NTMK, Chelyabinsk Steel Plant and Urals Steel are located;

– West Siberia: where Zapsib and NKMK are located;

– the European part of Russia: Cherepovets (the primary steel mill of Severstal) is located in the north-west and NLMK is located in the south.

The Urals region is the largest producer of steel, producing a total of 30 million tonnes of crude steel in 2006. The region benefits from the fact that it is located near to the KGOK iron ore deposit. However, it is still net short of iron ore, a deficit which is compensated by Kazakh ores and ores from the European part of Russia. At the same time, the region has the disadvantage of being located far from the coal basins and borders (around 50% of the steel produced is exported).

The European part of Russia is the second largest producer of steel, with Severstal's Cherepovets plant, NLMK and Oskol plants producing a total of 23 million tonnes of crude steel in 2006 (32% of Russia's total). The plants benefit from their close proximity to iron ore deposits (NLMK has access to deposits at Stoilensky GOK, Cherepovets area located in the region and Karelsky Okatysh and Olkon). However, NLMK is not vertically integrated with respect to coking coal: since selling Prokopievskugol in April 2007, it has bought coking coal from Raspadskaya, Yuzhkuzbassugol and, when facing a recent deficit in coal supplies, even from the United States. Severstal's Cherepovets plant is fully integrated both in respect of iron ore and coking coal. Both NLMK and Severstal also benefit from being located close to the Russian border and to ports.

The third largest producer of steel is Western Siberia, which produced approximately 9 million tonnes of crude steel in 2006. Zapsib and NKMK, both subsidiaries of Evraz, are located in the region and obtain coking coal from nearby Raspadskaya and Yuzhkuzbassugol, while iron ore is delivered from KGOK, several

thousand kilometres away. The distance to the borders (both western and eastern) is considerable for plants located in this region.

Two types of steel product are produced, in almost equal proportions, in Russia: flats (which are used in the automotive and construction industries) and longs (which include construction steel, rails, wire rods and tubular billets). Four of the five publicly traded companies, accounting for approximately 56% of total steel production in Russia, can be divided into two groups by product type. Evraz and OAO Mechel Steel Group ("Mechel") produce primarily long products, and Severstal and NLMK produce primarily flat products. MMK produces both long and flat products.

The following table provides information on Russian rolled steel production volumes by producer in 2006 and each producer's main product type:

Company	Output	Market share	Main product type
	(million tonnes)	*(%)*	
Evraz[(1)]	14.3	20.2	Long
MMK	12.4	17.5	Flat/long
Severstal	11.3	16.0	Flat/long
NLMK	9.1	12.9	Flat
Mechel	4.8	6.8	Long/flat
Ural Steel	3.6	5.1	Flat/long
OEMK	2.7	3.8	Long
Other	12.6	17.8	–
Total	**70.8**	**100%**	

Source: Deutsche Bank.

Note:

(1) Includes only NTMK, Zapsib and NKMK output data.

The following is an overview of Evraz's principal Russian competitors.

MMK. MMK produces primarily flat products, including slabs, hot- and cold-rolled coils, hot-rolled sheets and plates as well as value-added products such as galvanised steel sheets and tin plate and commodity long products, including billets, bars, U-channels and angles. MMK's production plant, which is the largest single-site integrated steel making facility in Russia, is located in Magnitogorsk, at the edge of the southern Urals in the Chelyabinsk region. MMK has very low levels of vertical integration, with no significant affiliated sources of coking coal or iron ore. In 2006, MMK exported approximately 46.5 % of its production, primarily to markets in Southeast Asia and the Far East, the Middle East and western Europe. In Russia, MMK sells its products primarily in the Urals, Central Russia and Volga regions.

Severstal. Severstal's major product lines are cold- and hot-rolled steel, which it principally supplies to the automotive, metal processing and oil and gas industries. Severstal has also formed Severgal, a joint venture with Arcelor, to produce hot dip galvanised sheet for the automotive industry. Severstal's primary steel production plant is located in Cherepovets, Vologda Region. Severstal obtains significant quantities of its iron ore and coking coal requirements from its subsidiaries. In 2006, Severstal exported approximately 29% of its total steel production. Its main export markets are Europe, Southeast Asia and Central Asia. In 2004, Severstal acquired the assets of Rouge Industries and its primary operating subsidiary, Rouge Steel, which are located in the United States, and, in April 2005, the Severstal group completed the acquisition of an approximately 62% interest in Lucchini S.p.A., an Italian steel producer. In March 2008, Severstal announced that it has reached an agreement to purchase for U.S.$810 million Sparrows Point, a fully-integrated steel mill based in Baltimore, Maryland, United States, currently owned by Arcelor Mittal.

NLMK. NLMK produces primarily hot-rolled and cold-rolled flat steel, galvanised steel and colour-coated steel, pipes and other products. NLMK's production facilities are located in Lipetsk in the European part of Russia, 500km south of Moscow. NLMK sources significant quantities of its iron ore from its subsidiaries, but very little of its coking coal requirements. In 2006, NLMK exported approximately 70% of its production. Its main export markets are Southeast Asia, the EU and other European countries (including Turkey) and North America.

Mechel. Mechel produces primarily semi-finished steel products, carbon and specialty long products, carbon and stainless flat products and value-added downstream metal products including hardware, stampings and forgings. Its production facilities are located in Chelyabinsk, in the southern Urals. Mechel obtains some of its iron ore requirements from affiliated producers, as well as most of its coking coal requirements.

Ural Steel. Ural Steel's main products include pig iron and rolled products. Its production facilities are located in Orsk, in the Urals, and were acquired by Ural Steel in 2003 by a tender in connection with bankruptcy proceedings of OAO NOSTA. Ural Steel and its affiliates produce significant quantities of iron ore.

Russian market

Russian steel production decreased from 1991 through 1998 as a result of the general economic decline in Russia during this period and the consequent reduced demand from the primary steel product consumers: the construction, infrastructure and engineering industries and the military sector. Consumption of rolled steel products in Russia has followed a U-shaped trend since 1990. Consumption was 65 million tonnes in 1990 and then declined steadily due to reduced consumption by heavy industry, to only 18 million tonnes in 1998. However, the devaluation of the rouble in 1998 resulted in economic growth and a sharp increase in domestic demand for steel products, and by 2006, total Russian steel consumption had increased to 71 million tonnes.

Despite this increase, steel consumption has remained relatively low in Russia. In 2006, Russia consumed approximately 264 kilograms per capita, down from nearly 309 kilograms of steel in 1992, and substantially less than in such countries as Japan, which consumed 650 kilograms per capita, the United States, which consumed approximately 424 kilograms per capita, and countries in the EU, which consumed on average 400 kilograms per capita, in 2006.

Imported steel comprised 13% of total steel consumed in Russia during 2006,unchanged from 2005. Imports of steel into Russia have generally been restrained by trade policy measures implemented by Russian authorities as well as by the relatively high costs of transporting steel to customers in Russia. Russian trade policy has included anti-dumping measures, safeguard measures and compensatory payments. Anti-dumping measures are determined based on a comparison of import and domestic prices; safeguard measures are implemented based on damages to domestic producers; and compensation payments are required where evidence of foreign subsidies can be found. Imports of channels from Ukraine are currently subject to a 17.4% anti-dumping duty (12.3% for OJSC Azovstal). In addition, imports of certain types of pipes from Ukraine are currently subject to anti-dumping duties: 11.4% for case pipes; 55.3% for bearing pipes; 18.1% for oil-well tubes; 8.9% for oil-line and gas-line pipes with a diameter under 820 mm; 8.9% for general purpose hot-worked tubes with a diameter under 820 mm (excluding imports of OJSC Mariupol Steel Combinat); and 11.3% for boiler tubes. Imports of EU flat products containing nickel are currently subject to an anti-dumping duty of 0.84 euro per kilogram. Imports of large-diameter pipes are currently subject to an 8% duty (not applicable to imports from developing countries.)

Export market

Asia, the Middle East and the EU are the primary export destinations for Russian steel producers. In 2006, Russian producers exported 28.4 million tonnes of rolled products. The abolition of steel export duties in 2002 by the Russian government has also improved export market opportunities.

Exports of rolled products gradually gained importance during the 1990s, increasing from 12 million tonnes in 1991 to 28.4 million tonnes in 2006. Exports of rolled products accounted for over 49% of total Russian steel production in 2006. The following table sets forth by percentage the export destinations for Russian steel products in 2006:

Region	Share of total exports (%)
CIS-countries	91.7%
Non-CIS countries	8.3%
Total	100%

Source: Russian State Customs Committee

Trade Restrictions

Global trade in steel products is subject to numerous protective tariffs, duties and quotas, though semi-finished products are not generally subject to such measures.

Several treaties between the Russian Federation and the EU regulate exports of certain steel products from the Russian Federation to the EU. Exports to the EU are conducted on the basis of licences issued by the Russian authorities and quotas established in accordance with the treaties. In July 2002, the Ministry of Economic Development and Trade of the Russian Federation and the European Commission entered into a new treaty on the export of Russian steel to the EU, pursuant to which the Russian steel export quota for 2002 was increased by 28%, to 1.21 million tonnes, and by a further 2.5% as compared to the preceding year in each of 2003 and 2004, to 1.23 million tonnes and 1.38 million tonnes, respectively. As a result of the accession of ten new members to the EU in May 2004, the Russian import quota was increased by 396 thousand tonnes, to a total of 1.78 million tonnes. In 2007, the Russian Ministry of Economic Development and Trade signed an agreement with the European Union that provides for a quota of 2.9 million tonnes of export in 2008 and 3.03 million tonnes of export in 2009.

From 1997 to July 2005, South Korea imposed a 15.95% anti-dumping duty on imports of H-beams from Russia. The duty was terminated in January 2006. The anti-dumping measures on imports of cold-rolled steel from Russia that China imposed in 1999 were allowed to expire in December 2004.

The United States had a quota system in place with respect to imports from Russia of pig iron, cold-rolled steel, slabs, zinc-plated sheets and some other products which expired on 12 July 2004. From March 2002 until December 2003, the United States had implemented safeguard measures in the form of tariffs on most steel imported to the United States and has retained a licensing and monitoring regime.

Exports of steel products from the Russian Federation are primarily regulated by the Law on Foreign Trade Activity and international treaties of the Russian Federation. There are several treaties with the United States, which establish minimum prices and/or quotas for certain types of steel products which are exported from the Russian Federation to the United States. These treaties also provide that the export of steel products by Russian exporters to the United States is conducted on the basis of licences issued by Russian authorities.

Overview of the Production Process

The primary components of steel production are coke production, iron making, steelmaking and steel rolling. The following is a brief summary of these processes.

Coke Production

Coke is a solid product of coking coal. Coke contains 86-90% carbon and is used as the main fuel in blast furnaces. Coke is produced by heating coking coal that has been ground and dressed without excess air at temperatures of 1,100°–1,200°C (pyrolysis) for 16-18 hours in coke ovens. After discharge from the ovens, coke is delivered to blast furnaces for use in iron making.

Other products of the coking process include coke-oven gas and various by-products made from the coke-oven gas. Coke-oven gas is used as gaseous fuel in other shops of steel plants, and by-products are often supplied to chemical departments for further processing.

Iron Making

Prepared iron ore raw materials (sinter and pellets) and coke are used for hot metal production. Coke and natural gas serve as fuel for the blast furnaces. Coke-oven gas, together with top gas from the blast furnaces, is used as fuel for the heating of stoves. Sinter, pellets and coke are mixed and added into a blast furnace from the top using skips. Fuel combustion, reduction of iron from oxides, carbonisation of iron with partial reduction of silicon and manganese, melting of all components of burden and slag-making all occur inside a blast furnace.

Hot metal is tapped into hot metal transfer ladles and delivered to the steel making machinery to be converted into steel. Hot metal can also be delivered to a pig iron casting machine that produces pig iron for sale as a semi-finished product. Slag from blast furnaces is fed to slag processing units, where part of the slag is granulated in granulating units and the rest is processed into crushed rock and slag sand.

At many steel plants, top gas produced in the blast furnaces during the iron making process is also used as a fuel for stoves, coke ovens, boilers, rolling mills and for other purposes.

Steel Making

Steel is produced from raw materials using one of three production techniques.

Oxygen converter process. The oxygen converter process is based on the interaction of process oxygen (nearly pure oxygen) with impurities in liquid hot metal. Scrap and hot metal are charged into the vessel, and oxygen is then blown via a lance into the vessel, oxidising carbon and other impurities (silicon, manganese, etc.). Metallurgical lime and fluor-spar are fed into the vessel to form slag, which absorbs impurities during the steel making process. The oxygen converter process is generally the most modern and efficient means by which to produce large volumes of high-quality steel.

Electric arc furnaces. Electric arc furnaces produce steel by applying heat generated by electricity arcing between graphite electrodes and a metal bath. The main components of the electric arc furnace are a furnace shell with a tapping device and work opening and a removable roof with electrodes and a tilting device. The steps in the electric arc furnace production process consist of charging, melting, oxidising or purifying, deoxidising or refining. The charge includes scrap, iron ore, fluxes (lime, fluorspar), reducing agents (carbon) and ferroalloys. Further scrap may be added after the ignition of the electric arc and melting. Temperatures in the electric arc furnace may reach as high as 3,500ºC in order to melt alloying components that are otherwise difficult to melt. During the refining stage, iron oxides contained in the slag react with the carbon of the bath, which has the effect of rinsing away impurities. The metallurgical process of the oxidisation and reduction phases can be replaced by secondary metallurgical treatment further downstream in the production process.

Open hearth process. Steel is produced in the open hearth process by melting scrap and hot metal on the hearth of a combustion reverberating furnace bath. Scrap, flux and ore are charged into the furnace prior to heating. Fuel is burned in the furnace, and the heat necessary to melt the raw materials is provided by radiation from the burning fuel. Hot metal is charged and slag is formed and flushed. During melting, the oxidisation of carbon and other impurities (such as silicon and manganese) takes place. Metallurgical lime, fluor-spar and brickbats are used to form slag, which absorbs impurities during the steel making process. Open hearth furnaces are disadvantaged by relatively high operating costs due to high levels of energy consumption, high levels of pollutants and relatively low productivity. Open hearth furnaces are also less well suited for continuous casting than oxygen converters or electric arc furnaces, as a result of which open hearth furnaces generally work through the less efficient ingot casting process. For a number of years, the general trend worldwide has been for open hearth furnaces to be replaced by more efficient and environmentally cleaner oxygen converters and electric arc furnaces.

Steel Rolling

Cast steel is a relatively weak mass of coarse uneven metal crystals or "grains". Rolling the steel makes this coarse grain structure re-crystallise into a much finer grain structure, giving greater toughness, shock resistance and tensile (stress) strength. Rolling is also the main method used to shape steel into different products. The rolling process consists of passing the steel between two rolls revolving at the same speed but in opposite directions. The gap between the rolls is less than the thickness of the steel being rolled, resulting in the steel being reduced in thickness and, at the same time, lengthened. In addition to hot rolling, in which the steel is rolled at a high temperature, steel may also be rolled at ambient temperatures, resulting in a different set of properties.

Mining Industry

Iron Ore

Overview

The global iron ore industry is characterised by a high degree of consolidation, with BHP Billiton, CVRD and Rio Tinto accounting for approximately 70% of the global seaborne iron ore trade. The major iron ore producing countries are Australia, Brazil and China. Several development projects in Australia, Brazil and South Africa are expected to increase global production.

Iron ore production costs have declined in recent years, largely due to productivity enhancements. Freight rates remain a major cost constraint, comprising approximately half of total costs, according to Metal Bulletin, and helping to maintain the regional segregation of the industry. Iron ore prices have been increased over the past several years, reflecting strong global demand, and, according to industry analysts, are expected to rise significantly further during 2008 and to remain high for the next several years.

The following table sets forth iron ore production by country or region for 2000 through 2006:

	2000	2001	2002	2003	2004	2005	2006
				(million tonnes)			
China	224	217	231	261	310	420	588
Brazil	209	210	225	246	271	292	311
Australia	168	181	187	213	235	258	277
India	76	82	94	106	121	145	154
Russia	87	83	84	91	97	97	97
Ukraine	56	55	59	62	66	69	69.5
United States	63	46	52	48	55	55	54
EU	22	21	22	24	24	24	26
Other Asia[(1)]	2	2	3	2	2	2	4
Other non-CIS Europe[(2)]	6	6	6	5	6	6	8
Other	160	132	155	172	167	167	176.5
Total	**1,073**	**1,035**	**1,118**	**1,230**	**1,348**	**1,535**	**1,765**

Sources: UNCTAD, International Iron and Steel Institute, Sinferbase

Notes:

(1) Excludes China and India.

(2) Excludes EU member states.

Historically, Europe, Japan and China have been the major iron ore consumption centres, but areas such as the CIS, South Korea and Thailand have recently exhibited higher growth rates as the European and Japanese markets have matured. Following an economic slowdown in 2001 and corresponding reduction in iron ore demand, markets rebounded in 2002, with China and certain CIS countries showing significant increases in demand in connection with increases in steel production in these countries. Increases in demand are expected to continue in the next several years.

The major exporting countries of iron ore globally include Australia, Brazil and India, and the major importers are major steel producing countries: China, Japan and South Korea. In 2006, China imported 326 million tonnes or iron ore, an 18% increase on 2005, and this is more than 42% of the world's total imports.

Russian market

Russia contains approximately 16% of the world's iron ore reserves. The largest iron ore deposits are located in the Kursk Magnetic anomaly ("KMA") region in central Russia. The Russian iron ore industry is domestically oriented. The country exports only 10% of production. Russia has iron ore reserves of 50.6 billion tonnes, of which recoverable reserves are 6.8 billion tonnes. Russia is ranked fifth in terms of iron ore production (97 million tonnes in 2006), after China, Brazil, Australia and India.

70% of the reserves are located in the central and northern areas of European Russia. However, there are not economically-viable deposits in the major steel-producing regions (the regions that require iron ore the most). Only a third of Russia's steel making capacity is located in the regions that contain around 70% of its iron ore reserves. The other two-thirds of steel making capacity is in the Urals and Siberia, which contain 25% of all reserves at commercial developments, most of which probably have mine-life of no more than ten years. Urals steel mills have to ship in about 50-60% of their annual iron ore consumption from producing regions, including from the central part of the country (which is located 1,500-2,000 km away). This significantly increases their transportation costs. Steel mills in the south Urals (such as MMK) also import significant amounts of ore from the northern part of neighbouring Kazakhstan, which is much closer than central Russia. West Siberia's steel plants, on the other hand, obtain a lot of their ore from nearby mines. The rest comes from mines in East Siberia and Kazakhstan.

Total iron ore production in Russia in 2006 was approximately 97 million tonnes. Total iron ore exports were over 10 million tonnes, and total imports exceeded 2 million tonnes. Imports to Russia are generally limited by high transportation costs and the lack of port facilities in the Far East and on the Black Sea that are capable of handling large sizes of ore carrying vessels. Russian iron ore production is highly concentrated, and the three largest producers accounted for approximately 68% of total iron ore production in Russia in 2006. Russian steel producers have increasingly sought to acquire control of iron ore production assets and attained control over nearly all of the major Russian producers of iron ore by the end of 2004. For example, during 2004, Evraz acquired control of KGOK, NLMK acquired control of Stoilensky GOK and Metalloinvest Holding, controlling Urals Steel, acquired control over Mikhailovsky GOK. Furthermore, in October 2006, KGOK won the development licence for the Sobstvenno-Kachkanarskoye deposit, which is reported to contain ore reserves of 3.3 billion tonnes. Iron ore produced in Russia is mainly magnetite, not hematite, which is common in Australia and Brazil.

Producers

The following table presents production of iron ore products for sale by the largest Russian producers of iron ore in 2006:

Company	Concentrate	Affiliated steel producer
	(million tonnes)	
Lebedinsky GOK	21.0	Urals Steel
Mikhailovsky GOK	17.1	Urals Steel
Stoilensky GOK	11.3	NLMK
Karelskiy Pellet	10.0	Severstal
KGOK	9.4	Evraz
Evrazruda	7.8	Evraz
Kovdorsky GOK	5.6	–
Korshunovsky GOK	5.0	Mechel
Olenegorsky GOK	4.5	Severstal

Source: Companies' annual reports, web-sites

Production process

Approximately 90% of iron ore mined in Russia is extracted by open-pit methods, and the balance from underground mines. After extraction, the ore is processed further in order to increase its iron concentration. The iron ore is then crushed to a powder-like consistency, and iron-rich particles are separated from the waste rock by magnetic separation to produce iron ore concentrate. This concentrate is then formed into pellets or sinter that is suitable for use as blast furnace feed.

Sinter production. To produce sinter, iron ore, iron ore concentrates and iron-bearing materials (blast furnace dust, screenings of sinter and pellets, scale, waste and slime), flux (limestone) and coke breeze are weighed and mixed to form sinter burden. This sinter burden is then granulated and laid in two layers in sinter machines. The sinter burden becomes sinter at temperatures of 1,070°-1,200°C through the combustion of carbon from the coke breeze, while air is simultaneously drawn through the sinter burden by means of exhausters. After crushing, screening and cooling, the sinter is ready for delivery to blast furnaces.

Pellet production. In producing iron ore pellets, concentrate is mixed with water and other additives, such as magnetite ore. The resulting slurry is dried, mixed with binding agents and baked at approximately 1,300º C. After the pellets have been screened and undersized material removed, they are prepared for use in blast furnaces.

Coal

Overview

Coal may be divided into steam (thermal) coal and coking (metallurgical) coal. Steam coal is used in electricity generation and industrial applications, while coking coal is used to manufacture coke for use in steel manufacture and other metallurgical applications. Coking coal swells when heated in coke ovens to produce hard coke, which characteristic is essential in steel making operations. Approximately 400-500 kilograms of coke is used per tonne of steel produced. Coke is supplemented by the direct injection of pulverised coal ("PCI"), at rates of 100-200 kilograms per tonne of steel. PCI uses less expensive steam and semi-soft coking coal to reduce costs.

In recent years, the global coal industry has consolidated, partly as a result of oil companies and other non-mining companies exiting the sector. The top five export coal producers (BHP Billiton, Mitsubishi Development, Xstrata, Funding Coal and Anglo American) now produce approximately 43% of total internationally traded volumes, with the top ten producers controlling approximately 60% of the total traded coal market. As a result of this concentration, coal suppliers have gained more pricing power.

Russian Market

Russia has the world's third largest coal reserves, after the United States and China. Its proven coking coal reserves total approximately 42.3 billion tonnes, accounting for 11% of the world's proven coal reserves. In 2006, Russia produced 70 million tonnes of coking coal.

Coal production in Russia is concentrated in the Kuznetsk Basin (approximately 80%), Pechora Basin (approximately 10%) and South Yakutia (approximately 7%).

Exports of coal from Russia have increased over the past several years. In 2006, Russian companies exported approximately 13.6 million tonnes of coking coal, a 20% increase from 11.3 million tonnes in 2005.

Producers

The following table presents production by major Russian coal producers in 2006:

	Coking Coal	Coking coal share of total production
	(million tonnes)	*(%)*
OAO OUK Yuzhkuzbassugol[(1)]	10.8	15.4
Raspadskaya[(2)(3)]	10.6	15.1
OAO UK Yuzhni Kuzbass	9.4	13.4
OAO Yakutugol[(4)]	5.3	7.6
OAO Vorkutaugol[(5)]	5.3	7.6
OAO UK Kuzbassrazrezugol	4.1	5.9
OAO SUEK	0.6	0.9
Others	23.9	34.1
Total	**70.0**	**100.0%**

Source: Deutsche Bank, the Ministry of Industry and Energy

Notes:

(1) 100% shares are owned by Evraz.

(2) Accounted for in Evraz's consolidated financial statements on equity basis.

(3) Total production at the Raspadskaya site, including from assets that are not part of Evraz's equity stake.

(4) 100% shares are owned by Mechel.

(5) Indirectly controlled by Severstal.

Production process

Approximately 65.3% of Russian coal is mined through open pit mining, and the balance through underground mining. At surface mines, a combination of shovels and draglines is used for moving coal and overburden after drilling and blasting. Production at underground mines in Russia is predominantly from longwall mining. After mining, depending upon the amount of impurities in the coal, the coal is processed in a wash plant, where it is crushed and beneficiated. Coking coal is then transported to steel plants for conversion to coke for use in steel making. Steam coal is shipped to utilities that use it in boilers to generate steam used in producing electricity.

Vanadium Industry

Overview

Vanadium's primary use is in the steel industry. When added to steel, Vanadium acts as a hardening agent, increases the tensile strength and improves wear resistance. Vanadium is also used in the superalloy industry and in the chemical industry. Metallurgical application (in the steel and titanium industries) of vanadium accounted for 92% of reported consumption of vanadium in 2006, according to the U.S. Geological Survey.

Vanadium may be derived from ores, slag, concentrates or petroleum residues. China, Russia and South Africa are the world's largest producers of vanadium, producing in aggregate approximately 55,000 tonnes of vanadium in 2006, according to the U.S. Geological Survey. The following table sets forth vanadium production data by country for 2002 through 2006:

	2002	2003	2004	2005	2006
	(tonnes of contained vanadium)				
Production from ores, concentrates, slag:[1]					
Australia	3,060[3]	160[3]	150[3]	100	100
China	13,200	13,200	16,000	17,000	17,500
Kazakhstan	1,000	1,000	1,000	1,000	1,000
Russia	8,000	5,800	10,900	15,100	15,100
South Africa	25,227[3]	27,172[3]	23,302[3]	22,604[3]	22,000
Production from petroleum residues[2], ash spent catalysts,[4] Japan	499	560	560	560	560
Total	51,000	47,900	51,900	56,400	56,300

Source: U.S. Geological Survey

Notes:

(1) Production in this section is credited to the country that was the origin of the vanadiferous raw material.

(2) In addition to the countries listed, vanadium is also recovered from petroleum residues in Germany and several other European countries, but available information is insufficient to make reliable estimates.

(3) Reported figure.

(4) Production in this section is credited to the country where the vanadiferous product is extracted.

The world vanadium reserve base was estimated to be greater than 38 million tonnes in 2006. Provided that the current levels of consumption are sustained, these reserves are expected to be sufficient to last for more than one hundred years. The largest vanadium deposits are situated in Russia. The vanadium reserves in Russia include the Urals Kachkanar deposit, estimated to amount to 9 million tonnes, and the Zabaiklasky Chineisky deposit, estimated to amount to approximately 50 million tonnes.

Global consumption of vanadium is expected to increase during the period from 2008 through 2010. This increase is expected due to a number of factors, including an expected growth in steel production, an expected increase in demand for high strength and specialty steel products, an expected increase in the production of titanium alloys and an expected increase in the use of vanadium in the chemicals industry. Any increase in steel production will result in corresponding increases in slag generation from which vanadium may be recovered. It is expected that an increased demand for vanadium may be satisfied with existing resources for the forseeable future.

The vanadium industry value chain can be broken down into the following segments: upstream (vanadium feedstock), intermediate (vanadium oxides) and downstream (finished vanadium products).

Vanadium feedstock

Vanadium feedstock can be obtained from vanadium-rich ore or from by-products of various production processes such as slag from steel production and residues from oil processing (boiler slag, cokes and ashes, gasifier residues and spent catalysts). Vanadium steel slag is only produced by certain steel producers that use iron ore with a comparatively high vanadium content, including Evraz in Russia, Chengde and Pangang in China and New Zealand Steel in New Zealand. The chemical composition of vanadium residues varies significantly from one source to another. The vanadium content of vanadium residues is generally between 1% and 3%. Vanadium ore producers are generally vertically-integrated and vanadium ore is not widely traded as it is not economically viable to transport large quantities of ore with limited (less than 1%) vanadium content.

The vanadium feedstock market is characterized by a few producers of vanadium feedstock derived from steel slag and a larger number of producers of vanadium feedstock obtained from residues from oil

processing comprising a number of crude oil refineries and plants, and few customers. Certain vanadium feedstock producers are vertically integrated to large extent and process internally all of their vanadium feedstock into vanadium oxides and finished vanadium products, such as Pangang, Chengde and Xstrata, while other producers (such as Evraz) are partially vertically integrated and, as well as processing vanadium feedstock internally, also sell vanadium feedstock to third party vanadium feedstock processors, generally on the basis of long-term relationships.

Vanadium oxides

Vanadium feedstock is processed to obtain vanadium oxides, which are in turn further processed to produce finished vanadium products. The most common types of vanadium oxides produced by vanadium feedstock processors are vanadium pentoxide (V_2O_5) and vanadium trioxide (V_2O_3), and to a much lesser extent, vanadium tetraoxide (V_2O_4), tetravanadium septoxide (V_4O_7), hexavanadium triskaidekaoxide (V_6O_{13}) and vanadium alkoxide. Vanadium pentoxide and vanadium trioxide account for approximately 65% and 25% of worldwide production of vanadium respectively.

Each vanadium oxide can be produced in different grades depending on its purity. The parties distinguish "standard" (or "technical") grades, predominantly vanadium pentoxide and vanadium trioxide, which are generally further processed into finished vanadium products for steel applications; and "high-purity" (or "chemical") grades (more than 99.5% pure), which are used for the production of vanadium chemicals.

Finished vanadium products

Finished vanadium products for steel applications

Vanadium used in the production of steel products accounts for approximately 80% of consumption of vanadium worldwide. Vanadium is used as a microalloy in certain steels to increase its yield and tensile strength, making it more resistant to shock and metal fatigue. Steels to which vanadium is added can be divided into microalloy or low-alloy steels, generally containing less than 0.15% vanadium and high alloy steels, containing up to 5% vanadium.Vanadium can be added to steel (i) in the form of ferrovanadium, an alloy composed of vanadium and iron with other elements, and/or (ii) in the form of vanadium with nitrogen. In turn, ferrovanadium can be sub-divided into various grades depending on its vanadium content (FeV 42%, FeV 50%, FeV 60% and FeV 80%), while vanadium with nitrogen can be sub-divided into nitrited ferrovanadium and vanadium carbonitrite.

The main producers of ferrovanadium include Highveld, Treibacher, Tulachermet, Xstrata and Pangang. Producers such as Pangang, Chengde and Xstrata are vertically integrated to a large extent and so utilise vanadium feedstock produced internally for the production of ferrovanadium, while producers such as Treibacher and Stratcor are supplied vanadium feedstock by suppliers such as Highveld for use in the production process.

Vanadium chemicals

Vanadium chemicals are generally produced from vanadium oxides (in particular high-purity vanadium pentoxide) and include vanadium chlorides (or "halides") and other vanadium-containing specialty chemicals. Vanadium chemicals are used in a variety of applications including as active ingredient or oxidation catalysts, as catalysts in pollution control or as pigments in ceramic applications. As well as being used in the production of other vanadium chemicals, high-purity vanadium oxides may be used in certain end applications and are therefore also considered as vanadium chemicals.

Specialty vanadium alloys

Vanadium oxides are used in a wide range of alloys in combination with nickel, titanium, aluminium, chromium and other metals for use in high-strength and lightweight applications in the military and aerospace industries, such as jet engines and high speed aircraft frames. Specialty vanadium alloys include (i) vanadium-aluminium, (ii) vanadium-aluminium-ruthenium and (iii) aluminium-molybdenium-vanadium. The most important specialty vanadium alloy is vanadium-aluminium, which accounts for close to 99% of specialty vanadium alloys sales worldwide.

DESCRIPTION OF BUSINESS

Overview

Evraz is a large vertically integrated steel, mining and vanadium business with operations in the Russian Federation, Europe, the United States, Canada and South Africa and interests in China. Evraz produced approximately 16.4 million tonnes of crude steel in 2007. Management estimates that Evraz ranks as one of the top three producers of steel and steel products by volume in Russia, is the largest Russian producer of long products, such as beams, rebars and rails, by volume, and is among the 16 largest steel producers in the world by volume. In 2007, Evraz produced approximately 18.9 million tonnes of iron ore products and mined approximately 21.1 million tonnes of coking coal (including full-year figures for coal mined at Raspadskaya and Yuzhkuzbassugol). Most of Evraz's iron ore and coking coal products are used in its steel making operations. Evraz also produced 11,752 tonnes of vanadium slag and 11,934 tonnes of vanadium alloys and chemicals in 2007. Evraz's total consolidated revenues for the year ended 31 December 2007 amounted to U.S.$12,808 million, compared to U.S.$8,292 million for the year ended 31 December 2006. Evraz's total assets as at 31 December 2007 amounted to U.S.$16,380 million, compared to U.S.$8,510 million as at 31 December 2006. Evraz's principal assets as of 31 January 2008 were:

- Three steel plants in Russia: NTMK, which is located in Nizhny Tagil, Sverdlovsk region; Zapsib, which is the largest steel plant in Siberia and the eastern-most steel plant in the Russian Federation, located near Novokuznetsk, Kemerovo region; and NKMK, located in Novokuznetsk;

- Five steel plants outside Russia: Palini, a steel rolling mill, located in Italy and which Evraz acquired in August 2005; Vitkovice Steel, the largest platemaker in the Czech Republic and which Evraz acquired in November 2005; Oregon Steel, located in Oregon, United States, and which Evraz acquired in January 2007; Highveld, located in South Africa, in which Evraz acquired a 24.9% stake in July 2006, increasing it to 80.9% by September 2007; and Claymont Steel, located in Delaware, United States, in which Evraz acquired a 100% stake in January 2008 via tender offer and short-form merger;

- Three iron ore mining and processing facilities in Russia: Evrazruda, which operates mines in Kemerovo region, the Republic of Khakassia and south Krasnoyarsk Krai; KGOK, which is located in Sverdlovsk region near NTMK; and VGOK, which is located in the Sverdlovsk region near NTMK;

- Two coal producers and an equity interest in a third coal producer in Russia: Mine 12, which is located in the Kemerovo region near Zapsib and NKMK and which Evraz acquired in March 2005; Yuzhkuzbassugol, which is located in Novokuznetsk, Kemerevo region and in which Evraz acquired a 50% stake in December 2005 and the remaining 50% stake in June 2007; and a 40% interest in Raspadskaya, a coking coal producer located in the Kemerovo region that is accounted for on an equity basis;

- Three vanadium producers outside Russia: Highveld, which is located in South Africa and which Evraz acquired as described above; Stratcor, which is headquartered in Danbury, Connecticut, in the United States and has operations in the United States and South Africa and in which Evraz acquired a 72.84% stake in August 2006; and Nikom, a ferrovanadium producer located in the Czech Republic and in which Evraz acquired a 100% stake on 20 December 2007. In accordance with Evraz's commitments to the European Commission in connection with the acquisition of Highveld, Evraz must submit to the European Commission, by 20 April 2008, a plan for divestment of Highveld's Vanchem Operations and a 50% stake in SAJV, which account for 100% of Highveld's ferrovanadium and vanadium chemicals output, as well as an equity interest in Mapochs Mine. Evraz has submitted its plan for divestment, which is currently under review by the European Commission.

- Trading and logistics assets, including Nakhodka Sea Port, one of the largest ports in the Russian Far East and through which Evraz ships most of its exports and Evraztrans, which owns and operates rail cars in the Russian Federation for Evraz.

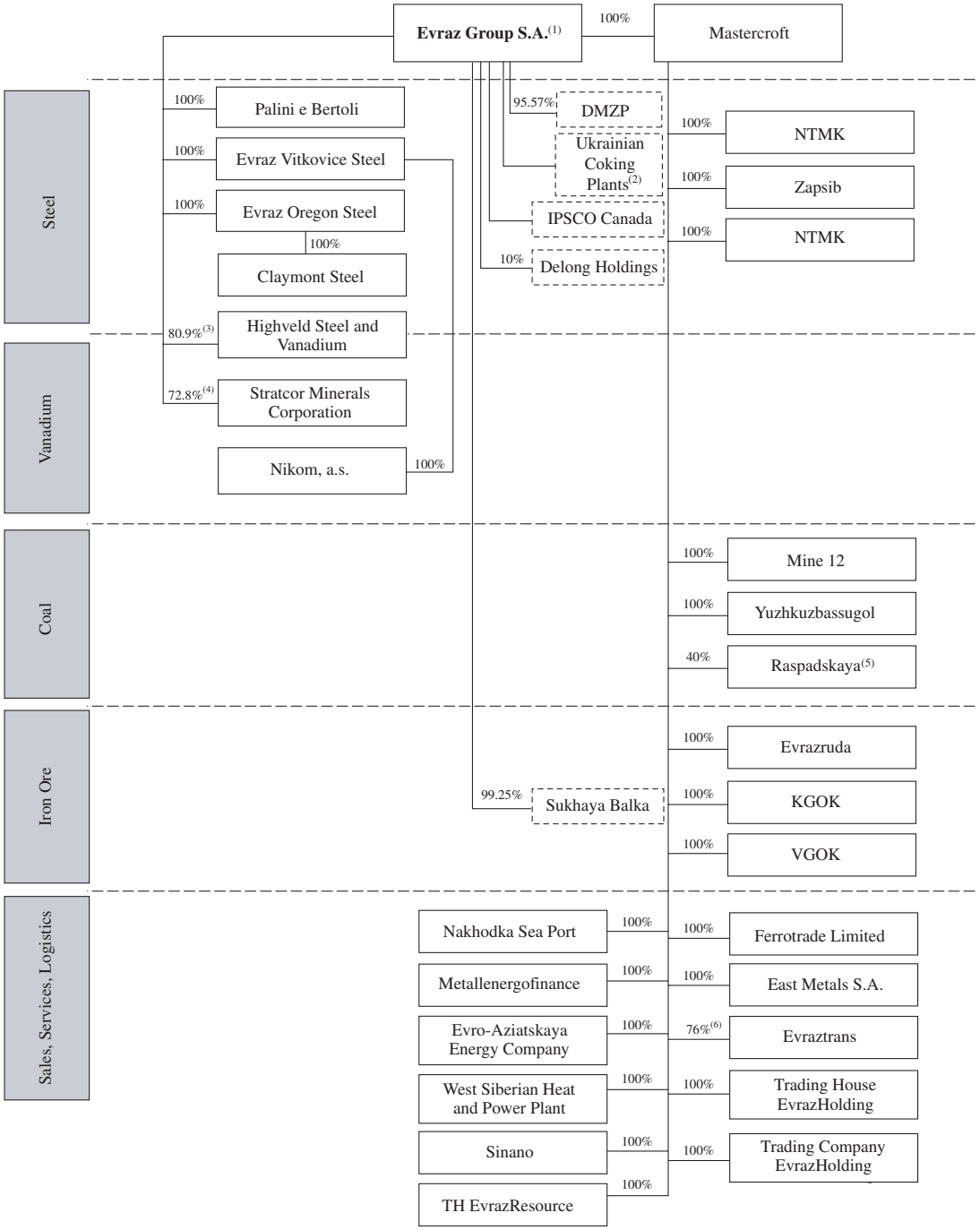
In December 2007, Evraz announced the signing of an agreement with its controlling shareholder, Lanebrook, to acquire the Ukrainian Assets, including a 99.25% stake in Sukhaya Balka, a 95.57% stake in DMZP and significant stakes in the Ukrainian Coking Plants: 93.74% in Bagleykoks, 98.65% in Dneprkoks and 93.83% in Dneprodzerzhinsk. Lanebrook acquired the Ukrainian Assets in anticipation of selling them to Evraz on the same terms. According to the agreement between Evraz and Lanebrook, Evraz agreed to pay U.S.$1.06 billion in cash and to transfer 4,195,150 shares in Evraz (subject to adjustment) as consideration for the Ukrainian Assets. Before the end of 2007, Evraz made a cash prepayment to Lanebrook in connection with the planned purchase of the Ukrainian Assets in the amount of U.S.$1.06 billion, which is reflected in Evraz's consolidated balance sheet as of 31 December 2007 as "other non-current assets". See Notes 14 and 31 to the Annual Financial Statements. On 14 April 2008, Evraz announced that it has closed the acquisition of a 51.4% stake in Cyprus-based Palmrose Limited ("Palmrose"), which holds the Ukrainian Assets, at a cost of U.S.$1.06 billion. The second stage of the transaction, namely, the issuance of new shares in Evraz and their subsequent transfer to Lanebrook in consideration for the remaining 48.6% stake in Palmrose, is subject to regulatory review in Luxembourg. Evraz currently expects the second stage of the transaction to be completed in May 2008.

On 18 February 2008, Evraz purchased for approximately S$211 million (approximately U.S.$150 million, based on the S$/U.S.$ exchange rate on 18 February 2008) an estimated 10% stake in the SGX-listed Delong Holdings, which owns Delong Steel, an integrated steel mill based in Hebei province, China, as well as a steel trading and procurement company. In addition, under the share purchase agreement, Best Decade, a shareholder in Delong Holdings, has granted Evraz an option (valid for six months following the date of completion of the sale of the 10% stake) to buy an additional 32.08% interest in Delong Holdings for S$677 million (approximately U.S.$480 million, based on the S$/U.S.$ exchange rate on 18 February 2008), pending the approval of China's MOFCOM and SAIC. Evraz has granted Best Decade a put option with respect to the 32.08%, exercisable during the same period and at the same price. Following completion of the option and satisfaction of several other conditions, the beneficial shareholders of Best Decade have undertaken to sell an additional estimated 8.97% stake for S$189 million (approximately U.S.$134 million, based on the S$/U.S.$ exchange rate on 18 February 2008) to Evraz. Following completion of these transactions, Evraz will own approximately 51.05% of Delong Holding' and expects to apply for MOFCOM approval to launch a mandatory cash offer to Delong Holdings' shareholders in Singapore (in accordance with Singapore law), which may ultimately raise Evraz's stake in Delong Holdings to approximately 77%.

In March 2008, Evraz announced the acquisition of certain of the assets of IPSCO from SSAB for U.S.$4.025 billion, including, in particular, certain of the assets of IPSCO Canada. Pursuant to a back-to-back agreement signed with TMK, Evraz has agreed to sell certain of the acquired IPSCO businesses in the U.S. to TMK for U.S.$1.2 billion. In addition, Evraz signed an option agreement to sell in 2009 the remaining acquired IPSCO businesses in the U.S. to TMK for approximately U.S.$0.5 billion. Assuming that TMK completes such purchase arrangements, the net cost of Evraz's acquisition is expected to be U.S.$2.3 billion (subject to certain closing adjustments and conditions).

Evraz is in the course of receiving corporate and regulatory approvals with respect to the acquisitions of the Ukrainian Assets and IPSCO Canada and expects both transactions to close during 2008. On 14 April 2008, Evraz announced the closing of the first stage of the acquisition of the Ukrainian Assets (as discussed above). Evraz expects to make the further acquisitions of interests in Delong Holdings (as discussed above) during 2008.

The following chart presents Evraz's organisational and operational structure.



Notes:

(1) Ownership interests represent the Company's effective interest as of 1 April 2008, except for DMZP, the Ukrainian Assets, IPSCO Canada and Delong Holdings. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions" for a discussion of changes in the Company's effective ownership interests in its subsidiaries.

(2) The Ukrainian Coking Plants consist of a 93.74% interest in Bagleykoks, a 98.65% interest in Dneprkoks and a 93.83% interest in Dneprodzerzhinsk.

(3) The remaining shares in Highveld are traded on the Johannesburg Stock Exchange.

(4) Most of the remaining shares of Stratcor are owned by Sojitz Corporation of Tokyo, Japan.

(5) Accounted for on an equity basis. 20% of the shares in Raspadskaya are traded on the RTS and MICEX, the two stock exchanges in Russia, and the remaining shares are held by Raspadskaya's management.

(6) The remaining shares of Evraztrans are held by the management of Evaztrans.

Evraz was founded in 1992 as limited liability company "Evroazmetall" ("EvrazMetal"). EvrazMetal was established by a group of Russian scientists and engineers led by Alexander Abramov (the "Original Group") and specialised in marketing metal products and supplying raw materials and equipment to Russian and Ukrainian mining and metallurgical enterprises. In 1995, EvrazMetal and its affiliates expanded their operations into trading on international markets in partnership with Duferco S.A., an international metals trading company based in Italy.

In the mid-1990s, major metals traders on the Russian market (including the Original Group), as part of their trading activity, financed production at the steel plants (including NTMK and Zapsib) from which they bought steel. As a result, these traders became the largest creditors of both NTMK and Zapsib. In 1997, a group of creditors and the management of NTMK agreed on a debt-to-equity swap, as a result of which the Original Group, Duferco S.A. and ZAO Interural (another metals trading company) became NTMK's major shareholders. The shares owned by Duferco S.A. and ZAO Interural were subsequently bought out by Evraz.

Evraz continued to acquire steel and mining assets and, at the end of 2002, Evraz's management initiated a multi stage reorganisation in order to improve the legal and financial transparency of the group (in particular, to create a more transparent ownership structure and to facilitate financial reporting) and to enhance access to international financing. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Reorganisation and Formation of the Company" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions". The Company was formed as Evraz's parent company at the end of 2004, when the current structure was finalised.

Competitive Strengths

Evraz believes that it is well-positioned to pursue its strategy of enhancing its position as a world-class steel and mining company and becoming one of the global leaders in the steel, mining and vanadium industries in terms of profitability.

Dominant producer of long products in Russia

As noted above, Evraz believes that it is one of the top three producers of steel in Russia by volume, the largest Russian producer of long products by volume and among the sixteen largest steel producers globally by volume. Evraz believes that it is the leading producer of steel products in the Russian railway products sector and estimates that it had a nearly 100% market share in rails in 2007 by volume as well as a 30% market share in wheels by volume. In the Russian construction sector, Evraz estimates that it had an 82% market share (by volume) in H-beams and a 49% market share (by volume) in channels in 2007, giving Evraz a strong competitive position as a diversified producer of a full range of products in the domestic construction steel market. There is some competition from other Russian long steel producers, but the major Russian steel producers primarily focus on flat products, such as sheets.

Vertically integrated business

Evraz believes that its strong asset bases in iron ore and coal rank it in the top five largest iron ore producers in Russia by volume and in the top five largest coal producers in Russia by volume. As a vertically integrated steel producer, Evraz's exposure to high and variable raw materials prices is limited by its significant internal sources of raw materials. Evraz seeks to reduce its dependence on outside suppliers of raw materials through both organic growth and additional acquisitions, such as the upcoming acquisition of Sukhaya Balka in Ukraine.

Evraz is a large iron ore producer, sourcing approximately 77% of its iron ore requirements in 2007 from its own mining segment and with capacity from these operations sufficient to cover approximately 87% of its iron ore requirements in 2007. With the purchase of Sukhaya Balka, Evraz expects to be nearly 100% self-sufficient in iron ore in 2008. Substantially all of the mining segment's iron ore products are produced from iron ore mined by Evraz. Evraz sells the iron ore products that it does not consume internally to third parties and is seeking to increase such sales.

In addition, Evraz is a major producer of coking coal. It is over 100% self-sufficient in coking coal and began selling coking coal to third parties in 2007. Its 100% self-sufficiency in coking coal, in addition to its expected near 100% self-sufficiency in iron ore, gives Evraz the flexibility to supply the amount it chooses from internal sources and sell to third parties at market prices in order to hedge its purchases at market prices.

Evraz is also the only producer of vanadium-rich iron ore in Russia and is among the largest producers of vanadium slag globally.

Geographically diversified business

Evraz believes that, as a result of its acquisitions in Europe, the United States and Canada, it will benefit from greater exposure to the mature and stable European and North American markets. Evraz believes that, due to its product mix, in particular, its emphasis on long products, it is well-positioned to gain from the perceived growth potential in the energy, construction and rail industries in these markets.

Low cost producer

Russia is one of the lowest cost regions for steel production, enabling Evraz to benefit from some of the lowest production costs in the steel industry worldwide, including through the export of low-cost Russian slab to world markets as well as through the synergies created by being able to supply certain of its non-Russian subsidiaries with slab from Evraz's Russian subsidiaries. Moreover, its favourably located mining operations enable Evraz to obtain a stable supply of raw materials on the basis of relatively low transportation costs. Evraz is likely to enhance its position as a low-cost producer due to its acquisition of the Ukrainian Assets. In addition to these cost advantages, as one of the largest producers of steel in Russia, Evraz benefits from economies of scale in production and negotiating power with its suppliers, including those of raw materials. In order to maintain its cost competitiveness, Evraz has made and continues to make significant capital expenditures in upgrading its facilities to increase productivity and yield.

Strong positions in high growth steel markets

Evraz has a leading market position in products with strong growth profiles in Russia, such as construction and railway products. Russia's construction sector, with a 15% average annual growth rate since 2002, has grown faster than GDP in Russia in recent years, and continues to do so, resulting in significant growth in demand for steel products. Evraz also expects demand for its principal railway products (rails and wheels) to increase significantly as the Russian railroad network is upgraded following a long period of underinvestment, particularly in light of the estimated 13.78 trillion rouble (approximately U.S.$561.30 billion) capital expenditure programme through 2030 announced by Russian Railways that is focused primarily on upgrading and refurbishing infrastructure and rolling stock. Evraz also believes that it is also well-positioned in the growing east and southeast Asian markets for slabs and billets as a result of the location of its production facilities and its ownership of Nakhodka Sea Port, which operates on Russia's Pacific coast.

Dynamic and experienced management team

Evraz's management team has a proven track record in managing operations under its control and turning around newly acquired underperforming assets, including Evraz's major production facilities. Evraz's senior management team combines extensive industry and marketing experience with financial and management expertise, and its board of directors includes individuals who have been involved in Evraz's business as well as three internationally experienced independent non-executive directors.

Strategy

Evraz's strategy is to be a world-class steel and mining company and one of the global leaders in the steel, mining and vanadium industries in terms of profitability. Evraz intends to pursue this strategy by seeking to enhance its position as a leading low-cost producer of higher margin goods, such as long products,

in Russia and the CIS, particularly in the construction and railway sectors, expand its presence in international markets, enhance cost leadership, complete vertical integration and expand its competitive mining platform and achieve world leadership in the vanadium business.

Enhancing position as a leading low-cost producer of higher margin goods, such as long products, in Russia and the CIS

Evraz intends to leverage its leading position in Russia's construction sector, which has grown and continues to grow faster than GDP in Russia. Evraz intends to focus on selling higher-priced, higher value-added products, such as beams and channels, and strengthening its position as a leading full-range supplier of long products to the Russian construction industry. In the railway sector, Evraz intends to capitalise on its current position as the dominant supplier to Russian Railways in light of Russian Railways' announcement of an estimated 13.78 trillion rouble (approximately U.S.$561.30 billion) capital expenditure programme. Evraz plans to continue making selective investments in quality upgrades and product range expansion to maintain its dominant position in railway products.

Expand presence in attractive international markets

Evraz plans to strengthen its global steel business by (i) consolidating and expanding its presence in the steel products market, particularly in the international plate, rail and pipeline markets; (ii) expanding its position as a competitive exporter from Russia of semi-finished products; and (iii) increasing sales of mining products to third parties.

Evraz intends to increase its exposure to the international plate, rail and pipeline markets, particularly in the EU and North America. As part of this strategy, Evraz has made several foreign acquisitions: in August 2005, it acquired Palini, a producer of steel plate products 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 located in Oregon, U.S.A., which makes large quantities of plate and pipe for the construction and pipe-making industries; and in January 2008, it acquired Claymont Steel, a producer of steel plates based in Delaware, U.S.A.

Evraz continues to evaluate opportunities for further acquisitions of steel production assets where such transactions can be made at attractive prices and on acceptable terms. It signed an agreement in December 2007 to purchase DMZP in Ukraine. On 18 February 2008, Evraz purchased an approximate 10% stake in Delong Holdings, which owns Delong Steel as well as a steel trading and procurement company and expects to raise its stake in Delong Holdings to a majority holding during 2008. In March 2008, Evraz announced the acquisition of certain of the assets of IPSCO Canada, a steel and pipe producer, which is expected to increase Evraz's exposure to the North American pipeline market.

Evraz's management believes that semi-finished products will continue to offer attractive opportunities for Evraz to export from Russia, as these products generally are not subject to protective trade measures. Evraz believes that it has become one of the largest producers of slab in the world. Although Evraz retains the flexibility to switch between slab and billet production, Evraz believes that slab export markets offer it stronger long-term growth prospects and potentially greater margins than billet export markets. In 2007, approximately 79% of Evraz's Russian slab exports were to third parties, with the remaining 21% being shipped to its production facilities abroad. In 2007, approximately 22% of the demand for slab used by Oregon Steel to make plate was met by Evraz's Russian slab production. Evraz's total annual slab production capacity was 6.4 million tonnes at the end of 2007.

Evraz intends to increase its sales of iron ore, coking coal and coke to third parties in order to benefit from favourable market conditions for these products and to develop capabilities for exporting coking coal. As part of this strategy, Evraz completed its acquisition of Yuzhkuzbassugol in June 2007 and signed an agreement in December 2007 to purchase Sukhaya Balka in Ukraine and the Ukrainian Coking Plants.

Enhancing cost leadership position

Evraz's management believes that producing low-cost steel products is essential to ensure the competitiveness of its plants. In the short to medium term, Evraz intends to realise synergies from the integration of recent acquisitions by rationalising production across its plants and making selective investments in improved production technology, such as increasing the use of continuous casting in its steel production, ongoing blast furnace refurbishments and closure of open hearth furnace production facilities. In support of these objectives, Evraz spent approximately U.S.$740 million in capital expenditures in 2007, including U.S.$499 million in respect of its steel segment and U.S.$187 million in respect of its mining segment, and has budgeted to spend an aggregate amount of U.S.$1.068 billion on capital expenditures in 2008, including U.S.$523 million in expenditures on maintenance.

Completing vertical integration and expanding competitive mining platform

Evraz seeks to enhance its profitability and security of supply through vertical integration, in particular, increasing its production of iron ore, such that it produces at least 100% of its iron ore requirements, and coking coal. To accomplish this objective, Evraz plans to intensify production from its existing iron ore and coking coal reserves through capital expenditures targeted at improving production capacity and efficiency, including brownfield expansion at KGOK. In addition, Evraz intends to expand its mining asset base not only through organic growth, but also through acquisitions of additional subsoil licences as well as through selective acquisitions of existing iron ore and coal mining assets, primarily in Russia and the CIS. In the coal sector, Evraz increased its stake in Yuzhkuzbassugol to 100% in June 2007. In addition, Evraz signed an agreement in December 2007 to purchase the iron ore complex Sukhaya Balka and the Ukrainian Coking Plants. In 2007, Evraz was approximately 87% self-sufficient in iron ore. Assuming the completion of the purchase of Sukhaya Balka, Evraz expects to be nearly 100% self-sufficient in iron ore in 2008.

Achieving world leadership in the vanadium business

Evraz strives to be one of the world's leading suppliers of vanadium. Recent acquisitions of Highveld, Stratcor and Nikom added vanadium mines and processing capabilities and technical know-how, allowing Evraz to capitalise on strong trends in the vanadium market. Evraz is the only producer of vanadium-rich iron ore in Russia, and one of the world's largest producers of vanadium slag, a by-product of the steel production process. Vanadium currently enjoys strong demand and higher pricing on the back of growth in steel output, newly-introduced standards for steel construction in China and new applications for high-purity vanadium. Although it is required to divest of Highveld's Vanchem Operations, its 50% stake in SAJV and an equity interest in Mapochs Mine, Evraz nevertheless believes that it should be able to extract higher margins and cash flows from vanadium products as a result of these acquisitions in the vanadium sector. In 2007 and 2006, vanadium sales comprised approximately U.S.$583 million and U.S.$222 million, respectively, of Evraz's revenues.

Steel Business

Evraz's steel business operates globally, with facilities in Russia, Europe, North America and South Africa and interests in China. Evraz conducts its steel business primarily through its Russian subsidiaries NTMK, Zapsib, NKMK and its foreign subsidiaries Palini, Vitkovice Steel, Oregon Steel and Highveld.

In December 2007, Evraz signed an agreement to acquire a 95.57% stake in Ukraine's DMZP. Also, in December 2007, it signed an agreement to acquire the Ukrainian Coking Plants, in particular, a 93.74% in Bagleykoks, a 98.65% stake in Dneprkoks and a 93.83% stake in Dneprodzerzhinsk, which process coal into metallurgical coke for onward use by steelmakers. In January 2008, Evraz acquired a 100% stake in Claymont Steel. In February 2008, Evraz purchased an estimated 10% stake in Delong Holdings, which, in addition to a steel trading and procurement company, owns Delong Steel. Evraz has the option to buy an additional 32.08% interest in Delong Holdings and has agreed, following completion of the option and satisfaction of several other conditions, to buy an additional estimated 8.97% stake from existing shareholders of Delong Holdings. Following completion of these transactions, Evraz expects to apply for MOFCOM approval to launch a mandatory cash offer to Delong Holdings shareholders in Singapore (in accordance with Singapore law), which may ultimately raise Evraz's stake in Delong Holdings to

approximately 77%. Furthermore, in March 2008, Evraz announced the acquisition of certain of the assets of IPSCO Canada.

In 2007, Evraz sold 16.4 million tonnes of steel, with consolidated segment sales revenue of U.S.$12,433 million in the year ended 31 December 2007, an increase from U.S.$8,161 million in the year ended 31 December 2006.

The table below shows Evraz's consolidated sales of its principal steel products in 2007, 2006 and 2005.

	Year ended 31 December					
	2007		2006		2005	
	(thousand tonnes)	*%*	*(thousand tonnes)*	*%*	*(thousand tonnes)*	*%*
Product[1]						
Construction sector	*5,116*	*31.1%*	*4,152*	*26.1%*	*3,973*	*30.9%*
Rebars	1,854	11.3%	1,580	9.9%	1,507	11.7%
H-beams	1,322	8.0%	1,022	6.4%	866	6.7%
Channels	727	4.4%	603	3.8%	511	4.0%
Angles	496	3.0%	399	2.5%	345	2.7%
Wire rods	253	1.5%	266	1.7%	517	4.0%
Wire	219	1.3%	207	1.3%	211	1.6%
Other	245	1.5%	75	0.5%	16	0.1%
Railway sector	*2,285*	*13.9%*	*1,626*	*10.2%*	*1,646*	*12.8%*
Rails	1,650	10.0%	1,098	6.9%	1,051	8.2%
Wheels	153	0.9%	141	0.9%	140	1.1%
Other	482	3.0%	387	2.4%	455	3.5%
Flat-rolled products	*2,163*	*13.2%*	*1,611*	*10.1%*	*685*	*5.3%*
Commodity plate	1,808	11.0%	1,611	10.1%	685	5.3%
Speciality plate	221	1.4%	–	–	–	–
Other	134	0.8%	–	–	–	–
Tubular products	*664*	*4.0%*	*14*	*0.1%*	–	–
Large diameter line pipe	414	2.5%	–	–	–	–
ERW pipe and casing	84	0.5%	–	–	–	–
Seamless pipe	82	0.5%	–	–	–	–
Other	84	0.5%	14	0.1%	–	–
Other finished products	*741*	*4.5%*	*913*	*5.7%*	*604*	*4.7%*
Rounds	332	2.0%	457	2.9%	270	2.1%
Grinding balls	222	1.4%	204	1.3%	206	1.6%
Mine uprights	84	0.5%	80	0.5%	64	0.5%
Other	103	0.6%	172	1.0%	64	0.5%
Semi-finished products	*5,457*	*33.2%*	*7,602*	*47.7%*	*5,952*	*46.3%*
Slabs	2,624	16.0%	3,056	19.2%	1,883	14.6%
Billets	982	6.0%	2,570	16.1%	2,406	18.7%
Pig iron	1,042	6.3%	1,067	6.7%	896	7.0%
Pipe blanks	807	4.9%	905	5.7%	730	5.7%
Other	2	0.0%	4	0.0%	37	0.3%
Total	**16,426**	**100%**	**15,918**	**100%**	**12,860**	**100%**

Note:

(1) For the year in which Evraz acquires a particular subsidiary, data concerning such subsidiary is provided on a pro-rata basis for the period following its acquisition by Evraz.

In Russia, Evraz sells the majority of its steel products to the construction, railway, mining and pipe manufacturing industries. Evraz adjusts the product mix of its Russian subsidiaries on a monthly basis depending on the demand and profitability of particular products. Sales outside Russia from Evraz's Russian assets comprise primarily semi-finished products for re-rolling and finished products for construction and other industries. Evraz's Italian operator, Palini, sells high-quality plate products to the construction, shipbuilding and automotive industries. Evraz's facility in the Czech Republic, Vitkovice Steel, sells plates, sheet piles, sections and flame-cut shapes to customers in the construction, shipbuilding, machinery/machine building and pipeline industries, mainly in Europe. Oregon Steel in the United States sells higher margin specialty and commodity steel products, such as plates, coiled plates, welded and seamless pipes for oil and gas applications, structural tubing, rail products and wire rod/bar, to a diverse customer base, mainly in North America. Claymont Steel sells custom discreet steel plates to customers in North America. Highveld sells plates, coil and sections predominantly in its domestic market of South Africa, with the remainder exported to niche markets globally.

Of Evraz's pending acquisitions, DMZP in Ukraine sells billets, long products and pig iron. DMZP's principal markets are Ukraine and other European countries, with Ukraine purchasing a large majority of DMZP's products in 2007. The Ukrainian Coking Plants produce metallurgical coke for onward sale to steelmakers, primarily DMZP. Delong Steel sells mid-width hot-rolled coils and steel billets to customers in China and abroad. IPSCO Canada sells pipe and various steel products to customers primarily in North America.

Russia

Evraz operates its Russian steel business out of three Russian subsidiaries: NTMK, Zapsib and NKMK.

Products

Evraz sells the majority of the steel products made by its Russian subsidiaries to the construction, railway, mining and pipe manufacturing industries.

Construction sector

The principal products for the construction sector made by Evraz's Russian subsidiaries include rebars, H-beams, channels, angles and wire rod. Evraz's principal construction sector market is in Russia. In terms of segment revenues, the construction market represents the largest market for steel products manufactured by Evraz's Russian subsidiaries, comprising in 2007 approximately 42% of revenues attributable to Evraz's Russian subsidiaries. The Russian construction sector has exhibited growth rates in excess of Russian GDP growth since 2001, averaging 15% per annum since 2002.

Rebars. Evraz produced approximately 30% of the total volume of rebars produced in Russia and accounted for approximately 23% of the total sales volume of rebars in Russia in 2007, in each case, according to Evraz's estimates. Evraz's principal competitors in this sector are Mechel, Severstal, NSMMZ and MMK. Rebars are a commodity product, and market share depends primarily on price. Sales volumes of rebars have in recent years generally been driven by strong demand from the Russian construction sector.

H-beams. Evraz is the dominant producer of H-beams in Russia, accounting for approximately 82% of total sales volumes of H-beams in Russia in 2007 according to Evraz's own estimates. Approximately 65% of total sales of H-beams in Russia in 2007 by volume consisted of varieties of which NTMK is currently the only Russian producer. Evraz's main competitor for sales of H-beams in Russia is Azovstal (located in Ukraine), although, in 2007, imports from China and South Korea comprised approximately 10% of the total volume of H-beams sold in the Russian market, thereby reducing Evraz's share of Russian H-beam sales. Evraz's main export markets for its Russian-made H-beams are the Baltic countries, North America and the Middle East.

Channels. Evraz produces channels at NTMK, Zapsib and NKMK. Evraz believes that it accounted for approximately 49% of the total sales volume of channels in Russia in 2007. The balance was supplied by MMK, Severstal and various Ukrainian producers.

Angles. Evraz produced approximately 38% of the total volume of angles produced in Russia and accounted for approximately 29% of the total sales volume of angles in Russia in 2007, in each case, according to Evraz's estimates. Evraz, MMK and Severstal are the major producers of angles sold in Russia.

Wire rod. Evraz believes that its sales of wire rod in Russia accounted for approximately 12% (including captive production) of the total sales volume of wire rod in Russia in 2007. Exports of Russian-made wire rod in 2007 were primarily to customers in China, the Philippines, South Korea and Taiwan. Evraz's competitors in the wire rod market are various Russian and Chinese producers.

Railway sector

Evraz's Russian subsidiaries manufacture various products for the railway sector, including rails, wheels, rail fasteners, axle blanks, railcar uprights, Z sections and rough tyres. Evraz sells railway products primarily to Russian Railways, which, in 2007, accounted for 14.8% of the total volume of steel sold by Evraz's Russian subsidiaries in Russia (excluding intersegment sales). Evraz believes that it accounted for nearly 100% of sales of rails in Russia in 2007. In light of the significant underinvestment in the Russian railway system in the past and announced plans by Russian Railways to make approximately 13.78 trillion roubles (approximately U.S.$561.30 billion) of investments in its network over the next several years, including on both infrastructure and rolling stock, Evraz expects significant demand for its railway related products in the next several years. Evraz sells to Russian Railways pursuant to multi-year contracts, which stipulate the setting of prices annually. Evraz's current contract with Russian Railways expires in 2010.

Rails. Evraz produces rails at NTMK and NKMK, which are the only producers of rails in Russia and currently the only suppliers to Russian Railways. Russian Railways underinvested in railway infrastructure in the 1990s, and there is currently a backlog in replacement of rails. Largely as a result of this backlog, Evraz's total sales of rails have increased in recent years. Russian Railways is the primary Russian customer for Evraz's rails, accounting for approximately 81% of its total Russian sales of rails by volume in 2007. Evraz's Russian subsidiaries sell the remainder of rails largely to the growing industrial sector for internal transportation systems, and a small proportion are sold to urban transport authorities.

Wheels. Evraz produces railway wheels at NTMK. NTMK and Vyksunsky Metallurgical Plant (located in the Nizhny Novgorod region) are the only manufacturers of railway wheels in Russia. In 2007, Evraz believes that it accounted for approximately 29% of wheels sold in Russia. Russia imports the remaining railway wheels, some of which come from Ukraine. Evraz is currently considering opportunities to export wheels to western Europe and other markets.

Other. Evraz also produces other railway products, including rail fasteners, axle blanks, railcar uprights, Z sections and rough tyres. Evraz believes that it accounted for over 90% of sales of rail fasteners, axles, railcar uprights and Z sections in Russia in 2007.

Other finished products

Round rolls. Evraz estimates that its sales of round rolls (excluding wire rod) in Russia accounted for approximately 10% of the total sales volume of round rolls (excluding wire rod) in Russia in 2007. Round rolls (excluding wire rod) are sold almost exclusively to the Russian market. See "—Construction sector", above, for a discussion of wire rod).

Grinding balls and mine uprights. Grinding balls represent the major product that Evraz's Russian subsidiaries supply to the mining sector. Evraz sells grinding balls primarily to ore enrichment plants. Its major customer for these products is Mikhailovsky GOK, which is located in the Kursk region in central Russia, as well as Stoilensky GOK and Evraz's own mining operations. Evraz also produces mine uprights for the mining sector.

Other products. Evraz sells wire almost exclusively to the Russian market, as well as small volumes of plates and other products.

Semi-finished products

Billets, slab, pig iron and blooms. Evraz's Russian subsidiaries sell semi-finished products, including billets, slabs, pig iron (from its excess iron production) and blooms, primarily to their export markets. The majority of Evraz's sales have historically been of billets, but Evraz's capacity for producing slabs has recently increased following the commissioning of additional continuous casters, with total annual slab production capacity of 6.4 million tonnes at the end of 2007. Evraz believes that it is currently one of the world's largest producers of slab. Evraz's production facilities provide for flexible production of billets or slabs. Evraz benefits from this flexible product mix, which can be readily adjusted to reflect current demand in the market, thereby, in turn, ensuring more sustainable margins. In 2007, Evraz sold billets primarily to customers in Taiwan, Thailand, Iran and the Philippines; slabs primarily to customers in Taiwan, Thailand, the Philippines, Korea and Italy; and pig iron primarily to customers in South Korea and Taiwan. Evraz also ships small volumes of slab to Novosibirsk Steel Plant in Russia and small volumes of pig iron to customers in Russia.

Pipe blanks. Evraz's Russian subsidiaries sell pipe blanks to pipe manufacturers for finishing. Sales of pipe blanks have generally decreased in recent years because Evraz's major customers of pipe blanks have increased their own production volumes of pipe blanks.

Marketing

Evraz's Russian subsidiaries produce steel for sale on the Russian market and for export. Their sales in Russia are typically of finished products, which generally provide higher margins than are available from sales of semi-finished products. Indeed, Evraz believes that it has a dominant market position in Russia in many of its primary product markets. Sales of Evraz's Russian subsidiaries in Russia are denominated in roubles, as are most of their production costs, limiting Evraz's exposure to fluctuations in exchange rates in relation to its Russian operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures in Respect of Market Risk—Exchange and Interest Rate Risk".

The following table summarises Evraz's sales of steel produced by its Russian subsidiaries in the periods indicated.

	Year ended 31 December					
	2007		2006		2005	
	(thousand tonnes)	*(millions of U.S. dollars)*	*(thousand tonnes)*	*(millions of U.S. dollars)*	*(thousand tonnes)*	*(millions of U.S. dollars)*
Sales (excluding intersegment sales)						
Russian sales	7,559	5,002	6,966	3,428	6,339	2,816
Export sales	5,346	2,630	7,657	3,043	6,234	2,437
Total	**12,905**	**7,632**	**14,623**	**6,471**	**12,573**	**5,253**
Intersegment sales(1)	**51**	**32**	**42**	**20**	**40**	**18**

Note:

(1) Intersegment sales exclude sales of semi-finished products to Palini, Vitkovice Steel and Oregon Steel, which amounted to 701 thousand tonnes (U.S.$365 million), 441 thousand tonnes (U.S.$178 million) and 152 thousand tonnes (U.S.$52 million) in 2007, 2006 and 2005, respectively.

Russian sales of Evraz's Russian subsidiaries

Evraz's customers in Russia are located throughout Russia. Evraz also exports a small proportion of its Russian production to other CIS countries. Russian Railways is the primary Russian customer for Evraz's rails, accounting for approximately 14.8% of the total steel sales volume of Evraz's Russian subsidiaries in Russia (excluding intersegment sales). As construction products of Evraz's Russian subsidiaries in particular are commodity products, margins are heavily influenced by price, including transportation costs.

Since 1 April 2005, Evraz has conducted its Russian and CIS sales through its wholly owned trading company OOO Trade House Evraz Holding ("TH EvrazHolding"). Prior to 1 April 2005, Evraz conducted its Russian and CIS sales of rails and other railway products through OAO Ferrotranstrade ("Ferrotranstrade"), which remains under common control with the Company. Sales to the construction industry, as well as sales of pipe, are made to independent regional distributors and "stockists", who sell a range of products in smaller lots to end consumers. Sales to Russian Railways are made directly to Russian Railways, which is the principal customer for Evraz's rails and most other railway products. The majority of Evraz's Russian and CIS sales agreements require prepayment. In 2007, railway products were sold to Russian Railways based on annual agreements that require payment within 15 days from the date of shipment.

In December 2004, Evraz concluded new framework cooperation agreements with Russian Railways with respect to the supply of rails, wheels and other railway products from 2004 through 2010. Pursuant to these agreements, Evraz is reconstructing its wheel rolling mill at NTMK and is reconstructing its rail mills at NTMK and NKMK to meet the requirements of Russian Railways. Evraz also committed to transport minimum volumes of products on the Russian Railways network. Russian Railways committed to make annual purchases of rails, wheels and other railway products of specified minimum volumes; to assist NTMK in improving production technologies and quality; and to provide transportation services. According to these non-binding agreements, prices and quantities for the supply of railway products are to be specified in annual delivery contracts, with Evraz entitled to receive a price premium for technological improvements resulting in improved wheel quality.

The following table sets out the Russian consolidated sales product mix for Evraz's Russian subsidiaries for the periods indicated (by volume):

	Year ended 31 December		
	2007	2006	2005
	(share of total sales volume, as a percentage)[1]		
Semi finished products, of which	**18.7**	**22.6**	**19.0**
Pipe blanks	10.2	12.9	10.7
Slabs	3.3	1.6	4.6
Other	5.2	8.1	3.7
Finished products, of which	**81.3**	**77.4**	**81.0**
Rails	13.3	13.0	15.4
Rebars	17.8	17.4	17.5
Beams	11.2	9.0	7.2
Wire rod and rounds	5.0	5.7	4.5
Channels	8.5	7.6	7.2
Angles	5.8	4.8	4.9
Other	19.7	19.9	24.3
Total	**100.0**	**100.0**	**100.0**

Note:

(1) Figures in this table take into account only third party sales and not intersegment sales.

Evraz's Russian subsidiaries' exports

Evraz's Russian subsidiaries export primarily semi-finished products, as well as some finished products, mainly beams, rebars and plates. The semi-finished products that Evraz's Russian subsidiaries export have not historically been subject to protective trade barriers. See "Risk Factors—Risks Relating to Evraz's Business and Industry—Evraz faces protective trade restrictions in the export of its steel products" and "Industry Overview—Steel Industry—Trade Restrictions". In 2007, exports of Evraz's Russian subsidiaries amounted to 42% of the total steel sales volume of its Russian subsidiaries (including intersegment sales), a decrease from 53% in 2006. Billets historically accounted for the largest share of export sales; however, in an effort to emphasise slab production, Evraz has commissioned additional slab-casting capacity, and, consequently, the share of contribution of slabs to total exports has been increasing.

From October 2003 until the second half of 2007, Evraz's Russian subsidiaries exported their products through Evraz's subsidiaries Ferrotrade Limited and East Metals S.A. (which acted as Ferrotrade Limited's agent). In the second half of 2007, Evraz reorganised this process, and since April 2007, all Russian exports have been channeled solely through East Metals S.A. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions" and "Related Party Transactions".

The principal export markets for the products of Evraz's Russian subsidiaries are the Far East and the Middle East. The following table sets out the distribution of the consolidated export sales (in terms of revenue) by country for the periods indicated of Evraz's Russian subsidiaries:

	Year ended 31 December		
	2007	2006	2005
	(share of total sales volume, as a percentage)		
CIS	19	12	9
Taiwan	14	19	21
Iran	17	10	8
South Korea	15	5	7
Thailand	7	15	19
Philippines	6	6	8
Vietnam	3	3	9
Italy	3	6	2
Turkey	3	6	2
USA	2	8	3
China	2	3	7
Other	9	7	5
Total	**100**	**100**	**100**

Evraz's Russian subsidiaries supply their products to more than 200 customers in over 10 countries. The three largest purchasers of products made by Evraz's Russian subsidiaries in 2007, Investal, Hyundai Steel and Chung Hung (formerly Yieh Loong), in the aggregate accounted for less than 10% of Evraz's total revenues in 2007. Evraz sells semi-finished steel products, as well as finished products (with the exception of rails) primarily on spot markets.

The following table sets out the product mix of consolidated export sales for Evraz's Russian subsidiaries for the periods indicated (by volume). For the period 2005-2007, semi-finished products comprised on average approximately 75% of export sales of Evraz's Russian subsidiaries. From 2005 to 2007, the share of billets decreased and the share of slabs increased as a percentage of consolidated export sales for Evraz's Russian subsidiaries.

	Year ended 31 December		
	2007	2006	2005[1]
	(share of total sales volume, as a percentage)[2]		
Semi finished products, of which	**74.4**	**78.7**	**77.2**
Billets	16.5	29.5	39.8
Slabs	43.3	38.4	26.0
Pig iron	14.6	10.8	11.4
Finished products, of which	**25.6**	**21.3**	**22.8**
H beams	6.8	4.7	6.3
Rebars	4.9	4.8	5.1
Wire rod and rounds	3.7	4.2	3.5
Plates	2.0	1.8	7.0
Other	8.2	5.8	0.9
Total	**100.0**	**100.0**	**100.0**

Note:

(1) Figures in this table take into account only third party sales and not intersegment sales.

Distribution

Evraz's customers in Russia are generally responsible for transportation costs, including from the steel plant to the designated delivery point. Delivery terms for Russian sales are free carrier ("FCA") to railway stations located adjacent to the steel plant site (in the case of NTMK and Zapsib) or nearby (in the case of NKMK, which ships from the same railway station as Zapsib). Evraz has developed and successfully implemented a system based on discounts applicable to particular regions in order to ensure more competitive and transparent pricing for its customers. Evraz has implemented a policy whereby pricing is based on market prices at the point of delivery. Most of Evraz's CIS export sales are made on the same FCA delivery terms as Russian sales, except that railway products are generally delivered on a carriage paid to ("CPT") or delivered at frontier ("DAF") basis.

With respect to the export sales of its Russian subsidiaries to non-CIS destinations, Evraz is responsible for transportation costs from the designated off-take location (Smychka with respect to NTMK and Novokuznetsk and Severniy with respect to Zapsib and NKMK) to the relevant port or transport transfer location.

Russia

Within Russia, Evraz's Russian subsidiaries ship their products, including sales both to Russian and export customers, primarily by Russian Railways. Tariffs for rail shipments are set by Russian Railways and are regulated by Russian Railways and the FTS. Tariffs, which are generally adjusted on an annual basis, vary based on distance and other factors, including the extent to which Evraz uses its own railcars. Evraz's transportation subsidiary Evraztrans provides substantially all of Evraz's transportation services in Russia, including supplies of raw materials, intragroup transfers and shipments to Nakhodka Sea Port or other export transport transfer locations. As of year-end 2007, Evraztrans owns, leases or rents a fleet of approximately 4,000 railcars and also procures the use of additional railcars on a market basis as required. In 2007, Evraz's Russian subsidiaries made use of such railcars in respect of over half of their total volume of rail shipments.

Exports of Evraz's Russian subsidiaries

Evraz ships a significant proportion of the exports of its Russian subsidiaries through its Nakhodka Sea Port, one of the largest ports in the Russian Far East, and which has an annual capacity of approximately 8.5 million tonnes. The majority of volumes of non-CIS sales attributable to Evraz's Russian subsidiaries were shipped through Nakhodka Sea Port in 2007. Evraz also ships production of its Russian subsidiaries through Vladivostok and other Russian posts (primarily Astrakhan and Novorossiysk) and ships some exports to end customers directly by rail. In 2004, Evraz purchased four vessels with a total deadweight

capacity of 95,000 tonnes, which cover approximately 25% of Evraz's total shipping requirements and which Evraz uses to transport its products from Nakhodka to end customers. The acquisition of these vessels reduced Evraz's exposure to price and capacity fluctuations in the global shipping market.

Raw materials

The principal materials used by Evraz's Russian subsidiaries in steel production include coking coal and coke, iron ore sinter and pellets, ferroalloys, scrap and refractory materials. As part of its strategy of increasing vertical integration, Evraz has sought to increase the share of these inputs that are obtained from other members of its consolidated group or from Raspadskaya, including from certain of its recent or planned acquisitions. Concluding such arrangements helps to ensure reliability of supply and helps to provide more stable pricing and, in the case of purchases from other members of its consolidated group, also enables Evraz to capture internally the margin on its supplies of these raw materials.

Coking coal and coke

For its Russian subsidiaries, Evraz obtains coking coal primarily from Yuzhkuzbassugol, in which Evraz holds a 100% stake, and Raspadskaya, in which it holds an equity interest. See "Related Party Transactions". Evraz's Russian subsidiaries obtained approximately 94% of their coking coal requirements from Yuzhkuzbassugol and Raspadskaya in 2007. Together with Mine 12, which Evraz acquired in March 2005, production at these sites was sufficient to cover 100% of Evraz's total coking coal requirements in 2007. Despite 100% self-sufficiency, Evraz nevertheless purchases selected coal grades from producers other than Yuzhkuzbassugol, Raspadskaya and Mine 12 in order to maximise economic and operational efficiency. See "—Mining Business—Production Facilities—Coking Coal".

Coke is the largest cost item in the blast furnace production process. Evraz's Russian subsidiaries produce 100% of their requirements for coke. Evraz also sold approximately 1.0 million tonnes of coke to third parties in Russia and the CIS in 2007.

Iron ore

For its Russian subsidiaries, Evraz obtains sinter and pellets primarily from Evrazruda, KGOK and VGOK, as well as from Mikhailovsky GOK ("MGOK") which is not related to Evraz. Evraz's iron ore production in 2007 was sufficient to cover approximately 87% of its total iron ore requirements. Zapsib also operates a sinter plant on site. As it has acquired control over additional iron ore assets, Evraz has sought to increase the share of these operations in its total iron ore consumption. Evraz's Russian steel making facilities consumed a approximately 7.1 million tonnes of concentrate, 5.9 million tonnes of pellets and 7.3 million tonnes of sinter in 2007. See "—Mining Business—Production Facilities—Iron Ore".

The table below sets out the main suppliers of iron ore for Evraz's Russian steel making operations for the periods indicated.

	Year ended 31 December					
	2007		2006		2005	
	(thousand tonnes)	*(share, as a percentage)*	*(thousand tonnes)*	*(share, as a percentage)*	*(thousand tonnes)*	*(share, as a percentage)*
Internal Supply:						
Evrazruda[(1)]	5,476	27	5,654	27	5,902	31
KGOK	7,464	37	7,566	36	6,500	34
VGOK	2,703	13	2,198	10	2,317	12
External Supply:						
MGOK	2,521	12	2,735	13	2,116	11
Korshunovsky GOK	1,702	8	2,763	13	1,584	8
Kostamuksha GOK	–	–	–	–	264	1
Kovdorsky GOK	–	–	–	–	219	1
Others	418	2	385	2	392	2
Total	**20,284**	**100**	**21,301**	**100**	**19,292**	**100**

Note:

(1) Acquired in March 2005 from an entity under common control. In accordance with IFRS, Evrazruda has therefore been consolidated with effect from 31 December 2001 as if it had been acquired at such date. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Reorganisation and Formation of the Company".

Ferroalloys

For its Russian subsidiaries, Evraz obtains ferroalloys primarily from Chelyabinsk Electrometallurgical Plant, Promspetskomplekt, Kosogorsky MZ and Ural-Siberian GMK.

Scrap

For its Russian subsidiaries, Evraz obtains scrap from a number of third parties and obtains it internally from waste created by its blooming plants and rolling mills. The share of outside purchases of scrap is expected to increase because, in 2007, Evraz outsourced its drop-hammer workshops (located at Zapsib) to third parties.

Refractory materials

For its Russian subsidiaries, Evraz purchases the refractory materials it requires from outside suppliers. Evraz's major suppliers of refractory materials are Spetsoborudovaniye i Materialy (located in Germany), as well as the Russian producers Magnesit, Pervouralsky Dinasovy Zavod and OAO Ogneupory.

Energy

The steelmaking process requires significant amounts of electricity and heat energy. See "Risk Factors—Risks Relating to Evraz's Business and Industry—Increased electricity and other energy prices could adversely affect Evraz's business".

Electricity. For its Russian subsidiaries, Evraz obtains electricity for producing steel from regional generation companies in Russia. In 2007, Evraz's Russian subsidiaries purchased approximately 8,913 million kWh of electricity, representing approximately 84% of their requirements, from local subsidiaries of UES as well as from other Russian generation companies. In 2007, Evraz's Russian subsidiaries obtained approximately 16% of their total electricity requirements from internal sources. Evraz plans to increase the proportion of electricity that it produces from internal sources. The average cost of electricity for its Russian operations was 3.8 cents per kWh. ZapsibTETS sells approximately half of its output to Zapsib, although it does so through a government intermediary. See "—Production Facilities—NTMK—Investment programme—Electricity generation".

Natural gas. For its Russian subsidiaries, Evraz purchases natural gas from subsidiaries of Gazprom. Evraz's Russian subsidiaries consume natural gas in their blast furnaces and also in order to generate heat and electricity. Average natural gas tariffs for industrial consumers in Russia have increased significantly in recent years, reaching approximately RUR1,532 (approximately U.S.$62.40) per thousand cubic metres in 2007, an increase of approximately 75.5% from the average price for industrial consumers in 2004.

Transportation

Transportation costs influence Evraz's Russian operations indirectly, as a component of raw material costs, as well as affect the prices Evraz can charge customers for its products and, thus, the competitiveness of the products with those of other producers. Costs associated with the transportation of raw materials have increased in recent years.

With respect to Evraz's Russian subsidiaries, Russian Railways is the main provider of rail transportation services for factory bound shipments of raw materials. The steel plants also operate their own transportation facilities for transportation over short distances, such as between stages of the production process and shipments of new materials and products to and from railway stations.

Tariffs for rail shipments are set by Russian Railways and are regulated by Russian Railways and the FTS, and generally adjusted on an annual basis. A discounted tariff applies where a customer provides its own railcars to transport materials on Russian Railways' infrastructure. In order to benefit from those discounts, Evraz owns, leases or rents approximately 4,000 railcars, and also procures the use of additional railcars on a market basis as required. In 2007, Evraz's Russian subsidiaries made use of such railcars in respect of over half of their total volume of rail shipments. Evraztrans provided substantially all of Evraz's rail transportation services (including supplies of raw materials, intragroup transfers and shipments to Nakhodka Sea Port or other transport transfer locations).

EU

Evraz operates its EU steel business out of its European subsidiaries Palini and Vitkovice Steel.

Products

Evraz sells most of the steel products made by Palini and Vitkovice Steel to the construction, shipbuilding, machinery/machine-building and pipeline industries.

Construction, shipbuilding, machinery/machine-building and pipeline sectors

The principal products made at Palini and Vitkovice Steel for the construction, shipbuilding, machinery/machine-building and pipeline sectors include plate products, sheet piles, sections and flame-cut shapes. In 2007, in terms of segment revenues, the construction market comprised over half of steel revenues attributable to Palini and Vitkovice Steel, with the shipbuilding and machinery/machine building industries also being significant markets.

Plate products. Evraz believes that it produced and sold approximately 7% of the total volume of plate products produced and sold in the EU. In 2007, Evraz's European subsidiaries produced approximately 55 thousand tonnes of downgraded plate products, comprising 5.2% of their total volume of plate production in 2007. Evraz's principal competitors in the plate products market are a number of large European steel companies.

Sheet piles. Vitkovice Steel produced approximately 12% of the total volume of sheet piles produced in Europe and accounted for approximately 19% of the total sales volume of sheet piles in Europe in 2007 in each case according to Evraz's own estimates. Vitkovice Steel's principal competitors in the sheet piles market are ArcelorMittal and HSP, both of which have significantly larger market shares than that of Vitkovice Steel.

Other products. In 2007, Vitkovice Steel also produced small amounts of sections and flame-cut shapes.

Semi-finished products

In 2007, Vitkovice Steel produced and sold slabs, comprising a marginal percentage of total production and sales of slabs in the EU.

Marketing

Evraz sells goods made by its European subsidiaries primarily to European countries. Goods made at Palini and Vitkovice Steel are also exported to the Middle East, Russia and United States. In 2007, the main non-EU export destinations for products made at Palini were Egypt and the United States, while the main non-EU export destinations for products made at Vitkovice Steel were Russia and Iran. Vitkovice Steel is one of the EU's top producers of heavy plates and is the sole producer of such products in the Czech Republic. It is also the sole producer of sheet piles for the European domestic market.

Evraz's sales in the EU are denominated in the euro, as are most of the production costs of Evraz's European subsidiaries, except for slabs, the sales of which are denominated in U.S. dollars. In the year ended 31 December 2007, sales in the EU accounted for 8% of Evraz's consolidated steel sales volume, as compared to 8% of Evraz's consolidated steel sales volume in 2006. In 2007, steel sales in the EU accounted for 10.7% of Evraz's consolidated steel sales revenues, as compared to 12.4% in 2006.

The following table summarises Evraz's sales of steel produced by its European subsidiaries in the periods indicated. Evraz's European subsidiaries predominantly conduct their sales within the EU.

	Year ended 31 December		
	2007	**2006**	**2005**
	(thousand tonnes)	*(thousand tonnes)*	*(thousand tonnes)*
Sales[1] (excluding intersegment sales)			
Sales within EU	1,193	1,243	989
Export sales outside EU	90	51	147
Total	1,283	1,294	1,136
Intersegment sales	–	–	–

Note:

(1) For the year in which Evraz acquires a particular subsidiary, data concerning such subsidiary is provided on a pro-rata basis for the period following its acquisition by Evraz.

European sales of Evraz's European subsidiaries

Evraz's customers in Europe are located throughout the continent. In 2007, the Czech Republic, Germany, Italy and Poland were the four largest markets for Evraz in Europe, with sales spread relatively evenly between them. As Evraz's construction products in particular are commodity products, sales are heavily influenced by price, including transportation costs.

The following table sets out the European consolidated sales product mix for Evraz's European subsidiaries for the periods indicated (by volume). For the years 2007, 2006 and 2005, the European sales of Evraz's European subsidiaries were primarily comprised of plate products.

	Year ended 31 December	
	2007	2006
	(share of total sales volume, as a percentage)	
Plate products	85	89
Sheet piles	10	6
Sections	3	4
Flame-cut shapes	2	2
Total[(1)]	**100**	**100**

Note:

(1) For the year in which Evraz acquires a particular subsidiary, data concerning such subsidiary is provided on a full-year basis, rather than pro-rata for the period following its acquisition by Evraz.

Evraz's European exports

Plates, sheet piles and slabs are the principal export products of Evraz's European subsidiaries. Evraz's European subsidiaries export either directly or via a network of agents. Export sales of Evraz's European subsidiaries consist primarily of plate products.

Goods made at Palini and Vitkovice Steel are exported to the Middle East, Russia and United States. In 2007, the main non-EU export destinations for products made at Palini were Egypt and the United States, while the main non-EU export destinations for products made at Vitkovice Steel were Russia and Iran.

The line pipe industry is the principal consumer of Vitkovice Steel exports. Palini does not have a principal customer for its exports.

Distribution

EU

Customers are generally responsible for the transportation costs associated with sales within the EU of Evraz's European subsidiaries.

Palini ships its products mainly by truck, though it does use railway and water transport as an alternative means.

Vitkovice Steel ships its products primarily by rail using either railcars owned by Czech Railways or railcars owned by private-sector companies. The shipments are usually made to the main river or sea ports. For shipments to Germany, only rail transport is used. In 2007, approximately 81% of the total volume of products manufactured at Vitkovice Steel were shipped by rail. In 2007, approximately 14% of the total volume of Vitkovice Steel products were shipped through river ports at Decin and Bratislava and sea ports at Szczecin, Gdynia, Gdansk, Rijeka and Anterwerpen. Vitkovice Steel also ships by road, in the event a customer is unable to accept shipments by rail. In 2007, Vitkovice Steel shipped approximately 5% of its production by truck.

Exports of Evraz's European subsidiaries

Palini exports through San Giorgio and Monfalcone Port. Vitkovice Steel exports through sea ports at Szczecin, Gdynia, Gdansk and Rijeka.

Raw materials

The principal material used by Palini in its production of rolled plates and rolled products is semi-finished products, nearly 100% of which come from NTMK. The principal materials used by Vitkovice Steel in steel production include pig iron, ferroalloys, scrap and refractory materials:

- pig iron is purchased mainly from ArcelorMittal Ostrava;
- ferroalloys are purchased from several suppliers in the Czech Republic and Slovakia;
- scrap is obtained from a number of third parties and obtains it internally from waste created by its mills; and
- refractory material is obtained from several suppliers in the Czech Republic and Slovakia.

Energy

The steelmaking and rolling processes require significant amounts of electricity and heat energy.

Electricity. Palini and Vitkovice Steel purchase electricity from their respective local markets, where prices for electricity have historically been higher than in the Russian market. For 2007, the average market cost of electricity purchased by Palini and Vitkovice Steel was 14 U.S. cents per kWh and 9 U.S. cents per kWh, respectively. In 2007, Edison was the sole supplier of electricity to Palini. In 2007, ČEZ group (Czech energy plants) was the principal supplier to Vitkovice Steel

Natural gas. For its European subsidiaries, Evraz purchases natural gas on the market, where average natural gas tariffs historically have been higher than in the Russian market. For 2007, the average cost of natural gas amounted to U.S.$387 per thousand cubic meters and U.S.$306 per thousand cubic meters for Palini and Vitkovice Steel, respectively.

Transportation

Transportation costs influence Evraz's European operations indirectly, as a component of raw material costs, as well as affect the prices Evraz can charge customers for its products and, thus, the competitiveness of the products with those of other producers. Costs associated with the transportation of raw materials have increased in recent years.

With respect to Palini and Vitkovice Steel, Trenitalia and Czech rail, respectively, are the main providers of rail transportation services for factory-bound shipments of raw materials. The steel plants also operate their own transportation facilities for transportation over short distances, such as between stages of the production process and shipments of new materials and products to and from railway stations. Each of Palini and Vitkovice Steel agrees transportation tariffs with its respective transport service providers.

North America

Evraz operates its North American steel business out of its North American subsidiary Oregon Steel. In 2008, Evraz purchased Claymont Steel and is in the process of completing its purchase of certain of the assets of IPSCO Canada. See "—Overview" for a discussion of these acquisitions.

Products

Evraz sells the majority of the steel products made by its North American subsidiary Oregon Steel to the construction, tubular and railway sectors.

Construction sector

The principal products made at Oregon Steel for the construction sector include plates, rod and bar product, structural tubing and coiled plate.

Plates. Evraz estimates that Oregon Steel produced and sold approximately 9% of the total volume of plates produced and sold in North America. Evraz's principal competitors in the plates market are Mittal USA (a part of ArcelorMittal) and IPSCO.

Rod and bar. Evraz estimates that Oregon Steel produced approximately 4% and 17% of the total sales volume of rod and reinforcement bar products, respectively, produced in North America in 2007. Evraz's principal competitors in the rod and bar market are Mittal USA and Ivaco.

Other products. Oregon steel also produced small amounts of structural tubing and coiled plate in 2007.

Railway sector

Oregon Steel manufactures various products for the railway sector, mainly rails. Evraz sales of railway products made at Oregon Steel accounted for nearly a quarter of Oregon Steel's total sales revenue in 2007. Evraz estimates that Oregon Steel, which sells rails to Union Pacific, Burlington Northern Santa Fe and other customers, accounted for 47% of sales of rail in North America in 2007. Oregon Steel's main competitors in the rails market are Mittal USA, which produced over half of overall rail production in North America in 2006, and Steel Dynamics, which commenced rail production in 2007.

Pipe making

Large diameter line pipe. Evraz estimates that Oregon Steel produced and sold approximately 15.9% of the total volume of large diameter line pipe produced and sold in North America. Spiral weld pipe and long seem welded pipe comprise 66% and 34%, respectively, of Oregon Steel's large diameter line pipe sales.

Other welded and seamless pipes. Evraz estimates that Oregon Steel produced and sold approximately 2.5% of the total volume of other welded and seamless pipes produced and sold in North America. Seamless pipe and electric resistance welded pipe comprise 65% and 35%, respectively, of Oregon Steel's sales of other welded and seamless pipes.

Evraz's principal competitors in the pipe market are Jindal SAW, IPSCO (which was acquired by SSAB in 2007), IVLA SpA and Wellspun. See "Description of Business—Production Facilities—IPSCO Canada" for a discussion of Evraz's agreement to purchase certain of the assets of IPSCO Canada.

Marketing

Evraz sells goods made by Oregon Steel primarily within North America. Oregon Steel targets a diverse customer base located primarily west of the Mississippi River and in western Canada.

Evraz's sales in North America are predominantly denominated in the U.S. dollar, as are most of its North American production costs. In the year ended 31 December 2007, steel sales in North America accounted for 9.9% of Evraz's consolidated steel sales volume and 15.6% of its consolidated steel sales revenue.

North American sales of Oregon Steel

Evraz's customers in North America are located throughout the United States and Canada. Kinder Morgan is Evraz's most significant customer in North America, accounting for 22.0% of Evraz's total steel sales volume in North America. As Evraz's construction products in particular are commodity products, sales are heavily influenced by price, including transportation costs.

The following table sets out the North American consolidated sales product mix for Oregon Steel for 2007 (by volume). Oregon Steel sells a diverse range of products, primarily consisting of pipe and rail (in approximately equal proportions), plates and rod and bar.

	Year ended 31 December 2007 (share of total sales volume, as a percentage)
Welded and seamless pipe	29
Rail	28
Plates	22
Rod and bar	17
Structural tubing	4
Coiled plate	1
Total[(1)]	**100**

Note:

(1) Operational information on subsidiaries is not included for the years prior to their acquisition by Evraz.

Evraz's North American exports

Evraz generally does not export the products it makes at Oregon Steel to locations outside North America.

Distribution

Transportation costs are generally passed on to the customer at break-even or very small margins.

In 2007, approximately 70% of the total volume of products manufactured at Oregon Steel were shipped by rail, with the rest primarily shipped by truck.

Raw materials

The principal materials used by Oregon Steel in steel production include slabs, scrap, billets, coiled plate, HBI, pig iron and ferroalloys.

- slabs are obtained from Mittal and NTMK;
- scrap is obtained from multiple suppliers, arranged by the broker David J. Joseph, as well as internally from waste created by its mills;
- billets are obtained from Alton Steel;
- coiled plate is obtained from Stelco and Nucor; and
- HBI, pig iron and ferroalloys are obtained primarily through Evraz's materials broker David J. Joseph.

Energy

The steelmaking process requires significant amounts of electricity and heat energy.

Electricity. Oregon Steel purchases electricity on its local market, where prices for electricity have historically been higher than in the Russian market. For 2007, the average market cost of electricity purchased by Oregon Steel was 0.05 U.S. cents per kWh. The primary vendors of electricity to Oregon Steel are XCEL Energy and Portland General Electric.

Natural gas. For Oregon Steel, Evraz purchases natural gas on its local market and directly from natural gas suppliers at spot or for longer-term periods. For 2007, the average cost of natural gas for Oregon Steel amounted to U.S.$219 per thousand cubic meters. The principal suppliers of natural gas to Oregon Steel are Coral Energy Canada Inc. and Seminole Energy.

Transportation

Transportation costs influence Oregon Steel's operations indirectly, as a component of raw material costs, as well as affect the prices Evraz can charge customers for its products and, thus, the competitiveness of the products with those of other producers. Costs associated with the transportation of raw materials have increased in recent years due to the rise in petroleum costs.

With respect to Oregon Steel, Union Pacific and Burlington Northern Santa Fe are the main providers of rail transportation services for factory-bound shipments of raw materials. The steel plant also operates it own transportation facilities for transportation over short distances, such as between stages of the production process. Tariffs are set by rail transport suppliers.

South Africa

Evraz operates its South African steel business out of its South African subsidiary Highveld.

Products

Evraz sells the majority of the steel products made by Highveld to the construction and fabrication industries. Evraz estimates that Highveld is South Africa's second largest steelmaker by volume.

Plates

In 2007, Evraz believes that Highveld produced and sold approximately 50% of the total volume of plate products produced and sold in South Africa. Evraz's only competitor in the plates market is ArcelorMittal South Africa ("AMSA").

Coil

In 2007, Evraz believes that Highveld produced approximately 5% of the total volume of coil produced in South Africa and accounted for approximately 30% of the total sales volume of coil in South Africa. Evraz's only competitor in the coil market is AMSA.

Medium-to-heavy sections

Highveld produced and sold approximately 95% of the total volume of medium-to-heavy sections produced and sold in South Africa. AMSA has a very small overlap of channels and rails with Evraz in South Africa.

Marketing

Evraz sells approximately 78% of the goods made by Highveld within South Africa, with the remainder exported to niche markets globally.

Highveld's sales in South Africa are denominated in the rand, as are most of Highveld's production costs. In the year ended 31 December 2007, steel sales in Africa accounted for 2.8% of Evraz's consolidated steel sales volume and sales in Africa accounted for 2.5% of its consolidated steel sales revenue.

The following table summarises the sales of steel produced by Highveld in the periods indicated.

	Year ended 31 December	
	2007	**2006**
	(thousand tonnes)	*(thousand tonnes)*
Sales[2] (excluding intersegment sales)		
Sales within South Africa	573	643
Export sales outside South Africa	158	160
Total	**730**	**803**
Intersegment sales	**0**	–

Note:

(1) For the year in which Evraz acquires a particular subsidiary, data concerning such subsidiary is provided on a full-year basis, rather than pro-rata for the period following its acquisition by Evraz.

(2) Operational information on subsidiaries is not included for the years prior to their acquisition by Evraz.

South African sales of Highveld

Evraz's customers in South Africa are located throughout the country. Macsteel is Evraz's most significant customer in South Africa, accounting for 42% of Evraz's total steel sales volume in South Africa. Macsteel is a trader that on-sells to a diverse and varied customer base. As Evraz's construction products in particular are commodity products, sales are heavily influenced by price, including transportation costs. Evraz conducts its South African sales through steel merchants such as Macsteel, Trident, Genesis, Kulungile and Goliath.

The following table sets out the South African consolidated sales product mix for Highveld for the periods indicated (by volume). From 2006 to 2007, Highveld's product mix for sales in South Africa has remained roughly constant.

	Year ended 31 December	
	2007	**2006**
	(share of total sales volume, as a percentage)	
Plates	28	24
Coils	37	39
Sections	35	38
Total[1]	**100**	**100**

Note:

(1) Operational information on subsidiaries is not included for the years prior to their acquisition by Evraz.

Evraz's South African exports

Highveld exports primarily sections, though it exports plates as well. Its exports are conducted through steel merchants such as Macsteel, Trident, Genesis, Kulungile and Goliath. In 2007, the main export destinations for products made at Highveld were Europe (mainly the U.K.), North America and the Middle East. Highveld's largest export market is the U.K.

The following table sets out the product mix of consolidated export sales of Highveld for the periods indicated (by volume). In both 2007 and 2006, Highveld exported primarily sections.

	Year ended 31 December	
	2007	2006
	(share of total sales volume, as a percentage)	
Plates	18	22
Sections	82	78
Total[(1)]	**100**	**100**

Note:

(1) Operational information on subsidiaries is not included for the years prior to their acquisition by Evraz.

Distribution

Highveld ships its products mainly by road (truck) to its domestic customers, though it does use railway transport as well. Highveld's exports are transported to ports mostly by rail, though a small portion is also transported by road (truck). From the ports, Highveld's exports are shipped to their final destinations by boat.

South Africa

Highveld is responsible for transportation costs for the transport of products within South Africa, except in the rare instance when a customer collects its steel at one of Highveld's facilities.

Highveld ships its products mainly by road (truck), though it does use railway transport as well. In 2007, approximately 67% of the total volume (domestic- and export-bound) of steel products manufactured at Highveld were shipped by truck.

Exports of Evraz's South African subsidiary

Highveld's exports are shipped through Durban and Richards Bay.

Raw materials

The principal materials used by Highveld in steel production include metallurgical coal, iron ore, ferroalloys, scrap and refractory materials.

- metallurgical coal is obtained from Shanduka, Anglo Coal and Total Coal;
- 100% of Highveld's iron ore requirements is obtained from Highveld's own ore deposit, Mapochs mine (see "—Mining Business");
- ferroalloy supplies are obtained from Transalloys and Silicon Smelters (see "—Production Facilities—Highveld"); and
- scrap is obtained from a number of third parties and obtains it internally from waste created by its mills.
- For Highveld, Evraz obtains refractory materials from major global producers as well as several local suppliers. It obtains its refractory materials from Vereeniging Refractories, Vesuvious and Haraeus.

Energy

The steelmaking process requires significant amounts of electricity and heat energy.

Electricity. Highveld purchases electricity from its local market, where prices for electricity have historically been higher than in the Russian market. For 2007, the average market cost of electricity purchased by Highveld was 2.58 U.S. cents/kWh. ESKOM is the South African national power board, and, thus, Highveld's principal supplier of electricity. Highveld has experienced intermittent power outages in recent years.

Natural gas. Highveld purchases natural gas on its local market, where average natural gas tariffs historically have been higher than in the Russian market. Gascor Gas is the sole supplier of natural gas to Highveld. For 2007, the average cost of natural gas for Highveld amounted to U.S.$100 per thousand cubic meters.

Transportation

Transportation costs influence Highveld's operations indirectly, as a component of raw material costs, as well as affect the prices Evraz can charge customers for its products and the competitiveness of the products with those of other producers. Costs associated with the transportation of raw materials have increased in recent years, mostly due to the rise in petroleum costs.

TRANS NET is Highveld's only provider of rail transportation services for factory-bound shipments of raw materials. Highveld also operates its own transportation facilities for transportation over short distances, such as between stages of the production process and shipments of new materials and products to and from railway stations. Rail tariffs are negotiated annually with TRANS NET. Prices are fixed for the period, except for the portion attributable to diesel prices, which are adjusted on a monthly basis.

Market share and competition

Both the Russian and international steel markets are highly competitive. Primary competitive factors include quality and price and the use of new technologies to expand the product range.

The Russian domestic steel market is characterised by high levels of competition for customers, raw materials and capital. While the Russian domestic market for flat products is dominated by MMK, Severstal and NLMK, Evraz maintains the leading position in the Russian market for long products. Its principal competitors in this market are Mechel, Severstal, Ural Steel and MMK. Evraz also faces competition from some Ukrainian steel producers whose product range is similar to that of Evraz. However, the generally comparable production costs of these Ukrainian companies is offset by higher transportation costs (except to western Russian regions) and the effect of the trade protections established in the Russian Federation that limit imports of certain Ukrainian steel products. See "Industry Overview—Steel Industry—The Russian Steel Industry—Russian market" and "Industry Overview—Steel Industry—Trade Restrictions". The major competitors of Evraz in the export markets of its Russian subsidiaries are low-cost producers of semi-finished products located in Ukraine, Brazil and China.

The major competitors of Evraz's steel rolling mills, Palini and Vitkovice Steel, include the European plate producers Dillinger Huette, SSAB, Ruuki, Ilsenberger Grobblech, ThyssenKrupp, Krupp Steel, Voest Alpine Grobblech, Trametal, Valsider and Marcegaglia and the European sections producers Salzgitter, Celsa, Gallardo and Corus. Following accession of a number of Eastern European countries to the EU, Palini and Vitkovice Steel have been facing increasing competition from Czestochowa and US Steel Kosice.

The major competitors of Oregon Steel include the plate, rod and bar, coiled plate and rail producer Mittal USA, the plate, coiled plate and tubular producer IPSCO (see "—Production Facilities—IPSCO Canada" for a discussion of Evraz's acquisition of IPSCO Canada and a description of which IPSCO assets will not remain a part of Evraz following such acquisitions), the rod and bar producer Ivaco, the structural tubing producers Maruichi American Corporation and Vest Industries, the rail producer Steel Dynamics and the tubular producers Jindal SAW, IVLA Spa and Wellspun. The major competitor of Highveld is the South African plate and coil producer AMSA.

Production Facilities

Evraz produces steel at NTMK, Zapsib and NKMK. In addition to these three steel plants, Evraz produces rolled products from semi-finished products (primarily slabs) at Palini and at Vitkovice Steel. Evraz also produces various steel products at Oregon Steel and Highveld. In January 2008, Evraz completed the purchase of a 100% stake in Claymont Steel, which is estimated to have an annual production capacity of 500,000 short tonnes (approximately 453,600 tonnes).

In December 2007, Evraz signed an agreement to purchase DMZP. DMZP is estimated to have an annual production capacity of 1.8 million tonnes of pig iron and 1.23 million tonnes of crude steel. Also, in December 2007, Evraz signed an agreement to purchase the Ukrainian Coking Plants, which are estimated to have an aggregate annual production capacity of 3.52 million tonnes of metallurgical coke. On 18 February 2008, Evraz purchased an approximate 10% stake in Delong Holdings, which, among other assets, owns Delong Steel. It has an option to buy an additional 32.08% interest in Delong Holdings and has agreed, provided certain conditions are met, to buy an additional estimated 8.97% stake. Following completion of these transactions, Evraz expects to launch a mandatory cash offer to Delong Holdings, shareholders in Singapore, which may ultimately raise Evraz's stake in Delong Holdings to approximately 77%. Delong Steel has an estimated annual production capacity of three million tonnes. In March 2008, Evraz announced the acquisition of certain assets of IPSCO Canada, a steel and pipe producer. IPSCO Canada is estimated to have an annual production capacity of over one million tonnes of steel products. All of these transactions remain subject to certain closing adjustments and conditions. For a discussion of these acquisitions, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions—Acquisitions/start-ups prior to 2006".

The following table sets forth the raw steel production capacity and production at each of these plants in the periods indicated:

		Production[1]		
		Year ended 31 December		
	Annual design capacity	**2007**	**2006**	**2005**
		(thousand tonnes)		
NTMK, *of which*	5,732	5,835	5,597	5,565
Oxygen converters	*3,712*	*3,817*	*3,687*	*3,576*
Open hearth	*2,020*	*2,018*	*1,910*	*1,989*
Zapsib, *of which*	8,070	6,535	7,317	5,683
Oxygen converters	*8,000*	*6,487*	*7,269*	*5,636*
Electric arc furnace	*70*	*48*	*48*	*47*
NKMK, *of which*	1,500	1,457	1,440	1,300
Electric arc furnaces	*1,500*	*1,457*	*1,440*	*1,300*
Vitkovice Steel, *of which*[2],	950	891	796	797
Oxygen converters	*950*	*891*	*796*	*797*
Oregon Steel, *of which*[3]	900	915	–	–
Electric arc furnaces	*900*	*915*	–	–
Highveld[4], *of which*	1,100	855	–	–
Basic oxygen furnace (BOF)	*1,100*	*855*	–	–
Total	**18,252**	**16,488**	**15,150**	**13,345**

Notes:

(1) Operational information on subsidiaries prior to their acquisition by Evraz is not included. Therefore, no historical information on Claymont Steel, DMZP, Delong Steel and IPSCO Canada is provided. For the year in which Evraz acquires a particular subsidiary, data concerning such subsidiary is provided on a full-year basis, rather than pro-rata for the period following its acquisition by Evraz.

(2) Evraz acquired Vitcovice Steel in November 2005.

(3) Evraz acquired a 100% stake in Oregon Steel in January 2007

(4) Evraz acquired a 24.9% stake in Highveld in June 2006, increasing its stake to 80.9% by September 2007.

NTMK

NTMK is located in Nizhny Tagil, Sverdlovsk region, approximately 140 kilometres north of Ekaterinburg and approximately 1,100 kilometres north-east of Moscow. Nizhny Tagil is one of the oldest mining and steel production centres in Russia. NTMK currently occupies an area of approximately 1,490 hectares, most of which it owns.

History

Production at NTMK started in 1940, after ten years of construction. During World War II, the plant's major product was armour plate, and approximately one-third of Soviet combat tanks were armoured with steel manufactured at NTMK. After World War II, NTMK developed by improving its overall production and implementing new technologies. NTMK was privatised and transformed into an open joint stock company under Russian law in 1992.

In 1999, prior to Evraz's acquisition of a controlling interest by NTMK, due to poor market conditions and inefficient management, NTMK failed to make payments on some of its debt and trade obligations, and bankruptcy proceedings were instituted against NTMK. In November 1999, NTMK and its creditors concluded a settlement agreement, which was approved by a court on 9 December 1999, ending the bankruptcy proceedings and rescheduling NTMK's payments of debt and trade payables and its tax arrears and social contributions. Evraz acquired control over NTMK after the conclusion of this settlement agreement. In November and December 2004, NTMK pre-paid most of the remaining amounts due under the settlement agreement. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Liquidity". In March 2007, Evraz made a voluntary offer to NTMK's minority shareholders, which, following the voluntary offer period and a mandatory buyout procedure, resulted in Evraz becoming NTMK's sole shareholder in October 2007.

Facilities

NTMK is an integrated steel production plant. It consists of coke-chemical production facilities, four blast furnaces, steel making facilities (oxygen converters as well as open hearth furnaces), four continuous casters and seven rolling mills.

Coke production. The coke-chemical production currently consists of two coking plants, which currently operate six coking batteries producing both wet and dry quenched coke. In 2007, NTMK produced 2,909 thousand tonnes of coke, as compared to 2,740 thousand tonnes in 2006. NTMK also operates by-products production facilities, including a chemical plant, coke pitch plant and pitch distillation and rectification plant, the products of which it sells primarily to third parties.

Iron production. NTMK operates four blast furnaces, two of which were reconstructed in order to improve its efficiency in processing high vanadium content iron ore (such as that produced at KGOK). The annual capacity of each blast furnace ranges from 750 to 1,620 thousand tonnes, for an aggregate capacity of 5,173 thousand tonnes in 2007. The aggregate production of the blast furnaces was 5,346 thousand tonnes in 2007, a slight increase from 4,994 thousand tonnes in 2006.

NTMK produces both steel making iron and natural alloy vanadic crude iron. The unique vanadium ferrous ore from KGOK results in the natural ferro alloying of steel, which enables NTMK to produce steel and finished products with improved characteristics for operation in low temperatures. Vanadium slag produced as a by-product of the iron production process is sold primarily to Tula Vanadium and Chusovskoy in Russia, as well as to some customers in China. Blast furnace slag is granulated and then sold to cement plants. NTMK also operates two pig iron casting machines for casting hot metal into pig iron for sale as foundry iron.

Steel production. The steel production shop comprises both an oxygen converter plant with an annual design capacity of 3.6 million tonnes and an open hearth plant. The design of the oxygen converter facilities is outdated, and Evraz has commenced upgrading these facilities. The proposed upgrade would enable NTMK to increase production capacity by approximately 20%. See "—Investment programme—Steel

production". The open hearth furnaces currently in operation were initially commissioned at NTMK in 1950, and five furnaces remain operational. Since 1993, the open hearth furnaces at NTMK have gradually been replaced by the oxygen converter process, which is more cost efficient and environmentally cleaner.

Continuous casting. NTMK operates four continuous casting machines in the converter shop with an aggregate annual production capacity of 3.1 million tonnes. The first continuous casting machine was installed in 1995 and produces round billets for rolling railway wheels and tyres, as well as rectangular cross section billets for rolling rails, H-beams and pipes. A second continuous casting machine, commissioned in 1996, produces both slabs and large blooms, though it is primarily used to produce small slabs. A third continuous casting machine, commissioned in 2000, produces five types of shaped billets for rolling H-beams, channels and sheet piles. A fourth continuous casting machine was commissioned in August 2004 and produces slabs.

Blooming plant. NTMK also operates a blooming plant, which after the commissioning of the fourth continuous caster in August 2004 is supplied only from the open hearth furnaces. In 2007, NTMK produced 2.5 thousand tonnes of slabs and billets in its blooming plant, as compared to 1.9 thousand tonnes in 2006.

Rolling mills. NTMK operates seven primary rolling mills (a universal beam mill, a heavy section mill, a rail and structural mill, a ball-rolling mill, a wheel rolling mill, a tyre mill and a rail fasteners mill). The design of these mills allows for a flexible product mix. NTMK upgraded its wheel rolling mill during 2004-2006. See "—Investment programme—Wheel rolling mill".

Production

In 2007, NTMK produced 5.35 million tonnes of pig iron, compared to 4.99 million tonnes in 2006 and 4.94 million tonnes in 2005; 5.84 million tonnes of steel, compared to 5.60 million tonnes in 2006 and 5.57 million tonnes in 2005; and 5.24 million tonnes of rolled products, compared to 5.07 million tonnes in 2006 and 5.09 million tonnes in 2005. NTMK's primary products are railway products (rails and wheels), construction products and pipe blanks, as well as semi-finished products. NTMK is also the world's biggest processor of vanadium-enriched titan ferrous ores with succeeding vanadium recovery in blast oxygen furnaces and in oxygen converters using special technologies.

Investment programme

NTMK's investment programme involves the reconstruction and modernisation of various elements of the production process. The programme aims to maintain and increase the production capacity of the steel plant, reduce costs, improve production efficiency and enable the manufacture of a broader range of rolled steel products. Evraz has budgeted U.S.$261 million for capital expenditures at NTMK in 2008, of which U.S.$50 million comprises expenditures on maintenance (based on the U.S.$/RUR conversion rate on 31 December 2007). For 2009, it has approved (though not budgeted) U.S.$265 million of capital expenditures at NTMK (excluding maintenance). The principal components of NTMK's investment programme are set forth below.

Coke ovens. NTMK's long-term capital repair programme provides for the reconstruction of its coke oven batteries in order to increase their useful life, their production efficiency and the output of coke and to reduce atmospheric emissions. Approximately U.S.$54 million (based on the U.S.$/RUR conversion rate on 31 December 2007) was spent from 2005 through 2007 on the reconstruction of coke oven No. 5. Further investment is planned in accordance with NTMK's long-term capital repair programme.

Iron production. In 2006, Evraz commissioned blast furnace No. 5 after its reconstruction. Evraz intends to carry out a feasibility study with respect to reconstruction of a third blast furnace. Reconstruction of the blast furnace is intended to reduce its coke consumption, modify its operations to enable more efficient processing of high vanadium iron ore, such as that produced at KGOK, decrease environmental emissions and result in further improvements in labour, electricity and maintenance costs. After reconstruction of the third blast furnace, Evraz plans permanently to shut down two of the remaining blast furnaces. It is expected that the increase in total pig iron output that would result from reconstructing blast furnaces will allow Evraz to fully cover the requirements of its growing steel production. In 2006, Evraz commenced a feasibility study

for the construction of a PCI plant designed to partly substitute coking coal and fully substitute natural gas with the less expensive thermal coal, which would likely generate substantial savings in the blast furnace process. If this project is approved, it would likely cost approximately U.S.$182 million (based on a conversion rate of 24.5 roubles to U.S.$1) and take approximately two years to complete.

Steel production. Evraz is in the process of improving the oxygen converters to increase their annual steel output to over four million tonnes. Evraz plans to spend approximately U.S.$320 million (based on a conversion rate of 24.5 roubles to U.S.$1) from 2006 through 2009 on this project, resulting in an approximate 20% increase in production capacity of the BOF shop, decreased emissions and reduced production costs. In 2007, the first of four converters was replaced at an approximate cost of U.S.$50 million (based on the U.S.$/RUR conversion rate on 31 December 2007); in 2008, it is expected that two more converters will be replaced, and, in 2009, it is expected that the final converter will be replaced. The estimated cost of replacing the final three converters is U.S.$205 million (based on a conversion rate of 24.5 roubles to U.S.$1). As part of its quality upgrade programme, in 2005-2007, Evraz invested U.S.$31 million (based on the U.S.$/RUR conversion rate on 31 December 2007) in the construction of a vacuum degasser that will allow Evraz to produce high quality slabs to be supplied to Evraz's foreign subsidiaries.

Wheel rolling mill. In the end of 2007, NTMK completed the second stage of modernisation of its wheel-rolling mill. This project included the installation of a modern heating furnace, an ultrasonic quality check system and certain other systems for strengthening and special mechanical treatment of wheels. This investment is expected to improve the quality of railway wheel production, thereby fulfilling the requirements set by Russian Railways, decrease production costs and broaden product range. The cost of the first two phases totalled approximately U.S.$92 million (based on the U.S.$/RUR conversion rate on 31 December 2007). In 2007, NTMK started the third and final stage of modernisation of its wheel-rolling mill, which is expected to cost approximately U.S.$120 million (based on the U.S.$/RUR conversion rate on 31 December 2007) in 2008 and 2009 and is expected to include the construction of hardening-heat furnaces and a controlled cooling device as well as the expansion and renovation of the machine park for mechanical wheels refinement.

Rail mill. Evraz plans to upgrade its railroad shop, including its mill, drilling machines and press used to straighten rails, in an effort to facilitate production of high-speed rails. The overall projected cost of the project is approximately RUR500 million. The first stage is expected to be completed by December 2009 at an estimated cost of U.S.$70 million. Evraz has not yet approved the budget for this capital expenditure and is in the process of preparing a project feasibility study.

Electricity generation. In 2007, NTMK satisfied approximately 65% of its electricity requirements from in-plant facilities. In order to mitigate the risks associated with predicted increases in electricity tariffs, NTMK intends to further increase its internal electricity generation capacity. NTMK intends to carry out a feasibility study with the aim of determining more efficient ways to use its secondary energy resources, such as coking, blast furnace and converter gases.

Quality control

NTMK's products adhere to strict specifications and standards. NTMK's rolling mills and refractory manufacturing facility are certified under DIN EN ISO 9001:2000, and NTMK's products have received various Russian and foreign certifications, including certification of continuous casting slabs by Lloyd's Register.

Zapsib

Zapsib is the largest steel mill in the Siberian region and the eastern-most steel mill in the Russian Federation. It occupies an area of over 3,000 hectares and is located 25 kilometres from the city of Novokuznetsk, in the Kemerovo region.

History

Construction of the plant began in 1957, and production commenced in 1964. The first rolled products at Zapsib were manufactured in 1965; the converter shop (the first in the Soviet Union) was commissioned in 1968; and the blooming shop and continuous billet mill became operational in 1969 and 1970, respectively. During the 1970s, Zapsib's production facilities were further extended by the commissioning of a new blast furnace, coke-oven battery, oxygen converter facilities shop and a wire-drawing shop for the metalware division. Zapsib was privatised and transformed into an open joint stock company under Russian law in 1992.

In 1996, prior to its acquisition by Evraz, due to poor financial management Zapsib failed to make principal payments on some of its debt obligations, and bankruptcy proceedings were instituted against Zapsib. In November 2001, Zapsib and its creditors concluded a settlement agreement that rescheduled Zapsib's trade debt payables and its tax, pension and social fund liabilities through 2006. In December 2004, Zapsib prepaid most of the amounts outstanding under the settlement agreement and rescheduled the remaining amounts outstanding from 2006 through 2009. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources". In October 2007, following a mandatory buyout procedure, Evraz became the sole shareholder in Zapsib. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions—Buy Out of Minority Shares in Subsidiaries".

Facilities

Zapsib is an integrated steel plant. It consists of coke-chemical production, sinter production, three blast furnaces, steel making facilities, a blooming plant, a continuous casting machine and four rolling mills.

Coke production. Zapsib operates seven coke oven batteries, six of which are currently operational. In December 2005, Evraz commissioned reconstructed coke battery No. 1 with an annual capacity of 750,000 tonnes per year. This coke battery meets the latest industry standards for dustless coke loading and provides almost complete collection of waste and emissions. In 2007, Zapsib produced 3.82 million tonnes of coke, as compared to 4.04 million tonnes in 2006. The decrease in coke production due to the temporary closure of blast furnace No. 1 for relining. See "—Iron Production". Zapsib also operates coke by-products production facilities.

Iron production. To produce steel, Zapsib uses liquid blast furnace crude iron produced at its three blast furnaces. From 2004 to 2006, Zapsib reconstructed and re-commissioned blast furnace No. 2. Blast furnace No. 1 was relined in 2007. In 2007, Zapsib produced 5.25 million tonnes of pig iron, as compared to 5.95 million tonnes in 2006, which decrease is largely attributable to the relining of blast furnace No. 1. Zapsib also operates a three strand sinter plant.

Steel production. Zapsib produces steel in two oxygen converter plants with five oxygen converters with total annual design capacity of 8 million tonnes as well as in a small electric arc furnace.

Continuous casting machines. Zapsib operates one eight strand continuous casting machine which produces square billets. In 2007, Zapsib cast 1.21 million tonnes of billets, as compared to 1.15 million tonnes in 2006. A two-strand continuous slab casting machine was commissioned in November 2006.

Blooming plant. Zapsib operates a blooming plant which in 2007 produced 3.54 million tonnes of slabs and billets, as compared to 3.74 million tonnes in 2006.

Rolling mills. Zapsib operates four rolling mills, consisting of three rolled steel mills and one wire mill.

Production

Zapsib concentrates its production on long products for the construction and engineering sectors, iron and steel casting, coke by-products, low hardenability steel wire cord, cold-resistant rebar (semi-finished products) and welding wire. In 2007, Zapsib produced 5.25 million tonnes of pig iron, compared to

5.95 million tonnes in 2006 and 4.57 million tonnes in 2005; 6.54 million tonnes of steel, compared to 7.32 million tonnes in 2006 and 5.68 million tonnes in 2005; and 5.80 million tonnes of rolled products, compared to 6.62 million tonnes in 2006 and 5.03 million tonnes in 2005. The decrease in steel production levels from 2006 to 2007 is largely attributable to the relining of blast furnace No. 1. The increase in steel production levels from 2005 to 2006 is largely attributable to the reconstruction and recommissioning of blast furnace No. 2 and the reconstruction and replacement of ingot casting by continuous casting. See "— Investment programme—Steel production".

Investment programme

Zapsib is investing in improving the capacity and efficiency of existing production assets and in widening the product range. Evraz has budgeted U.S.$80 million for capital expenditures at Zapsib in 2008 of which U.S.$38 million comprises expenditures on maintenance (based on the U.S.$/RUR conversion rate on 31 December 2007). For 2009, it has approved (though not budgeted) U.S.$115 million of capital expenditures at Zapsib (excluding maintenance). The principal components of Zapsib's investment programme are set forth below.

Coke production. In December 2005, Evraz commissioned reconstructed coke battery No. 1 with an annual capacity of 750 thousand tonnes per year. The coke battery is a unique coke battery in Russia, with a high degree of energy efficiency and automatisation of all technological processes. The coke battery meets the latest industry standards for dustless coke loading and provides almost all waste and emissions collection. Reconstruction of coke battery No. 2 has been temporarily halted due to excess production of coke at Zapsib.

Iron production. In 2007, Zapsib completed the relining of blast furnace No. 1 at a cost of U.S.$136 million (based on the U.S.$/RUR conversion rate on 31 December 2007). As a result of the project, the furnace's consumption of coke decreased by 5%, and its productivity increased by 25%. In 2006, Evraz commenced a feasibility study for the construction of a PCI plant designed to partly substitute coking coal and fully substitute natural gas with the less expensive thermal coal, which would likely generate substantial savings in the blast furnace process. If this project is approved, it would likely cost approximately U.S.$173 million (based on a conversion rate of 24.5 roubles to U.S.$1) and take approximately two years to complete.

Steel production. In 2006, Zapsib signed a turnkey contract with Siemens-VAI for construction of a RH vacuum degasser. This will allow Zapsib to improve the quality of its steel products, particularly slabs, and to produce all types of slabs. Due to the strong market for semi-finished products in 2007 and because large amounts of slab were supplied to Evraz's foreign subsidiaries, this project, which was postponed after it had begun in 2006, was revived at the end of 2007. The commissioning of the RH plant is now expected to occur in the end of 2009. Capital expenditures for this project are expected to amount to approximately U.S.$78 million, with approximately U.S.$15 million (based on the U.S.$/RUR conversion rate on 31 December 2007) attributable to 2006-2007.

Quality control

Zapsib operates a quality assurance system certified under ISO-9002, which it originally received in 1994 and renewed in 1997. Zapsib has also received a Lloyd's Register Quality Assurance Certificate of conformity to ISO 9001:2000, EN ISO 9001:2000 and BS EN ISO 9001:2000.

NKMK

NKMK is an integrated iron and steel plant located in the city of Novokuznetsk, Kemerovo region, occupying an area of over 325 hectares. NKMK is the leading rail producer in the Russian Federation, producing a full range of rails, and, together with NTMK, the exclusive rail supplier to Russian Railways. NKMK's output of rails accounted for approximately two-thirds of Russian rail production in 2007.

History

NKMK was established by Evraz in 2003 to acquire production and other assets of KMK. Construction of KMK began in the early 1920s, and pig iron and rail production commenced at KMK in

1932. In the early 1990s, KMK was privatised and transformed into a joint stock company under Russian law and registered as an open joint stock company in 1992.

On 30 May 2002, prior to the involvement of Evraz, KMK was declared bankrupt by a decision of the Kemerovo region arbitration court. Some of the assets of KMK were subsequently acquired on behalf of an affiliate of Evraz at an auction, and most of these assets were subsequently consolidated within NKMK by Evraz. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions—Acquisitions/start-ups prior to 2006".

Facilities

NKMK's production facilities include a coke-chemical production plant, two blast furnaces, steel making facilities, a blooming plant, two continuous casting machines, rail production facilities and rolling mills.

Coke production. Coke-chemical production facilities at NKMK include two coal preparation shops, two gas recovery shops, a rectification shop, a tar processing shop and a phtalyc anhydride shop. NKMK also operates three coking batteries, which produced 0.76 million tonnes of coke in 2007, as compared to 1.12 million tonnes in 2006. The decrease in coke production was attributable to the closure of the open hearth furnace.

Iron production. NKMK operates two blast furnaces, and in 2007 produced 1.47 million tonnes of pig iron, compared to 1.81 million tonnes in 2006. The decrease in coke production was attributable to the closure of the open hearth furnace.

Steel production. NKMK produces steel in two electric arc furnaces, with a total capacity of 2.4 million tonnes per year. In 2006, Evraz spent U.S.$15 million (based on the U.S.$/RUR conversion rate on 31 December 2007) on the reconstruction of one of the electric arc furnaces. NKMK combines liquid blast furnace crude iron produced in-house with scrap to produce steel. The alloying of metal is performed by adding various ferroalloys.

Continuous casting. NKMK operates two continuous casting machines with a total design capacity of 1.42 million tonnes per annum, and in 2007 produced 1.41 million tonnes of billets, compared to 1.26 million tonnes in 2006.

Rolling mills. NKMK operates six rolling mills: a rail and structural steel mill, a plate mill, a ball-rolling mill, a rail fasteners mill and two section mills. A medium-section mill 500 was closed in the second quarter of 2006. The rail and structural steel mill consumes steel primarily produced in the electric arc furnaces through the two continuous casting machines. NKMK conducts thermal treatment of rails in order to further improve the quality of the final product.

Production

NKMK is the leading rail producer in Russia. In 2007, NKMK also produced 1.47 million tonnes of pig iron, compared to 1.81 million tonnes in 2006 and 1.90 million tonnes in 2005; 1.46 million tonnes of steel, compared to 1.44 million tonnes in 2006 and 1.20 million tonnes in 2005; and approximately 1.7 million tonnes of rolled products in each of 2007 and 2006.

Investment programme

The programme of restructuring production facilities at NKMK includes upgrading the electric arc furnaces and modernising the rolling mills, to result in a "mini-mill" configuration at NKMK. Evraz has budgeted U.S.$30 million for capital expenditures at NKMK in 2008 of which U.S.$13 million comprises expenditures on maintenance (based on the U.S.$/RUR conversion rate on 31 December 2007). For 2009, it has approved (though not budgeted) U.S.$35 million of capital expenditures at NKMK (excluding maintenance). The principal components of NKMK's investment programme are set forth below.

Iron Production. In 2007, NKMK completed the relining of its blast furnace No. 5 at a cost of approximately U.S.$23 million (based on the U.S.$/RUR conversion rate on 31 December 2007). The relining has contributed to the decrease in coke consumption and the increase in productivity of the blast furnace.

Steel production. The primary component of NKMK's investment programme is the installation of a vacuum degasser (which is a pump eliminating gases, such as oxygen and nitrogen, from the produced steel, resulting in a quality increase), with a view to increasing the quality of continuously-cast blooms for rail production. Total capital expenditures for the project are expected to total U.S.$29 million, with U.S.$8.7 million expected to be spent in 2008. Commissioning of the vacuum degasser is planned for April 2008. In addition, in the first quarter of 2007, the open hearth plant was shut down, consequently, ending ingot casting house and blooming mill operations. At the same time, one of the blast furnaces was shut down due to a reduced need for hot metal, and one of the rolling mills was closed due to insufficient bloom feed.

Rail mill. The third major component of NKMK's modernisation programme is the reconstruction of its rail mill. The first stage of the project, the construction of a walking-beam furnace, was completed in 2006, resulting in decreased production costs, reduced waste and an improved quality of finished products. In the end of 2007, the second stage of the project, which includes the installation of a press to straighten rails, was commenced. It is expected to cost U.S.$75 million, to be spent over the next two years.

Quality control

Quality control of NKMK is performed on the basis of its "Quality Policy". NKMK's Quality Policy sets out the following priorities: involvement of all personnel in quality management, improvement of consumer properties of metal products and reduction of production costs. The quality management system covers all stages of NKMK's production process. All railway products produced at NKMK are also certified by the Russian Railways certification system. NKMK holds an ISO 9001:2000 certificate. NKMK's production of rails and rail fasteners has also received a DIN EN ISO 9001:2000 certification.

Palini e Bertoli

Palini is a rolling mill operator located in San Giorgio di Nogaro (in the province of Udine), Italy.

History

Founded in 1963, Palini produces customised, high-quality plate products for the construction, shipbuilding and automotive industries, which are sold to a wide range of customers in Europe and North America.

In August 2005, Evraz acquired 75% plus one share of Palini for U.S.$112 million. In October 2007, it raised its stake to 100% by exercising a call option to purchase for approximately U.S.$69 million the remaining 25% stake less one share. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions—Acquisitions/start-ups prior to 2006".

Facilities

Palini operates several of the largest production facilities in Central and Northern Italy. Since 1992, Palini has been producing steel plates using a Four-High Mill (Quarto). Another mill, the Two-High Mill (Duo), was built in 2005 in an effort to quicken production and complement the Four-High Mill's (Quarto) rolling process.

Production

Palini's production facilities have an annual production capacity of 500 thousand tonnes of plates of a wide range of sites and quality. In 2007, Palini produced 445 thousand tonnes of rolled products, compared to 440 thousand tonnes in 2006.

Investment programme

Currently, there are no specific investment projects for Palini, except for minor investments in maintenance.

Quality control

Palini operates a quality assurance system certified under ISO 9001:2000. Palini's ISO 9001:2000 certificate satisfies requirements of major shipping organisations, such as R.I.N.A., LLOYD Register, Der Norske Veritas and Buro Veritas. Since 1992, Palini has produced steel plates complying with Italian D.M. 14/02/'92 n. 55 standard.

Vitkovice Steel

Vitkovice Steel is a leading European manufacturer of rolled steel products, located in Ostrava, Czech Republic. It is one of Europe's top producers of heavy plates and is the dominant producer of such products in the Czech Republic.

History

Vitkovice Steel was established in 2000, although the company's predecessors commissioned Vitkovice Steel's currently operating mills in 1911. In November 2005, Evraz paid CZK7.428 billion Czech koruna (approximately U.S.$298 million at the exchange rate on the date of the sale) to acquire a 98.96% stake in Vitkovice Steel through a tender organised by its prior owner, OSINEK, a sole subsidiary of the National Property Fund of the Czech Republic. In August 2006, Evraz acquired the remaining 1.04% minority interest in Vitkovice Steel for cash consideration of U.S.$3 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions—Acquisitions/start-ups prior to 2006".

Facilities

Vitkovice Steel's production facilities currently consist of a steel plant producing slabs and ingots, two rolling mills, including one plate rolling mill**,** one heavy section mill and cut shapes production. In July 2006, Vitkovice Steel closed its second plate rolling mill, the 4.5 Two-High Mill (Duo), in order to comply with a condition contained in the Accession Treaty of the Czech Republic to the EU. This mill was entirely disassembled, and its pieces were sold separately.

Steel production. The steel plant consists of a secondary metallurgy shop equipped with a vacuum station, submerged lance, degassing unit, ladle furnace and continuous casting machine. The one-strand caster has an adjustable curved crystalliser, water and air cooling and slight reduction of the strand. The quality of the casting process is computer controlled. In 2006, at a cost of U.S.$24 million (based on the U.S.$/RUR conversion rate on 31 December 2007), Evraz installed an ISSM system (Integrated System of Secondary Metallurgy) at the steel plant, which should enable it to produce better quality and higher grade products. The steel plant production mix includes slabs and ingots. The aggregate production of the steel plant was approximately 891.2 thousand tonnes in 2007, as compared to approximately 796.2 thousand tonnes in 2006.

Rolling mills. Rolling facilities include one operating plate mill and one heavy section mill. The plate rolling segment currently consists of the 3.5 Four-High Mill (Quarto) founded in 1971 and modernised in 1999. The heavy section mill enables the rolling of steel sections and profiles from internal and, in some cases, also from external inputs. The heavy section mill consists of a heavy section mill with stand and a bar production section. The stand represents a two-high billet mill built into the heavy section mill and shares the heating pusher-type furnace and operator team with the heavy section train. However, these two lines have separate handling and finishing equipment. The aggregate production of the plate rolling mill was approximately 732.8 thousand tonnes in 2007, as compared to approximately 698.7 thousand tonnes in 2006. The aggregate production of the heavy section mill was approximately 163.2 thousand tonnes in 2007, as compared to approximately 123.8 thousand tonnes in 2006. The plate rolling mill has flame cutting

equipment to manufacture semi-finished products from plates. The flame cutting machines are equipped with oxygen and natural gas burners and are computer controlled. The aggregate production of cut shapes was approximately 28.4 thousand tonnes in 2007, as compared to approximately 25.9 thousand tonnes in 2006.

Production

Vitkovice Steel's product mix consists of plates, sheet piles, sections and flame-cut shapes, which it provides to customers in the construction, shipbuilding, machinery/machine building and pipeline industries. Vitkovice Steel is the sole producer of sheet pile sections for the European domestic market.

The annual production capacity of Vitkovice Steel is 950 thousand tonnes of steel, of which 755 thousand tonnes, 140 thousand tonnes and 30 thousand tonnes comprise plate, sections and flame-cut shapes, respectively.

In 2007, Vitkovice Steel produced 891 thousand tonnes of steel, compared to 796 thousand tonnes in 2006; and 916.7 thousand tonnes of rolled products, compared to 860 thousand tonnes in 2006.

Investment programme

Currently, the main investment projects include the modernisation of its 3.5 Four-High Mill (Quarto) and heavy section mill, as well as certain environmental projects.

Vitkovice Steel's investment programme is aimed at increasing capacity, improving efficiency and widening the product range. Evraz plans to make capital expenditures at Vitkovice Steel of U.S.$33 million in 2008. The principal components of Vitkovice's investment programme are set forth below.

Operating plate rolling mill. Evraz intends to further modernise the 3.5 Four-High Mill (Quarto), an operating plate mill modernised in 1999. In particular, it plans to construct ACC/DQ equipment and levelers and reconstruct various equipment, such as existing hot levelers and tail-removal equipment. Evraz plans to invest approximately 63 million euro (approximately U.S.$92 million) in this project by 2010.

Heavy section mill. Evraz intends to construct and install various equipment at its heavy section mill, including a crane, a new scrap handling system and a new system of rolled section cutting. The expected cost of this project is approximately U.S.$11 million.

Environmental projects. In order to comply with local environmental legislation and to ensure that its steels work operate in an environmentally safe manner, Vitkovice Steel plans to install a secondary de-dusting operation in the converter shop of steel works No. 1. The purpose of the project, which is expected to be completed by 2010 at an approximate cost of U.S.$22 million, is to reduce dust and combustion emissions into the surrounding environment.

Quality control

Vitkovice Steel's quality control systems are subject to its internal quality control policy. Quality of its management systems was first certified by TÜV in 1993, and its most recent ISO 9001:2000 certificate was issued by TÜV in 2005. Vitkovice Steel holds a number of product and quality certificates, such as Construction Industry Product Conformance Certificates, the Manufacturer Quality Certificate for hot-rolled plates made of concast slab for Deutsche Bahn (DB), a Q1 Supplier Qualification Certificate and an Ultrasound Testing Equipment Certificate.

Oregon Steel

Oregon Steel is headquartered in Portland, Oregon in the United States. It is one of the most diversified steel manufacturers in North America.

History

Oregon Steel was founded in 1926 as the Gilmore Steel Corporation, having changed its name to Oregon Steel in December 1987. From 1988 to early 2007, Oregon Steel Mills, Inc. (the previous name of Oregon Steel) was publicly-held, and its shares were traded on the New York Stock Exchange.

On 12 January 2007, Evraz acquired through a tender offer approximately 90.65% of the outstanding shares of Oregon Steel. Pursuant to U.S. legislation, following Evraz's acquisition of a controlling interest in Oregon Steel, all the untendered shares were converted into the right to receive U.S.$63.25 in cash (the same price per share paid during the tender offer). As a result, Evraz effectively acquired a 100% ownership interest in Oregon Steel. Total cash consideration for the acquisition amounted to U.S.$2,276 million, including U.S.$10 million of transaction costs. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions—Acquisitions in 2007".

Facilities

Oregon Steel is organised into two business units: the Oregon Steel Division and the RMSM Division.

Oregon Steel Division. The Oregon Steel Division consists of plants located in Portland, Oregon (the "Portland Mill") and Camrose, Alberta, Canada (the "Alberta Mill"). This division produces as-rolled and heat-treated steel plate, coil, welded pipe (both large and small diameter line pipe and casing) and structural tubing. In 2006, Oregon Steel completed the construction of a spiral weld mill at the Portland Mill, capable of producing API certified large diameter (20-60 inches) line pipes.

RMSM Division. The RMSM Division consists of the steelmaking and finishing facilities of the Rocky Mountain Steel Mills, located in Pueblo, Colorado (the "Pueblo Mill"). The Pueblo Mill contains a steel minimill which supplies steel for rail, rod and bar, and seamless tubular finishing mills. The RMSM Division operates the only rail facility west of the Mississippi River and is one of only two established rail manufacturers in North America, accounting for approximately 50-60% of the U.S. rail market. In 1996, Oregon Steel invested in the Pueblo Mill's rail-making capacity by entering into an agreement with Nippon for the licence of its proprietary technology to produce deep head hardening rail and acquiring the production equipment necessary to produce such rail.

Production

Oregon Steel has the capacity to produce over 2.3 million tonnes annually of higher margin specialty and commodity steel products, such as plate, coiled plate, welded and seamless pipe for oil and gas applications, structural tubing, rail and wire rods and bars. Oregon Steel's manufacturing flexibility allows it to actively manage its product mix in response to changes in customer demand and individual product cycles. Oregon Steel targets a diverse customer base located primarily west of the Mississippi River and in western Canada.

In 2007, Oregon Steel produced 540 thousand tonnes of plate, compared to 542 thousand tonnes in 2006; 217 thousand tonnes of coiled plate, compared to 179 thousand tonnes in 2006; 482 thousand tonnes of welded and seamless pipe, compared to 297 thousand tonnes in 2006; 60 thousand tonnes of structural tubing, compared to 68 thousand tonnes in 2006; 470 thousand tonnes of rail, compared to 413 thousand tonnes in 2006; and 278 thousand tonnes of wire rods and bars, compared to 243 thousand tonnes in 2006.

Quality control

The Portland Mill is the first plate mill in North America to be ISO 9002 certified.

Claymont Steel

Claymont Steel, located in Claymont, Delaware, is a carbon plate mini-mill specialising in the manufacture and sale of custom-order discrete steel plates in the U.S and Canada.

History

On 16 January 2008, Evraz, through its wholly-owned subsidiary, Titan Acquisition Sub, Inc., completed the purchase via tender offer of an estimated 93.4% stake in Claymont Steel. Evraz subsequently initiated a short-form merger for the minority shareholding in Claymont Steel, pursuant to which each share of Claymont Steel common stock not tendered was converted into the right to receive U.S.$23.50 (i.e., the price paid in the tender offer). As a result of the merger, Claymont Steel is now a 100% subsidiary of Oregon Steel and an indirect wholly-owned subsidiary of Evraz. Total consideration for the 100% stake in Claymont Steel amounted to approximately U.S.$422 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions—Acquisitions in 2008".

Facilities

Claymont Steel operates out of a single manufacturing facility, which includes a 185-short-tonne (approximately 168 tonnes) electric arc furnace, a continuous slab caster and a 160-inch plate rolling facility. It produces steel plate from steel scrap in a two-step procedure: (i) the scrap is melted down to a steel slab in the melt shop operation; and (ii) the slab is rolled into steel plate in the plate mill operation.

Production

Claymont Steel is a niche manufacturer of custom-order carbon steel plates (or varying thickness, wide and length) for use in a number of high-end applications, including bridges, railcars, tool and die and heavy machine and equipment. The three categories of steel plate that Claymont Steel primarily produces are carbon, high strength low alloy and pressure vessel quality. Claymont Steel provides steel plates in small-order sizes and non-standard dimensions focusing on customers with special product and service needs. Claymont Steel maintains a strong customer base. In 2006, the facility's top 15 customers, who had an average tenure with Claymont Steel of more than 10 years, in aggregate represented approximately 30% of its total sales. In 2007, Claymont Steel sold approximately 335 thousand tonnes of plates to the construction sector, representing 93% of its sales; and approximately 21 thousand tonnes of cut shapes to other sectors, representing 7% of its sales.

The annual production capacity of Claymont Steel is approximately 453,600 tonnes. In 2007, Claymont Steel produced approximately 420 thousand tonnes of steel, 364 thousand tonnes of plates and 22 thousand tonnes of cut shapes.

The capacity utilisation in 2007 of Claymont Steel's electric arc furnace was 92.5%.

Quality control

For each of the three categories of steel plate that Claymont Steel produces, it manufactures grades that meet the standards and specifications as set forth by the American Society for Testing and Materials, the American Iron and Steel Institute, the American Bureau of Shipping, the Canadian Standards Association and the American Association of State Highway Transportation Officials.

Highveld

Highveld is an integrated mining, vanadium, iron, steel and ferro-alloy producer. It is South Africa's second-largest steel maker and a leading vanadium producer. See "—Vanadium Business" for a discussion of Highveld's vanadium operations. It is the primary producer of medium and heavy structural sections and thick plate in South Africa.

History

In 1960, the Anglo American Corporation of South Africa Limited ("Anglo American") founded Highveld (which was known as the Highveld Development Company Limited until 1965, when the company assumed its current name). At that time, Anglo American owned a large stake in a Colorado-based company that operated a mill in Witbank, South Africa, designed to produce approximately 1.4 million kilograms of

vanadium pentoxide per annum. Anglo American established Highveld in order to investigate the viability of processing titaniferous magnetite ore for the production of liquid pig iron and vanadium bearing slag. In 1966, Highveld acquired the Witbank mill and, as a result, became the largest vanadium producer in the world.

On 13 July 2006, Evraz acquired a 24.9% stake in Highveld for U.S.$216 million from Anglo American. At this time, Evraz also entered into option agreements with Highveld's major shareholders, Anglo and Credit Suisse International ("Credit Suisse") to increase its stake in Highveld to 79% within the subsequent two years. On 4 May 2007, Evraz exercised its option to acquire a 29.2% stake in Highveld from Anglo American for U.S.$238 million. In August 2007, Evraz increased its stake in Highveld to 56.01%, as a result of shares Evraz purchased in a voluntary offer made to existing Highveld shareholders in June and July of 2007. On 28 September 2007, Evraz increased its stake in Highveld to 80.9%, having exercised its option to purchase a 24.9% stake for U.S.$219 million from Credit Suisse. The remaining shares are traded on the Johannesburg Stock Exchange. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions—Acquisitions in 2006" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions—Acquisitions in 2007".

In 2007, Highveld sold both its ferro-alloy divisions, Transalloys and Rand Carbide, as going concerns. In accordance with Evraz's commitments to the European Commission in connection with the acquisition of Highveld, Evraz must submit to the European Commission, by 20 April 2008, a plan for divestment of Highveld's Vanchem Operations and a 50% stake in SAJV, which account for 100% of Highveld's ferrovanadium and vanadium chemicals output, as well as an equity interest in Mapochs Mine. Evraz has submitted its plan for divestment, which is currently under review by the European Commission. The share in the global market of the vanadium assets of which Evraz must divest is approximately 8% for finished vanadium products and approximately 30% for vanadium chemicals.

Facilities

Highveld's steel production facilities include iron-production facilities, steel making facilities, four continuous casters and three rolling mills.

Iron production. Highveld operates 13 pre-reduction kilns and seven electric submerged arc smelting furnaces. Each kiln is fired with pulverised coal. The pre-reduced charge is then removed from the kilns and smelted in submerged arc smelting furnaces. Each of the furnaces has three Soderberg electrodes, two separate tap holes and tap hole guns. Highveld produced 755 thousand tonnes of iron, compared to 750 thousand tonnes in 2006.

Steel production. The steel production shop consists of a steel plant equipped with four shaking ladles for extraction of vanadium slag and three basic oxygen furnaces. Normally only two of the oxygen furnaces are operational, with the third on stand-by. The oxygen furnaces have an aggregate capacity of 1,100 thousand tonnes per year.

Continuous casters. Highveld operates three continuous caster machines: one for slabs and two machines for blooms. Aggregate annual production capacity of the casters is 1,100 thousand tonnes. The machines are of the curved type, which are equipped with curved copper moulds. The slab caster machine was modernised in 1996 to improve product quality. In 2007, Highveld's caster machines produced 467 thousand tonnes of slabs and 388 thousand tonnes of blooms.

Rolling mills. Highveld operates three mills (a universal structural mill, a plate mill and a hot strip mill). In 2007, Highveld produced 750 thousand tonnes of rolled products.

Production

Highveld is South Africa's second largest steelmaker. In 2007, Highveld produced 198 thousand tonnes of plates, 209 thousand tonnes of coil and 330 thousand tonnes of medium-to-heavy sections. In 2006,

Highveld produced 185 thousand tonnes of plates, 243 thousand tonnes of coil and 339 thousand tonnes of medium-to-heavy sections.

Investment Programme

Evraz plans to upgrade its plate mill at Highveld in a two-phase project. The purpose of the project is to replace low-margin coils with high-margin plates and increase the mill's overall output. The first phase, which is expected to cost approximately 60 million rand, envisages the de-bottlenecking of the plate-finishing end and the improvement of the mill's infrastructure. In particular, it is expected to include the renovation of the plant's cold shears and its existing de-coiler cold leveler and the installation of an automatic strapping and stacking machine for chock bars, a new hot shear and additional cooling banks. The second phase, which is expected to cost approximately 67.5 million rand and is contingent on extensive additional sales of plate, envisages the conversion of the Steckel mill into a second plate mill. In particular, it is expected to include the renovation of the Steckel mill in order to enable rolling of 2,000 mm wide heavy plates out of the mill's walking beam furnace.

Quality Control

Highveld's products adhere to strict specifications and standards. Highveld operates a quality assurance system certified under DIN EN ISO 9001:2000 and DIN EN ISO 14001:2004, and its products have received various South African and foreign certifications, including certification of its steelmaking, plates, strips, sections and bars by Lloyd's Register.

Evraz is also in the process of acquiring the following assets:

DMZP

DMZP, located in Dnepropetrovsk, Ukraine, is an integrated steel mill specialising in the manufacture and sale of pig iron, steel and rolled products.

History

Production at DMZP began at the end of the 19th century, when its first blast furnace was commissioned in 1887. It became the largest steel mill in southern Russia in the early 20th century and remained a leading steel plant in the Soviet Union. DMZP was privatised and transformed into an open joint-stock company in 1995.

In December 2007, Evraz announced the signing of an agreement with its controlling shareholder, Lanebrook, to acquire a 95.57% stake in DMZP. Lanebrook acquired the Ukrainian Assets, including DMZP, in anticipation of selling them to Evraz on the same terms. According to the agreement between Evraz and Lanebrook, Evraz agreed to pay U.S.$1.06 billion in cash and to transfer 4,195,150 shares in Evraz (subject to adjustment) as consideration for the Ukrainian Assets. Before the end of 2007, Evraz made a cash prepayment to Lanebrook in connection with the planned purchase of the Ukrainian Assets in the amount of U.S.$1.06 billion, which is reflected in Evraz's consolidated balance sheet as of 31 December 2007 as "other non-current assets". See Notes 14 and 31 to the Annual Financial Statements. On 14 April 2008, Evraz announced that it has closed the acquisition of a 51.4% stake in Cyprus-based Palmrose Limited ("Palmrose"), which holds the Ukrainian Assets, at a cost of U.S.$1.06 billion. The second stage of the transaction, namely, the issuance of new shares in Evraz and their subsequent transfer to Lanebrook in consideration for the remaining 48.6% stake in Palmrose, is subject to regulatory review in Luxembourg. Evraz currently expects the second stage of the transaction to be completed in May 2008.

Facilities

The production facilities of DMZP include three blast furnaces, three oxygen converters and three rolling mills.

Iron production. DMZP operates three blast furnaces, and in 2007 Evraz estimates that DMZP produced 1,575 thousand tonnes of pig iron, as compared to 1,460 thousand tonnes in 2006.

Steel production. DMZP produces steel in three oxygen converters with total annual design capacity of 1,230 thousand tonnes.

Rolling mills. DMZP operates three rolling mills: a medium-section mill 550; a rail and structural steel mill; and a plate mill. In 2007, Evraz estimates that the plant produced 1,211 thousand tonnes of rolled products, as compared to 1,207 thousand tonnes in 2006.

Production

Evraz estimates that DMZP is Ukraine's ninth-largest steel producer. Its total annual output in 2007 was 1.8 million tonnes of pig iron and 1.3 million tonnes of crude steel. DMZP's main products include I-beams, angles, channels, square billets, tube billets, crane and tram rails, sections for automobile rims and agricultural sections. In 2007, Evraz estimates that DMZP produced 852 thousand tonnes of billets, compare to 878 thousand tonnes in 2006; 340 thousand tonnes of long products, as compared to 291 thousand tonnes in 2006; and 1,575 thousand tonnes of pig iron, as compared to 1,460 thousand tonnes of pig iron in 2006. DMZP also produces a small amount of flat products.

DMZP sells its products to Mexirom Ventures Limited (a group trader). Its principal markets are Ukraine and Russia, which purchased approximately 82% and 9% of DMZP's products in 2007.

Ukrainian Coking Plants

The Ukrainian Coking Plants comprise three coking plants located in Ukraine: Bagleykoks, Dneprkoks and Dneprodzerzhinsk.

History

In December 2007, Evraz announced the signing of an agreement with its controlling shareholder, Lanebrook, to acquire the Ukrainian Coking Plants, in particular, a 93.74% stake in Bagleykoks, a 98.65% stake in Dneprkoks and a 93.83% stake in Dneprodzerzhinsk. Lanebrook acquired the Ukrainian Assets, including the Ukrainian Coking Plants, in anticipation of selling them to Evraz on the same terms. According to the agreement between Evraz and Lanebrook, Evraz agreed to pay U.S.$1.06 billion in cash and to transfer 4,195,150 shares in Evraz (subject to adjustment) as consideration for the Ukrainian Assets. Before the end of 2007, Evraz made a cash prepayment to Lanebrook in connection with the planned purchase of the Ukrainian Assets in the amount of U.S.$1.06 billion, which is reflected in Evraz's consolidated balance sheet as of 31 December 2007 as "other non-current assets". See Notes 14 and 31 to the Annual Financial Statements. On 14 April 2008, Evraz announced that it has closed the acquisition of a 51.4% stake in Cyprus-based Palmrose Limited ("Palmrose"), which holds the Ukrainian Assets, at a cost of U.S.$1.06 billion. The second stage of the transaction, namely, the issuance of new shares in Evraz and their subsequent transfer to Lanebrook in consideration for the remaining 48.6% stake in Palmrose, is subject to regulatory review in Luxembourg. Evraz currently expects the second stage of the transaction to be completed in May 2008.

Facilities

The Ukrainian Coking Plants purchase coal and process it in their respective coking plants into metallurgical coke, for onward sale to steelmakers.

Production

The total annual capacity of the three plants is estimated at 3.52 million tonnes of metallurgical coke. In 2007, Dneprkoks, Bagleykoks and Dneprodzerzhinsk produced approximately 715 thousand tonnes, 694 thousand tonnes and 634 thousand tonnes, respectively, of metallurgical coke. In 2006, Dneprkoks, Bagleykoks and Dneprodzerzhinsk produced 696 thousand tonnes, 726 thousand tonnes and 661 thousand tonnes, respectively, of metallurgical coke. In 2005, Dneprkoks, Bagleykoks and Dneprodzerzhinsk

produced 619 thousand tonnes, 782 thousand tonnes and 651 thousand tonnes, respectively, of metallurgical coke.

Dneprkoks sells most of its coke production to DMZP, which is located adjacent to Dneprkoks. The Ukrainian Coking Plants, collectively, sell their coke production to various local steelmakers based in Eastern Europe.

The Ukrainian Coking Plants primarily transport their products via Ukrainian Railways.

Delong Steel

Delong Steel, located in China's Hebei province, is an integrated steel mill, specialising in the production of steel billets and mid-width hot-rolled coils primarily for domestic consumption, but also for export.

History

On 18 February 2008, Evraz purchased for approximately S$211 (approximately U.S.$150 million, based on the S$/U.S. exchange rate on 18 February 2008) an estimated 10% stake in the SGX-listed Delong Holdings, which owns Delong Steel, as well as a steel trading and procurement company. According to the share purchase agreement, Best Decade, a shareholder in Delong Holdings, has granted Evraz an option (valid for six months following the date of completion of the sale of the 10% stake) to buy an additional 32.08% interest in Delong Holdings for S$677 million (approximately U.S.$480 million, based on the S$/U.S.$ exchange rate on 18 February 2008), pending the approval of China's MOFCOM and SAIC. Evraz has granted Best Decade a put option with respect to the 32.08%, exercisable during the same period and at the same price. Following completion of the option and satisfaction of several other conditions, the beneficial shareholders of Best Decade have undertaken to sell to Evraz an additional estimated 8.97% stake for S$189 million (approximately U.S.$134 million, based on the S$/U.S.$ exchange rate on 18 February 2008). Following completion of these transactions, Evraz will own approximately 51.05% of Delong Holdings and expects to apply for MOFCOM approval to launch a mandatory cash offer to Delong Holdings' shareholders in Singapore (in accordance with Singapore law), which may ultimately raise Evraz's stake in Delong Holdings to approximately 77%.

Facilities

Delong Steel is a fully integrated steel plant, producing primarily hot-rolled coils.

Hot-rolled coil production. Due to the completion of a technological enhancement programme, Delong Steel operates two hot-rolled coil production lines, with an approximate aggregate production capacity of three million tonnes per annum.

Production

Delong Steel's products are primarily used in infrastructure construction and in the manufacture of pipes, truck chassis and cold-rolled coil. It is principally engaged in the manufacture and sale of hot-rolled coils ranging between 520mm and 1,100 mm in width and 1.8 mm to 14 mm in thickness. In 2007, Delong Steel sold 2,356,556 tonnes of hot-rolled coil and 25,428 tonnes of steel billets, as compared to 1,430,900 tonnes of hot rolled coil and 142,000 tonnes of steel billets in 2006. The overall sales volume of Delong Steel increased by 809,084 tonnes or 51.4%.

Quality control

Delong Steel is ISO9001:2000 certified.

IPSCO Canada

With plants in Calgary and Red Deer (both in the Canadian province of Alberta) and in Regina (in the Canadian province of Saskatchewan), IPSCO Canada is a leading North American producer of pipe for the oil and gas industry and steel plates.

History

The Prairie Pipe Manufacturing Company Ltd. was founded in 1956 and changed its name to IPSCO in 1984. Through a combination of organic growth and the purchase of pipe mills and other manufacturing facilities, IPSCO became a leading producer of pipe and steel in western Canada. In December 2006, IPSCO acquired the NS Group, which further strengthened the company's position as a leader in the North American energy tubular sector and significantly expanded its U.S. market presence by offering seamless and welded oilfield tubular goods. In July 2007, IPSCO became a wholly-owned subsidiary of SSAB, a leading Swedish steel company.

In March 2008, Evraz announced the acquisition of certain of the assets of IPSCO from SSAB for U.S.$4.025 billion, including, in particular, certain of the assets of IPSCO Canada. Pursuant to a back-to-back agreement signed with TMK, Evraz has agreed to sell certain of the acquired IPSCO businesses in the U.S. to TMK for U.S.$1.2 billion. In addition, Evraz signed an option agreement to sell in 2009 the remaining acquired IPSCO businesses in the U.S. to TMK for approximately U.S.$0.5 billion. The net cost of Evraz's acquisition is expected to be U.S.$2.3 billion (subject to certain closing adjustments and conditions).

Facilities

IPSCO Canada operates pipe mills in facilities in Calgary and Red Deer and a steel-making facility in Regina. It has an estimated annual capacity of over one million tonnes of steel products.

Calgary facility. IPSCO Canada manufactures pipes at its Calgary facility, which operates an ERW pipe mill with threading and heat treating capabilities. The Calgary facility has two finishing lines, one for pipe with a size range of 4.5" to 10.75" and the other for pipe with a size range of 1.9" to 5.5". Annual capacity at the Calgary plant is approximately 320,000 tonnes.

Red Deer facility. IPSCO Canada also manufactures pipes at its Red Deer facility, which operates an ERW pipe mill, with an annual welding capacity of approximately 155,000 short tonnes, and a high speed finishing line for threading OCTG and line pipe, with an annual capacity of approximately 115,000 short tonnes.

Regina facility. IPSCO Canada manufactures various steel products as well as pipes at its Regina facility. The Regina facility is a flat-rolled steelworks and uses EAFs or "mini-mill" technology to directly melt scrap or scrap substitutes into liquid steel. The liquid steel is then casted into slabs, which are subsequently hot-rolled into discrete plate and coil of various widths, gauges and grades, using Steckel mill technology. The steel coils are then cut according to customer specifications. The Regina facility has an annual capacity of over one million tonnes of steel products.

The Regina facility also produces pipe. It operates a 24" mill with an annual capacity of approximately 300,000 tonnes and which produces OCTG casing, line pipe, standard pipe and piling; three Blohm+Voss spiral mills with an annual aggregate capacity of approximately 300,000 short tonnes and which produces DSAW line pipe; and a 2" mill with accumulator, which has an annual capacity of approximately 70,000 short tonnes and produces OCTG tubing, line pipe and HSS.

The Regina facility also maintains a scrap metal operation, consisting of five auto shredder facilities and a number of scrap metal processing yards.

Production

IPSCO Canada produced 303,000 tonnes of ERW pipe, 351,000 tonnes of LD pipe and 379 tonnes of plate/coil in 2007.

Quality control

IPSCO Canada has implemented various quality assurance programs pursuant to ISO 9001:2000, API Q1 Quality Policy, ABS Quality Policy and Lloyds Quality Policy.

Mining Business

Evraz conducts its mining business primarily through Evrazruda, KGOK, VGOK, Highveld, Mine 12 and Yuzhkuzbassugol. Evraz also has an equity interest in Raspadskaya coking coal producer. In 2006, Evraz disposed of its interest in the Neryungriugol project (resulting in a loss of U.S.$66 million), which it had acquired in 2003 for the purpose of developing the Denisovskoye field in Yakutia. Evraz also signed an agreement in December 2007 to purchase Sukhaya Balka, an iron ore mining and processing complex.

In 2007, Evraz sold 17,500 thousand tonnes of iron ore products, of which 15,686 thousand tonnes consisted of intersegment sales. Substantially all of Evraz's mining segment sales consist of sales of iron ore. Some iron ore products purchased by the steel segment are subsequently resold to third parties: From the second half of 2004 to April 2007, such sales were primarily conducted through the Trading House EvrazResource; after April 2007, they have been conducted via commission agreements with Trade Company EvrazHolding. In 2007, sales of coal products by Mine 12, Yuzhkuzbassugol and Raspadskaya were 852 thousand tonnes, 10,034 thousand tonnes and 10,630 thousand tonnes, respectively. Evraz's mining operations had total sales revenue of U.S.$1,901 million in 2007, of which U.S.$1,532 million consisted of intersegment sales, an increase from U.S.$1,147 million in 2006, of which U.S.$1,026 million consisted of intersegment sales.

Products

Evraz produces iron ore at Evrazruda, KGOK and VGOK. Evraz produces coking coal at Mine 12, Yuzhkuzbassugol and its equity investee Raspadskaya, with Mine 12 and Yuzhkuzbassugol also producing steam coal. Evraz primarily makes use of this iron ore and coking coal at its steel making facilities, and also makes some sales to third parties. Highveld's Mapochs Mine produces titaniferous magnetite ore. Ukraine's Sukhaya Balka produces iron ore.

Iron ore and coking coal are generally commodity products, and most customers make purchases on the basis of price, including transportation costs. Evraz processes iron ore into concentrate, sinter and pellets prior to sale. Iron ore produced at KGOK has a high vanadium content, and thus can only be used in large quantities where blast furnaces have been specially modified to support the high vanadium levels. The major customers for iron ore produced at KGOK are NTMK as Zapsib, NKMK and other steel plants in smaller quantities.

Marketing and Distribution

In addition to its internal sales, Evraz sells its mined products primarily to other customers located in Russia. The following table summarises Evraz's mining segment sales for the periods indicated.

	Year ended 31 December[1]					
	2007		2006		2005	
	thousand tonnes	*millions of U.S. dollars*	*thousand tonnes*	*millions of U.S. dollars*	*Thousand tonnes*	*millions of U.S. dollars*
Iron ore sales (excluding intersegment sales)[2]						
Russian sales	1,000	95	1,244	79	1,721	135
Export sales	792	48	186	10	78	0
Total	**1,792**	**143**	**1,430**	**89**	**1,799**	**135**
Intersegment sales	**15,685**	**1,287**	**15,418**	**1,011**	**14,706**	**836**
Coal sales (excluding intersegment sales)						
Russian sales	785	44	–	–	–	–
Export sales	1,917	121	47	2	25	2
Total	**2,702**	**165**	**47**	**2**	**25**	**2**
Intersegment sales	**3,753**	**219**	**789**	**25**	**563**	**0**

Notes:

(1) For the year in which Evraz acquires a particular subsidiary, data concerning such subsidiary is provided on a pro-rata basis for the period following its acquisition by Evraz.

(2) In addition, Evrazruda was acquired in March 2005 from an entity under common control. In accordance with IFRS, Evrazruda has therefore been consolidated with effect from 31 December 2001 as if it had been acquired at such date. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions – Acquisitions/start-ups prior to 2006".

Sales

In Russia, Evraz sells its mining segment products to end customers, both internal and external. These customers are generally located near to Evraz's mines, due to the high transportation costs of mined products relative to the market prices. In 2007, intersegment sales of coal and iron ore amounted to 92% of total mining segment sales (by volume), as compared to 92% in 2006. Currently only KGOK and VGOK sell significant volumes to third parties. In 2007 and 2006, 18% and 15%, respectively, of KGOK production was sold to third parties; in 2006, 7% of VGOK production was sold to third parties. These third-party sales were made directly from KGOK and VGOK, respectively, and not through trading companies.

Evraz does not currently export significant volumes of its mined products.

Distribution

Evraz transports its mined products to customers by Russian Railways. Transportation costs are generally paid by customers. In the case of intersegment sales to Evraz's steel plants, substantially all transportation services are provided by Evraztrans. See "—Steel Business—Raw Materials—Transportation".

Production Facilities

The following table sets forth Evraz's production of iron ore in the periods indicated.

	Iron Content[1] (%, as of 2007)	Year ended 31 December		
		2007	2006	2005
		(million tonnes)		
Evrazruda[2]				
Mined ore	28.37	13.99	13.98	13.64
Primary concentrate[3]	42.75	7.7	7.7	7.50
Concentrate[4]	59.60	3.5	2.5	2.02
Sinter	54.09	2.01	3.1	3.33
KGOK				
Mined ore	15.47	52.67	51.20	46.00
Concentrate[3]	61.81	9.46	9.43	8.65
Pellets	60.90	6.03	5.9	5.18
Sinter	54.18	3.05	3	2.85
VGOK				
Mined ore	28.03	4.65	4.40	4.27
Concentrate[3]	64.0	1.75	1.67	1.65
Sinter	57.5	2.74	2.42	2.00

Notes:

(1) Represents total iron content.

(2) Acquired in March 2005 from an entity under common control. In accordance with IFRS, Evrazruda has therefore been consolidated with effect from 31 December 2001 as if it had been acquired at such date. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Reorganisation and Formation of the Company".

(3) Product used in the production of concentrate or sinter.

(4) Marketable product.

Iron Ore

Evrazruda

Evrazruda, currently occupying a total area of 4,400 hectares, sells iron ore primarily to Zapsib and NKMK. It started operations in 2002, bringing several mining and processing enterprises in Kemerovo region (Tashtagolsky, Kazsky and Gurevsky iron ore mines, the Abagurskaya Sinter and Enrichment Plant and the Mundybashskaya Enrichment Plant) and the Republic of Khakassia (Abakansky and Teisky mines) under common management. In July 2004, Evrazruda acquired in open auctions the production operations of Sheregeshskoe Ore Deposit (Kemerovo region) and Irbinskoe Ore Deposit (Krasnoyarsk Krai), though, since 2002, it had been engaged in the resale of the products mined at both of these deposits. Evraz acquired Evrazruda in March 2005 from an entity under common control, and therefore Evrazruda is consolidated with effect from 31 December 2001 as if it had been acquired at such date. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions—Acquisitions/start-ups prior to 2006" for a discussion of the acquisition and its treatment in the Annual Financial Statements. In 2006, Evrazruda commenced production at the Izykhgol deposit, with approximate ore reserves of 12 million tonnes, and the Burluk deposit, which has an iron content of 31%.

In 2007 and 2006, Evrazruda's output of finished iron ore product (concentrate and sinter) was 5.51 million tonnes and 5.68 million tonnes, respectively, of finished iron ore product (concentrate and sinter). Evraz plans to develop additional "brownfield" production sites at Evrazruda and to make improvements that will increase both the volume and efficiency of iron ore production. Evraz has approved U.S.$100 million of capital expenditures (excluding maintenance costs) for Evrazruda over the next five years. Evraz has budgeted U.S.$17.68 million of capital expenditure on maintenance for Evrazruda (based on the U.S.$/RUR conversion rate on 31 December 2007).

KGOK

Evraz estimates that KGOK is one of the largest ore mining enterprises in Russia. It is located in the Sverdlovsk region, approximately 150 kilometres away from NTMK, its primary consumer. In October 2007, Evraz became the sole owner of KGOK, having bought out in a mandatory buyout procedure KGOK's then minority shareholders. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions—Buy Out of Minority Shares in Subsidiaries."

KGOK processes iron ore that it extracts from the Gusevogorsky deposit, which contains a vanadium alloy component. KGOK currently mines iron ore from three open pit mines at the Gusevogorsky deposit, which it processes in on-site crushing, enrichment, sintering and pelletising facilities.

KGOK produces sinter and pellets that are rich in vanadium oxide, which ultimately are loaded onto railcars and shipped to end consumers. These products have relatively high production costs, as the iron content of KGOK iron ore is very low, and the ore must therefore undergo enrichment and concentration. The high vanadium content of KGOK's ore leads to improved strength, ductility and anti-corrosion characteristics of steel, but also adversely affects the speed and effectiveness of the blast furnace smelting process. As a result, at most steel plants, high vanadium content iron ore is limited to approximately 10-15% of total iron ore consumption. Nevertheless, due to the mineral deposits that form in the blast furnace, the consumption of limited quantities of high vanadium content iron ore helps to prolong the time between blast furnace relinings. In 2007 and 2006, KGOK's output was 9.08 million tonnes and 8.9 million tonnes, respectively, of finished iron ore product (concentrate and sinter). Approximately 18% of KGOK's total sales volumes in 2007 were to ultimate customers other than Evraz. Evraz has approved U.S.$58 million of capital expenditures for KGOK for 2008. Evraz has budgeted U.S.$34.54 million of capital expenditures on maintenance in 2008 for KGOK (based on the U.S.$/RUR conversion rate on 31 December 2007).

In October 2006, KGOK won an auction for the development licence (valid until November 2026) of the Sobsvtenno-Kachkanarskoye magnetite and titanium deposit, which is located in the Sverdlovsk region, next to the Gusevogorsky deposit. KGOK intends to mine its first tonne at the Sobstvenno-Kachkanarskoye deposit in 2011. Evraz spent approximately 219 million roubles to acquire the development licence. Evraz is expected to invest 33 million roubles in the deposit in 2008 for elaboration of a pre-feasibility study.

VGOK

VGOK is located near Nizhny Tagil, approximately 10 kilometres from NTMK and 180 kilometres north of Ekaterinburg and is one of the largest mining enterprises in the Urals. In March 2007, Evraz made a voluntary offer to VGOK's minority shareholders, which, following the voluntary offer and a mandatory buyout procedure, resulted in Evraz becoming VGOK's sole shareholder in October 2007. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions—Buy Out of Minority Shares in Subsidiaries."

VGOK mines the Vysokogorskoye, Lebyazhinskoye, Estuninskoye and Mednorudyanskoye iron ore deposits and produces iron ore concentrate, sinter, limestone, crushed stone and other products. Besides ore mines, VGOK includes a number of sintering factories, limestone and marble mines and processing units. VGOK supplies sinter to Evraz's steel plants, primarily NTMK, and also makes sales to third parties. Approximately 70% of the iron ore used in producing sinter consists of VGOK's own production and by-products of the blast furnace process at NTMK, and the balance is purchased from other producers, primarily Bogoslovskoye RU, an iron ore mine located nearby. In 2007 and 2006, VGOK's output of iron ore was 4.49 million tonnes and 4.09 million tonnes, respectively, of finished iron ore product (concentrate and

sinter). Evraz has budgeted U.S.$4.68 million of capital expenditures on maintenance in 2008 for VGOK (based on the U.S.$/RUR conversion rate on 31 December 2007).

Sukhaya Balka

In December 2007, the Company announced the signing of an agreement with its controlling shareholder, Lanebrook, to acquire a 99.25% stake in Sukhaya Balka, an iron ore mining and processing complex in Ukraine. Lanebrook acquired the Ukrainian Assets in anticipation of selling them to Evraz on the same terms. According to the agreement between Evraz and Lanebrook, Evraz agreed to pay U.S.$1.06 billion in cash and to transfer 4,195,150 shares in Evraz (subject to adjustment) as consideration for the Ukrainian Assets. Before the end of 2007, Evraz made a cash prepayment to Lanebrook in connection with the planned purchase of the Ukrainian Assets in the amount of U.S.$1.06 billion, which is reflected in Evraz's consolidated balance sheet as of 31 December 2007 as "other non-current assets". See Notes 14 and 31 to the Annual Financial Statements. On 14 April 2008, Evraz announced that it has closed the acquisition of a 51.4% stake in Cyprus-based Palmrose Limited ("Palmrose"), which holds the Ukrainian Assets, at a cost of U.S.$1.06 billion. The second stage of the transaction, namely, the issuance of new shares in Evraz and their subsequent transfer to Lanebrook in consideration for the remaining 48.6% stake in Palmrose, is subject to regulatory review in Luxembourg. Evraz currently expects the second stage of the transaction to be completed in May 2008.

Sukhaya Balka has an estimated annual production capacity of 3.75 million tonnes of iron ore. Sukhaya Balka operates two underground iron ore mines with 30 years of estimated reserve life. Its reserves are estimated at 107 million tonnes. In 2007, it sold 2.85 million tonnes of iron ore, as compared to 3.03 million tonnes in 2006 and 3.24 million tonnes in 2005. In 2007, Sukhaya Balka sold its ore production either through direct agreements with Yuzhnij Ore Mining and Processing Enterprise ("UGOK"), a subsidiary of Lanebrook, and other steel plants in Ukraine or through trading companies, which subsequently resold the ore production to UGOK and other steel plants in Ukraine, as well as to customers outside Ukraine. Sukhaya Balka transports its product primarily by rail (Ukrainian Railways), though a portion of its exports is shipped by sea. Customers generally pay transportation costs. From 2008 to 2010, Evraz plans to invest approximately U.S.$37 million in the development of iron ore mines at Sukhaya Balka.

Coking Coal

Mine 12

Mine 12 is located in the Kemerovo region near Zapsib and NKMK and produces coking coal and steam coal using both underground and opencast techniques. In March 2005, Evraz acquired a 100% interest in Mine 12. Mine 12 produced approximately 667 thousand tonnes of coking coal and 227 thousand tonnes of steam coal in 2007. In 2006, Mine 12 produced approximately 746 thousand tonnes of coking coal and 100 thousand tonnes of steam coal.

Evraz has budgeted RUR512 million (U.S.$20.9 million) to install a machine for mining or steep declines. The project is expected to be completed by July 2009.

Yuzhkuzbassugol

Yuzhkuzbassugol, located in Novokuznetsk in the Kemerevo region, is the largest coking coal producer in Russia. It is also a producer of steam coal. Yuzhkuzbassugol was founded in September 1969, uniting 25 coal mines, three concentration plants and a number of auxiliary production and servicing organisations under one management structure. Evraz is the sole owner of the coal producer, having purchased a 50% stake on 30 December 2005 from Crondale Overseas Limited ("Crondale"), an entity under common control with Evraz, for U.S.$675 million and a second 50% stake in June 2007 from Yuzhkuzbassugol's managers. Consideration for the June 2007 transaction was U.S.$871 million (including transaction costs of U.S.$9 million). In addition, on 21 January 2008, Evraz announced a mandatory buyout of minority shares in Kuznetskaya Coal Enrichment Plant, a subsidiary of Yuzhkuzbassugol; as of 13 March 2008, Yuzhkuzbassugol owns 95.5% of this subsidiary.

Yuzhkuzbassugol currently comprises 27 enterprises, including 13 coal mines, two washing plants, three machinery plants, three transportation companies and a number of support companies. Yuzhkuzbassugol has licences for all 12 producing mines as well as for the Yerinakova-8 mine in development. As of the date of this Prospectus, the Yerinakova-8 mine is under construction, with the development of coal expected to commence in 2009.

Yuzhkuzbassugol produces both coking coal and steam coal. As of March 2007, its total proved and probable reserves were estimated to be 572 million tonnes, according to the international consulting firm IMC Economic and Energy Consulting ("IMC"). Coking coal represents 67% of Yuzhkuzbassugol's total production by volume and 15% of Russia's total coking coal production. It supplies its coking coal to most of the leading steel and by-product coke plants in Russia and the CIS. Zapsib and NKMK are major consumers of Yuzhkuzbassugol's production

In 2007, Yuzhkuzbassugol produced 11,976 thousand tonnes of coal, as compared to 16,137 thousand tonnes and 17,086 thousand tonnes in 2006 and 2005, respectively. In 2007, 2006 and 2005, coking coal represented 56.3%, 66.5% and 76.2%, respectively, of Yuzhkuzbassugol's total coal production, with the remaining production in the form of steam coal. In 2007, 2006 and 2005, Yuzhkuzbassugol satisfied approximately 35.4%, 46.8% and 56.75%, respectively, of Evraz's demand for coal.

Yuzhkuzbassugol has been the site of several explosions in recent years. On 19 March 2007, over 100 people were killed in a methane explosion at the Ulyanovskaya mine, and, on 24 May 2007, 39 were killed in a methane explosion at the Yubileinaya mine. In each of these incidents, Rostekhnadzor, the Russian industrial-safety regulator, implicated dozens of Yuzkhkuzbassugol officials for intentionally disabling the mine's safety systems. In addition, on 8 February 2006, one person was killed in a methane explosion and subsequent fire at the Tomskaya mine; on 9 February 2005, 25 people were killed in an explosion at the Esaulskaya mine; and, on 10 April 2004, 47 died in a rockslide and explosion at the Taizhina mine. Following the March 2007 explosion, operations were not resumed at the Ulyanovskaya mine until September 2007; similarly, following the May 2007 explosion, operations were not resumed at the Yubileinaya mine until November 2007.

The CEO of Evraz has approved capital expenditures of approximately RUR15.6 billion for a series of projects at Yuzhkuzbassugol: in particular, RUR6.3 billion for a project to increase the production of coking coal at the Alardinskaya mine (RUR3.4 billion in 2008 and RUR530 billion in 2009); RUR6 billion for a project to increase the production of coking coal at the Ulyanovskaya mine (RUR1.7 billion in 2008 and RUR1 billion in 2009); RUR2.3 billion to increase production of coking coal at the Yubileinaya mine (RUR300 million in 2008 and RUR1.7 billion in 2009); and RUR967 million to prepare the Esaulskaya mine for liquidation in 2015 (RUR233 million in 2008 and RUR148 million in 2009). These projects are expected to be approved in May-June 2008 by Evraz's investment committee.

Raspadskaya

Raspadskaya is a vertically integrated company that conducts business through nine key subsidiaries located in the Kuznetsky coal basin ("Kuzbass") in the Kemerovo oblast of the Russian Federation. It is one of Russia's largest coking coal producers (based on production volume), consisting of several different types of coking coal, and has the largest reserves of high quality coking coal in Russia according to estimates of IMC, an independent mining consultant.

Raspadskaya commenced operations in 1973 and, in 1991, was privatised and organised as a closed joint-stock company. Currently, Evraz holds a 40% stake in Raspadskaya, through its acquisition in March 2004 of a 50% ownership interest in Corber. Corber is a joint venture created for the purpose of exercising joint control over the business activities of Raspadskaya and other subsidiaries of Corber. At the time of Evraz's investment in Corber, the joint venture owned a 72.03% stake in Raspadskaya; however, its interest ultimately reached 98.02% through a series of subsequent purchases. In November 2006, Raspadskaya successfully completed an IPO, placing 18% of its share capital with both Russian and non-Russian investors and acquiring a listing on RTS and MICEX.

Raspadskaya's mining operations include two active underground mines that are comprised of five operational longwall faces, one active open-pit mine, a coal preparation plant, one underground mine under construction (which construction is expected to be completed in 2009), as well as industrial, maintenance and transportation infrastructure. Raspadskaya is one of the leading suppliers to the largest Russian steel mills, including NTMK, NLMK and the Magnitogorsk Iron & Steel Works. It also exports coal to Ukraine and to Eastern Europe, including Romania, Hungary and Bulgaria.

On 31 May 2006, Evraz, through its holdings in Corber, acquired an interest in the coal-mining company MUK-96 from Adroliv, one of Corber's shareholders. MUK-96, in turn, 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. To maintain its 50% interest in Corber, in 2006, Evraz subscribed for new shares in Corber, issued in connection with the contribution of the share capital of MUK-96 into Corber, paying a cash consideration totaling U.S.$225 million. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions—Acquisitions/start-ups prior to 2006."

Raspadskaya produced approximately 13.55 million tonnes and 9.16 million tonnes of coking coal in 2007 and 2006, respectively.

Evraz's Reserves

Most of Evraz's ore reserves have been evaluated according to international and/or Russian methodologies.

International reporting methodologies classify a deposit as either a mineral resource or an ore reserve. Mineral resources are further divided into three categories: an *inferred mineral resource* (whose geological characteristics can be estimated with a low level of confidence), an *indicated mineral resource* (whose geological characteristics can be estimated with a reasonable level of confidence) and a *measured mineral resource* (whose geological characteristics can be estimated with a high level of confidence). Ore reserves are divided into *probable ore reserves*, which is the economically mineable part of an indicated and, in some circumstances, measured mineral resource and *proved ore reserves*, which is the economically mineable part of a measured mineral resource. The application of "modifying factors" is required for a mineral resource to become an ore reserve. See "Appendix II: Classification of Reserves and Resources".

Russian reporting methodologies classify deposit as either "explored", "evaluated" or "probable". Explored and evaluated deposits are further classified into four classes: *Category A reserves* (explored deposits that meet certain criteria with a relatively high level of certainty); *Category B reserves* (explored deposits whose boundaries have been determined with less accuracy than Category A reserves); *Category C1 reserves* (explored deposits characterised by a lower degree of accuracy than Category B reserves); and *Category C2 reserves* (evaluated deposits characterised by a lower degree of accuracy than Category C1 reserves). Deposits that do not meet the standards for classification as A, B, C1 or C2 reserves may be classified as probable deposits in categories P1, P2 or P3. Category A and Category B Russian reserves roughly correlate to proved reserves, and C1 Russian reserves roughly correlate to probable reserves. See "Appendix II: Classification of Reserves and Resources".

The international consulting firm IMC was retained to conduct an independent review of the mineral reserves at Yuzhkuzbassugol. This review included site visits to the mining properties in order to collect data and review the operations. Subsequent to these visits, IMC issued its report in April 2007.

Evraz has also consulted with certain international consulting firms in relation to its other reserves. Such consultants assisted Evraz in reviewing the methodology and data used by Evraz's mining operations and used to develop the Russian reserves estimates. Evraz believes that, as with most Russian properties, the exploration, sampling and ore body definition was generally consistent with standard practice for the industry. Based on its review of the resource estimates, the volume of exploration data, the operating history and past experience in Russia, Evraz believes that the resource estimates, on which it based its estimates of the ore reserves, are reasonable. Estimates of ore reserves are based only on that portion of the deposit that meets accepted international industry standard guidelines for classification as proved and probable reserves.

Evraz's reserves are based on drilling and geological data, and represent the part of the mineral resources that could be legally and economically extracted or produced at the time of the reserve estimation. Russian subsoil licences are issued for defined boundaries and for specific periods. However, under the Subsoil Law, licences are required to be extended by the relevant authorities at their scheduled termination at the initiative of the subsoil user if the extension is necessary to finish production in the field, provided that the licensee has not violated the conditions of the licence. As Evraz currently plans to extend its licences at their scheduled termination and believes that it will be entitled to do so, its reserves are stated based on the maximum projected useful lives of the relevant fields. However, there can be no assurance that Evraz will be able to extend its licences, or that its licences will not be withdrawn prior to their scheduled expiration. See "Risk Factors—Risks Relating to Evraz's Business and Industry—Evraz's licences may be suspended, amended or terminated prior to the end of their terms or may not be renewed".

Evraz holds a total of 41 exploration and production licences with respect to its mining operations in Russia and which expire between 2012 and 2026 (except for one held by Yuzhkuzbassugol which expires in 2053). Raspadskaya also has two exploration and production licences, which expire in 2014 and 2023. None of Evraz's mining licences has ever been revoked or suspended.

Iron ore reserves

The table below summarises Evraz's iron ore reserves according to international and Russian methodologies as at the dates indicated. Reserves at VGOK have not yet been evaluated according to international methodologies. The correlation between total proved and probable and A, B and C1 iron ore reserves may differ in the deposits that have not yet been evaluated. Moreover, the correlation may vary at different times for the same deposits.

	International Reserves Classification	**Russian Reserves Classification**				
Mine	**Total proved and probable[1]**	**A**	**B**	**C1**	**Total**	**Average Iron content[2]**
		(thousand tonnes)				*(%)*
Evrazruda[3]	461,790	8,808	129,668	325,183	463,659	37.04
KGOK[3]	1,079,630	60,174	1,015,303	5,157,003	6,232,480	16.2
Gusevogoroskoye field	1,079,630	–	433,301	2,365,920	2,799,221	15.7
Sobstvenno-Kachkanarskoye field[4]	–	60,174	520,094	2,702,031	3,282,299	16.6
VGOK[5][6]	–	N/A	N/A	N/A	82,544	32.5
Abakanskoye[3][5]	119,720	908	15,495	93,958	110,361	30.92

Notes:

(1) Limitations of the data available to Evraz do not permit a separation of proved and probable reserves.

(2) Estimated.

(3) Data according to international methodologies are presented as of 1 October 2007.

(4) In October 2006, KGOK won an auction for the licence to this field.

(5) Data according to Russian methodologies are presented as of 1 January 2008.

(6) With respect to VGOK, this table contains the total amount of Russian reserves and does not classify them into the categories A, B or C1.

Evraz believes that the present iron ore reserves are sufficient to fulfil management's 20-year, 18-year and 20-year production plan for Evrazruda, KGOK (not taking into consideration reserves from Sobstvennoye-Kachkanarskoye field) and VGOK, respectively.

Coal reserves

The table below summarises Evraz's coal reserves, including its equity investee Raspadskaya, according to international and Russian reserves methodologies as at the dates indicated. The correlation

between proved and probable and A, B and C1 coal reserves may vary at different times for the same deposits.

Mine	International Reserves Classification			Russian Reserves Classification					
	Proved	Probable	Total proved and probable	A	B	C1	Total A, B and C1	Average sulphur content[1]	Average ash content[1]
	(thousand tonnes)							*(%)*	*(%)*
Mine 12[2]	2,100	41,400	43,500	—	30,228	48,096	78,324	0.3-0.4	6.7-13
Yuzhkuzbassugol[3][4][5]	316,210	255,882	572,092	457,636	974,409	1,641,711	3,073,756	0.32-0.99	8.0-15.6
Raspadskaya[6][7]	N/A	N/A	N/A	379,542	766,703	1,221,141	2,367,386	0.32-0.99	8.0-15.6

Notes:

(1) Estimated.

(2) Data according to international methodologies are presented as of 1 January 2005. Data according to Russian methodologies are presented as of 1 January 2006.

(3) Data according to Russian methodologies are presented as of 1 January 2006.

(4) The licences for two developing mines, Kazankovskaya and Kureinskaya, are held by ZAO Kazankovskaya. A 50% shareholding in ZAO Kazankovskaya is held by Yuzhkuzbassugol, and the other 50% shareholding is held by MMK. Total A, B and C1 reserves of Kazankovskaya and Kureinskaya mines amounted to 39,527 thousand tonnes, of which 29,523 thousand tonnes are classified as A reserves, 5,012 thousand tonnes are classified as B reserves and 4,992 thousand tonnes are classified as C1 reserves. The figures for Russian Reserves for Yuzhkuzbassugol include the reserve figures for the Kazankovskaya and Kureinskaya mines. International reserves data for Yubileinaya Mine includes coking coal only.

(5) A valuation of Yuzhkuzbassugol is underway as of the date of the Prospectus.

(6) Accounted for in Evraz's consolidated financial statements on the equity basis.

(7) Data according to international methodologies are presented as of 30 June 2006.

According to the most recent evaluation of Mine 12, dated 1 January 2005, and Raspadskaya, dated 30 June 2006, reserves at each site are sufficient to fulfil management's current 20-year plan for development of each of the mines (each plan being current as of the date of the applicable evaluation date).

Vanadium Business

Evraz is the only producer of vanadium-rich ore in Russia and is one of the largest producers of vanadium slag globally. Vanadium is widely used in the production of high-strength steels, titanium and chemical and petrochemical products. Vanadium-rich ore is mined at KGOK. NTMK processes much of this ore, leading to the release of vanadium slag as a by-product, which NTMK, in turn, sells to third parties, primarily to Tula Vanadium and Chusovskoy in Russia, but also to some customers in China. Evraz also produces and sells various vanadium products at Highveld, Stratcor and Nikom. The acquisitions of Highveld and Stratcor provide Evraz with vanadium-processing capabilities and technical know-how and should allow it to extract higher margins and cash flows from vanadium products**.** In 2007, Evraz sold 22,100 tonnes of vanadium equivalent. On 20 December 2007, Evraz also acquired a 100% stake in Nikom, a ferrovanadium producer located in the Czech Republic, for cash consideration of U.S.$43 million.

In accordance with Evraz's commitments to the European Commission in connection with the acquisition of Highveld, Evraz must submit to the European Commission, by 20 April 2008, a plan for divestment of Highveld's Vanchem Operations and a 50% stake in SAJV, which accounts for 100% of Highveld's ferrovanadium and vanadium chemicals output as well as an equity interest in Mapochs Mine. Evraz has submitted its plan for divestment, which is currently under review by the European Commission. The share in the global market of the vanadium assets of which Evraz must divest is approximately 8% for finished vanadium products and approximately 30% for vanadium chemicals.

Products

Evraz produces vanadium oxide and ferrovanadium at Highveld; vanadium pentoxide, various alloys products in vanadium equivalent and the proprietary product Nitrovan® vanadium at Stratcor; and vanadium slag at both NTMK and Highveld.

Marketing and Distribution

	Year ended 31 December		
	2007	2006	2005
	(tonnes)	*(tonnes)*	*(tonnes)*
NTMK,	**10,837**	**10,696**	**8,143**
East Metals S.A./Ferrotrade Limited	**1,965**	**–**	**–**
Highveld, HochVanadium, of which	**8,957**	–	–
Vanadium slag	5,214	–	–
Ferrovanadium	3,744	–	–
Vanchem, SHJV, of which	**4,533**	–	–
Ferrovanadium	2,521	–	–
Oxides	1,584	–	–
Chemicals	428	–	–
Stratcor	**4,968**	**5,416**	**–**
Nitrovan®	2,988	2,749	–
Vanadium aluminum	729	617	–
Oxides	673	773	–
Ferrovanadium	438	1,131	–
Liquid chemicals	137	146	–
Other products	0	0	
Total Sales(1)	**31,260**	**16,112**	**8,143**

Note:

(1) The figures for total sales do not include the amounts of vanadium products sold within the group. In the year ended 31 December 2007, 7,179 tonnes of vanadium products (consisting entirely of vanadium slag) were sold within the group.

In 2007, Russian-produced vanadium slag was not used internally by Evraz, but rather was sold to third parties, mostly to Tula Vanadium and Chusovskoy in Russia and to some customers in China.

Vanadium products produced at Highveld and Stratcor are used within Evraz and also sold to third parties. Highveld sells a portion of its vanadium slag to Stratcor and the remainder to third parties.

In 2007 and 2006, Highveld sold 1,319 tonnes and 1,325 tonnes, respectively, of vanadium equivalent to the Stratcor subsidiary Vametco.

In 2007, 100% of Stratcor's vanadium production was sold to third parties.

With respect to its U.S.-based customers, Stratcor ships its vanadium products mainly by road (truck) and rail.

Market Share and Competition

Evraz's principal competitors in the vanadium products market are Golf Chemical Alloys, Treibacher, Xstrata and Glencore.

Production Facilities

Evraz produces vanadium products at Highveld, Stratcor and Nikom.

Highveld

Highveld is an integrated mining, vanadium, iron, steel and ferro-alloy producer. It is the world's leading vanadium producer and South Africa's second-largest steel maker. See "—Steel Business", above, for a discussion of Highveld's history and steel operations.

Facilities

Highveld produces vanadium products at its Vanchem plant, at SAJV (a joint venture in which Highveld holds a 50% stake) and Hochvanadium, a wholly-owned subsidiary. Vanchem produces high-grade vanadium pentoxide, ferrovanadium and, since 1993, vanadium trioxide. Highveld's steel plant produces vanadium slag, using its four shaking ladles for extraction.

In accordance with Evraz's commitments to the European Commission in connection with the acquisition of Highveld, Evraz must submit to the European Commission, by 20 April 2008, a plan for divestment of Highveld's Vanchem Operations and a 50% stake in SAJV, which accounts for 100% of Highveld's ferrovanadium and vanadium chemicals output as well as an equity interest in Mapochs Mine. Evraz has submitted its plan for divestment, which is currently under review by the European Commission. The share in the global market of the vanadium assets of which Evraz must divest is approximately 8% for finished vanadium products and approximately 30% for vanadium chemicals.

Production

Highveld is the world's leading vanadium supplier. In 2007, Highveld produced 9.8 million kg of vanadium oxide, 8.7 million kg of ferrovanadium and 66,000 thousand tonnes of vanadium bearing slag. In 2006, Highveld produced 8.7 million kg of vanadium oxide, 7.6 million kg of ferrovanadium and 65,000 thousand tonnes of vanadium bearing slag. Vanadium oxide is produced for export, while ferrovanadium is produced both for domestic and international use. Vanadium slag is used to produce an alloy for high-strength steels.

Investment programme

See "—Steel Business—Production Facilities—Highveld—Investment programme" for a description of investment projects at Highveld.

Quality control

Highveld's products adhere to strict specifications and standards. Highveld operates a quality assurance system certified under DIN EN ISO 9001:2000 and DIN EN ISO 14001:2004, and its products have received various South African and foreign certifications, including certification of its steelmaking, plates, strips, sections and bars by Lloyd's Register.

Stratcor

Stratcor is one of the world's leading producers of vanadium alloys and chemicals and is a major supplier of vanadium and tungsten products to the steel, chemical and titanium industries. It is headquartered in Danbury, Connecticut in the United States, owns plants in the United States and South Africa and bases its sales staff in Pittsburgh, Pennsylvania in the United States.

History

Stratcor was formed in 1986 by metal executives who bought the vanadium business from Union Carbide. In August 2006, the Company acquired a 72.84% stake in Stratcor. Most of the remaining shares are owned by Sojitz Corporation of Tokyo, Japan. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions—Acquisitions in 2006".

Facilities

Stratcor has two wholly-owned subsidiaries: (i) Stratcor, Inc., which has a plant in Hot Springs, Arkansas in the United States (the "Hot Springs Plant"); and (ii) Vametco Minerals Corporation ("Vametco"), which operates a vanadium mine and mill in Brits, South Africa (approximately 30 miles west of Pretoria).

Production

The Hot Springs Plant produces high-purity vanadium pentoxide, vanadium trioxide, ammonium metavanadate and various other vanadium chemicals and oxides. It has the capacity to produce 25 million pounds of vanadium pentoxide (V2O5) per annum. Stratcor sells the products made at the Hot Springs Plant to customers in the chemicals industry, as well as uses them as raw materials in the production of Stratcor® ferrovanadium and vanadium-aluminum, which, in turn, are used by the steel and titanium industries. Vametco's principal product is Nitrovan® vanadium, a proprietary vanadium-nitrogen product that efficiently strengthens steel and that Stratcor exports to steelmakers worldwide. In 2007 and 2006, Stratcor produced an aggregate of 4,341 tonnes of vanadium pentoxide, 429 tonnes of liquid chemicals, 1,404 MTV of vanadium aluminum, 1,332 tonnes of FeV and 5,542 tonnes of Nitrovan® vanadium.

Quality control

Stratcor's vanadium plants in the United States and South Africa adhere to the company's Quality Commitment. Stratcor has a quality assurance system in accordance with ISO 90001:2000.

Nikom

On 20 December 2007, Evraz acquired a 100% stake in Nikom, a ferrovanadium producer located in the Czech Republic, for cash consideration of U.S.$43 million. Nikom has one processing facility, which it uses to process vanadium received from Tula Vanadium into ferrovanadium.

Insurance

Evraz has obtained insurance for its steel production facilities that it believes covers property and business interruption risks at industry standard levels. Evraz obtained coverage of up to an aggregate of U.S.$18.7 billion for NTMK, Zapsib and NKMK from OAO SOGAZ ("SOGAZ") in December 2007, with single event coverage of up to U.S.$500 million and a deductible of U.S.$5 million for property and a time deductible of 30 days for business interruption. The policies covering the Russian steel assets are valid for one year. Evraz also has coverage of up to U.S.$0.23 billion, U.S.$0.5 billion, U.S.$1 billion and U.S.$1.3 billion for Palini, Vitkovice Steel, Oregon Steel and Highveld, respectively. Evraz has obtained coverage for Palini from ACE, for Vitkovice Steel from Kooperativa Insurance Co., for Oregon Steel from Factory Mutual and for Highveld from Mutual & Federal, Santam and Emerald.

Evraz has obtained insurance for its iron ore mining facilities that it believes covers property and business interruption risks at industry standard levels. Evraz obtained coverage of up to an aggregate of U.S.$5.3 billion for Evrazruda, KGOK and VGOK from SOGAZ in December 2007, with single event coverage of up to U.S.$100 million and a deductible of U.S.$500,000 for property and a time deductible of 21 days for business interruption. The policies are valid for one year. Following standard industry practice, Evraz does not insure its coal mining assets. Evraz has obtained insurance for Stratcor that it believes covers property and business interruption risks at industry standard levels. Evraz obtained coverage of up to an aggregate of U.S.$100 million for Stratcor from Continental Insurance Co. in May 2007, with single event coverage of up to U.S.$75 million for property and U.S.$28 million for business interruption and a deductible of U.S.$100,000 for property and a time deductible of five average daily volumes for business interruption. The policy is valid for one year. Most of Evraz's insurance policies are on balance reinsured with underwriters possessing an A-class rating.

Evraz maintains obligatory insurance policies required by relevant law and employees' insurance policies required by the terms of collective bargaining agreements at all of its facilities.

Legal Proceedings

Evraz has been and continues to be the subject of legal and arbitration proceedings and adjudications from time to time. Save for the matters specifically disclosed in this section "Legal Proceedings", neither the Company nor any of its subsidiaries is the subject of any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which Evraz is aware) during the

previous 12 months which may have, or have had in the recent past, significant effects on Evraz's financial position or profitability.

Evraz Holding, a subsidiary of the Company, together with several other corporations and individuals, was named as a defendant in a civil action that was filed in November 2004 and dismissed by the United States District Court for the District of Delaware (the "District Court in Delaware") in March 2006, which dismissal was affirmed by the United States Court of Appeals for the Third Circuit on 23 May 2007. In that action, the plaintiffs alleged conversion and violations of the United States Racketeer Influenced and Corrupt Organizations Act ("RICO") with regard to ownership and control of KGOK. The plaintiffs alleged that they lost their ownership in KGOK as a result of alleged fraud, extortion, bribery and false bankruptcy proceedings that purportedly occurred between 1999 and 2003. While these alleged events occurred prior to Evraz's acquisition of control over KGOK, the plaintiffs alleged that Evraz Holding was owned or controlled by one or more of the defendants in the matter. The plaintiffs also claimed that they had sold KGOK shares to one or more of the defendants without having actual knowledge as to the identity of the purchaser. The plaintiffs sought damages in excess of U.S.$500 million, which could be trebled if the claims under RICO had been substantiated. Evraz Holding and the other defendants sought dismissal of these claims based on, among other grounds, the principle that direct estoppel barred the plaintiffs' claims because substantially identical claims asserted by the plaintiffs in another U.S. court had previously been dismissed based on *forum non conveniens.* On 29 March 2006, the District Court in Delaware dismissed the case based on direct estoppel.

At the same time, the District Court in Delaware denied the defendants' application for an order enjoining the plaintiffs from re-filing the action in other courts. As part of the motion to dismiss, defendants had sought an injunction that would bar plaintiffs from pursuing additional litigation in the United States based on the allegations asserted in this lawsuit. In particular, in April 2005, the plaintiffs had amended their complaint in the District Court in Delaware to delete the conversion claim, and simultaneously commence a new action in the Delaware Chancery Court asserting conversion and related claims based on the same factual allegations. After the plaintiffs filed the new Chancery Court action, the defendants asked the federal District Court in Delaware to treat the request for an injunction as applying to the Chancery Court action. In the meantime, the Chancery Court action was stayed pending the outcome of the action in the District Court in Delaware. The District Court in Delaware, however, declined to issue an injunction, based on the court's uncertainty about whether it had jurisdiction over the action.

The plaintiffs appealed the dismissal of their action to the United States Court of Appeals for the Third Circuit, and the defendants cross-appealed on the injunction issue. In a decision on 23 May 2007, the Third Circuit affirmed the District Court in Delaware's dismissal of the action based on direct estoppel. With respect to the defendants' cross-appeal, the Third Circuit found that the District Court in Delaware did have a sufficient jurisdictional basis to entertain the defendants' injunction motion. The Court of Appeals therefore remanded the case to the District Court in Delaware to determine whether the injunction is appropriate in the specific circumstances of this case. The plaintiffs did not attempt to seek a rehearing from the Court of Appeals or further review in the Supreme Court in the United States.

As a result, the federal action under the RICO statute is over. The case is now before the District Court in Delaware exclusively on the narrow issue of whether to grant the injunction barring the plaintiffs from pursuing their claims in any other court in the United States, including the pending action in the Delaware Chancery Court. The injunction issue was fully briefed in the District Court in Delaware in October 2007, and no decision has been issued to date. In the meantime, the Chancery Court action remains stayed pending the final outcome of the injunction motion in the District Court in Delaware.

Evraz acquired its shares in KGOK through transactions mediated by an experienced market intermediary, and received from the sellers the limited representations and warranties that are customary in the Russian market in respect of the shares it acquired. Evraz's management believes that the plaintiffs' claims against Evraz are without merit.

Evraz's subsidiary Stratcor and Stratcor's subsidiary Vametco, together with several other corporations, were named as defendants in a civil action ("Molefi v. IBM Corporation") that was filed in July 2004 in the U.S. District Court for the Southern District of New York ("SDNY District Court"). The six

individuals who brought the claim allege that the defendants engaged in a conspiracy with the Apartheid-era government in South Africa in violation of international law and participated in "genocide, expropriation and/or other wrongful acts". The plaintiffs are seeking unspecified compensatory damages and exemplary damages of U.S.$10 billion. Stratcor has not been properly served with the complaint, though a copy of the complaint was delivered to Vametco in Brits, South Africa in July 2004. Stratcor has not filed an answer to the complaint.

On 14 September 2004, the action was stayed by the court pending the resolution of motions to dismiss in prior-filed related actions to which Stratcor is not a party but in which IBM Corporation, the lead defendant in Molefi v. IBM Corporation, is a party. These motions to dismiss were granted on 29 November 2004. The plaintiffs appealed the dismissal, which appeal was granted on 12 October 2007 by the United States Court of Appeals for the Second Circuit. While the Second Circuit remanded the action to the SDNY District Court, the defendants in those actions filed a petition for certiorari to the United States Supreme Court. That petition is currently being briefed, and a decision on whether the Supreme Court will grant review is expected in summer of 2008. Pending action by the Supreme Court and because these motions to dismiss have not yet been resolved, it remains uncertain whether and when the proceedings in Molefi v. IBM Corporation will resume.

Environmental Matters

The key environmental objective of Evraz is the consistent reduction of waste emissions and introduction of modern, environment-friendly technologies. A large amount of obsolete equipment, which failed to meet environmental standards, has already been withdrawn as part of the re-equipment and modernisation program at Evraz's production facilities.

Evraz believes that it holds all necessary environmental licences, including licences for the use of water resources, water discharges, air emissions, waste disposal and waste management, for operations at its facilities. Evraz's costs of environmental compliance include (i) payments for air and water discharges as well as waste which are within the limits set out in its licences and (ii) payments for discharge and waste in excess of these limits.

Evraz is subject to requirements to conduct reclamation and restoration activities at some of its operating facilities. Evraz has made commitments to restore certain parcels of land at its steel plants and mining sites. In order to implement this obligation, it made provisions in respect of these expenditures of approximately U.S.$122 million, U.S.$37 million and U.S.$13 million as of 31 December 2007, 2006 and 2005, respectively, based on the present discounted value of expected restoration costs. The entire provision for 2005 was earmarked solely for site restoration at its mining operations.

With respect to its Russian subsidiaries, Evraz incurred expenses for environmental protection measures per Russian statutory accounts of U.S.$198 million, U.S.$150 million and U.S.$163 million in 2007, 2006 and 2005, respectively.

Between 2008 and 2012, in order to reduce pollutant emissions, Evraz intends to spend approximately U.S.$245 million to replace old machinery and equipment. In particular, Evraz has committed to the government of Kemerovo region that it will reduce future environmental pollution and contamination in accordance with an environmental protection programme. In order to implement this obligation, between 2008 and 2011, Evraz plans to spend approximately U.S.$110 million on ecological projects in the Kemerevo region.

Evraz has conducted a number of environmental improvements at its steel-making in recent years that have reduced emissions, including a significant reduction in the volume of air discharges. At NTMK, these reductions were accomplished, in part, by commissioning three continuous casting machines as well as a reconstructed water processing plant, lowering production of NTMK's open hearth plant, reconstructing a blast furnace and a coke battery and upgrading open hearth furnaces. At Zapsib, Evraz managed to reduce air emissions through the reconstruction of its blast furnaces and a steel converter and the commissioning of of two continuous casting machines. At NKMK, Evraz closed its open hearth furnaces in April 2007, leading to the improvement of the ecological situation in Novokuznetsk. In 2007, Evraz also carried out a number of

environmental improvements at its iron ore processing facilities, including the construction of a water drainage plant at Evrazruda and the upgrade of aspiration installations at Evrazruda, KGOK and VGOK. Evraz plans to undertake activities that will further reduce environmental emissions as part of its capital investment programme. See "—Mining Business—Production facilities".

As a result of its inspection of EvrazEK, which, acquired by Evraz in 2006, is an energy-generating company that provides natural gas, coke-oven gas, steam and electricity to certain of Evraz's subsidiaries, including NKMK, Rosprirodnadzor has filed a claim for allegedly causing harm to water sources in the Kemerevo and Krasnoyarsk regions. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions—Acquisitions in 2006". According to the claim, Rosprirodnadzor is demanding that Evraz pay a fine of 141 million roubles and prevent waste from draining into nearby rivers. In 2008 and 2009, Evraz intends to construct a water treatment plant at EvrazEK in order to halt the drainage of waste waters into two local rivers. Furthermore, a court in 2006 has ordered Zapsib to decrease its pollution of nearby bodies of water and to establish a clean-up programme.

Evraz strives to implement environmental policies that are fully compliant with ISO 14001. In 2005, NTMK, Zapsib and Vitkovice Steel received certificates of compliance with ISO 14001. Highveld is certified in accordance with the DIN EN ISO 14001:2004 management system. NTMK, Zapsib, Palini, Vitkovice Steel, Highveld, KGOK and Stratcor have in place a quality assurance system in accordance with ISO 9001:2000. Zapsib has a laboratory, licensed by the Kemerovo Regional Administration and accredited by the Russian State Standards Committee, designed to monitor environmental protection and emissions and discharges. NKMK also plans to obtain an ISO 14001 certification by 2010, which will establish that the necessary management systems are in place and that it is working to sustain environmental improvements. NKMK also operates an on-site laboratory which monitors emissions and discharges and is certified by the Russian Committee for Certification and Metrology. NKMK possesses an ISO 17025 (General Requirements for the Competence of Testing and Calibration Laboratories) certification. Oregon Steel's plant in Portland, Oregon became the first plate mill in North America to be ISO 9002 certified. Highveld outfits its plants with equipment designed to prevent the discharge of effluents.

Research and Development

Evraz regularly seeks to improve the operations at its facilities, principally by improving operating efficiency, reliability and capacity. Most such efforts constitute incremental improvements to current activities and, as a result, are undertaken in connection with regular operational maintenance and monitoring. Where appropriate, Evraz seeks to register any rights to intellectual property that may result from these efforts. Evraz does not believe that its research and development activities are significant to its results of operations.

Employees

The table below sets out the number of employees of Evraz as of 31 December 2007, 2006 and 2005.

	2007	2006	2005
Company			
Steel segment			
NTMK	29,621	29,511	30,364
Zapsib	25,360	28,750	28,532
NKMK	8,754	12,295	13,125
Palini[(1)]	129	123	114
Vitkovice Steel[(2)]	1,681	1,576	1,615
Oregon Steel[(3)]	2,219	–	–
Other	292	367	583
Mining segment			
Evrazruda[(4)]	10,606	11,464	11,185
KGOK	8,658	9,665	10,077
VGOK	6,378	7,011	7,182
Yuzhkuzbassugol[(5)]	19,018	20,400	22,000
Mine 12[(6)]	1,335	1,368	1,440
Neryungri Ugol[(7)]	–	466	559
Other	202	866	918
Vanadium segment			
Highveld[(8)]	3,466	3,842	–
Stratcor[(9)]	572	568	–
Other operations			
Nakhodka Sea Port	2,724	2,876	3,022
Evraz Holding	843	854	802
Other[(10)]	4,674	2,449	277
Total[(11)]	**126,562**	**130,041**	**131,795**

Notes:

(1) Evraz acquired Palini in August 2005.

(2) Evraz acquired Vitkovice Steel in November 2005.

(3) Evraz acquired Oregon Steel in January 2007.

(4) Evraz acquired Evrazruda in March 2005 from an entity under common control. In accordance with IFRS, Evrazruda has therefore been consolidated with effect from 31 December 2001 as if it had been acquired at such date.

(5) Evraz acquired a 50% stake in Yuzhkuzbassugol in December 2005 and the remaining 50% stake in Yuzhkuzbassugol in June 2007.

(6) Evraz acquired control over Mine 12 in March 2005.

(7) Evraz disposed of its stake in Neryungri Ugol in 2006.

(8) Evraz acquired a 24.09% stake in Highveld in June 2006 and, by the end of September 2007, had an 80.9% interest in the company. Information in this row reflects employees in both Highveld's steel and vanadium businesses.

(9) Evraz acquired a 72.84% stake in Stratcor in August 2006.

(10) Includes some operations classified for accounting purposes in the steel or mining segment.

Evraz is currently seeking to optimise its personnel structure, primarily through a controlled reduction in the number of its employees, outsourcing non-production activities and reducing administrative staff. While Evraz's productivity (as measured by tonnes of production per employee) is below western European standards, Evraz's production facilities in Russia are the principal employers in their respective towns and regions, and reductions in the workforce are generally constrained by relevant Russian labour legislation as well as other political and social considerations. For these reasons, Evraz manages reductions in the number of personnel it employs gradually and in a controlled manner. In 2008, Evraz expects to reduce its workforce by 6,000 employees in Russia as part of its effort to optimise its human resources.

Russian production facilities

Over 70% of employees of Evraz's Russian production facilities were members of trade unions at the end of 2007. Each of Evraz's Russian production facilities enters into collective bargaining arrangements with its trade unions bi-annually. The current agreements, which are based generally on the tariff agreement for the Russian steel and mining sectors (to which Evraz is a signatory), provide for an increase in employee wages within the approved budgets and contain no restrictions on layoffs.

There have been no strikes or other cases of industrial action at Evraz's Russian production facilities since Evraz acquired each of these facilities. Evraz offers attractive employment opportunities – including above-average salaries – in the respective regions where its subsidiaries operate. Evraz's management maintains a good working relationship with the trade unions.

Evraz makes defined contributions to state pension funds for its employees in accordance with relevant Russian legislation, and also provides pension and other post-employment benefits to its employees in accordance with collective bargaining agreements. Defined benefit pensions and other post-employment benefits consist of regular lifetime pension payments and lump-sum amounts payable at the retirement date. These benefits generally depend on years of service, level of compensation and amount of pension payment under the collective bargaining agreement. Evraz pays these benefits when they fall due for payment. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Contractual obligations and commercial commitments".

Production facilities outside Russia

The number of unionised employees at Evraz's production facilities outside of Russia vary depending on the facility and its country of location. At the end of 2007, 80% and 68% of employees at Palini and Vitkovice Steel, respectively, were members of a trade union; 51% of Oregon Steel's employees were unionised, while 100% of Stratcor's U.S. staff and none of Claymont Steel's employees had union membership; and 83% of Highveld's staff, including 65% of Vametco's employees, belonged to a trade union. Each of Evraz's production facilities outside of Russia enters into collective bargaining arrangements with its trade unions either bi-annually, in the case of Palini, or every 3-5 years, in the case of the other facilities. There have been no strikes or other cases of industrial action at Evraz's production facilities outside Russia since Evraz acquired each of these facilities.

RELATED PARTY TRANSACTIONS

The following is a summary of Evraz's most significant transactions with related parties for the years ended 31 December 2007, 2006 and 2005. For further details of these transactions, see Note 17 to the Annual Financial Statements.

In the ordinary course of its business, Evraz has engaged, and continues to engage, in transactions with parties that are under common control with Evraz or that are otherwise related parties to Evraz. Transactions with entities under common control with Evraz constitute transactions with parties that have the same beneficial owners as the Company, or who are also members of the Board of Directors. See "Principal Shareholders". Other than the transactions with entities under common control described herein, Evraz did not engage in any transactions with members of its Board of Directors during the period under review. Transactions with Evraz Holding and other entities that are consolidated on the basis of option agreements are not considered to be transactions with related parties. See Note 17 to the Annual Financial Statements.

Evraz seeks to conduct all transactions with entities that are under common control or otherwise constitute related parties on market terms and in accordance with relevant Russian and other legislation. However, there can be no assurance that any or all of these transactions have been or will be conducted on market terms. See "Risk Factors—Risks Relating to the Russian Federation—Legislative and Legal Risks—Evraz may be subject to vaguely drafted Russian transfer pricing rules."

The Board of Directors has adopted certain procedures relating to the approval of transactions with related parties, including requiring the approval of a majority of independent directors for any transactions exceeding €30 million in value, except with respect to intra-group loans. See "Directors and Management—Corporate Governance" for a discussion of these procedures.

Significant transactions with related parties for the years ended 31 December 2007, 2006 and 2005 are set out below.

Purchases of Raw Materials

Iron ore and coking coal

Evraz purchases significant quantities of raw materials for use in its steel making operations, primarily iron ore and coking coal, from related parties. In particular, in 2007, Evraz purchased coal from OOO Raspadsky Ugol ("Raspadsky Ugol"), a subsidiary of Raspadskaya. Raspadsky Ugol represents approximately 16% of the volume of Evraz's coal purchases. In 2007, coal was sold at market prices prevailing on the respective dates of the transactions.

In 2007, Evraz also purchased coal from Yuzhkuzbassugol. Yuzhkuzbassugol was the Company's associate. In 2005, the Evraz sold coal to processing mills of Yuzhkuzbassugol. The transactions were made at market prices prevailing on the respective dates of the transactions. The entity provided approximately 50% of the volume of Evraz's coal purchases. In 2007, Yuzhkuzbassugol became a Evraz subsidiary.

Other

Evraz also purchases raw materials and other supplies for its steel making and mining operations from other related parties. These transactions with related parties for the years ended 31 December 2007, 2006 and 2005 are summarised below.

EvrazEK, an energy generating company, was an entity under common control. In 2006, Evraz acquired the entity. EvrazEK supplies natural gas, steam and electricity to certain Evraz subsidiaries and purchases steel products and materials from the Evraz companies.

KMK-Energo, an entity that was under control of an ultimate principal shareholder of the Company, supplied electricity to certain Evraz subsidiaries. In 2006, KMK-Energo was liquidated and ceased to be a related party with the Company.

Marteck Shipping Limited ("Marteck Shipping"), an entity that was under control of an ultimate principal shareholder of the Company, provided freight services to the Company. At the end of 2005, Marteck Shipping discontinued entering into new shipping contracts, and the business was assumed by the Company. Total purchases from Marteck Shipping amounted to U.S.$40 million in 2005. These purchases were made at market prices prevailing on the respective dates of the transactions

The following table sets forth Evraz's purchases of raw materials from certain related parties, consisting primarily of iron ore, coking coal, electricity and transportation, for the periods indicated.

	Year Ended 31 December		
	2007	2006	2005
	(millions of U.S. dollars)		
Raspadsky Ugol	192	80	147
Yuzhkuzbassugol	121	279	426
KMK Energo	–	–	2
EvrazEK	–	104	75
Marteck Shipping	–	–	40

Sales of products and services

Evraz also enters into agreements for the sale of its steel and other products and services with related parties. These transactions are discussed in further detail below.

OOO Evrazmetall-Centre ("Evrazmetall-Centre"), OOO Evrazmetall-Sibir ("Evrazmetall-Sibir"), OOO Evrazmetall-Ural ("Evrazmetall-Ural"), OOO Evrazmetall-Povolzhie ("Evrazmetall-Povolzhie"), OOO Evrazmetall-Severo-Zapad ("Evrazmetall-Severo-Zapad") and OOO Evrazmetall-Chernozemie ("Evrazmetall-Chernozemie"), entities under common control with the Company, have purchased steel products from Evraz. Total sales to Evrazmetall-Centre for the years ended 2007, 2006 and 2005 amounted to U.S.$144 million, U.S.$141 million and U.S.$100 million, respectively. Total sales to Evrazmetall-Sibir for the years ended 2007, 2006 and 2005 amounted to U.S.$137 million, U.S.$146 million and U.S.$123 million, respectively. Total sales to Evrazmetall-Ural for the years ended 2007, 2006 and 2005 amounted to U.S.$157 million, U.S.$150 million and U.S.$67 million, respectively. Total sales to Evrazmetall-Povolzhie for the years ended 2007, 2006 and 2005 amounted to U.S.$65 million, U.S.$62 million and U.S.$22 million, respectively. Total sales to Evrazmetall-Severo-Zapad for the years ended 2007, 2006 and 2005 amounted to U.S.$46 million, U.S.$45 million and U.S.$20 million, respectively. Total sales to Evrazmetall-Chernozemie for the years ended 2007, 2006 and 2005 amounted to U.S.$65 million, U.S.$53 million and U.S.$18 million, respectively. 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 Company sold its ownership interests in these companies, and they ceased to be related parties to the Company.

In 2006 and 2005, Evraz subsidiaries sold steel products and materials to EvrazEK, (a company described under "—Purchase of Raw Materials—Other"). Total sales to EvrazEK amounted to U.S.$23 million and U.S.$14 million, respectively.

Sojitz, a Japanese trade house and minority shareholder in Stratcor, acted as a sales agent of Stratcor in 2007 and 2006. In 2006, total sales to Sojitz amounted to U.S.$18 million.

Loans with Related Parties

Loans to related parties

CGL was the Company's parent until 3 August 2006. In 2005, the Company provided a U.S.$200 million short-term loan to CGL which bore interest of 4.25% per annum. The loan was fully repaid in 2005.

Marens is an entity under control of an ultimate principal shareholders of the Company. In 2007, the Company granted a short-term interest-bearing loan to Marens for financing the construction of the office building to be rented by one of the Company's subsidiaries.

Loans from related parties

ZAO SEAR MF ("SEAR MF") is an entity under control of an ultimate principal shareholder of the Company. The accounts payable to SEAR-MF represent zero-interest loans made to Yuzhkuzbassugol.

Crondale is an entity under control of an ultimate principal shareholder of the Company. At 31 December 2005, accounts payable to Crondale represented the Company's liabilities in connection with the purchase of a 50% share in Yuzhkuzbassugol. In January 2006, the Company fully repaid its liabilities to Crondale.

Purchase of the Ukrainian Assets

In December 2007, Evraz entered into an agreement with Lanebrook with respect to the purchase of the Ukrainian Assets and made a prepayment in cash of U.S.$1.06 billion and transferred 4,195,150 shares in Evraz (subject to adjustment) as consideration. On 14 April 2008, Evraz announced the closing of the first stage of the acquisition of the Ukrainian Assets. For further information concerning this transaction, see "Description of Business—Overview".

PRINCIPAL SHAREHOLDERS

The table below sets forth certain information regarding the ownership of the Company as of 31 March 2008, according to the Company's share register:

Shareholder	Percentage of Shares
Lanebrook Limited[(1)]	72.9%
The Bank of New York Depository (Nominees) Limited[(2)]	27.1%
Total	**100.0%**

Note:

(1) Includes one share held by TMF, a Luxembourg independent management company of the Issuer. Lanebrook will acquire an additional 4,195,150 in connection with its sale of the Ukrainian Assets to Evraz, raising its shareholding in the Company to 73.8%.

(2) The Bank of New York serves as Depositary for the Company's Global Depositary Receipts programme.

Lanebrook has informed the Company that Lanebrook is controlled by Greenleas and Crosland Global. The Company is aware of information published in the media suggesting that Greenleas was controlled by Millhouse LLC and Crosland Global by Messrs. Alexander Abramov and Alexander Frolov, but Lanebrook has not provided the Company with any information regarding such holdings.

The Company placed GDRs, which were admitted to trading on the London Stock Exchange on 7 June 2005. Each GDR represents an interest in one-third of one Share.

The Company has adopted procedures that establish general parameters for the management and conduct of its business, including requiring the affirmative vote of independent members of its Board of Directors for approval of certain transactions with related parties and establishing a Remuneration Committee and an Audit Committee. See "Directors and Management—Corporate Governance".

DIRECTORS AND MANAGEMENT

Directors

The Company's directors are:

Name	Year of Birth	Position
Alexander Frolov	1964	Chairman
Alexander Abramov	1959	Director
Otari Arshba	1955	Director
James Campbell	1949	Director
Philippe Delaunois	1941	Director
Olga Pokrovskaya	1969	Director
Terry Robinson	1945	Director
Eugene Shvidler	1964	Director
Eugene Tenenbaum	1964	Director

Alexander Frolov was elected Evraz's Chairman of the Board of Directors effective 1 May 2006 and CEO effective 19 January 2007. Mr. Frolov joined the Original Group in 1994, and subsequently held various positions at EvrazMetal and Evraz. Mr. Frolov served as Evraz's Chief Financial Officer from 2002 through 2004 and as Senior Executive Vice President from 2004 through April 2006, responsible for the functions of strategy and business development, finance, corporate affairs and communications, business processes, human resources, legal affairs and information technology. Prior to joining Evraz, Mr. Frolov worked as a research fellow at the I.V. Kurchatov Institute of Atomic Energy. Mr. Frolov graduated from the Moscow Institute of Physics and Technology with a first-class honours degree in 1987, and he received a Ph.D. in Physics and Mathematics in 1991 from the Moscow Institute of Physics and Technology.

Alexander Abramov is a member of the Board of Directors (with no executive responsibilities). He has served in similar roles with Evraz or its predecessors since founding EvrazMetal, the predecessor of Evraz, in 1992, and was a member of the Original Group. Until 1 January 2006, he served as both Chairman of the Board of Directors and CEO; he continued to serve as Chairman of the Board until 1 May 2006. Mr. Abramov is also a member of the board of directors of NTMK and Zapsib. Mr. Abramov previously worked at the Institute of High Temperatures of the USSR Academy of Sciences. Mr. Abramov graduated from the Moscow Institute of Physics and Technology with a first-class honours degree in 1982, and he holds a Ph.D. in Physics and Mathematics. Mr. Abramov is a Bureau member of the Council of Entrepreneurs and a member of the Council of Entrepreneurs set up by the Russian government.

Otari Arshba has been a member of the Board of Directors since April 2005. Mr. Arshba joined the Original Group in 1998, and, until December 2003, served as Evraz's Senior Vice President for Corporate Communications. Mr. Arshba worked in the state security apparatus of the Russian Federation until 1994. Mr. Arshba 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. In December 2003, Mr. Arshba was elected a deputy of the State Duma. Russian law provides that a deputy of the State Duma may not hold positions in the management bodies of business entities (such as the Company). Violations of this prohibition may result in the release of the individual by the Duma from his or her duties as a deputy. Mr. Arshba has received a letter from the Secretariat of the Head of the State Duma stating that the Secretariat does not object to Mr. Arshba's participation in Evraz's Board of Directors on an unpaid basis.

James Campbell has been a member of the Board of Directors since April 2005. Mr. Campbell is currently the Chairman of Minara Resources Ltd. (formerly Anaconda Nickel) in Australia. From 1975 until 2002, he served in various positions with the Anglo-American group of companies, including, from 1984 to 2002, with Amcoal, then the coal division of Anglo-American. From 1999 through 2002, he served as Executive Director of Anglo American plc; Chairman of Anglocoal (formerly Amcoal) and AngloBase Divisions; and a non-executive director of Anglo Platinum, Anglogold and Anaconda Nickel Ltd. Mr. Campbell received a B.Sc. in Mathematical Physics from Queen's University, Belfast and an M.A. in

Engineering Management from the University of Cambridge. Mr. Campbell is currently Chairman of the Strategy Committee.

Philippe Delaunois has been a member of the Board of Directors since January 2007. Mr. Delaunois is currently Chairman of the Board at CFE, Mediabel and Alcopa. He is also a member of the board of directors at Cumerio S.A., Shanks plc (U.K.), Mobistar, ING Belgium and Suez Energie Services (France). Mr. Delaunois has been involved in the Belgian steel industry for 35 years, starting as a field engineer in the long products mills. From 1981 to 1999, he held managing positions at Cockerill Sambre, a Belgian steel group, including CEO from 1987 to 1999. Mr. Delaunois received a degree of engineering from the State University of Mons, Belgium and studied business at Harvard Business School. Mr. Delaunois is currently Chairman of the Remuneration Committee.

Olga Pokrovskaya has been a member of the Board of Directors since July 2006. Since July 2006, Ms. Pokrovskaya has served as head of corporate finance at Millhouse LLC. Beginning in 1997, Ms. Pokrovskaya held several key finance positions with Sibneft, including head of corporate finance. From 1991 to 1997, she worked as a senior audit manager at the accounting firm Arthur Andersen. Ms. Pokrovskaya graduated with honors from the State Financial Academy in 1991. Since January 2008, Ms. Pokrovskaya has been serving as a member of the board of directors of Highland Gold.

Terry Robinson has been a member of the Board of Directors since April 2005. Terry Robinson is a qualified chartered accountant and has 40 years international business experience. He was 20 years at Lonrho PLC, the international mining and trading group; and the last 10 years as a main board director. Since 1998, he has been variously occupied with international business recovery engagements and investment projects including natural resources in the U.K., Russia, the CIS and Brazil. He is an independent non-executive director of the Toronto-listed Katanga Mining Limited with copper and cobalt mining operations in the DRC and is a member of Katanga's audit committee and compensation committee and until recently was Managing Director of Interactive Records Management Ltd., a private equity controlled investment. He is a member of the Institute of Chartered Accountants of England and Wales' non executive director special interest group. Mr. Robinson is currently Chairman of Evraz's Audit Committee and a member of Evraz's Strategy Committee.

Eugene Shvidler has been a member of the Board of Directors since July 2006. He currently serves as head of Millhouse LLC. From 1995 to 2005, he worked for the Russian oil major Sibneft, as Senior Vice President from 1995 through 2005 and as Chief Executive Officer from 1998 to 2005. Prior to that, he was a member of the international tax group at Deloitte & Touche in New York from 1992 until 1994. Mr. Shvidler is a graduate of the I. M. Gubkin Moscow Institute of Oil and Gas with a specialty in applied mathematics and received an MBA in Finance and an M.S. in International Tax from Fordham University in 1991. Since January 2008, Mr. Shvidler has been serving as a member of the board of directors of Highland Gold.

Eugene Tenenbaum has been a member of the Board of Directors since July 2006. Mr. Tenenbaum is currently Managing Director of Millhouse Capital UK Ltd and serves on the Board of Chelsea FC Plc. He served as Head of Corporate Finance for Sibneft in Moscow from 1998 through 2001. Mr. Tenenbaum joined Salomon Brothers in 1994 as Director for Corporate Finance where he worked until 1998. Prior to that, he spent five years in Corporate Finance with KPMG in Toronto, Moscow and London, including three years (1990-1993) as National Director at KPMG International in Moscow. Mr. Tenenbaum was an accountant in the Business Advisory Group at Price Waterhouse in Toronto from 1987 until 1989. Mr. Tenenbaum is a chartered accountant and holds a bachelors degree in Commerce and Finance from the University of Toronto. Since January 2008, Mr. Tenenbaum has been serving as a member of the board of directors of Highland Gold.

Senior Management

Members of Evraz's senior management, other than its executive director, Mr. Frolov, are:

Pavel Tatyanin (1974) is Senior Vice President and Chief Financial Officer. Prior to joining Evraz in 2001, Mr. Tatyanin worked for OAO Financial Corporation Adamant. He holds a masters degree in economics from Moscow State University.

Leonid Kachur (1961) is Senior Vice President responsible for Business Security, joining Evraz in 1993. Mr. Kachur holds a masters degree in engineering.

Giacomo Baizini (1970) is Vice President of Product and Resource Management. Mr. Baizini joined Evraz Holding in Moscow in 2005. Between 1998 and 2005, Mr. Baizini was a consultant with McKinsey's Milan and Tokyo offices. From 1994 to 1998, Mr. Baizini was a consultant with JMAC, a major Japanese consulting firm. Mr. Baizini holds a degree in physics from Oxford University.

Vladimir Bruev (1955) is Vice President of Mining. Mr. Bruev joined Evraz in 2004. Prior to joining Evraz, Mr. Bruev held a variety of positions with MGOK and Sokolov-Sarbajsk GOK. Mr. Bruev graduated from the Industrial University in Kazakhstan.

Natalia Cheltsova (1974) is Vice President responsible for Legal Affairs. Ms. Cheltsova joined the Company in 2006. Prior to joining Evraz, she worked at the Russian pulp and paper major Ilim Pulp Group from 1997 through 2006, initially as Legal Advisor and from 1999 as Director, Legal Affairs. Ms. Cheltsova graduated from the Law Faculty of St. Petersburg State University with honours in 1996. She received a Ph.D. in Law from the Moscow Humanitarian University in 2005.

Igor Gaponov (1974) is Vice President of Information Technologies. He joined Evraz in 2002. Previously he worked for UNICON/MS Consulting group and Deltek Systems Inc. in McLean, USA. He graduated from Moscow State Academy of Management in 1997.

Daniel Harris (1954) is Vice President of Vanadium. Mr. Harris joined Evraz in 2007. Between 1997 and 2007, Mr. Harris held various senior management positions at Strategic Minerals Corporation. Previously, Mr. Harris worked at Union Carbide Corporation in a number of operations and management positions. Mr. Harris graduated from the University of Nevada in 1977 with a degree in chemical engineering.

Natalia Ionova (1966) is Vice President of Human Resources. Mrs. Ionova, who joined Evraz in 2006, is responsible for HR policy and recruiting. Prior to joining Evraz, she held various supervisory positions in the HR departments of "Russian Gold" and "NDK Merkury". She graduated from the Management Faculty of the Russian State University of Physical Training, Sports and Tourism (RGUFK) in 1987. She holds a PhD degree in Psychology.

Irina Kibina (1964) is Vice President of Corporate Affairs and Investor Relations. Ms. Kibina joined Evraz in 2005. Previously, she worked at SUN Interbrew Ltd. and as a Vice Mayor and a Deputy Head of the Duma in Novgorod. She received an EMBA from Portland State University in 1993 and graduated from the Pew Program at Georgetown University School of Foreign Service in 1999.

Maksim Kuznetsov (1968) is Vice President of Metallurgy, joining Evraz in 2007. Prior to joining Evraz, Mr. Kuznetsov worked at RAO UES from 1998 through 2007; as Chief Executive Officer of OAO Volgogradenergo between 2001 and 2005, and as Chief Executive Officer of OAO OGK-3 from 2004 through 2007. Previously, Mr. Kuznetsov was head of Evroazmetall International. Mr. Kuznetsov graduated from Moscow Institute of Physics and Technology.

Giuseppe Mannina (1952) is Vice President of Sales and Logistics, joining Evraz in 2002. He previously held positions at East Metals S.A., Duferco S.A. and Siderius, Inc. He received a degree in Business Administration from the University of Palermo in 1975.

Vyacheslav Pavlov (1949) is Vice President of Technical Development. Mr. Pavlov joined Evraz in 2007. Previously, he held operations and management positions at a number of Russian steel plants, including the position of Managing Director of NKMK from 2003 through 2007. Mr. Pavlov graduated from the Ural Polytechnic University.

Timur Yanbukhtin (1964) is Vice President of Strategy and Corporate Finance. He joined Evraz in 2002. Prior to joining Evraz, he worked at OOO Yandex, Alfa Bank, Salomon Brothers and Pioneer Investments. Mr. Yanbukhtin received a masters degree in economics from Yale University in 1994.

Alexey Borisov (1965) is Vice President of Coal Assets, joining Evraz in 2008. From 2006 through 2008, Mr. Borisov was General Director of the Gukovugol coal company. Previously, Mr. Borisov held various positions at the Russky Ugol coal company, SUEK and Vorkutangol. Mr. Borisov graduated from the Moscow Mining Institute and holds a Ph.D. in engineering.

The business address of all of the Company's directors and senior managers is 1 Allée Scheffer, L-2520 Luxembourg.

Corporate Governance

Members of the Board of Directors are elected by a majority vote of shareholders at the annual general meeting. It is Evraz practice that Directors are elected for one-year terms. They may be re-elected an unlimited number of times. The Board of Directors currently consists of nine members, three of whom are deemed to be independent pursuant to criteria adopted by the Board of Directors on 25 April 2005. See "The Company—Board of Directors". Messrs. James Campbell, Philippe Delaunois and Terry Robinson serve on the Board of Directors pursuant to agreements. These agreements have a duration of one year and provide for identical terms for payment and level of compensation and reimbursement of certain expenses. These agreements do not provide for any benefits upon termination of the directorship. The Company also provides directors and officers' liability insurance to each of its directors.

On 25 April 2005, the Board of Directors adopted a number of resolutions that establish the general parameters of the Company's procedures for the management and conduct of its business. These include:

(i) So long as the Board of Directors is able to conclude that it has "Independent Directors" (having regard to Section A.3.1 of the 2003 Combined Code on Corporate Governance, as the same may be amended from time to time, or any successor provision), it is the intention of the Board of Directors that any "transaction with a related party" by the Company or any of its consolidated subsidiaries with a value of more than €30 million, except with respect to intra-group loans, shall require the affirmative vote of a majority of such Independent Directors. For these purposes, a "transaction with a related party" is defined by reference to Chapter 11 of the UK Listing Rules, as amended, which currently defines such a transaction as (i) a transaction (other than a transaction of a revenue nature in the ordinary course of business) between a company, or any of its subsidiary undertakings, and a related party; (ii) any arrangements pursuant to which a company, or any of its subsidiary undertakings, and a related party each invests in, or provides finance to, another undertaking or asset; or (iii) a transaction (other than a transaction of a revenue nature in the ordinary course of business) between a company, or any of its subsidiary undertakings, and any person who, or other entity which, exercises significant influence over the company. For the avoidance of doubt, any transaction between members of the group comprising the Company and its consolidated subsidiaries or any transaction between any member of such group and any other person who would be a related party only because of an interest held in that person through one or more members of such group is not considered a "transaction with a related party" pursuant to a resolution of the Board of Directors.

(ii) It is the intention of the Board of Directors to instruct consolidated subsidiaries of the Company that approval of the Board of Directors shall be required for any consolidated subsidiary of the Company to make any acquisition or disposal of assets or businesses valued at more than €30 million other than in the ordinary course of business; to undertake any borrowings from, loans to or guarantees or the granting of security in respect of the financial obligations of or obligations owed to any third party, valued at more than €30 million; and for any purchase of shares in any of the Company's consolidated subsidiaries. The Board of Directors resolved that the approval of the Board of Directors shall not be required for any transactions between members of Evraz's consolidated group.

On 24 July 2006, at an extraordinary shareholders meeting held in Luxembourg, the shareholders amended the Articles of the Company (the "Amendments"), which amendments became effective on 9

August 2006. The Amendments confirmed a threshold of €30 million with respect to transactions that do not require an approval of the Board of Directors.

The Board of Directors has also established criteria by which to assess whether a director is an independent director, taking into consideration the character and judgement of each member of the Board of Directors. Directors are considered independent if there are no relationships or circumstances which are likely to affect, or could appear to affect, their judgement. Such relationships or circumstances include the following: (i) the director has been an employee of Evraz within the last five years; (ii) the director has, or has had within the last three years, a material business relationship with the Company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the Company; (iii) the director has received or receives additional remuneration from the Company apart from a director's fee, participates in the Company's share option or a performance-related pay scheme or is a member of the Company's pension scheme; (iv) the director has close family ties with any of the Company's advisers, directors or senior employees; (v) the director holds cross-directorships or has significant links with other directors through involvement in other companies or bodies; (vi) the director represents a significant shareholder; or (vii) the director has served on the board for more than nine years from the date of such director's first election. If the Board of Directors determines that a director is independent notwithstanding the existence of such relationships or circumstances, the Board of Directors must state its reasons for doing so.

The Board of Directors may alter the foregoing procedures by passing an ordinary resolution, and the Company would expect to issue an explanatory press release if these procedures are altered in any material respect.

Remuneration Committee

The Remuneration Committee consists of Mr. Philippe Delaunois (acting as chairman), Mr. Alexander Frolov, Ms. Natalia Ionova, Mr. Eugene Tenenbaum and Mr. James Campbell, and Mr. Dmitry Melnikov has been appointed as secretary of the Remuneration Committee. The Remuneration Committee is authorised to carry out its functions as described or provided for in the Articles as well as any other functions as may, from time to time, be delegated to it by the Board of Directors. These responsibilities include determining and coordinating with the Board the policy on remuneration of the Chairman, the executive directors, the CEO and the senior managers and carrying out performance evaluations for the purpose of setting the annual compensation of such directors and officers; making recommendations respecting long-term incentive plans, including the use of equity-based plans; and reviewing and discussing with the Board plans for development and succession planning of the CEO and the senior managers. See "The Company—Board of Directors".

Audit Committee

The Audit Committee consists of Mr. Terry Robinson (acting as chairman), Ms. Olga Pokrovskaya and Mr. John Heywood (an independent financial advisor), and Mr. Alexey Melnikov has been appointed as Secretary of the Audit Committee. The Audit Committee is authorised to carry out its functions as described or provided for in the Articles as well as any other functions as may, from time to time, be delegated to it by the Board of Directors relating to such matters as internal and external audit, financial reporting, internal control and risk management and the appointment, compensation, retention and oversight of the Company's independent auditors. See "The Company—Board of Directors". The Audit Committee recommends the auditor for approval by the Board of Directors.

Strategy Committee

The Strategy Committee consists of Mr. James Campbell (acting as chairman), Mr. Terry Robinson, Mr. Pavel Tatyanin and Timur Yanbukhtin and Mr. Ivan Osadchy has been appointed as Secretary of the Strategy Committee. The Strategy Committee is authorised to carry out its functions as described or provided for in the Articles as well as any other functions as may, from time to time, be delegated to it by the Board of Directors. These responsibilities include analysing the global market; reviewing the performance of enterprises that are members of the Group; developing priorities with respect to investment projects; reviewing the Group's long-term growth strategy; and reviewing the standardisation of equipment operations

in mining sectors and the technical development of management and training. See "The Company—Board of Directors".

Management of Subsidiaries

In order to achieve integrated control over the activities of its operating facilities, Evraz established EvrazHolding LLC ("EvrazHolding") and Evraz Overseas SA ("Evraz Overseas") as centralised management companies. EvrazHolding oversees management of Evraz's Russian assets; Evraz Overseas oversees management of Evraz's assets outside of Russia. EvrazHolding is consolidated into the Annual Financial Statements on the basis of a currently exercisable option agreement to acquire the shares in EvrazHolding.

In November 2003, NTMK and NKMK appointed EvrazHolding as its management company for a period of five years. In April 2004, Nakhodka Sea Port appointed EvrazHolding as its management company for five years. In March and April 2005, Mine 12, Evrazruda and KGOK, and, in April 2007, EvrazEK appointed EvrazHolding as their management company, in each case for a period of five years. The management contracts transfer all executive powers that are not under direct control of the relevant board of directors or shareholders' meetings to EvrazHolding.

Evraz Overseas was set up by Evraz in April 2007 and may engage in the following activities: investing in securities; conducting leasing operations; engaging in sales as well as providing services to the group's companies, including administrative services, accounting and consultation on commercial, strategic and legal issues; sale/purchase and management of property.

EvrazHolding acts as the sole executive body of each of the companies that it manages, which responsibilities include entering into transactions on behalf of each company (within the limits provided for in the legislation), operating its bank accounts (provided that management of each of the companies it manages signs the relevant payment instructions) and representing it before various state and judicial agencies. Management is exercised by an officer of EvrazHolding acting under a power of attorney. Payments received by EvrazHolding are applied fully against its operating expenses and reflected fully in the appropriate line item of Evraz's consolidated financial statements.

Although historically each operating company has managed its human resources, EvrazHolding is gradually assuming this management function with respect to the Company's Russian subsidiaries. EvrazHolding also manages the Company's policy with respect to employee relations with the top management of its Russian subsidiaries. EvrazHolding seeks to create a team of highly-qualified, talented and hard-working personnel dedicated to the resolution of technical, social and economic challenges. These objectives form the basis for the criteria for Evraz's processes for hiring personnel, paying workers and motivating, training and developing personnel. The appointment of EvrazHolding as a management company serves to centralise all management functions in a single body, and facilitates the adoption of standard operating and financial management practices across all of Evraz's operations. The delegation of management functions to EvrazHolding also serves to improve the efficiency of management activities, by reducing the number of transactions entered into in the ordinary course of business that are subject to the approval of minority shareholders, for example, under the Russian Law on Joint Stock Companies (in particular, transactions with other subsidiaries of the Company).

Prior to October 2002, a traditional reporting structure existed at each of NTMK and Zapsib, under which heads of departments reported to the managing director, appointed by the relevant board of directors. However, this management and reporting structure was not sufficiently flexible and did not allow for Evraz to realise maximum efficiencies, such as economies of scale. As part of the new management structure, senior managers of NTMK and Zapsib became employees of EvrazHolding. Upon signing of the management agreement between EvrazHolding and NKMK, part of the senior management of NKMK was also transferred to EvrazHolding, which effectively implemented at NKMK a reporting system similar to that in place at NTMK and Zapsib. A similar structure has been adopted at the Company's other Russian subsidiaries that have appointed Evraz Holding as the management company.

The Board of Directors determines the strategies to be employed by Evraz, and EvrazHolding, in turn, implements these strategies with respect to each company that it manages, subject to approval by the boards of directors of such companies. Decisions by EvrazHolding are subject to the corporate governance procedures that have been adopted by the Board of Directors, as discussed above. See "—Corporate Governance". For a discussion of revenues and expenses attributable to EvrazHolding, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for the Years Ended 31 December 2007 and 2006". EvrazHolding has established standard procedures for the companies it manages, including procedures related to budgeting, the approval of investments and capital expenditures and management information systems.

In order to improve management oversight, Evraz has introduced SAP enterprise resource planning in many of its operating facilities. SAP is in place at NTMK, Zapsib and NKMK. It has also been introduced at KGOK, and Evraz expects SAP to be introduced at its other mining facilities, Evrazruda, VGOK, Mine 12 and Yuzhkuzbassugol within the next 18 months. Highveld has also begun to use SAP.

Remuneration of Directors and Management

The aggregate amount of remuneration paid by Evraz to the Company's non-executive directors as a group during the year ended 31 December 2007 was U.S.$1 million in salary. The aggregate amount of remuneration paid by Evraz to its key management personnel, including its executive director and senior management of its subsidiaries, as a group (48 individuals) during the year ended 31 December 2007 was approximately U.S.$45 million in salary and bonuses. EvrazHolding paid substantially all of the remuneration awarded to the directors and senior management, except with respect to the senior management of Yuzhkuzbassugol, which does not have a management agreement with EvrazHolding. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for the Years Ended 31 December 2007 and 2006—General and administrative expenses—Other operations". There are no potential conflicts of interest between any duties to the Company and the private interests and/or other duties of any of the Company's directors, executive officers or senior managers. A9.9.2 SCO13

Certain members of the Board of Directors, and certain members of senior management, have beneficial interests in shares of the Company, through the stock option plan and otherwise, but none of their respective interests exceeds 1%, except for those of Alexander Abramov, Alexander Frolov and Eugene Shvidler.

Share Option Plan

On 25 April 2005, the Company established a share option plan for its non-employee directors and selected other employees of Evraz. Grants of options to participants in the plan may be made at the discretion of the Board of Directors, which is authorised to issue options that give each holder the right to subscribe for shares without reserving a preferential right of subscription to the existing shareholders. Grants of shares pursuant to the plan may be made from the Company's authorised but unissued share capital and from shares that may be acquired by the Company from time to time. The Company intends that total grants of shares under the share option plan shall not exceed 2.7% of the Company's issued share capital for three years from the date of the admission to trading of its GDRs on the London Stock Exchange (which was 7 June 2005). The exercise price of the options granted on 15 June 2005 under Evraz's incentive plan for 2005 ("Incentive Plan 2005") was fixed at U.S.$27.75 and U.S.$43.50 per share (which is equivalent to U.S.$9.25 and U.S.$14.50 per GDR). The exercise price of options granted on 5 September 2006 under its incentive plan for 2006 ("Incentive Plan 2006") was fixed at U.S.$65.37 per share (which is equivalent to U.S.$21.79 per GDR).

The options become exercisable from eight months to three years from the grant date. The options granted under Incentive Plan 2005 vest on the first and second anniversary of the applicable grant date, 15 June 2005, and, in accordance with a resolution of the Board of Directors dated 10 April 2008, on 21 April 2008. The options granted under Incentive Plan 2006 vest for each tranche on the date that falls 15 days after the date when the Board of Directors announces Evraz's annual results. The Board of Directors has the right to modify the terms for the exercise of the options. All options granted to participants, whether vested or not, become immediately exercisable in the event the controlling shareholder changes. As of 31 December 2007,

a total of 933,284 options were outstanding, with a weighted average of 0.54 years of remaining contractual life. See Note 15 to the Annual Financial Statements.

Evraz does not have any stock option plans with respect to shares of any of its subsidiaries.

THE COMPANY

Set out below is a summary of certain information concerning the share capital of the Company, including a description of certain rights of the holders thereof, and related provisions of the articles of association of the Company, as amended (the "Articles"). This information is not exhaustive and reference should be made to the Articles and to the laws of Luxembourg.

General

Evraz was incorporated under the laws of the Grand Duchy of Luxembourg on 31 December 2004 as a société anonyme. Copies of its constitutional documents were filed for the first time with the Luxembourg Register of Commerce and Companies on 26 January 2005 and were published in the Mémorial C Recueil des Sociétés et Associations, No. 440, dated 12 May 2005. The registered office of the Company is located at 1, Allée Scheffer, L-2520, Luxembourg, and its telephone number is +352 24 14 33 1. The Company is registered with the Luxembourg Register of Commerce and Companies under number B105615. Since the Company's incorporation, the Articles have been amended several times by general meetings of the Company's shareholders with the last amendments made on 19 December 2007.

The Articles are drafted in both the English and French languages. However, the English version is deemed to prevail where there are any inconsistencies between the two versions. Resolutions of the Board of Directors may be in English. Any resolution of the Board of Directors or of the shareholders resolving to increase the issued capital of the Company (and, in case of the shareholders resolving to amend the Articles in any other way) will be in both English and one of French or German.

The Company conducts its business either directly (with respect to its foreign assets) or through its wholly owned subsidiary Mastercroft (with respect to assets located in Russia).

Objects

The Company generally may engage in any business or activity which, in the judgement of the Board of Directors, is profitable or enhances the value of the Company's undertakings in any of its properties or assets and which is consistent with the objects as set forth in Article 4 of the Articles.

This Article 4 is set out in full below:

"The company shall have as its business purpose the holding of participations, in any form whatsoever, in Luxembourg and foreign companies, the acquisition by purchase, subscription, or in any other manner as well as the transfer by sale, exchange or otherwise of stock, bonds, debentures, notes and other securities of any kind, entering into leases, including financial leases, dealing in commodities that are not securities, acquisition of assets generally, selling assets generally, giving security, giving and receiving indemnities and security.

The company may participate in the establishment and development of any financial, industrial or commercial enterprises, including trusts and unincorporated associations, and may render any assistance by way of loans, guarantees, security or otherwise to subsidiaries, affiliated companies or parent companies. The company may borrow in any form and proceed to the issuance of bonds.

The company may carry on any business or activity whatsoever which may seem to the Board of Directors capable of being advantageously carried on in connection or in conjunction with or as ancillary to any of the foregoing or activities which the Board of Directors may consider expedient with a view to rendering profitable or enhancing directly or indirectly the value of the company's undertaking in any of its properties or assets.

In general, it may take any controlling and supervisory measures and carry out any operation which it may deem useful in the accomplishment and development of its purpose".

Share capital

The subscribed capital of the Company is fixed at €236,619,306 (two hundred and thirty-six million six hundred and nineteen thousand three hundred and six euro) and is divided into 118,309,653 (one hundred and eighteen million three hundred and nine thousand six hundred and fifty-three) shares of €2 (two euro) each. In addition to the issued capital, issue premiums for a total amount of €368,321,986.04 (three hundred and sixty-eight million three hundred and twenty-one thousand nine hundred and eighty-six euro and four cents) have been paid up.

The Company shall have an authorised capital of €314,408,652 (three hundred and fourteen million four hundred and eight thousand six hundred and fifty-two euro) represented by 157,204,326 (one hundred and fifty-seven million two hundred and four thousand three hundred and twenty-six) shares of €2 (two euro) each.

General meeting of shareholders

The general meetings of shareholders shall be held in the place specified in the convening notice. According to Article 15 of the Articles, the annual general meeting of shareholders is to be held on 15 May in each year (or where such day is a legal holiday on the next following business day) at noon. The annual general meeting of shareholders in respect of the year ending on 31 December 2006 was held in Luxembourg at the registered office of the Company on 20 June 2007.

Financial statements, the statutory auditor and independent auditor

According to Article 16 of the Articles, the financial year of the Company coincides with the calendar year. In accordance with the Luxembourg Companies Act, the Company is obliged to publish its accounts on an annual basis following the requisite holding of the annual meeting of shareholders.

The Company is supervised by one or several statutory auditor(s), as well as by the independent auditor(s), the latter being a member of the Institut des réviseurs d'enterprises ("IRE"). The statutory and independent auditor(s) are appointed by the general meeting of shareholders which will fix their number and their term of office, which may not exceed six years. The independent auditor of the statutory financial statements of the Company is Ernst & Young, with registered office at 7, Parc d'Activité Syrdall, L-5365, Munsbach, registered with the Registry of Commerce in Luxembourg under number B47771. The mandate of the statutory and independent auditors will expire immediately after the annual general meeting to be held in 2008.

Board of Directors

Pursuant to the Articles, the Board of Directors is vested with the broadest powers to perform all acts of administration and disposition in compliance with the corporate objects of the Company. All powers not expressly reserved by Luxembourg law or by the Articles to the general meeting of shareholders fall within the remit of the Board of Directors.

The Board of Directors shall consist of seven to nine members, as may be determined by the general meeting of shareholders. The members of the Board of Directors are elected by the general meeting of shareholders, and the general meeting of shareholders may revoke their mandate at any time. The Board of Directors may be appointed for a period not exceeding one year. In the event of a vacancy on the Board of Directors, the remaining directors may fill the vacancy on a provisional basis, with the next general meeting of shareholders to make a permanent appointment.

The number, remuneration and the term of the directors is determined by the general meeting of shareholders.

Pursuant to Article 9 of the Articles, the Company will be bound towards third parties (i) with respect to transactions up to and including EUR30 million, by the signature of the CEO; (ii) with respect to transactions over EUR30 million, by either of (a) the signature of the CEO (provided that the Board of Directors approves such transaction and expressly authorises the CEO to sign the relevant documents) or (b)

the signatures of any two directors of the Company (provided that the Board of Directors approves such transaction and expressly authorises these directors to sign the relevant documents); and (iii) in any case, by the signature of such person(s) (including any director) to whom signatory power was delegated by or pursuant to a resolution of the Board of Directors.

At any meeting of the Board of Directors, each director shall have one vote. Each director is expected to attend the meetings, however, directors may also be represented at meetings of the Board of Directors by another director without limitation as to the number of proxies which a director may accept and vote.

Officers

The Board of Directors may give special powers relating to the daily management of all or part of the business of the Company to one or more proxyholders (*fondés de pouvoir*). Any such proxyholder shall not be required to be a director or a shareholder. The granting of such special powers to a member of the Board of Directors is subject to the prior authorisation of a general meeting of the shareholders. The Board of Directors shall determine the scope of the powers, the conditions for withdrawal and the remuneration attached to these delegations of authority including the authority to sub-delegate. In particular the Board of Directors shall designate the following:

(i) An "*administrateur délégué / délégué à la gestion journalière*" to whom the day-to-day management of the Company shall be entrusted and who shall be called the "Chief Executive Officer". The Chief Executive Officer is the primary operating officer of the Company and is responsible for the day-to-day general management of the Company's management. He shall see that all orders and resolutions of the Board of Directors of the Company and of any committee established by the Board of Directors are carried into effect and shall perform all those duties incidental to the office of Chief Executive Officer as may be from time to time, prescribed by the Board of Directors. The administrateur délégué is an *administrateur* and thus a director. A *délégué à la gestion journalière* does not need to be a director.

(ii) A "Chief Financial Officer" who shall (a) provide for the custody of the funds or other property of the Company and shall keep a separate book account of the same to the credit of the Company; (b) collect and receive or provide for the collection and receipt of moneys earned by or in any manner due or received by the Company; (c) deposit all funds in his or her custody as Chief Financial Officer in such banks or places of deposit as the Board of Directors may from time to time designate; (d) whenever so required by the Board of Directors, render an account showing his or her transactions as Chief Financial Officer and the financial condition of the Company; and (e) in general discharge such other duties as may from time to time be assigned by the Board of Directors.

The Board of Directors shall have all powers to create new positions as it may from time to time deem appropriate.

TERMS AND CONDITIONS OF THE 2013 NOTES

The following is the text of the Terms and Conditions of the 2013 Notes which (subject to modification) will be endorsed on each Individual Certificate (as defined below) in definitive form (if issued):

The U.S.$1,050,000,000 8.875 per cent. Notes due 2013 (the "**Notes**", which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 16 and forming a single series with the Notes) of Evraz Group S.A. (the "**Issuer**") are constituted by a Trust Deed dated 24 April 2008 as may be amended or supplemented from time to time (the "**Trust Deed**") made between the Issuer, and The Bank of New York (the "**Trustee**", which expression shall include its successor(s)) as trustee for the holders of the Notes (the "**Noteholders**").

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and the Paying Agency Agreement dated 24 April 2008 (the "**Agency Agreement**") made between the Issuer, The Bank of New York as Principal Paying Agent (the "**Principal Paying Agent**"), Registrar (the "**Registrar**"), Transfer Agent (the "**Transfer Agent**") and the initial Paying Agents (the "**Paying Agents**") named therein and the Trustee are available for inspection during normal business hours at the registered office for the time being of the Trustee, being at the Issue Date at The Bank of New York, One Canada Square, London E14 5AL, United Kingdom and at the specified office of each of the Paying Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Capitalised terms not defined in these Conditions shall have the meanings given to them in the Trust Deed.

1 FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Notes are in registered form in the minimum denomination of U.S.$100,000 and in integral multiples of U.S.$1,000 in excess thereof, without coupons attached. An individual note certificate (each an "**Individual Certificate**") will be issued to each Noteholder in respect of its registered holding of Notes. Each Note and each Individual Certificate will have an identifying number which will be recorded on the relevant Individual Certificate and in the Register (as defined in Condition 3.1).

Individual Certificates issued with respect to Rule 144A Notes ("**Rule 144A Individual Certificates**") will bear the Securities Act Legend (as defined in the Trust Deed), unless determined otherwise in accordance with the provisions of the Agency Agreement by reference to applicable law. Individual Certificates issued with respect to the Regulation S Notes ("**Regulation S Individual Certificates**") will not bear the Securities Act Legend.

Upon issue, the Rule 144A Notes will be represented by a restricted note certificate (the "**Rule 144A Global Note Certificate**") and the Regulation S Notes, if any, will be represented by the unrestricted global certificate (the "**Regulation S Global Note Certificate**" and, together with the Rule 144A Global Note Certificate, the "**Global Note Certificates**"). The Rule 144A Global Note Certificate will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, The Depository Trust Company ("**DTC**") and the Regulation S Global Note Certificate will be registered in the name of, and deposited with The Bank of New York Depository (Nominees) Limited as nominee of the common depositary for, Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**").

The Conditions are modified by certain provisions contained in the Global Note Certificates. See "Summary of Provisions Relating to the Notes while in Global Form".

Except in the limited circumstances described in the Global Note Certificates, owners of interests in Notes represented by the Global Note Certificates will not be entitled to receive physical delivery of

Individual Certificates in definitive form in respect of their individual holdings of Notes. The Notes are not issuable in bearer form.

1.2 Title

Title to the Notes passes only by transfer and registration in the Register (as defined in Condition 3.1). The holder of any Note will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or the theft or loss of, the Individual Certificate (if any) issued in respect of it or anything written on it or on the relevant Individual Certificate) and no person will be liable for so treating the holder. In these Conditions, "**Noteholder**" and (in relation to a Note) "**holder**" mean the person in whose name a Note is registered in the Register.

2 STATUS OF THE NOTES

The Notes are direct, unconditional and unsecured obligations of the Issuer and (subject as provided above) rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

3 TRANSFER OF NOTES

3.1 The Register

The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement with an up-to-date copy to be kept with the Issuer at its registered office (the "**Issuer's Register**"). Under the terms of the Agency Agreement, the Registrar will provide to the Issuer after each change to the Register an up-to-date copy of the Register to be maintained at the Issuer's registered office. In case of inconsistency between the Register and the Issuer's Register, the Issuer's Register shall prevail. Each Noteholder shall be entitled to receive only one Individual Certificate in respect of its entire holding.

3.2 Transfers

Subject to the terms of the Agency Agreement and to Conditions 3.5 and 3.6, a Note may be transferred by delivering the Individual Certificate issued in respect of it, with the form of transfer on the back duly completed and signed, to the specified office of the Registrar or any of the Transfer Agents. No transfer of a Note will be valid unless and until entered on the Register.

Transfers of interests in the Notes evidenced by the Global Note Certificates will be effected in accordance with the rules of the relevant clearing systems.

Upon the transfer, exchange or replacement of a Rule 144A Note, a Transfer Agent will only deliver Individual Certificates with respect to Rule 144A Notes that bear the Securities Act Legend unless there is delivered to such Transfer Agent such satisfactory evidence, which may include an opinion of legal counsel, as may be reasonably required by the Issuer, that neither the Securities Act Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the U.S. Securities Act of 1933, as amended (the "**Securities Act**").

An interest in Notes represented by the Regulation S Global Note Certificate may be transferred to a person within the United States subject to any applicable transfer restrictions under the Securities Act.

Interests in Notes represented by the Rule 144A Global Note Certificate may be transferred to a person who wishes to take delivery of any such interest in the form of an interest in Notes represented by the Regulation S Global Note Certificate only if a Transfer Agent receives a written certificate from

the transferor (in the form provided in the Agency Agreement) to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S or Rule 144 (if available).

Transfers of Notes are also subject to the restrictions described under "Subscription and Sale" and "Transfer Restrictions" below.

3.3 Delivery of new Individual Certificates

Each new Individual Certificate to be issued on transfer of a Note or Notes will, within five business days of receipt by the Registrar or relevant Transfer Agent of the duly completed and signed form of transfer, be made available for collection at the specified office of the Registrar or relevant Transfer Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Notes being transferred (free of charge to the holder), to the address specified in the form of transfer.

Except in the limited circumstances described in "Summary of Provisions relating to the Notes while in Global Form", owners of interests in Notes represented by the Global Note Certificates will not be entitled to receive physical delivery of Individual Certificates. Issues of Individual Certificates upon transfers of Notes are subject to compliance by the transferor and transferee with the certification procedures described above and in the Agency Agreement and, in the case of Rule 144A Notes, compliance with the Securities Act Legend.

Where some but not all the Notes in respect of which an Individual Certificate is issued are to be transferred or redeemed, a new Certificate in respect of the Notes not so transferred or redeemed, will, within five business days of delivery or surrender of the original Individual Certificate to the relevant Transfer Agent or Registrar, be made available for collection at the specified office of the relevant Agent or, if so requested by the holder, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred or redeemed (free of charge to the holder), to the address of such holder appearing on the Register.

In this Condition 3, "**business day**" means a day (other than a Saturday or a Sunday) on which banks are open for business in the city in which the specified office of the Registrar and the relevant Transfer Agent to which the Individual Certificate in respect of the Notes to be transferred or relevant form of transfer is delivered is situated.

3.4 Formalities free of charge

Registration of transfer of Notes will be effected without charge by or on behalf of the Issuer or any of the Transfer Agents, but only upon the person making such application for transfer paying or procuring the payment (or the giving of such indemnity as the Issuer or any of the Transfer Agents may require) of any tax, duty or other governmental charges which may be imposed in relation to such transfer.

3.5 Closed periods

No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on (and including) the due date for any payment of principal of that Note or seven days ending on (and including) any Interest Record Date (as defined in Condition 6.1).

3.6 Regulations

All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes exhibited in the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder upon request.

4 COVENANTS

For so long as any Note remains outstanding (as defined in the Trust Deed) the Issuer and (to the extent applicable) any Guarantor (if any) each undertakes to comply with each of the following covenants:

4.1 Limitation on Liens

The Issuer shall not, and shall not permit any Guarantor(s) (if any) to, directly or indirectly, create, incur, assume or suffer to exist any Lien (the "**Initial Lien**"), other than a Permitted Lien, on any of its property or assets, now owned or hereafter acquired, or any revenues, income or profits therefrom, securing any Indebtedness unless, at the same time or prior thereto, the liability of the Issuer or any such Guarantor(s) (if any), as the case may be, under the Notes and the Trust Deed or, as the case may be, under any Deed of Guarantee (if any) (a) is secured equally and rateably therewith to the satisfaction of the Trustee or (b) has the benefit of such other security or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed).

Any Lien created for the benefit of the Noteholders pursuant to the preceding paragraph shall provide by its terms that such Lien shall be automatically and unconditionally released and discharged upon (i) the release and discharge of the Initial Lien or (ii) the full, final and irrevocable payment of all amounts payable by the Issuer and the Guarantor(s) (if any) under the Notes, these Conditions, the Trust Deed and the Deeds of Guarantee(s) (if any).

4.2 Financial Covenants

The Issuer shall not, and shall not permit any of its Subsidiaries to, incur any Indebtedness, except that if (i) no Potential Event of Default nor Event of Default as defined in Condition 10.1 shall have occurred and be continuing at the time, or would occur as a consequence, of the incurrence of such Indebtedness (provided that for the purposes of this Condition 4.2 no Potential Event of Default with respect to an Event of Default falling within Condition 10.1(c)(i) shall be deemed to have occurred unless and until the expiry of the period of 30 days referred to therein) and (ii) the Leverage Ratio is 3:1 or lower:

(i) the Issuer, the Guarantor(s) (if any) or a Finance Subsidiary may incur Indebtedness; and

(ii) any Subsidiary (other than the Guarantor(s) (if any) or a Finance Subsidiary) of the Issuer may incur Indebtedness if Aggregate Subsidiary Indebtedness does not exceed the Subsidiary Indebtedness Threshold; and

(iii) a Subsidiary of the Issuer may incur Indebtedness (the "**Initial Indebtedness**") if, within 90 days after such incurrence, such Subsidiary fully and unconditionally guarantees (each, a "**Guarantee**" and collectively the "**Guarantee(s)**") the Notes and the Trust Deed and all amounts due under or in connection therewith in a deed supplemental to the Trust Deed the form of which must be satisfactory to the Trustee (each a "**Deed of Guarantee**") pursuant to which the obligations of the Guarantor constitute direct, unconditional and unsecured obligations of the Guarantor ranking at least *pari passu* with the Initial Indebtedness (each such Subsidiary of the Issuer, a "**Guarantor**" and collectively the "**Guarantor(s)**").

This Condition 4.2 shall not, however, prohibit the incurrence by the Issuer or any Subsidiary of Acquired Indebtedness, provided that after giving pro forma effect to such acquisition, the Issuer would have been able to incur U.S.$1.00 of additional Indebtedness pursuant to clause (i) of this Condition 4.2.

4.3 Transactions with Affiliates

The Issuer will not, and will not cause or permit any of its Material Subsidiaries to, directly or indirectly, enter into or make or amend any transaction or series of related transactions (including,

without limitation, the sale, purchase, exchange or lease of assets, property or services) with any Affiliate of the Issuer or any of its Subsidiaries unless such transaction or series of related transactions is entered into in good faith and in writing and:

(a) such transaction or series of related transactions is on terms that are no less favourable to the Issuer or the relevant Material Subsidiary, as the case may be, than those that would be available in a comparable transaction in arm's length dealings with an unrelated third party; and

(b) with respect to any transaction or series of related transactions involving an aggregate value in excess of €30 million or its Euro Equivalent, such transaction or series of related transactions has been approved by a majority of the Disinterested Directors, or in the event there is only one Disinterested Director, by such Disinterested Director,

provided, however, that this provision shall not apply to:

(a) any employment agreement, collective bargaining agreement or employee benefit arrangements with any officer or director of the Issuer or any Material Subsidiary, including under any stock option or stock incentive plans;

(b) payment of customary fees and compensation to employees, officers, directors, consultants or agents;

(c) transactions between or among the Issuer and its Subsidiaries;

(d) transactions undertaken pursuant to contractual obligations or rights in existence on the Issue Date (as in effect on the Issue Date) or any amendment thereto after the Issue Date (so long as such amendment is not disadvantageous to the Noteholders in any material respect in the reasonable opinion of the Issuer);

(e) transactions with customers, clients, suppliers, purchasers or sellers of goods or services, in each case, in the ordinary course of business and otherwise in compliance with the terms of these Conditions which are on terms at least as favourable to the Issuer or the relevant Material Subsidiary, as the case may be, as might reasonably be obtained at such time from an unrelated third party;

(f) sales of Capital Stock (other than Disqualified Capital Stock) of the Issuer;

(g) sales or other transfers or dispositions of accounts receivables and other related assets customarily transferred in a Qualified Securitisation Transaction, and acquisitions of Investments in connection with a Qualified Securitisation Transaction;

(h) to the extent otherwise permitted pursuant to these Conditions, the payment of a dividend by the Issuer or its Subsidiaries; and

(i) to the extent otherwise permitted pursuant to these Conditions, the repurchase by the Issuer or a Subsidiary of its Capital Stock pursuant to an offer that is made to all holders of such Capital Stock.

4.4 Asset Sales

The Issuer will not, and will not permit any of its Material Subsidiaries and any Guarantor(s) (if any) to, consummate any Asset Sale, unless the proceeds received by the Issuer or such Material Subsidiary, as the case may be, are at least equal to the Fair Market Value of the assets sold or disposed of and an amount equal to such proceeds (less any costs incurred in relation to such Asset Sale) ("**Disposal Proceeds**") is:

(a) applied to repay permanently any Consolidated Indebtedness (other than Indebtedness subordinated to the Notes and/or the Guarantee(s) (if any));

(b) invested in assets of a nature or type that is used or usable in the ordinary course of business of the Issuer or any of its respective Subsidiaries, being the Core or Related Business;

(c) retained as cash deposited with a bank or invested in Cash Equivalents; and/or

(d) applied to finance the acquisition, merger, reorganisation or other combination of a business of the Group with the business of a Person whose business is similar to the Core or Related Business,

in each case within 360 days of the date when such proceeds are received; provided that if the Disposal Proceeds are applied pursuant to paragraph (c), the Issuer, such Material Subsidiary, or any such Guarantor(s) (if any) as the case may be, shall apply or invest the Disposal Proceeds on or prior to the date falling 540 days after the date when such proceeds are received either to (i) repay permanently any Consolidated Indebtedness (other than Indebtedness subordinated to the Notes and/or the Guarantee(s) (if any)), (ii) invest in assets of a nature or type that is used or usable in the ordinary course of business of the Issuer or any of its Subsidiaries, being the Core or Related Business or (iii) applied to finance the acquisition, merger, reorganisation or other combination of a business of the Group with the business of a Person whose business is similar to the Core or Related Business.

4.5 Mergers and Similar Transactions

(a) Subject to Conditions 4.5(b) and 4.5(c), the Issuer shall not, and shall not permit any of its Material Subsidiaries and any Guarantor(s) (if any) to, in each case without the prior written consent of the Trustee (which consent may only be given by the Trustee if it is of the opinion that to do so will not be materially prejudicial to the interests of the Noteholders):

(i) in the case of the Issuer or the Guarantor(s) (if any) (A) enter into any reorganisation (by way of a merger, accession, division, separation, transformation or other basis or procedure for reorganisation contemplated or as may be contemplated from time to time by Luxembourg legislation or, in the case of any Guarantor incorporated otherwise than in Luxembourg, such legislation as may be in force in the jurisdiction of such Guarantor (each such jurisdiction, a "**Guarantor Jurisdiction**")), (B) sell, convey, transfer, lease or otherwise dispose of all or substantially all of its property and assets to any Person or (C) permit any Person to merge with or into the Issuer or the Guarantor(s) (if any);

(ii) in the case of any of the Material Subsidiaries of the Issuer (other than the Guarantor(s) (if any), (A) enter into any reorganisation (by way of a merger, accession, division, separation, transformation or other basis or procedure for reorganisation contemplated or as may be contemplated from time to time by the relevant applicable legislation) or (B) sell, convey, transfer, lease or otherwise dispose of all or substantially all of its property and assets.

(b) Condition 4.5(a) shall not apply if:

(i) the Issuer or the Guarantor(s) (if any) shall be the continuing Person, or the Person (if other than the Issuer or the Guarantor(s) (if any)) into which the Issuer or a Guarantor (if any) is merged or that acquired or leased such property and assets of the Issuer or the Guarantor(s) (if any) (the "**Surviving Entity**") shall (A) be a company organised and validly existing under the laws of Luxembourg, any Guarantor Jurisdiction, Russia or a member of the European Union (as the European Union is constituted on the Issue Date), (B) expressly assume, by amendment to these Conditions and the Trust Deed as the Trustee shall deem necessary, executed and delivered by such continuing Person to the Trustee, in a form and substance satisfactory to the Trustee, the due and punctual payment of the principal of and interest under the Notes and the due and punctual performance and observance of all the covenants, conditions and other obligations of the Issuer or the Guarantor(s) (if any), as the case may be, in respect of the Trust Deed and the Notes and a Guarantee (if any) (C) deliver to the Trustee an opinion of counsel with

respect to such amendment to these Conditions and the Trust Deed as the Trustee shall deem necessary in a form and substance satisfactory to the Trustee;

(ii) immediately before and after giving effect to such transaction or series of transactions on a *pro forma* basis (and treating any Indebtedness which becomes, or is anticipated to become, an obligation of the Issuer or the Guarantor(s) (if any), as the case may be, or the Surviving Entity or any Subsidiary thereof as a result of such transaction or series of transactions as having been incurred by the Issuer or the Guarantor(s) (if any), as the case may be, or the Surviving Entity or such Subsidiary at the time of such transaction or series of transactions), no Potential Event of Default or Event of Default shall have occurred and be continuing;

(iii) the Issuer delivers to the Trustee an opinion of counsel or of a tax adviser in a form and substance satisfactory to the Trustee, to the effect that the Noteholders in each of the Relevant Jurisdictions will not recognise income, gain or loss for tax purposes as a result of the merger or sale of assets and such Noteholders would, after the merger or sale of assets, be subject to taxes on the same amount and in the same manner and at the same times as would have been the case if such merger or sale of assets had not occurred; and

(iv) the Person (if other than the Issuer or the Guarantor(s) (if any)) principally undertakes, in its ordinary course of business prior to the merger, acquisition or lease, as the case may be, a Core or Related Business.

(c) Condition 4.5(a) shall not apply to any transactions between any of the Subsidiaries of the Issuer (other than the Guarantor(s) (if any) that do not involve any Person that is not a Subsidiary of the Issuer.

4.6 Maintenance of Authorisations

(a) The Issuer shall, and shall procure that each of its respective Material Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things necessary, in the opinion of the Issuer or the relevant Material Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business; and

(b) the Issuer and the Guarantor(s) (if any) shall obtain or make, and procure the continuance or maintenance of, all registrations, recordings, filings, consents, licences, approvals and authorisations, which may at any time be required to be obtained or made in Russia, Luxembourg, any Guarantor Jurisdiction or any other relevant jurisdiction for the purposes of the execution, delivery or performance of the Notes and the Trust Deed and for the validity and enforceability thereof,

provided that, in any case if the Issuer, the Guarantor(s) (if any) or, as the case may be, the relevant Material Subsidiary remedies any failure to comply with (a) and (b) above within 90 days of such failure or of the occurrence of such event, then this covenant shall be deemed not to have been breached.

4.7 Maintenance of Property

The Issuer shall, and shall cause each of its Material Subsidiaries to, cause all property used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements and improvements thereof, all as, in the judgment of the Issuer or the relevant Material Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times; provided that if the Issuer or the relevant Material Subsidiary remedies any failure to comply with the above within 90 days of such failure or any failure relates to property with a value not exceeding U.S.$250,000,000 (or its U.S. Dollar Equivalent), this covenant shall be deemed not to have been breached.

4.8 Payment of Taxes and Other Claims

The Issuer shall, and shall cause each of its Material Subsidiaries to, pay or discharge, or cause to be paid and discharged, before the same shall become overdue and without incurring penalties, (a) all taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of any of the Issuer or its Material Subsidiaries and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become a Lien (other than a Permitted Lien) upon the property of any of the Issuer or its Material Subsidiaries; provided that none of the Issuer or its Material Subsidiaries shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim described in this Condition 4.8 whose (i) amount, applicability or validity is being contested in good faith by appropriate proceedings (or has been the subject of such proceedings which have, within the then preceding 30 days, resulted in a final, nonappealable determination of liability in a definitively ascertained amount) and for which adequate reserves in accordance with IFRS as consistently applied or other appropriate provision has been made or (ii) amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims, does not in the aggregate exceed U.S.$100,000,000 (or its U.S. Dollar Equivalent).

4.9 Insurance

The Issuer shall procure that each of its Material Subsidiaries shall obtain and maintain insurance with an insurer or insurers of sufficient standing (in the reasonable judgment of the relevant Material Subsidiary) against such losses and risks and in such amounts as are prudent and customary in the businesses in which it is engaged in the jurisdiction(s) where it operates; provided that if the Issuer remedies any failure to comply with the above within 365 days of such failure or if such potential losses or risks (which may be assessed by reference to the actual risks and losses borne by the relevant Material Subsidiary over the preceding 3 years) do not exceed U.S.$250,000,000 (or its U.S. Dollar Equivalent), this covenant shall be deemed not to have been breached , provided that this Condition 4.9 shall not require the Issuer to procure the obtaining or maintenance of any such insurance with respect to any of the Issuer's Subsidiaries that is or are primarily engaged in the mining, extraction or refining of coal or coal products**.**

4.10 Financial Information

The Issuer undertakes that it shall deliver to the Trustee:

(a) its audited annual consolidated financial statements, prepared in accordance with IFRS consistently applied with the corresponding financial statements for the preceding period, within 180 days of the end of the financial year to which such statements relate;

(b) its reviewed semi-annual consolidated financial statements, prepared in accordance with IFRS consistently applied with the corresponding financial statements for the preceding period, within 150 days of the end of the period to which such statements relate; and

(c) its other interim consolidated financial statements (if the Issuer elects in its sole discretion to prepare any such other interim consolidated financial statements), prepared in accordance with IFRS consistently applied with the corresponding financial statements for the preceding period, within 150 days of the end of the period to which such statements relate,

in each case together with a certificate signed by one director and one officer appointed and authorised in writing by the Board of Directors on terms satisfactory to the Trustee or two directors stating that since the date of the last certificate or, if none, the Issue Date, each of the Issuer and the Guarantor(s) (if any), to the best of the signing individual's knowledge, has kept, observed, performed and fulfilled its obligations under, and complied with, these Conditions and the Trust Deed and is not in default and that there has not been an Event of Default or Potential Event of Default (or, if an Event of Default or Potential Event of Default shall have occurred, describing all such Events of Default or Potential Events of Default of which he may have knowledge).

4.11 Change of Business

The Issuer shall not, and shall not permit any of its Material Subsidiaries to, conduct, operate, engage in or own any business other than the Core or Related Business of the Group.

4.12 Dividend and Other Payments By or Affecting Material Subsidiaries

(a) The Issuer shall not, and shall not permit any of its Material Subsidiaries to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction (which, for the avoidance of doubt, shall not include any encumbrance or restriction existing under or arising by reason of applicable law or regulation) on the ability of any such Material Subsidiary to:

(i) pay dividends or make any other distributions on its Equity Interests to the Issuer or any of the Issuer's Subsidiaries, or with respect to any other interest or participation in, or measured by, its profits;

(ii) make any payments in respect of any Indebtedness owed to the Issuer or any of the Issuer's Subsidiaries;

(iii) make loans or advances to the Issuer or any of the Issuer's Subsidiaries; or

(iv) transfer any of its properties or assets to the Issuer or any of the Issuer's Subsidiaries.

However, the preceding restrictions shall not apply to encumbrances or restrictions existing under or by reason of:

(A) any encumbrance or restriction originally entered into prior to (and as in effect on) the Issue Date;

(B) these Conditions;

(C) encumbrances and restrictions imposed by the Notes, these Conditions, the Guarantee(s) (if any) or by other instruments governing other Indebtedness incurred by the Issuer or any of the Issuer's Subsidiaries (and if such Indebtedness is guaranteed, by the guarantors of such Indebtedness) ranking equally with the Notes (or the Guarantee(s) (if any)), provided that the encumbrances or restrictions imposed by such other instruments are not materially more restrictive, taken as a whole, than the restrictions imposed by these Conditions;

(D) encumbrances and restrictions contained in any agreement or other instrument of any Person acquired by the Issuer or any Subsidiary of the Issuer in effect at the time of such acquisition (but not created in contemplation thereof) which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired;

(E) any encumbrance or restriction contained in the terms of any Indebtedness incurred pursuant to Condition 4.2 or any guarantees thereof or liens related thereto, provided that the Issuer determines at the time any such Indebtedness is incurred (and at the time of any modification of the terms of any such encumbrance or restriction) that any such encumbrance or restriction will not materially affect the Issuer's ability to comply, or cause its Material Subsidiaries to comply, with Condition 4.12(b) (as determined by the Issuer in good faith) and further provided that (x) either (i) the encumbrance or restriction applies only in the event of and during the continuance of a payment default or a default with respect to a financial covenant contained in such Indebtedness, guarantees or liens or (ii) the Issuer determines at the time any such Indebtedness is incurred (and at the time of any modification of the terms of any such encumbrance or restriction) that any such encumbrance or restriction will not materially affect the Issuer's ability to make principal or interest payments on the Notes and any other

Indebtedness for borrowed money that is an obligation of the Issuer or any guarantor of the Notes and (y) the encumbrance or restriction is not materially more disadvantageous to the holders of the Notes than is customary in comparable financings or agreements (as determined by the Issuer in good faith);

(F) customary non-assignment provisions in leases and other contracts for goods and services entered into in the ordinary course of business;

(G) any agreement for the sale or other disposition of a Material Subsidiary or any assets of the Issuer or a Material Subsidiary that restricts distributions of that Material Subsidiary or such assets pending such sale or other disposition;

(H) customary limitations on the distribution of assets or property in joint venture agreements entered into in good faith, provided that such encumbrance or restriction is applicable only to such Material Subsidiary, and provided further that:

(i) such encumbrance or restriction is not materially more disadvantageous to the holders of the Notes than is customary in comparable agreements (as determined by the Issuer's Board of Directors in good faith); and

(ii) such encumbrance or restriction will not affect the Issuer's ability to make any anticipated principal or interest payments on the Notes (as determined by the Issuer's Board of Directors in good faith);

(I) solely with respect to paragraph (iv) above, Permitted Liens securing Indebtedness that limit the right of a debtor to dispose of the assets subject to such Liens;

(J) restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business; and

(K) any encumbrances or restrictions of the type referred to in paragraph (a) of this Condition 4.12 that are imposed by any amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings of contracts, instruments or obligations; provided that such amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings taken as a whole are, in the good faith judgment of the Board of Directors of the Issuer, no more restrictive with respect to such encumbrances and restrictions than those contained in the encumbrances and restrictions prior to such amendment, modification, restatement, renewal, increase, supplement, refunding, replacement or refinancing.

(b) The Issuer shall use its commercially reasonable endeavours, to the extent lawful and in accordance with all required corporate procedures, (1) to procure that the Material Subsidiaries as a group declare and pay total dividends or other distributions on their Equity Interests (including, for the avoidance of doubt, any interim dividends or distributions) amounting in the aggregate to at least 35% of the aggregate annual net income of such Material Subsidiaries as calculated from the Reporting Package in respect of each year ending on 31 December not later than 365 days following the end of such year; provided that nothing in this Condition 4.12(b) shall be interpreted to impose a requirement on any particular Material Subsidiary to make a payment or distribution as described herein and (2) to the extent such dividends or other distributions are paid in cash and received by a Subsidiary of the Issuer other than the Guarantor(s) (if any), to cause the portion of such cash dividends or other cash distributions actually received by such Subsidiary to be on-paid, directly or indirectly as the case may be, to the Issuer or the Guarantor(s) (if any) in accordance with the attributable direct or indirect ownership interest of the Issuer or the Guarantor(s) (if any) in the Equity Interests of each such payee Subsidiary; provided, that each payment of a dividend or other distribution on its Equity Interests paid by any Subsidiary of the Issuer pursuant to this Condition 4.12(b) shall be subject to reduction for payment of any withholding or other dividend related tax or any other similar deduction that is required by applicable law or regulation.

5 INTEREST

5.1 Interest Rate and Interest Payment Dates

The Notes bear interest from and including 24 April 2008 at the rate of 8.875% per annum, payable semi-annually in arrear in equal instalments on 24 April and 24 October in each year (each an "**Interest Payment Date**"). The first payment shall be made on 24 October 2008.

5.2 Interest Accrual

Each Note will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event interest shall continue to accrue as provided in the Trust Deed.

5.3 Calculation of Broken Interest

When interest is required to be calculated in respect of a period of less than six months, it shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

6 PAYMENTS

6.1 Principal and Interest

Payment of principal and interest due other than on an Interest Payment Date, will be made by transfer to the registered account of the Noteholder or by United States dollar cheque drawn on a bank in New York City mailed to the registered address of the Noteholder if it does not have a registered account. Payment of principal will only be made after surrender of the relevant Individual Certificate at the specified office of any of the Paying Agents.

Interest on Notes due on an Interest Payment Date will be paid on the due date for the payment of interest to the holder shown on the Register at the close of business on the fifteenth day before the due date for the payment of interest (the "**Interest Record Date**"). Payments of interest on each Note will be made by transfer to the registered account of the Noteholder or by United States dollar cheque drawn on a bank in New York City mailed to the registered address of the Noteholder if it does not have a registered account.

6.2 Registered Accounts

For the purposes of this Condition, a Noteholder's registered account means the United States dollar account maintained by or on behalf of it with a bank in New York City, details of which appear on the Register at the close of business on the second Business Day before the due date for payment, and a Noteholder's registered address means its address appearing on the Register at that time.

6.3 Payments subject to Applicable Laws

Payments in respect of principal and interest on the Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 8.

6.4 Payment Initiation

Where payment is to be made by transfer to a Noteholder's registered account, payment instructions (for value on the due date or, if that is not a Business Day, for value on the first following day which is a Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder) on the due date for payment (or, if it is not a Business Day, the first following day which

is a Business Day) or, in the case of a payment of principal, if later, on the Business Day on which the relevant Individual Certificate is surrendered at the specified office of a Paying Agent.

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, if the Noteholder is late in surrendering its Individual Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

If an amount which is due on the Notes is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) in fact paid.

6.5 Initial Paying Agents, Transfer Agents and Registrar

The names of the initial Paying Agents, Transfer Agents and Registrar and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent, Transfer Agent or Registrar and to appoint additional or other Paying Agents, Transfer Agents and Registrars provided that:

(a) there will at all times be a Principal Paying Agent and a Registrar;

(b) there will at all times be Paying Agents and Transfer Agents having specified offices in at least two major European cities approved by the Trustee which, so long as the Notes are listed on the Official List of the UK Listing Authority and admitted to trading on the Regulated Market of the London Stock Exchange, shall include London; and

(c) the Issuer undertakes that it will ensure that it maintains a Paying Agent with a specified office in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC, any other European Union Directive on the taxation of savings income implementing the conclusions of the ECOFIN Council Meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any termination or appointment and of any changes in specified offices of any Paying Agents, Transfer Agents or the Registrar will be given to the Noteholders promptly by the Issuer in accordance with Condition 13.

7 REDEMPTION AND PURCHASE

7.1 Redemption at Maturity

Unless previously redeemed, or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 24 April 2013.

7.2 Redemption for Taxation Reasons

If the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that:

(a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 8), or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after 24 April 2008, on the next Interest Payment Date either (i) the Issuer would be required to pay additional amounts as provided or referred to in Condition 8 or (ii) the Guarantor(s) (if any) would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be required to pay such additional amounts; and

(b) the requirement cannot be avoided by the Issuer or, as the case may be, the Guarantor(s) (if any) taking reasonable measures available to it,

the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 13 (which notice shall be irrevocable), redeem all the Notes, but not some only, at any time at their principal amount together with interest accrued to but excluding the date of redemption. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee a certificate signed by one director and one officer appointed and authorised in writing by the Board of Directors on terms satisfactory to the Trustee or two directors of the Issuer, or as the case may be, the Guarantor(s) (if any) stating that the requirement referred to in (a) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer, or as the case may be, the Guarantor(s) (if any) taking reasonable measures available to it or them and an opinion of independent legal advisors of recognised standing to the effect that the Issuer or, as the case may be, the Guarantor(s) has or will become obliged to pay such additional amounts as a result of such change or amendment, and the Trustee shall be entitled to accept the certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders. No such notice of redemption pursuant to this Condition shall be given (a) earlier than 90 days prior to the earliest date on which the Issuer, or as the case may be, the Guarantor(s) (if any) would be obliged to pay such additional amounts were a payment in respect of the Notes then due, or (b) if the Issuer has already given a notice of redemption as described in Condition 7.7.

7.3 Redemption at Make-Whole

The Issuer may redeem the Notes, in whole or in part, at any time on at least 30 days' but not more than 60 days' notice to Noteholders in accordance with Condition 13, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, plus accrued and unpaid interest to, the redemption date.

7.4 Change of Control

If a Change of Control (as defined below) shall have occurred, the holder of each Note will have the option (the "**Put Option**") to require the Issuer to redeem such Note on the Put Settlement Date (as defined below) at an amount equal to 101 per cent. of its principal amount together with accrued interest (if any) to the Put Settlement Date.

Promptly, and in any event within 14 calendar days after the date of any Change of Control, the Issuer shall deliver to the Trustee and the Noteholders, in accordance with Condition 13, a certificate signed by one director and one officer appointed and authorised in writing by the Board of Directors, or by two directors (a "**Change of Control Notice**"), which notice shall be irrevocable, stating that a Change of Control has occurred and stating the circumstances and relevant facts giving rise to such Change of Control and stating the date falling not more than 30 and not less than 20 days after the date of the Change of Control Notice on which the Put shall be settled (such date the "**Put Settlement Date**").

For the purposes of these Conditions, a "**Change of Control**" shall occur at any time that any person, other than one or more of the Permitted Holders, is or becomes the beneficial owner, directly or indirectly, of more than 50 per cent. of the total voting power of the Voting Stock of the Issuer.

"**Permitted Holders**" means any and all of (i) Lanebrook Limited; (ii) any direct or indirect beneficial owner of the Capital Stock of Lanebrook Limited at the Issue Date; (iii) the legal representatives of any of the foregoing and the trustees of bona fide trusts of which the foregoing are the only beneficiaries; or (iv) any Subsidiary of any of the foregoing parties.

"**Voting Stock**" means any and all Capital Stock of the Issuer which affords the holder the right to vote in the election of directors, managers or trustees of the Issuer.

7.5 Purchases

The Issuer or any of the Issuer's Subsidiaries may at any time purchase Notes in any manner and at any price. If purchases are made by tender, tenders must be available to all Noteholders alike.

7.6 Cancellations

All Notes which are (a) redeemed or (b) purchased by or on behalf of the Issuer, or any of the Issuer's Subsidiaries will forthwith be cancelled and accordingly may not be held, reissued or resold.

7.7 Notices Final

Upon the expiry of any notice as is referred to in Conditions 7.2, 7.3 or 7.4 above, the Issuer shall be bound to redeem the Notes to which the notice refers in accordance with the terms of such paragraph.

8 TAXATION

8.1 Payment without Withholding

All payments in respect of the Notes by or on behalf of the Issuer or the Guarantor(s) (if any) shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of any Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer or, as the case may be, the Guarantor(s) (if any) will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note:

(a) to, or by or on behalf of, a holder who is liable to the Taxes in respect of the Note by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Note; or

(b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC, any other European Union Directive on the taxation of savings income implementing the conclusions of the ECOFIN Council Meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(c) to, or on behalf of, a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union; or

(d) where an Individual Certificate in respect of which is presented for payment of principal more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days.

8.2 Interpretation

In these Conditions:

(a) "**Relevant Date**" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 13; and

(b) "**Relevant Jurisdiction**" means Luxembourg or any political subdivision or any authority thereof or therein having the power to tax (in the case of payments by the Issuer) or a Guarantor Jurisdiction or any political subdivision or any authority thereof or therein having the power to tax (in the case of payments by the Guarantor(s) (if any)) or in any case any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer or, as the case may be, any Guarantor (if any) becomes subject in respect of payments made by it of principal and/or interest on the Notes.

8.3 Additional Amounts

Any reference in the Trust Deed or the Notes to any amounts payable in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed or the Notes.

9 PRESCRIPTION

Claims in respect of principal and interest in respect of the Notes will become void unless made within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the Notes, subject to the provisions of Condition 6.

10 EVENTS OF DEFAULT

10.1 Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified and/or secured to its satisfaction), give notice to the Issuer and the Guarantor(s) (if any) that the Notes are, and they shall accordingly forthwith become, immediately due and repayable at their principal amount, together with accrued interest as provided in the Trust Deed in any of the following events ("**Events of Default**"):

(a) if default is made in the payment of any interest due in respect of the Notes or any of them and the default shall continue for a period of five Business Days;

(b) if default is made in the payment of any principal due in respect of the Notes or any of them;

(c)

(i) if default is made in the performance, or if there is a breach, of any covenant or agreement of the Issuer or the Guarantor(s) (if any) under the Trust Deed (other than a default in the performance, or breach, of a covenant or agreement which is specifically dealt with in paragraphs (a), (b) or (c)(ii)) and such default or breach shall continue for a period of 30 days after written notice has been given, by certified mail, (A) to the Issuer and the Guarantor(s) (if any) by the Trustee or (B) to the Issuer, the Guarantor(s) (if any) and the Trustee by holders of at least one-fifth in aggregate principal amount of the outstanding Notes; or

(ii) if default is made in the performance or breach of the provisions described in Condition 4.5;

(d) if any default in the payment of the principal, premium, if any, or interest on any Indebtedness (as extended by any applicable grace period) shall have occurred under any of the agreements, deeds, indentures or instruments under which the Issuer, the Guarantor(s) (if any) or any Material Subsidiary then has outstanding Indebtedness in excess of U.S.$20 million (or its U.S. Dollar Equivalent) in the aggregate;

(e) if the Guarantee(s) (if any) shall for any reason cease to be, or shall for any reason be asserted in writing by the Issuer or the relevant Guarantor(s) not to be, in full force and effect and

enforceable in accordance with its terms, except to the extent contemplated by these Conditions and the Trust Deed;

(f) if one or more judgments, orders or decrees of any court or regulatory or administrative agency for the payment of money in excess of U.S.$20 million (or its U.S. Dollar Equivalent), either individually or in aggregate, shall be rendered against the Issuer, the Guarantor(s) (if any) or any Material Subsidiary or any of their respective properties and shall not be discharged and (if applicable) there shall have been a period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of an appeal or otherwise, shall not be in effect;

(g) if any holder or holders of at least U.S.$20 million (or its U.S. Dollar Equivalent) in aggregate principal amount of Indebtedness of the Issuer, the Guarantor(s) (if any) or any Material Subsidiary after a default under such Indebtedness notifies the Trustee of the intended sale or disposition of any assets of the Issuer, the Guarantor(s) (if any) or any Material Subsidiary that have been pledged to or for the benefit of such holder or holders to secure such Indebtedness or shall commence proceedings, or take any action (including by way of set-off, distress, execution or other similar process, including appointment of a receiver, administrative receiver, manager or similar officer), to retain in satisfaction of such Indebtedness or to collect on, seize, dispose of or apply in satisfaction of Indebtedness, assets of the Issuer, the Guarantor(s) (if any) or any Material Subsidiary (including funds on deposit or held pursuant to lock-box or other similar arrangements);

(h) if (i) proceedings are initiated against the Issuer, the Guarantor(s) (if any) or any Material Subsidiary under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed in relation to the Issuer, the Guarantor(s) (if any) or any Material Subsidiary or, as the case may be, in relation to the whole or any part of the undertaking or assets of any of them or an encumbrancer takes possession of the whole or any part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any part of the undertaking or assets of any of them, and (ii) in any such case (other than the appointment of an administrator) unless initiated by the relevant company, is not discharged within 14 days; or

(i) if any event occurs which, under the laws of any Relevant Jurisdiction, has or may have in the Trustee's opinion, an analogous effect to any of the events referred to in paragraphs (d) to (h) above,

PROVIDED THAT, in the case of any Event of Default described in paragraph (c) above, the Trustee has certified that the Event of Default is, in its opinion, materially prejudicial to the interests of the Noteholders.

11 ENFORCEMENT

11.1 Enforcement by the Trustee

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer and/or the Guarantor(s) (if any) (or any of them) as it may think fit to enforce the provisions of the Trust Deed and the Notes, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed or the Notes unless (a) it has been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-fifth in principal amount of the Notes then outstanding and (b) it has been indemnified and/or secured to its satisfaction.

11.2 Enforcement by the Noteholders

No Noteholder shall be entitled to proceed directly against the Issuer or the Guarantor(s) (if any) unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

12 REPLACEMENT OF INDIVIDUAL CERTIFICATES

If any Individual Certificate representing a Note is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the costs and expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Individual Certificates must be surrendered before replacements will be issued.

13 NOTICES

Notices to Noteholders shall be mailed to them at their respective addresses in the Register and shall be deemed to have been given on the fourth weekday (being a day other than a Saturday or Sunday) after the date of mailing.

So *long as the Notes are represented by the Global Note Certificates and the Global Note Certificates are held on behalf of DTC, Euroclear or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to DTC, Euroclear or Clearstream, Luxembourg for communication by it to entitled accountholders in substitution for notification as required by the Conditions.*

14 MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION

14.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50% in principal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that, at any meeting the business of which includes the modification or abrogation of certain of the provisions of these Conditions and certain of the provisions of the Trust Deed (as specified in the Trust Deed), the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting. A resolution in writing signed by or on behalf of all the Noteholders, which resolution in writing may be contained in one document or in several documents in like form each signed by or on behalf of one or more of the Noteholders, shall be as valid, effective and binding as a resolution duly passed at such a meeting.

14.2 Modification, Waiver, Authorisation and Determination

The Trustee may agree, without the consent of the Noteholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default shall not be treated as such (provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders) or may

agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error.

14.3 Trustee to have Regard to Interests of Noteholders as a Class

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular, but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Guarantor(s) (if any), the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

14.4 Notification to the Noteholders

Any modification, abrogation, waiver, authorisation or determination shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification, abrogation, waiver, authorisation or determination shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 13.

15 INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER

15.1 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured to its satisfaction.

15.2 Trustee Contracting with the Issuer

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or the Guarantor(s) (if any) and/or any of the Issuer's Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or the Guarantor(s) (if any) and/or any of the Issuer's Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

16 FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Noteholders to create and issue further notes ranking *pari passu* in all respects (save for the issue price and the first payment of interest thereon) so that the same shall be consolidated and form a single series with the Notes. Any such further notes shall be constituted by a deed supplemental to the Trust Deed.

17 GOVERNING LAW AND SUBMISSION TO JURISDICTION

17.1 Governing Law

The Trust Deed and the Notes are governed by, and will be construed in accordance with, English law.

The provisions of articles 86 to 94-8 of the Luxembourg law of 10 August 1915, as amended, on commercial companies are excluded.

17.2 Jurisdiction of English Courts

The Issuer has irrevocably agreed in the Trust Deed for the benefit of the Trustee and the Noteholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed and the Notes and accordingly has submitted to the exclusive jurisdiction of the English courts.

The Issuer has in the Trust Deed waived any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Trustee and the Noteholders may take any suit, action or proceeding arising out of or in connection with the Trust Deed or the Notes respectively (together referred to as "**Proceedings**") against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

17.3 Appointment of Process Agent

The Issuer has, in the Trust Deed, irrevocably and unconditionally appointed Law Debenture Corporate Services Limited at 100 Wood Street, London EC2V 7EX for the time being as its agent for service of process in England in respect of any Proceedings and has undertaken that in the event of such agent ceasing so to act it will appoint such other person as the Trustee may approve as its agent for that purpose.

18 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Notes (or any of them), but this does not affect any right or remedy of any person which exists or is available apart from that Act.

19 DEFINITIONS

In these Conditions the following terms have the meaning given to them in this Condition 19.

"**12-Month Consolidated EBITDA**" means the aggregate Consolidated EBITDA for the two latest Measurement Periods preceding any date of determination for which consolidated financial statements of the Group are available.

"**Accounts Regulation**" means Article 3 of Regulation (EC) No. 1606/2002.

"**Acquired Indebtedness**" means Indebtedness of a Person (a) existing at the time such Person becomes a Subsidiary or is merged into or consolidated with the Issuer or any Subsidiary of the Issuer (b) assumed by such Person in connection with the acquisition of assets by such Person in each case provided that such Indebtedness was not incurred in connection with, or in contemplation of, such Person becoming as Subsidiary or such acquisition, as the case may be. Acquired Indebtedness shall be deemed to be incurred on the date the acquired Person becomes a Subsidiary or the date of the related acquisition of assets from any Person.

"**Affiliate**" of any specified Person means any other Person, directly or indirectly controlling, controlled by, or under direct or indirect common control with, such specified Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling", "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise; provided that beneficial ownership of 20% or more of the Capital Stock with voting power of a Person shall be deemed to be control.

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not).

"**Aggregate Subsidiary Indebtedness**" means the aggregate amount of all Indebtedness of Subsidiaries of the Issuer (without duplication (and without limiting the generality of the foregoing, calculating as one item of Indebtedness any Indebtedness in respect of which more than one Subsidiary is obligor) and excluding (i) Indebtedness of the Guarantor(s) (if any), (ii) Indebtedness of any Finance Subsidiary, (iii) Indebtedness of any Subsidiary of the Issuer incurred pursuant to Condition 4.2(iii), (iv) any guarantee by a Subsidiary of the Indebtedness of any other Subsidiary, (v) Indebtedness of a Subsidiary of the Issuer owing solely to the Issuer or a Subsidiary of the Issuer) and (vi) Indebtedness of Mastercroft Limited outstanding on the Issue Date, in each case after giving effect on a *pro forma* basis to the incurrence of the Indebtedness of a Subsidiary of the Issuer the permissibility of which is then being measured, the incurrence or repayment of any Indebtedness of the Issuer or of the Subsidiaries of the Issuer on or after the first day of the Measurement Period relevant for such calculation and, in each case, the receipt and application of the proceeds therefrom.

"**Applicable Premium**" means, with respect to a Note on any redemption date, the greater of:

(a) 1.0% of the principal amount of such Note; and

(b) the excess of (i) the present value at such redemption date of the principal amount of the Note at maturity, plus all required interest payments that would otherwise be due to be paid in respect of such Note during the period between the redemption date and 24 April 2013, excluding accrued but unpaid interest at such redemption date, calculated using a discount rate equal to the Treasury Rate at such redemption date plus 50 basis points over (ii) the principal amount of such Note at maturity.

"**Approved Jurisdiction**" means the United States of America, Russia and any member state of the European Union as constituted on the Issue Date.

"**Asset Acquisition**" means (i) an Investment by the Issuer or any Subsidiary of the Issuer in any other Person pursuant to which such Person shall become a Subsidiary of the Issuer or shall be consolidated or merged with the Issuer or any Subsidiary of the Issuer or (ii) the acquisition by the Issuer or any Subsidiary of the Issuer of assets of any Person which constitute all or substantially all of the assets of such Person or which comprise a division or line of business of such Person.

"**Asset Sale**" means any lease, sale, sale and lease-back, transfer or other disposition either in one transaction or in a series of related transactions, by the Issuer, the Guarantor(s) (if any) or any of their respective Subsidiaries to a Person that is not part of the Group, of any Production Assets the value of which exceeds 10% of the total Production Assets of the Group in any 12-month period (determined in each case by reference to the most recent publicly available audited annual financial statements or reviewed interim financial statements of the Issuer prepared in accordance with IFRS); provided that "Asset Sale" shall not include sales or other dispositions of inventory or stock in trade in the ordinary course of business or assignments of or other arrangements over the rights or revenues arising from contracts for the sale of steel products at Fair Market Value.

"**Board of Directors**" means, as to any Person, the board of directors of such Person or any duly authorised committee thereof.

"**Business Day**" means a day which is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in both London and New York City.

"**Capital Stock**" means, with respect to any Person, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents (however designated, whether voting or nonvoting) of such Person's equity, including any preferred stock of such Person and depositary receipts representing such equity, whether now outstanding or issued after the Issue Date, including

without limitation, all series and classes of such Capital Stock but excluding any debt securities convertible into such Capital Stock.

"**Cash Equivalents**" means:

(a) any evidence of Indebtedness with a maturity of one year or less issued or directly and fully guaranteed or insured by an Approved Jurisdiction or any Agency or instrumentality thereof; provided that the full faith and credit of an Approved Jurisdiction (or similar concept under the laws of the relevant Approved Jurisdiction) is pledged in support thereof;

(b) commercial paper with a maturity of one year or less issued by a corporation organised under the laws of an Approved Jurisdiction and rated at all times at least the same rating as that of the unsecured, unsubordinated debt obligations of the Issuer or the Guarantor(s) (if any), whichever is higher, by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service Limited or Fitch Ratings Ltd. to the extent that the aggregate amount of Cash Equivalents (as defined in this paragraph (b)) invested by application of Disposal Proceeds does not exceed at any time U.S.$50,000,000 or its U.S. Dollar Equivalent; and

(c) commercial paper with a maturity of one year or less, issued by a corporation organised under the laws of an Approved Jurisdiction, and at all times listed or traded on the Moscow Interbank Currency Exchange to the extent that the aggregate amount of Cash Equivalents (as defined in this paragraph (c)) invested by application of Disposal Proceeds does not exceed at any time U.S.$50,000,000 or its U.S. Dollar Equivalent.

"**Consolidated Depreciation and Amortisation**" means the consolidated depreciation and amortisation of fixed assets and intangibles of the Issuer as shown in the latest available consolidated profit and loss account of the Issuer prepared in accordance with IFRS.

"**Consolidated EBITDA**" means the Consolidated Net Income (Loss) for any period, as adjusted by adding back, to the extent deducted in calculating Consolidated Net Income (Loss), without duplication, for such period:

(a) Consolidated Interest Expense

(b) Consolidated Income Tax Expense;

(c) Consolidated Depreciation and Amortisation,

less any non-cash items increasing (decreasing) Consolidated Net Income (Loss) for that period.

"**Consolidated Income Tax Expense**" means in respect of any period the expenses of the Issuer in respect of income taxes as shown in the consolidated profit and loss account of the Issuer for such period prepared in accordance with IFRS.

"**Consolidated Indebtedness**" means at any date of determination (and without duplication) all Indebtedness of the Issuer as calculated in accordance with the then most recently published consolidated financial statements of the Issuer prepared in accordance with IFRS.

"**Consolidated Interest Expense**" means, in relation to any period, the total of the following as calculated in accordance with the consolidated financial statements of the Issuer for such period prepared in accordance with IFRS:

(a) cash and non-cash interest expense (net of interest income) for the relevant period (excluding any amortisation of debt issuance costs), including, without limitation, dividends accrued in respect of all Disqualified Capital Stock of the Issuer (other than dividends payable solely in Capital Stock (other than Disqualified Capital Stock) of the Issuer) (in each case, whether or not interest expense in accordance with IFRS);

(b) amortisation of debt discount;

(c) the net costs associated with hedging agreements (including amortisation of fees and discounts);

(d) the interest portion of any deferred payment obligations;

(e) all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing;

(f) accrued interest;

(g) interest due and payable under any guarantee, indemnity or equivalent arrangement;

(h) the interest component of any capital lease obligation accrued during the relevant period; and

(i) all capitalised interest of the Issuer and its Subsidiaries (including, without limitation and for the avoidance of doubt, the Guarantor(s) (if any)) in each case determined on a consolidated basis in accordance with IFRS.

"**Consolidated Net Income (Loss)**" means in respect of any period the consolidated net income (loss) of the Issuer for such period as shown in the then most recent consolidated profit and loss account of the Issuer prepared in accordance with IFRS adjusted, to the extent included in calculating such net income (loss), by excluding, without duplication:

(a) gains or losses, net of taxes (less all fees and expenses relating thereto), in respect of dispositions of assets other than in the ordinary course of business;

(b) any net foreign exchange gain or loss;

(c) any gain or loss on net monetary position;

(d) any share of the profit or loss of any associated company, associated undertaking or unconsolidated joint venture;

(e) the cumulative effect of changes in accounting principles; and

(f) any extraordinary net of tax gains or losses that are distinguished by their unusual nature and the infrequency of their occurrence.

"**Consolidated Tangible Assets**" means, with respect to a Person, the total of all such Person's assets less (a) goodwill, trade names, trademarks, service marks, patents, licences, organisational expenses, research and development expenses, unamortised debt discount and expense, unamortised deferred charges and all other like intangible assets and (b) all write-ups of fixed assets, net of accumulated depreciation thereon, other than any revaluation made in accordance with IFRS, as reflected in the then most recent consolidated balance sheet of such Person and its consolidated Subsidiaries prepared in accordance with IFRS. For purposes of the calculation of Consolidated Tangible Assets, (i) if, during the relevant period contained in the definition of Subsidiary Indebtedness Threshold for which Consolidated Tangible Assets are being calculated, the relevant Person shall have made an Investment in any Subsidiary of the Issuer (or any Person which becomes a Subsidiary of the Issuer) or an acquisition of assets, including any acquisition of an asset which constitutes all or substantially all of an operating unit of a business, Consolidated Tangible Assets shall be calculated after giving pro forma effect thereto (provided in each case that such Subsidiary of the Issuer or acquisition is not yet reflected in the consolidated balance sheet of such Person and its consolidated Subsidiaries) and (ii) negative goodwill shall be assigned a value of zero. For the purposes of this definition, whenever "pro forma effect" is to be given to an Investment of acquisition of assets such determination shall be made in good faith by a responsible financial or accounting officer of the Issuer.

"**Core or Related Business**" means the business of (a) producing steel and ferrous metal products, (b) investing in property, plant or equipment for the production of steel and ferrous metal products, (c) mining and processing of raw materials and manufacturing equipment for the production of steel and ferrous metal products, (d) conducting business connected with the consumption of steel and

ferrous metal products, (e) industrial construction for the production of steel and ferrous metal products, (f) automobile, railway and ship transportation of steel and ferrous metal products in connection with the Group's production of steel and ferrous metal products, including, without limitation, transportation via the Nakhodka Commercial Sea Port or (g) evaluating, participating in or pursuing any other activity or opportunity that is related to those identified in paragraphs (a) to (f) above.

"**Disinterested Director**" means, with respect to any transaction or series of related transactions, a member of the Board of Directors of the Issuer who does not have any material direct or indirect financial interest in or with respect to such transaction or series of related transactions. A Person shall not be ineligible to constitute a Disinterested Director solely as a result of such Person owning any equity interests of the Issuer or any of its Subsidiaries or acting as an officer, director or employee of the Issuer or any of its Subsidiaries.

"**Disqualified Capital Stock**" means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder thereof), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the option of the holder thereof, on or prior to the date that is 91 days after the date on which the Notes mature.

"**Equity Interests**" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

"**Euro Equivalent**" means, with respect to any amount denominated in a currency other than the euro, at any time for the determination thereof, the amount of euro obtained by converting such other currency involved into euro at the spot rate for the purchase of euro with such other currency as most recently published under "Currency Rates" in the section of the *Financial Times* entitled "Currencies, Bonds & Interest Rates".

"**Fair Market Value**" means the price that would be paid in an arm's length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the competent management body of the relevant Issuer or the relevant competent management body of the Material Subsidiary (including a majority of the Disinterested Directors, if applicable) whose determination shall be conclusive if evidenced by a resolution of such relevant competent management body, or, with respect to any transaction or series of related transactions involving an aggregate value in excess of U.S.$30,000,000 (or its U.S. Dollar Equivalent), the price as determined by an Independent Appraiser.

"**Finance Subsidiary**" means a wholly owned direct Subsidiary of the Issuer or a Guarantor (if any), the principal activities of which are the issuance for cash of notes, bonds, debentures, promissory notes and other debt securities and the borrowing of cash pursuant to loans, credit facilities and agreements, notes, certificates and other instruments evidencing Indebtedness and the lending of not less than 85% of the cash proceeds of such issuances and borrowings to the Issuer or such Guarantor, as the case may be.

"**Group**" means the Issuer and its direct and indirect consolidated Subsidiaries.

"**Indebtedness**" means, with respect to any Person at any date of determination (without duplication):

(a) all indebtedness of such Person for borrowed money;

(b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(c) all obligations of such Person in respect of letters of credit or other similar instruments (including reimbursement obligations with respect thereto);

(d) all obligations of such Person to pay the deferred and unpaid purchase price of property, assets or services, which purchase price is due more than 120 days after the earlier of the date of

placing such property in service or taking delivery and title thereof or the completion of such services;

(e) all capitalised lease obligations of such Person;

(f) all Indebtedness of other Persons secured by a Lien granted by such Person on any asset (the value of which, for these purposes, shall be determined by reference to the balance sheet value of such asset in respect of the latest half year period of the Person providing the Lien) of such Person, whether or not such Indebtedness is assumed by such Person;

(g) all Indebtedness of other Persons guaranteed or indemnified by such Person to the extent such Indebtedness is guaranteed or indemnified by such Person;

(h) to the extent not otherwise included in this definition, net obligations under any currency or interest rate hedging agreements; and

(i) any amount raised under any other transaction (including, but without limitation to, any forward sale or purchase agreement) having the economic or commercial effect of a borrowing.

For the avoidance of doubt Indebtedness of any Person does not include (i) trade account payables arising solely in the ordinary course of business of such Person and maturing in less than 120 days (other than promissory notes and similar obligations incurred for the purpose of a borrowing), (ii) for the purposes of Condition 4.2 only, restructured tax payable reported in the most recent balance sheet prepared in accordance with IFRS of such Person and (iii) Indebtedness incurred by the Issuer or a Subsidiary of the Issuer in connection with a transaction where (x) such Indebtedness is borrowed from a bank or trust company incorporated in the Russian Federation, South Africa, any member state of the European Union as of the date of the Trust Deed, or any commercial banking institution that is a member of the U.S. Federal Reserve System, in each case having a combined capital and surplus and undivided profits of not less than €500 million, whose debt has a rating immediately prior to the time such transaction is entered into, of at least A or the equivalent thereof by Standard & Poor's and A2 or the equivalent thereof by Moody's and (y) a substantially concurrent Investment is made by the Issuer or any Subsidiary or Subsidiaries of the Issuer in the form of cash deposited with the lender of such debt, or a Subsidiary or Affiliate thereof, in amount substantially similar to such debt.

For the purpose of determining compliance with any U.S. Dollar denominated restriction on Indebtedness, the U.S. Dollar Equivalent of Indebtedness denominated in another currency shall be calculated.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations as described above, the maximum liability upon the occurrence of the contingency giving rise to the obligation.

"**Independent Appraiser**" means any of PricewaterhouseCoopers LLC, KPMG LLC, Deloitte & Touche LLP or such investment banking, accountancy or appraisal firm of international standing selected by the Issuer or the relevant competent management body of the relevant Material Subsidiary (with the prior written consent of the Trustee), provided it is not an Affiliate of the Issuer, any Guarantor(s) (if any) or any Material Subsidiary.

"**IFRS**" means the International Financial Reporting Standards as in effect from time to time.

"**Investment**" means, with respect to any Person, directly or indirectly, any advance (other than advances to customers in the ordinary course of business), loan (including guarantees), or other extension of credit (including guarantees) or capital contribution to (by means of any transfer of cash) or other property to others or any payment for property or services for the account or use of others, or any purchase, acquisition or ownership by such Person of any Capital Stock, bonds, notes, debentures, or other securities (including, without limitation, any interests in any partnership or joint venture) or evidence of indebtedness issued or owned by any Person and all other items that would be classified as investments on a balance sheet prepared in accordance with IFRS; provided that:

(a) hedging obligations entered into in the ordinary course of business and in compliance with these Conditions; and

(b) endorsements of negotiable instruments in the ordinary course of business,

shall in each case be deemed not to be an Investment.

"**Issue Date**" means 24 April 2008.

"**Issuer**" means Evraz Group S.A., a société anonyme incorporated with limited liability in the Grand Duchy of Luxembourg.

"**Leverage Ratio**" means the ratio of Consolidated Indebtedness to 12-Month Consolidated EBITDA of the Issuer after giving effect on a *pro forma* basis to:

(a) the incurrence of any Indebtedness the permissibility of which is then being measured, the incurrence or repayment of any other Indebtedness on or after the first day of the Measurement Period relevant for such calculation and, in each case, the receipt and application of the proceeds therefrom, and

(b) the exclusion of Consolidated EBITDA associated with any Asset Sales or the inclusion of Consolidated EBITDA associated with any Asset Acquisitions (including, without limitation, any Asset Acquisition giving rise to the need to make such calculation as a result of the incurrence or assumption of Indebtedness) on or after the first day of the Measurement Period relevant for such calculation,

provided, however, that any such *pro forma* Consolidated EBITDA in respect of an Asset Acquisition may only be so included if such *pro forma* Consolidated EBITDA shall have been derived from (i) financial statements of, or relating to or including, such acquired entity, that have been prepared in accordance with IFRS, U.S. GAAP or any body of accounting principles that has been determined by the European Commission to be equivalent to IFRS as provided in the Accounts Regulation (without regard to any modifications to such principles that may be required after the date of such financial statements in connection with or pursuant to such determination) provided that such financial statements are available or can be prepared without unreasonable expense; or (ii) such other financial statements and information of the acquired entity that the chief financial officer of the Issuer believes in good faith to present fairly the financial position of the acquired entity so as to permit such a pro forma Consolidated EBITDA to be prepared on the basis of reasonable assumptions and estimates.

"**Lien**" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof, any sale with recourse against the seller or any Affiliate of the seller, or any agreement to give any security interest) securing any obligation of any Person.

"**Material Subsidiary**" means at any relevant time a direct or indirect Subsidiary of the Issuer:

(a) whose total consolidated assets represent not less than 10% of the total consolidated assets of the Issuer, or whose gross consolidated revenues represent not less than 10% of the gross consolidated revenues of the Issuer (determined by reference to the most recent publicly available annual or interim financial statements of the Issuer, prepared in accordance with IFRS and the latest financial statements of the Subsidiary of the Issuer); or

(b) to which is transferred all or substantially all the assets and undertakings of a Subsidiary of the Issuer which immediately prior to such transfer is a Material Subsidiary.

"**Measurement Period**" means each financial half-year ending on 30 June or 31 December for which consolidated financial statements of the Issuer (or the other relevant Person in respect of which the particular calculation is to be made, as the case may be) prepared in accordance with IFRS are available. For the avoidance of doubt, any non-balance sheet financial information for a Measurement Period ending on 31 December of any year shall be calculated by subtracting (a) the relevant

information for the Measurement Period ending on 30 June of that year from (b) the equivalent information for that year.

"**Moody's**" means Moody's Investors Service Limited.

"**Permitted Liens**" means:

(a) Liens granted by a Subsidiary of the Issuer in favour of the Issuer or the Guarantor(s) (if any) or a Subsidiary of the Issuer or the Guarantor(s) (if any) or by the Issuer or the Guarantor(s) (if any) in favour of a Subsidiary of the Issuer or the Guarantor(s) (if any) with respect to the property or assets, or any income or profits therefrom, of the Issuer or the Guarantor(s) (if any) or such Subsidiary of the Issuer, as the case may be;

(b) any Lien existing on the Issue Date;

(c) Liens imposed by law, including but without limitation, Liens of landlords and carriers, warehousemen, mechanics, suppliers, material men, repairmen or other similar Liens arising in the ordinary course of business;

(d) any Lien on any property, income, assets or revenues of any Person existing at the time such Person is acquired, merged or consolidated with or into the Issuer, the Guarantor(s) (if any) or any of their respective Subsidiaries and not created in contemplation of such event; provided that no such Lien shall extend to any other property, income, assets or revenues of such Person or to any other property or assets of the Subsidiaries of such Person or the Issuer, the Guarantor(s) (if any) or any of their respective Subsidiaries;

(e) any Lien existing on any property, income, assets or revenues prior to the acquisition thereof by the Issuer, the Guarantor(s) (if any) or any of their respective Subsidiaries and not created in contemplation of such acquisition; provided that no such Lien shall extend to any other property, income, assets or revenues of the Issuer, the Guarantor(s) (if any) or any of their respective Subsidiaries;

(f) any extension, renewal or replacement of any Lien described in paragraphs (a) to (e) above, provided that (i) such extension, renewal or replacement shall be no more restrictive to the relevant Person in any material respect than the original Lien, (ii) the amount of Indebtedness secured by such Lien is not increased and (iii) if the property, income, assets or revenues securing the Indebtedness subject to such Lien are changed in connection with such refinancing, extension or replacement, the Fair Market Value of such property, income, assets or revenues is not increased;

(g) any Lien on the property, income, assets or revenues of the Issuer, the Guarantor(s) (if any) or any of their respective Subsidiaries securing Indebtedness of the Issuer, the Guarantor(s) (if any) or any of its Subsidiaries incurred in an aggregate principal amount outstanding at any one time not to exceed 20% of the total assets of the Issuer (determined on a consolidated basis by reference to the then most recent publicly available annual or interim financial statements of the Issuer prepared in accordance with IFRS). For the avoidance of doubt this paragraph (g) does not include any Lien created in accordance with paragraphs (a) to (f) or (h) to (n) hereof;

(h) any Lien on the property, income, assets or revenues of the Issuer, the Guarantor(s) (if any) or any of their respective Subsidiaries securing working capital facilities which make advances of a tenor of 180 days or less with an aggregate principal amount outstanding at any time not to exceed 10 per cent. of the Consolidated Tangible Assets;

(i) any Lien on any property, income, assets or revenues of the Issuer, the Guarantor(s) (if any) or any of their respective Subsidiaries (including any Capital Stock of an acquired company that is used as security in connection with the acquisition of such company) securing Indebtedness incurred for the purpose of financing all or part of the acquisition, maintenance, repair or construction of such property or assets provided that (i) such Lien is created solely for the purpose of securing Indebtedness incurred by the Issuer, the Guarantor(s) (if any) or the

relevant Subsidiary of the Issuer in compliance with Condition 4.2, (ii) no such Lien shall extend to any other property or assets of the Issuer, the Guarantor(s) (if any) or any of its relevant Subsidiaries, (iii) the aggregate principal amount of all Indebtedness secured by Liens under this paragraph (i) on such property or assets does not exceed the purchase price of such property or assets (including customs duties, transport, insurance, construction and installation costs and other incidental costs and expenses of purchase and any VAT or similar taxes thereon) and (iv) such Lien attaches to such property or assets concurrently with the maintenance or repair thereof or within 90 days after the acquisition or commencement of construction thereof, as the case may be;

(j) any Lien granted in favour of a Person providing Project Financing if the Lien is solely on the property, income, assets or revenues of the project for which the financing was incurred provided that (i) the person or persons providing such financing limits its recourse solely to the property, income, assets or revenues subject to such Lien, (ii) such Lien is created solely for the purpose of securing Indebtedness incurred by the Issuer, the Guarantor(s) (if any) or a Subsidiary of the Issuer or the Guarantor(s) (if any) in compliance with Condition 4.2, and (iii) no such Lien shall extend to any other property, income, assets or revenues of the Issuer, or the Guarantor(s) (if any) or their respective Subsidiaries;

(k) any Lien upon any steel, ferrous metal, iron ore or coal export contract with or through any Material Subsidiary (including contracts for sale, transportation or exchange, utilisation and pooling declarations and agreements), and any related inventory and products, and proceeds thereof, which contract is entered into from time to time between any of the Issuer or the Guarantor(s) (if any) or their respective Subsidiaries, on the one hand, and a purchaser in the ordinary course of the business of the Issuer, the Guarantor(s) (if any) or such Subsidiaries, as the case may be, on the other hand, in a form that is customary in the steel, iron ore mining or coal mining industry, as applicable;

(l) any Lien in respect of obligations arising under hedging agreements so long as the related Indebtedness is permitted to be incurred under these Conditions and any such hedging agreement is not speculative;

(m) a right of set-off, right to combine accounts or any analogous right which any bank or other financial institution may have relating to any credit balance of any member of the Group; and

(n) any Lien for *ad valorem*, income or property taxes or assessments, customs charges and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which the Issuer, the Guarantor(s) (if any) or any Subsidiary of the Issuer or the Guarantor(s) (if any) has set aside in its accounts reserves to the extent required by IFRS.

"**Person**" means any individual, corporation, partnership, joint venture, trust, unincorporated organisation or government or any Agency or political subdivision thereof.

"**Potential Event of Default**" means any condition, event or act which, with the lapse of time and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, could constitute an Event of Default.

"**Production Assets**" means property, plant and equipment of the Group determined in accordance with IFRS.

"**Project Financing**" means any financing of all or part of the costs of the acquisition, construction, development or operation of any asset or project if the person or persons providing such financing limits its recourse solely to the asset or project financed and the revenues derived from such asset or project.

"**Qualified Securitisation Transaction**" means any asset securitisation transaction or series of asset securitisation transactions that may be entered into by the Issuer, the Guarantor(s) (if any) or any

Material Subsidiary pursuant to which such person may sell or otherwise transfer or dispose its accounts receivables and other related assets to (a) a Securitisation Entity (in the case of a transfer by the Issuer, the Guarantor(s) (if any) or any Material Subsidiary) or (b) any other Person (in the case of a transfer by a Securitisation Entity).

"**Reporting Package**" means, for any period, the financial statements of a Material Subsidiary prepared in accordance with IFRS and used in preparing the consolidated financial statements of the Issuer for such period prepared in accordance with IFRS.

"**Russia**" shall mean the Russian Federation and any province or political subdivision or Agency thereof or therein, and "**Russian**" shall be construed accordingly.

"**Securitisation Entity**" means a wholly owned Material Subsidiary, or a wholly owned Subsidiary of another Person in which the Issuer, the Guarantor(s) (if any) or any Affiliate of the Issuer or the Guarantor(s) (if any) makes an Investment, and in each case to which the Issuer, the Guarantor(s) (if any) or any Affiliate of the Issuer or the Guarantor(s) (if any) transfers accounts receivables and related assets, that engages in no activities other than in connection with the financing of accounts receivables which is designated by the Board of Directors of the Issuer or the Guarantor(s) (if any) (as provided below) as a Securitisation Entity; and

(a) no portion of the Indebtedness or any other obligations (contingent or otherwise) of which:

  (i) is guaranteed by the Issuer, the Guarantor(s) (if any) or any Material Subsidiary;

  (ii) gives recourse to or obliges the Issuer, the Guarantor(s) (if any) or any Material Subsidiary (other than such Securitisation Entity) in any way; or

  (iii) subjects any property or asset of the Issuer, the Guarantor(s) (if any) or any Material Subsidiary (other than such Securitisation Entity), directly or indirectly, contingently or otherwise, to the satisfaction thereof,

in each case other than pursuant to representations, warranties, covenants and indemnities by the Issuer, the Guarantor(s) (if any) or any Material Subsidiary that are reasonably customary in an accounts receivables securitisation transaction;

(b) with which none of the Issuer, the Guarantor(s) (if any) or any Material Subsidiary (other than such Securitisation Entity) has any material contract, agreement, arrangement or understanding other than on terms no less favourable to the Issuer. the Guarantor(s) (if any) or the relevant Material Subsidiary than those that might be obtained at the time from Persons that are not Affiliates of the Issuer or the Guarantor(s) (if any), other than fees payable in the ordinary course of business in connection with servicing accounts receivable of such entity; and

(c) to which none of the Issuer, the Guarantor(s) (if any) or the Material Subsidiaries (other than such Securitisation Entity) has any obligation to maintain or preserve such entity's financial condition or cause such entity to achieve certain levels of operating results.

Any designation of a Material Subsidiary or an Affiliate as a Securitisation Entity shall be evidenced to the Trustee by filing with the Trustee a certified copy of the resolution of the relevant Board of Directors giving effect to the designation and any officers' certificate certifying that the designation complied with the preceding conditions and was permitted by these Conditions which shall be binding on the Trustee.

"**Standard & Poor's**" means Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies, Inc.

"**Subsidiary**" of any Person means (a) any corporation more than 50% of the outstanding voting power of the Capital Stock of which is owned or controlled, directly or indirectly, by such Person or by one or more other Subsidiaries of such Person, or by such Person and one or more other Subsidiaries thereof, (b) any limited partnership of which such Person or any Affiliate of such Person is a general partner, (c) any other Person in which such Person, or one or more other Subsidiaries of

such Person, or such Person and one or more other Subsidiaries, directly or indirectly, has more than 50% of the outstanding partnership or similar interests or has the power, by contract or otherwise, to direct or cause the direction of the policies, management and affairs thereof or (d) any Person whose financial statements are required by IFRS to be consolidated into the financial statements of such Person.

"**Subsidiary Indebtedness Threshold**" means (a) prior to the second anniversary of the Issue Date, 35 per cent. of the Issuer's Consolidated Tangible Assets, (b) on and after the second anniversary, and prior to the fourth anniversary, of the Issue Date, 32.5 per cent. of the Issuer's Consolidated Tangible Assets, (c) on and after the fourth anniversary, and prior to the sixth anniversary, of the Issue Date, 30 per cent. of the Issuer's Consolidated Tangible Assets, and (d) on and after the sixth anniversary 25% of the Issuer's Consolidated Tangible Assets.

"**Treasury Rate**" means the yield to maturity at the time of computation of U.S. Treasury securities with a constant maturity most nearly equal to the period from the redemption date to 24 April 2013. The Issuer will obtain such yield to maturity from the information compiled and published in the most recent Federal Reserve Statistical Release H.15(519) which has become publicly available at least two Business Days prior to the redemption date. If such Statistical Release is no longer published, the Issuer will use any publicly available source or similar market data. If the period from the redemption date to 24 April 2013 is not equal to the constant maturity of a U.S. Treasury security for which a weekly average yield is given, the Issuer will obtain the Treasury Rate by linear interpolation, calculated to the nearest one-twelfth of a year, from the weekly average yields of U.S. Treasury securities for which such yields are given. If the period from the redemption date to 24 April 2013 is less than one year, the Issuer will use the weekly average yield on actually traded U.S. Treasury securities adjusted to a constant maturity of one year to make such calculation.

"**U.S. Dollar Equivalent**" means with respect to any amount denominated in a currency other than U.S. Dollars, at any time for the determination thereof, the amount of U.S. Dollars obtained by converting such other currency involved into U.S. Dollars at the spot rate for the purchase of U.S. Dollars with such other currency as most recently published under "Currency Rates" in the section of the *Financial Times* entitled "Currencies, Bonds & Interest Rates".

"**U.S. GAAP**" means United States generally accepted accounting principles as in effect from time to time.

TERMS AND CONDITIONS OF THE 2018 NOTES

The following is the text of the Terms and Conditions of the 2018 Notes which (subject to modification) will be endorsed on each Individual Certificate (as defined below) in definitive form (if issued):

The U.S.$550,000,000 9.50 per cent. Notes due 2018 (the "**Notes**", which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 16 and forming a single series with the Notes) of Evraz Group S.A. (the "**Issuer**") are constituted by a Trust Deed dated 24 April 2008 as may be amended or supplemented from time to time (the "**Trust Deed**") made between the Issuer, and The Bank of New York (the "**Trustee**", which expression shall include its successor(s)) as trustee for the holders of the Notes (the "**Noteholders**").

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions in the Trust Deed. Copies of the Trust Deed and the Paying Agency Agreement dated 24 April 2008 (the "**Agency Agreement**") made between the Issuer, The Bank of New York as Principal Paying Agent (the "**Principal Paying Agent**"), Registrar (the "**Registrar**"), Transfer Agent (the "**Transfer Agent**") and the initial Paying Agents (the "**Paying Agents**") named therein and the Trustee are available for inspection during normal business hours at the registered office for the time being of the Trustee, being at the Issue Date at The Bank of New York, One Canada Square, London E14 5AL, United Kingdom and at the specified office of each of the Paying Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Capitalised terms not defined in these Conditions shall have the meanings given to them in the Trust Deed.

1 FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Notes are in registered form in the minimum denomination of U.S.$100,000 and in integral multiples of U.S.$1,000 in excess thereof, without coupons attached. An individual note certificate (each an "**Individual Certificate**") will be issued to each Noteholder in respect of its registered holding of Notes. Each Note and each Individual Certificate will have an identifying number which will be recorded on the relevant Individual Certificate and in the Register (as defined in Condition 3.1).

Individual Certificates issued with respect to Rule 144A Notes ("**Rule 144A Individual Certificates**") will bear the Securities Act Legend (as defined in the Trust Deed), unless determined otherwise in accordance with the provisions of the Agency Agreement by reference to applicable law. Individual Certificates issued with respect to the Regulation S Notes ("**Regulation S Individual Certificates**") will not bear the Securities Act Legend.

Upon issue, the Rule 144A Notes will be represented by a restricted note certificate (the "**Rule 144A Global Note Certificate**") and the Regulation S Notes, if any, will be represented by the unrestricted global certificate (the "**Regulation S Global Note Certificate**" and, together with the Rule 144A Global Note Certificate, the "**Global Note Certificates**"). The Rule 144A Global Note Certificate will be deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, The Depository Trust Company ("**DTC**") and the Regulation S Global Note Certificate will be registered in the name of, and deposited with The Bank of New York Depository (Nominees) Limited as nominee of the common depositary for, Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**").

The Conditions are modified by certain provisions contained in the Global Note Certificates. See "Summary of Provisions Relating to the Notes while in Global Form".

Except in the limited circumstances described in the Global Note Certificates, owners of interests in Notes represented by the Global Note Certificates will not be entitled to receive physical delivery of Individual Certificates in definitive form in respect of their individual holdings of Notes. The Notes are not issuable in bearer form.

1.2 Title

Title to the Notes passes only by transfer and registration in the Register (as defined in Condition 3.1). The holder of any Note will (except as otherwise required by law or as ordered by a court of competent jurisdiction) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or the theft or loss of, the Individual Certificate (if any) issued in respect of it or anything written on it or on the relevant Individual Certificate) and no person will be liable for so treating the holder. In these Conditions, "**Noteholder**" and (in relation to a Note) "**holder**" mean the person in whose name a Note is registered in the Register.

2 STATUS OF THE NOTES

The Notes are direct, unconditional and unsecured obligations of the Issuer and (subject as provided above) rank and will rank *pari passu*, without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, but, in the event of insolvency, only to the extent permitted by applicable laws relating to creditors' rights.

3 TRANSFER OF NOTES

3.1 The Register

The Registrar will maintain a register (the ''**Register''**) in respect of the Notes in accordance with the provisions of the Agency Agreement with an up-to-date copy to be kept with the Issuer at its registered office (the "**Issuer's Register**"). Under the terms of the Agency Agreement, the Registrar will provide to the Issuer after each change to the Register an up-to-date copy of the Register to be maintained at the Issuer's registered office. In case of inconsistency between the Register and the Issuer's Register, the Issuer's Register shall prevail. Each Noteholder shall be entitled to receive only one Individual Certificate in respect of its entire holding.

3.2 Transfers

Subject to the terms of the Agency Agreement and to Conditions 3.5 and 3.6, a Note may be transferred by delivering the Individual Certificate issued in respect of it, with the form of transfer on the back duly completed and signed, to the specified office of the Registrar or any of the Transfer Agents. No transfer of a Note will be valid unless and until entered on the Register.

Transfers of interests in the Notes evidenced by the Global Note Certificates will be effected in accordance with the rules of the relevant clearing systems.

Upon the transfer, exchange or replacement of a Rule 144A Note, a Transfer Agent will only deliver Individual Certificates with respect to Rule 144A Notes that bear the Securities Act Legend unless there is delivered to such Transfer Agent such satisfactory evidence, which may include an opinion of legal counsel, as may be reasonably required by the Issuer, that neither the Securities Act Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the U.S. Securities Act of 1933, as amended (the "**Securities Act**").

An interest in Notes represented by the Regulation S Global Note Certificate may be transferred to a person within the United States subject to any applicable transfer restrictions under the Securities Act.

Interests in Notes represented by the Rule 144A Global Note Certificate may be transferred to a person who wishes to take delivery of any such interest in the form of an interest in Notes represented by the Regulation S Global Note Certificate only if a Transfer Agent receives a written certificate from the transferor (in the form provided in the Agency Agreement) to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S or Rule 144 (if available).

Transfers of Notes are also subject to the restrictions described under "Subscription and Sale" and "Transfer Restrictions" below.

3.3 Delivery of new Individual Certificates

Each new Individual Certificate to be issued on transfer of a Note or Notes will, within five business days of receipt by the Registrar or relevant Transfer Agent of the duly completed and signed form of transfer, be made available for collection at the specified office of the Registrar or relevant Transfer Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Notes being transferred (free of charge to the holder), to the address specified in the form of transfer.

Except in the limited circumstances described in "Summary of Provisions relating to the Notes while in Global Form", owners of interests in Notes represented by the Global Note Certificates will not be entitled to receive physical delivery of Individual Certificates. Issues of Individual Certificates upon transfers of Notes are subject to compliance by the transferor and transferee with the certification procedures described above and in the Agency Agreement and, in the case of Rule 144A Notes, compliance with the Securities Act Legend.

Where some but not all the Notes in respect of which an Individual Certificate is issued are to be transferred or redeemed, a new Certificate in respect of the Notes not so transferred or redeemed, will, within five business days of delivery or surrender of the original Individual Certificate to the relevant Transfer Agent or Registrar, be made available for collection at the specified office of the relevant Agent or, if so requested by the holder, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred or redeemed (free of charge to the holder), to the address of such holder appearing on the Register.

In this Condition 3, "**business day**" means a day (other than a Saturday or a Sunday) on which banks are open for business in the city in which the specified office of the Registrar and the relevant Transfer Agent to which the Individual Certificate in respect of the Notes to be transferred or relevant form of transfer is delivered is situated.

3.4 Formalities free of charge

Registration of transfer of Notes will be effected without charge by or on behalf of the Issuer or any of the Transfer Agents, but only upon the person making such application for transfer paying or procuring the payment (or the giving of such indemnity as the Issuer or any of the Transfer Agents may require) of any tax, duty or other governmental charges which may be imposed in relation to such transfer.

3.5 Closed periods

No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on (and including) the due date for any payment of principal of that Note or seven days ending on (and including) any Interest Record Date (as defined in Condition 6.1).

3.6 Regulations

All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes exhibited in the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder upon request.

4 COVENANTS

For so long as any Note remains outstanding (as defined in the Trust Deed) the Issuer and (to the extent applicable) any Guarantor (if any) each undertakes to comply with each of the following covenants:

4.1 Limitation on Liens

The Issuer shall not, and shall not permit any Guarantor(s) (if any) to, directly or indirectly, create, incur, assume or suffer to exist any Lien (the "**Initial Lien**"), other than a Permitted Lien, on any of its property or assets, now owned or hereafter acquired, or any revenues, income or profits therefrom, securing any Indebtedness unless, at the same time or prior thereto, the liability of the Issuer or any such Guarantor(s) (if any), as the case may be, under the Notes and the Trust Deed or, as the case may be, under any Deed of Guarantee (if any) (a) is secured equally and rateably therewith to the satisfaction of the Trustee or (b) has the benefit of such other security or other arrangement as the Trustee in its absolute discretion shall deem to be not materially less beneficial to the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed).

Any Lien created for the benefit of the Noteholders pursuant to the preceding paragraph shall provide by its terms that such Lien shall be automatically and unconditionally released and discharged upon (i) the release and discharge of the Initial Lien or (ii) the full, final and irrevocable payment of all amounts payable by the Issuer and the Guarantor(s) (if any) under the Notes, these Conditions, the Trust Deed and the Deeds of Guarantee(s) (if any).

4.2 Financial Covenants

The Issuer shall not, and shall not permit any of its Subsidiaries to, incur any Indebtedness, except that if (i) no Potential Event of Default nor Event of Default as defined in Condition 10.1 shall have occurred and be continuing at the time, or would occur as a consequence, of the incurrence of such Indebtedness (provided that for the purposes of this Condition 4.2 no Potential Event of Default with respect to an Event of Default falling within Condition 10.1(c)(i) shall be deemed to have occurred unless and until the expiry of the period of 30 days referred to therein) and (ii) the Leverage Ratio is 3:1 or lower:

(i) the Issuer, the Guarantor(s) (if any) or a Finance Subsidiary may incur Indebtedness; and

(ii) any Subsidiary (other than the Guarantor(s) (if any) or a Finance Subsidiary) of the Issuer may incur Indebtedness if Aggregate Subsidiary Indebtedness does not exceed the Subsidiary Indebtedness Threshold; and

(iii) a Subsidiary of the Issuer may incur Indebtedness (the "**Initial Indebtedness**") if, within 90 days after such incurrence, such Subsidiary fully and unconditionally guarantees (each, a "**Guarantee**" and collectively the "**Guarantee(s)**") the Notes and the Trust Deed and all amounts due under or in connection therewith in a deed supplemental to the Trust Deed the form of which must be satisfactory to the Trustee (each a "**Deed of Guarantee**") pursuant to which the obligations of the Guarantor constitute direct, unconditional and unsecured obligations of the Guarantor ranking at least *pari passu* with the Initial Indebtedness (each such Subsidiary of the Issuer, a "**Guarantor**" and collectively the "**Guarantor(s)**").

This Condition 4.2 shall not, however, prohibit the incurrence by the Issuer or any Subsidiary of Acquired Indebtedness, provided that after giving pro forma effect to such acquisition, the Issuer would have been able to incur U.S.$1.00 of additional Indebtedness pursuant to clause (i) of this Condition 4.2.

4.3 Transactions with Affiliates

The Issuer will not, and will not cause or permit any of its Material Subsidiaries to, directly or indirectly, enter into or make or amend any transaction or series of related transactions (including, without limitation, the sale, purchase, exchange or lease of assets, property or services) with any Affiliate of the Issuer or any of its Subsidiaries unless such transaction or series of related transactions is entered into in good faith and in writing and:

(a) such transaction or series of related transactions is on terms that are no less favourable to the Issuer or the relevant Material Subsidiary, as the case may be, than those that would be

available in a comparable transaction in arm's-length dealings with an unrelated third party; and

(b) with respect to any transaction or series of related transactions involving an aggregate value in excess of €30 million or its Euro Equivalent, such transaction or series of related transactions has been approved by a majority of the Disinterested Directors, or in the event there is only one Disinterested Director, by such Disinterested Director,

provided, however, that this provision shall not apply to:

(a) any employment agreement, collective bargaining agreement or employee benefit arrangements with any officer or director of the Issuer or any Material Subsidiary, including under any stock option or stock incentive plans;

(b) payment of customary fees and compensation to employees, officers, directors, consultants or agents;

(c) transactions between or among the Issuer and its Subsidiaries;

(d) transactions undertaken pursuant to contractual obligations or rights in existence on the Issue Date (as in effect on the Issue Date) or any amendment thereto after the Issue Date (so long as such amendment is not disadvantageous to the Noteholders in any material respect in the reasonable opinion of the Issuer);

(e) transactions with customers, clients, suppliers, purchasers or sellers of goods or services, in each case, in the ordinary course of business and otherwise in compliance with the terms of these Conditions which are on terms at least as favourable to the Issuer or the relevant Material Subsidiary, as the case may be, as might reasonably be obtained at such time from an unrelated third party;

(f) sales of Capital Stock (other than Disqualified Capital Stock) of the Issuer;

(g) sales or other transfers or dispositions of accounts receivables and other related assets customarily transferred in a Qualified Securitisation Transaction, and acquisitions of Investments in connection with a Qualified Securitisation Transaction;

(h) to the extent otherwise permitted pursuant to these Conditions, the payment of a dividend by the Issuer or its Subsidiaries; and

(i) to the extent otherwise permitted pursuant to these Conditions, the repurchase by the Issuer or a Subsidiary of its Capital Stock pursuant to an offer that is made to all holders of such Capital Stock.

4.4 Asset Sales

The Issuer will not, and will not permit any of its Material Subsidiaries and any Guarantor(s) (if any) to, consummate any Asset Sale, unless the proceeds received by the Issuer or such Material Subsidiary, as the case may be, are at least equal to the Fair Market Value of the assets sold or disposed of and an amount equal to such proceeds (less any costs incurred in relation to such Asset Sale) ("**Disposal Proceeds**") is:

(a) applied to repay permanently any Consolidated Indebtedness (other than Indebtedness subordinated to the Notes and/or the Guarantee(s) (if any));

(b) invested in assets of a nature or type that is used or usable in the ordinary course of business of the Issuer or any of its respective Subsidiaries, being the Core or Related Business;

(c) retained as cash deposited with a bank or invested in Cash Equivalents; and/or

(d) applied to finance the acquisition, merger, reorganisation or other combination of a business of the Group with the business of a Person whose business is similar to the Core or Related Business,

in each case within 360 days of the date when such proceeds are received; provided that if the Disposal Proceeds are applied pursuant to paragraph (c), the Issuer, such Material Subsidiary, or any such Guarantor(s) (if any) as the case may be, shall apply or invest the Disposal Proceeds on or prior to the date falling 540 days after the date when such proceeds are received either to (i) repay permanently any Consolidated Indebtedness (other than Indebtedness subordinated to the Notes and/or the Guarantee(s) (if any)), (ii) invest in assets of a nature or type that is used or usable in the ordinary course of business of the Issuer or any of its Subsidiaries, being the Core or Related Business or (iii) applied to finance the acquisition, merger, reorganisation or other combination of a business of the Group with the business of a Person whose business is similar to the Core or Related Business.

4.5 Mergers and Similar Transactions

(a) Subject to Conditions 4.5(b) and 4.5(c), the Issuer shall not, and shall not permit any of its Material Subsidiaries and any Guarantor(s) (if any) to, in each case without the prior written consent of the Trustee (which consent may only be given by the Trustee if it is of the opinion that to do so will not be materially prejudicial to the interests of the Noteholders):

(i) in the case of the Issuer or the Guarantor(s) (if any) (A) enter into any reorganisation (by way of a merger, accession, division, separation, transformation or other basis or procedure for reorganisation contemplated or as may be contemplated from time to time by Luxembourg legislation or, in the case of any Guarantor incorporated otherwise than in Luxembourg, such legislation as may be in force in the jurisdiction of such Guarantor (each such jurisdiction, a "**Guarantor Jurisdiction**")), (B) sell, convey, transfer, lease or otherwise dispose of all or substantially all of its property and assets to any Person or (C) permit any Person to merge with or into the Issuer or the Guarantor(s) (if any);

(ii) in the case of any of the Material Subsidiaries of the Issuer (other than the Guarantor(s) (if any), (A) enter into any reorganisation (by way of a merger, accession, division, separation, transformation or other basis or procedure for reorganisation contemplated or as may be contemplated from time to time by the relevant applicable legislation) or (B) sell, convey, transfer, lease or otherwise dispose of all or substantially all of its property and assets.

(b) Condition 4.5(a) shall not apply if:

(i) the Issuer or the Guarantor(s) (if any) shall be the continuing Person, or the Person (if other than the Issuer or the Guarantor(s) (if any)) into which the Issuer or a Guarantor (if any) is merged or that acquired or leased such property and assets of the Issuer or the Guarantor(s) (if any) (the "**Surviving Entity**") shall (A) be a company organised and validly existing under the laws of Luxembourg, any Guarantor Jurisdiction, Russia or a member of the European Union (as the European Union is constituted on the Issue Date), (B) expressly assume, by amendment to these Conditions and the Trust Deed as the Trustee shall deem necessary, executed and delivered by such continuing Person to the Trustee, in a form and substance satisfactory to the Trustee, the due and punctual payment of the principal of and interest under the Notes and the due and punctual performance and observance of all the covenants, conditions and other obligations of the Issuer or the Guarantor(s) (if any), as the case may be, in respect of the Trust Deed and the Notes and a Guarantee (if any) (C) deliver to the Trustee an opinion of counsel with respect to such amendment to these Conditions and the Trust Deed as the Trustee shall deem necessary in a form and substance satisfactory to the Trustee;

(ii) immediately before and after giving effect to such transaction or series of transactions on a *pro forma* basis (and treating any Indebtedness which becomes, or is anticipated to

become, an obligation of the Issuer or the Guarantor(s) (if any), as the case may be, or the Surviving Entity or any Subsidiary thereof as a result of such transaction or series of transactions as having been incurred by the Issuer or the Guarantor(s) (if any), as the case may be, or the Surviving Entity or such Subsidiary at the time of such transaction or series of transactions), no Potential Event of Default or Event of Default shall have occurred and be continuing;

(iii) the Issuer delivers to the Trustee an opinion of counsel or of a tax adviser in a form and substance satisfactory to the Trustee, to the effect that the Noteholders in each of the Relevant Jurisdictions will not recognise income, gain or loss for tax purposes as a result of the merger or sale of assets and such Noteholders would, after the merger or sale of assets, be subject to taxes on the same amount and in the same manner and at the same times as would have been the case if such merger or sale of assets had not occurred; and

(iv) the Person (if other than the Issuer or the Guarantor(s) (if any)) principally undertakes, in its ordinary course of business prior to the merger, acquisition or lease, as the case may be, a Core or Related Business.

(c) Condition 4.5(a) shall not apply to any transactions between any of the Subsidiaries of the Issuer (other than the Guarantor(s) (if any) that do not involve any Person that is not a Subsidiary of the Issuer.

4.6 Maintenance of Authorisations

(a) The Issuer shall, and shall procure that each of its respective Material Subsidiaries shall, take all necessary action to obtain and do or cause to be done all things necessary, in the opinion of the Issuer or the relevant Material Subsidiary, to ensure the continuance of its corporate existence, its business and intellectual property relating to its business; and

(b) the Issuer and the Guarantor(s) (if any) shall obtain or make, and procure the continuance or maintenance of, all registrations, recordings, filings, consents, licences, approvals and authorisations, which may at any time be required to be obtained or made in Russia, Luxembourg, any Guarantor Jurisdiction or any other relevant jurisdiction for the purposes of the execution, delivery or performance of the Notes and the Trust Deed and for the validity and enforceability thereof,

provided that, in any case if the Issuer, the Guarantor(s) (if any) or, as the case may be, the relevant Material Subsidiary remedies any failure to comply with (a) and (b) above within 90 days of such failure or of the occurrence of such event, then this covenant shall be deemed not to have been breached.

4.7 Maintenance of Property

The Issuer shall, and shall cause each of its Material Subsidiaries to, cause all property used in the conduct of its or their business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and shall cause to be made all necessary repairs, renewals, replacements and improvements thereof, all as, in the judgment of the Issuer or the relevant Material Subsidiary, may be reasonably necessary so that the business carried on in connection therewith may be properly conducted at all times; provided that if the Issuer or the relevant Material Subsidiary remedies any failure to comply with the above within 90 days of such failure or any failure relates to property with a value not exceeding U.S.$250,000,000 (or its U.S. Dollar Equivalent), this covenant shall be deemed not to have been breached.

4.8 Payment of Taxes and Other Claims

The Issuer shall, and shall cause each of its Material Subsidiaries to, pay or discharge, or cause to be paid and discharged, before the same shall become overdue and without incurring penalties, (a) all

taxes, assessments and governmental charges levied or imposed upon, or upon the income, profits or property of any of the Issuer or its Material Subsidiaries and (b) all lawful claims for labour, materials and supplies which, if unpaid, might by law become a Lien (other than a Permitted Lien) upon the property of any of the Issuer or its Material Subsidiaries; provided that none of the Issuer or its Material Subsidiaries shall be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim described in this Condition 4.8 whose (i) amount, applicability or validity is being contested in good faith by appropriate proceedings (or has been the subject of such proceedings which have, within the then preceding 30 days, resulted in a final, nonappealable determination of liability in a definitively ascertained amount) and for which adequate reserves in accordance with IFRS as consistently applied or other appropriate provision has been made or (ii) amount, together with all such other unpaid or undischarged taxes, assessments, charges and claims, does not in the aggregate exceed U.S.$100,000,000 (or its U.S. Dollar Equivalent).

4.9 Insurance

The Issuer shall procure that each of its Material Subsidiaries shall obtain and maintain insurance with an insurer or insurers of sufficient standing (in the reasonable judgment of the relevant Material Subsidiary) against such losses and risks and in such amounts as are prudent and customary in the businesses in which it is engaged in the jurisdiction(s) where it operates; provided that if the Issuer remedies any failure to comply with the above within 365 days of such failure or if such potential losses or risks (which may be assessed by reference to the actual risks and losses borne by the relevant Material Subsidiary over the preceding 3 years) do not exceed U.S.$250,000,000 (or its U.S. Dollar Equivalent), this covenant shall be deemed not to have been breached , provided that this Condition 4.9 shall not require the Issuer to procure the obtaining or maintenance of any such insurance with respect to any of the Issuer's Subsidiaries that is or are primarily engaged in the mining, extraction or refining of coal or coal products**.**

4.10 Financial Information

The Issuer undertakes that it shall deliver to the Trustee:

(a) its audited annual consolidated financial statements, prepared in accordance with IFRS consistently applied with the corresponding financial statements for the preceding period, within 180 days of the end of the financial year to which such statements relate;

(b) its reviewed semi-annual consolidated financial statements, prepared in accordance with IFRS consistently applied with the corresponding financial statements for the preceding period, within 150 days of the end of the period to which such statements relate; and

(c) its other interim consolidated financial statements (if the Issuer elects in its sole discretion to prepare any such other interim consolidated financial statements), prepared in accordance with IFRS consistently applied with the corresponding financial statements for the preceding period, within 150 days of the end of the period to which such statements relate,

in each case together with a certificate signed by one director and one officer appointed and authorised in writing by the Board of Directors on terms satisfactory to the Trustee or two directors stating that since the date of the last certificate or, if none, the Issue Date, each of the Issuer and the Guarantor(s) (if any), to the best of the signing individual's knowledge, has kept, observed, performed and fulfilled its obligations under, and complied with, these Conditions and the Trust Deed and is not in default and that there has not been an Event of Default or Potential Event of Default (or, if an Event of Default or Potential Event of Default shall have occurred, describing all such Events of Default or Potential Events of Default of which he may have knowledge).

4.11 Change of Business

The Issuer shall not, and shall not permit any of its Material Subsidiaries to, conduct, operate, engage in or own any business other than the Core or Related Business of the Group.

4.12 Dividend and Other Payments By or Affecting Material Subsidiaries

(a) The Issuer shall not, and shall not permit any of its Material Subsidiaries to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction (which, for the avoidance of doubt, shall not include any encumbrance or restriction existing under or arising by reason of applicable law or regulation) on the ability of any such Material Subsidiary to:

(i) pay dividends or make any other distributions on its Equity Interests to the Issuer or any of the Issuer's Subsidiaries, or with respect to any other interest or participation in, or measured by, its profits;

(ii) make any payments in respect of any Indebtedness owed to the Issuer or any of the Issuer's Subsidiaries;

(iii) make loans or advances to the Issuer or any of the Issuer's Subsidiaries; or

(iv) transfer any of its properties or assets to the Issuer or any of the Issuer's Subsidiaries.

However, the preceding restrictions shall not apply to encumbrances or restrictions existing under or by reason of:

(A) any encumbrance or restriction originally entered into prior to (and as in effect on) the Issue Date;

(B) these Conditions;

(C) encumbrances and restrictions imposed by the Notes, these Conditions, the Guarantee(s) (if any) or by other instruments governing other Indebtedness incurred by the Issuer or any of the Issuer's Subsidiaries (and if such Indebtedness is guaranteed, by the guarantors of such Indebtedness) ranking equally with the Notes (or the Guarantee(s) (if any)), provided that the encumbrances or restrictions imposed by such other instruments are not materially more restrictive, taken as a whole, than the restrictions imposed by these Conditions;

(D) encumbrances and restrictions contained in any agreement or other instrument of any Person acquired by the Issuer or any Subsidiary of the Issuer in effect at the time of such acquisition (but not created in contemplation thereof) which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired;

(E) any encumbrance or restriction contained in the terms of any Indebtedness incurred pursuant to Condition 4.2 or any guarantees thereof or liens related thereto, provided that the Issuer determines at the time any such Indebtedness is incurred (and at the time of any modification of the terms of any such encumbrance or restriction) that any such encumbrance or restriction will not materially affect the Issuer's ability to comply, or cause its Material Subsidiaries to comply, with Condition 4.12(b) (as determined by the Issuer in good faith) and further provided that (x) either (i) the encumbrance or restriction applies only in the event of and during the continuance of a payment default or a default with respect to a financial covenant contained in such Indebtedness, guarantees or liens or (ii) the Issuer determines at the time any such Indebtedness is incurred (and at the time of any modification of the terms of any such encumbrance or restriction) that any such encumbrance or restriction will not materially affect the Issuer's ability to make principal or interest payments on the Notes and any other Indebtedness for borrowed money that is an obligation of the Issuer or any guarantor of the Notes and (y) the encumbrance or restriction is not materially more disadvantageous to the holders of the Notes than is customary in comparable financings or agreements (as determined by the Issuer in good faith);

(F) customary non-assignment provisions in leases and other contracts for goods and services entered into in the ordinary course of business;

(G) any agreement for the sale or other disposition of a Material Subsidiary or any assets of the Issuer or a Material Subsidiary that restricts distributions of that Material Subsidiary or such assets pending such sale or other disposition;

(H) customary limitations on the distribution of assets or property in joint venture agreements entered into in good faith, provided that such encumbrance or restriction is applicable only to such Material Subsidiary, and provided further that:

(i) such encumbrance or restriction is not materially more disadvantageous to the holders of the Notes than is customary in comparable agreements (as determined by the Issuer's Board of Directors in good faith); and

(ii) such encumbrance or restriction will not affect the Issuer's ability to make any anticipated principal or interest payments on the Notes (as determined by the Issuer's Board of Directors in good faith);

(I) solely with respect to paragraph (iv) above, Permitted Liens securing Indebtedness that limit the right of a debtor to dispose of the assets subject to such Liens;

(J) restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business; and

(K) any encumbrances or restrictions of the type referred to in paragraph (a) of this Condition 4.12 that are imposed by any amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings of contracts, instruments or obligations; provided that such amendments, modifications, restatements, renewals, increases, supplements, refundings, replacements or refinancings taken as a whole are, in the good faith judgment of the Board of Directors of the Issuer, no more restrictive with respect to such encumbrances and restrictions than those contained in the encumbrances and restrictions prior to such amendment, modification, restatement, renewal, increase, supplement, refunding, replacement or refinancing.

(b) The Issuer shall use its commercially reasonable endeavours, to the extent lawful and in accordance with all required corporate procedures, (1) to procure that the Material Subsidiaries as a group declare and pay total dividends or other distributions on their Equity Interests (including, for the avoidance of doubt, any interim dividends or distributions) amounting in the aggregate to at least 35% of the aggregate annual net income of such Material Subsidiaries as calculated from the Reporting Package in respect of each year ending on 31 December not later than 365 days following the end of such year; provided that nothing in this Condition 4.12(b) shall be interpreted to impose a requirement on any particular Material Subsidiary to make a payment or distribution as described herein and (2) to the extent such dividends or other distributions are paid in cash and received by a Subsidiary of the Issuer other than the Guarantor(s) (if any), to cause the portion of such cash dividends or other cash distributions actually received by such Subsidiary to be on-paid, directly or indirectly as the case may be, to the Issuer or the Guarantor(s) (if any) in accordance with the attributable direct or indirect ownership interest of the Issuer or the Guarantor(s) (if any) in the Equity Interests of each such payee Subsidiary; provided, that each payment of a dividend or other distribution on its Equity Interests paid by any Subsidiary of the Issuer pursuant to this Condition 4.12(b) shall be subject to reduction for payment of any withholding or other dividend-related tax or any other similar deduction that is required by applicable law or regulation.

5 INTEREST

5.1 Interest Rate and Interest Payment Dates

The Notes bear interest from and including 24 April 2008 at the rate of 9.50% per annum, payable semi-annually in arrear in equal instalments on 24 April and 24 October in each year (each an "**Interest Payment Date**"). The first payment shall be made on 24 October 2008.

5.2 Interest Accrual

Each Note will cease to bear interest from and including its due date for redemption unless, upon due presentation, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment, in which event interest shall continue to accrue as provided in the Trust Deed.

5.3 Calculation of Broken Interest

When interest is required to be calculated in respect of a period of less than six months, it shall be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of 30 days.

6 PAYMENTS

6.1 Principal and Interest

Payment of principal and interest due other than on an Interest Payment Date, will be made by transfer to the registered account of the Noteholder or by United States dollar cheque drawn on a bank in New York City mailed to the registered address of the Noteholder if it does not have a registered account. Payment of principal will only be made after surrender of the relevant Individual Certificate at the specified office of any of the Paying Agents.

Interest on Notes due on an Interest Payment Date will be paid on the due date for the payment of interest to the holder shown on the Register at the close of business on the fifteenth day before the due date for the payment of interest (the "**Interest Record Date**"). Payments of interest on each Note will be made by transfer to the registered account of the Noteholder or by United States dollar cheque drawn on a bank in New York City mailed to the registered address of the Noteholder if it does not have a registered account.

6.2 Registered Accounts

For the purposes of this Condition, a Noteholder's registered account means the United States dollar account maintained by or on behalf of it with a bank in New York City, details of which appear on the Register at the close of business on the second Business Day before the due date for payment, and a Noteholder's registered address means its address appearing on the Register at that time.

6.3 Payments subject to Applicable Laws

Payments in respect of principal and interest on the Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of Condition 8.

6.4 Payment Initiation

Where payment is to be made by transfer to a Noteholder's registered account, payment instructions (for value on the due date or, if that is not a Business Day, for value on the first following day which is a Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder) on the due date for payment (or, if it is not a Business Day, the first following day which

is a Business Day) or, in the case of a payment of principal, if later, on the Business Day on which the relevant Individual Certificate is surrendered at the specified office of a Paying Agent.

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, if the Noteholder is late in surrendering its Individual Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

If an amount which is due on the Notes is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) in fact paid.

6.5 Initial Paying Agents, Transfer Agents and Registrar

The names of the initial Paying Agents, Transfer Agents and Registrar and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Paying Agent, Transfer Agent or Registrar and to appoint additional or other Paying Agents, Transfer Agents and Registrars provided that:

(a) there will at all times be a Principal Paying Agent and a Registrar;

(b) there will at all times be Paying Agents and Transfer Agents having specified offices in at least two major European cities approved by the Trustee which, so long as the Notes are listed on the Official List of the UK Listing Authority and admitted to trading on the Regulated Market of the London Stock Exchange, shall include London; and

(c) the Issuer undertakes that it will ensure that it maintains a Paying Agent with a specified office in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC, any other European Union Directive on the taxation of savings income implementing the conclusions of the ECOFIN Council Meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive.

Notice of any termination or appointment and of any changes in specified offices of any Paying Agents, Transfer Agents or the Registrar will be given to the Noteholders promptly by the Issuer in accordance with Condition 13.

7 REDEMPTION AND PURCHASE

7.1 Redemption at Maturity

Unless previously redeemed, or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 24 April 2018.

7.2 Redemption for Taxation Reasons

If the Issuer satisfies the Trustee immediately before the giving of the notice referred to below that:

(a) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 8), or any change in the application or official interpretation of the laws or regulations of a Relevant Jurisdiction, which change or amendment becomes effective after 24 April 2008, on the next Interest Payment Date either (i) the Issuer would be required to pay additional amounts as provided or referred to in Condition 8 or (ii) the Guarantor(s) (if any) would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be required to pay such additional amounts; and

(b) the requirement cannot be avoided by the Issuer or, as the case may be, the Guarantor(s) (if any) taking reasonable measures available to it,

the Issuer may at its option, having given not less than 30 nor more than 60 days' notice to the Noteholders in accordance with Condition 13 (which notice shall be irrevocable), redeem all the Notes, but not some only, at any time at their principal amount together with interest accrued to but excluding the date of redemption. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee a certificate signed by one director and one officer appointed and authorised in writing by the Board of Directors on terms satisfactory to the Trustee or two directors of the Issuer, or as the case may be, the Guarantor(s) (if any) stating that the requirement referred to in (a) above will apply on the next Interest Payment Date and cannot be avoided by the Issuer, or as the case may be, the Guarantor(s) (if any) taking reasonable measures available to it or them and an opinion of independent legal advisors of recognised standing to the effect that the Issuer or, as the case may be, the Guarantor(s) has or will become obliged to pay such additional amounts as a result of such change or amendment, and the Trustee shall be entitled to accept the certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set out above, in which event it shall be conclusive and binding on the Noteholders. No such notice of redemption pursuant to this Condition shall be given (a) earlier than 90 days prior to the earliest date on which the Issuer, or as the case may be, the Guarantor(s) (if any) would be obliged to pay such additional amounts were a payment in respect of the Notes then due, or (b) if the Issuer has already given a notice of redemption as described in Condition 7.7.

7.3 Redemption at Make-Whole

The Issuer may redeem the Notes, in whole or in part, at any time on at least 30 days' but not more than 60 days' notice to Noteholders in accordance with Condition 13, at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, plus accrued and unpaid interest to, the redemption date.

7.4 Change of Control

If a Change of Control (as defined below) shall have occurred, the holder of each Note will have the option (the "**Put Option**") to require the Issuer to redeem such Note on the Put Settlement Date (as defined below) at an amount equal to 101 per cent. of its principal amount together with accrued interest (if any) to the Put Settlement Date.

Promptly, and in any event within 14 calendar days after the date of any Change of Control, the Issuer shall deliver to the Trustee and the Noteholders, in accordance with Condition 13, a certificate signed by one director and one officer appointed and authorised in writing by the Board of Directors, or by two directors (a "**Change of Control Notice**"), which notice shall be irrevocable, stating that a Change of Control has occurred and stating the circumstances and relevant facts giving rise to such Change of Control and stating the date falling not more than 30 and not less than 20 days after the date of the Change of Control Notice on which the Put shall be settled (such date the "**Put Settlement Date**").

For the purposes of these Conditions, a "**Change of Control**" shall occur at any time that any person, other than one or more of the Permitted Holders, is or becomes the beneficial owner, directly or indirectly, of more than 50 per cent. of the total voting power of the Voting Stock of the Issuer.

"**Permitted Holders**" means any and all of (i) Lanebrook Limited; (ii) any direct or indirect beneficial owner of the Capital Stock of Lanebrook Limited at the Issue Date; or (iii) the legal representatives of any of the foregoing and the trustees of bona fide trusts of which the foregoing are the only beneficiaries; or (iv) any Subsidiary of any of the foregoing parties.

"**Voting Stock**" means any and all Capital Stock of the Issuer which affords the holder the right to vote in the election of directors, managers or trustees of the Issuer.

7.5 Purchases

The Issuer or any of the Issuer's Subsidiaries may at any time purchase Notes in any manner and at any price. If purchases are made by tender, tenders must be available to all Noteholders alike.

7.6 Cancellations

All Notes which are (a) redeemed or (b) purchased by or on behalf of the Issuer, or any of the Issuer's Subsidiaries will forthwith be cancelled and accordingly may not be held, reissued or resold.

7.7 Notices Final

Upon the expiry of any notice as is referred to in Conditions 7.2, 7.3 or 7.4 above, the Issuer shall be bound to redeem the Notes to which the notice refers in accordance with the terms of such paragraph.

8 TAXATION

8.1 Payment without Withholding

All payments in respect of the Notes by or on behalf of the Issuer or the Guarantor(s) (if any) shall be made without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed or levied by or on behalf of any Relevant Jurisdiction, unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer or, as the case may be, the Guarantor(s) (if any) will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note:

(a) to, or by or on behalf of, a holder who is liable to the Taxes in respect of the Note by reason of his having some connection with the Relevant Jurisdiction other than the mere holding of the Note; or

(b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC, any other European Union Directive on the taxation of savings income implementing the conclusions of the ECOFIN Council Meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(c) to, or on behalf of, a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a Member State of the European Union; or

(d) where an Individual Certificate in respect of which is presented for payment of principal more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days.

8.2 Interpretation

In these Conditions:

(a) "**Relevant Date**" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 13; and

(b) "**Relevant Jurisdiction**" means Luxembourg or any political subdivision or any authority thereof or therein having the power to tax (in the case of payments by the Issuer) or a Guarantor Jurisdiction or any political subdivision or any authority thereof or therein having the power to tax (in the case of payments by the Guarantor(s) (if any)) or in any case any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer or, as the case may be, any Guarantor (if any) becomes subject in respect of payments made by it of principal and/or interest on the Notes.

8.3 Additional Amounts

Any reference in the Trust Deed or the Notes to any amounts payable in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition or under any undertakings given in addition to, or in substitution for, this Condition pursuant to the Trust Deed or the Notes.

9 PRESCRIPTION

Claims in respect of principal and interest in respect of the Notes will become void unless made within periods of 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date in respect of the Notes, subject to the provisions of Condition 6.

10 EVENTS OF DEFAULT

10.1 Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of at least one-fifth in principal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution of the Noteholders shall (subject in each case to being indemnified and/or secured to its satisfaction), give notice to the Issuer and the Guarantor(s) (if any) that the Notes are, and they shall accordingly forthwith become, immediately due and repayable at their principal amount, together with accrued interest as provided in the Trust Deed in any of the following events ("**Events of Default**"):

(a) if default is made in the payment of any interest due in respect of the Notes or any of them and the default shall continue for a period of five Business Days;

(b) if default is made in the payment of any principal due in respect of the Notes or any of them;

(c)

(i) if default is made in the performance, or if there is a breach, of any covenant or agreement of the Issuer or the Guarantor(s) (if any) under the Trust Deed (other than a default in the performance, or breach, of a covenant or agreement which is specifically dealt with in paragraphs (a), (b) or (c)(ii)) and such default or breach shall continue for a period of 30 days after written notice has been given, by certified mail, (A) to the Issuer and the Guarantor(s) (if any) by the Trustee or (B) to the Issuer, the Guarantor(s) (if any) and the Trustee by holders of at least one-fifth in aggregate principal amount of the outstanding Notes; or

(ii) if default is made in the performance or breach of the provisions described in Condition 4.5;

(d) if any default in the payment of the principal, premium, if any, or interest on any Indebtedness (as extended by any applicable grace period) shall have occurred under any of the agreements, deeds, indentures or instruments under which the Issuer, the Guarantor(s) (if any) or any Material Subsidiary then has outstanding Indebtedness in excess of U.S.$20 million (or its U.S. Dollar Equivalent) in the aggregate;

(e) if the Guarantee(s) (if any) shall for any reason cease to be, or shall for any reason be asserted in writing by the Issuer or the relevant Guarantor(s) not to be, in full force and effect and enforceable in accordance with its terms, except to the extent contemplated by these Conditions and the Trust Deed;

(f) if one or more judgments, orders or decrees of any court or regulatory or administrative agency for the payment of money in excess of U.S.$20 million (or its U.S. Dollar Equivalent), either individually or in aggregate, shall be rendered against the Issuer, the Guarantor(s) (if any) or any Material Subsidiary or any of their respective properties and shall not be discharged and (if applicable) there shall have been a period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of an appeal or otherwise, shall not be in effect;

(g) if any holder or holders of at least U.S.$20 million (or its U.S. Dollar Equivalent) in aggregate principal amount of Indebtedness of the Issuer, the Guarantor(s) (if any) or any Material Subsidiary after a default under such Indebtedness notifies the Trustee of the intended sale or disposition of any assets of the Issuer, the Guarantor(s) (if any) or any Material Subsidiary that have been pledged to or for the benefit of such holder or holders to secure such Indebtedness or shall commence proceedings, or take any action (including by way of set-off, distress, execution or other similar process, including appointment of a receiver, administrative receiver, manager or similar officer), to retain in satisfaction of such Indebtedness or to collect on, seize, dispose of or apply in satisfaction of Indebtedness, assets of the Issuer, the Guarantor(s) (if any) or any Material Subsidiary (including funds on deposit or held pursuant to lock-box or other similar arrangements);

(h) if (i) proceedings are initiated against the Issuer, the Guarantor(s) (if any) or any Material Subsidiary under any applicable liquidation, insolvency, composition, reorganisation or other similar laws or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official, or an administrative or other receiver, manager, administrator or other similar official is appointed in relation to the Issuer, the Guarantor(s) (if any) or any Material Subsidiary or, as the case may be, in relation to the whole or any part of the undertaking or assets of any of them or an encumbrancer takes possession of the whole or any part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or any part of the undertaking or assets of any of them, and (ii) in any such case (other than the appointment of an administrator) unless initiated by the relevant company, is not discharged within 14 days; or

(i) if any event occurs which, under the laws of any Relevant Jurisdiction, has or may have in the Trustee's opinion, an analogous effect to any of the events referred to in paragraphs (d) to (h) above,

PROVIDED THAT, in the case of any Event of Default described in paragraph (c) above, the Trustee has certified that the Event of Default is, in its opinion, materially prejudicial to the interests of the Noteholders.

11 ENFORCEMENT

11.1 Enforcement by the Trustee

The Trustee may at any time, at its discretion and without notice, take such proceedings against the Issuer and/or the Guarantor(s) (if any) (or any of them) as it may think fit to enforce the provisions of the Trust Deed and the Notes, but it shall not be bound to take any such proceedings or any other action in relation to the Trust Deed or the Notes unless (a) it has been so directed by an Extraordinary Resolution of the Noteholders or so requested in writing by the holders of at least one-fifth in principal amount of the Notes then outstanding and (b) it has been indemnified and/or secured to its satisfaction.

11.2 Enforcement by the Noteholders

No Noteholder shall be entitled to proceed directly against the Issuer or the Guarantor(s) (if any) unless the Trustee, having become bound so to proceed, fails so to do within a reasonable period and the failure shall be continuing.

12 REPLACEMENT OF INDIVIDUAL CERTIFICATES

If any Individual Certificate representing a Note is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar subject to all applicable laws and stock exchange or other relevant authority requirements, upon payment by the claimant of the costs and expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may require (provided that the requirement is reasonable in the light of prevailing market practice). Mutilated or defaced Individual Certificates must be surrendered before replacements will be issued.

13 NOTICES

Notices to Noteholders shall be mailed to them at their respective addresses in the Register and shall be deemed to have been given on the fourth weekday (being a day other than a Saturday or Sunday) after the date of mailing.

So *long as the Notes are represented by the Global Note Certificates and the Global Note Certificates are held on behalf of DTC, Euroclear or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to DTC, Euroclear or Clearstream, Luxembourg for communication by it to entitled accountholders in substitution for notification as required by the Conditions.*

14 MEETINGS OF NOTEHOLDERS, MODIFICATION, WAIVER, AUTHORISATION AND DETERMINATION

14.1 Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of any of these Conditions or any of the provisions of the Trust Deed. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing more than 50% in principal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons present whatever the principal amount of the Notes held or represented by him or them, except that, at any meeting the business of which includes the modification or abrogation of certain of the provisions of these Conditions and certain of the provisions of the Trust Deed (as specified in the Trust Deed), the necessary quorum for passing an Extraordinary Resolution will be one or more persons present holding or representing not less than two-thirds, or at any adjourned such meeting not less than one-third, of the principal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders will be binding on all Noteholders, whether or not they are present at the meeting. A resolution in writing signed by or on behalf of all the Noteholders, which resolution in writing may be contained in one document or in several documents in like form each signed by or on behalf of one or more of the Noteholders, shall be as valid, effective and binding as a resolution duly passed at such a meeting.

14.2 Modification, Waiver, Authorisation and Determination

The Trustee may agree, without the consent of the Noteholders, to any modification of, or to the waiver or authorisation of any breach or proposed breach of, any of these Conditions or any of the provisions of the Trust Deed or determine, without any such consent as aforesaid, that any Event of Default or Potential Event of Default shall not be treated as such (provided that, in any such case, it is not, in the opinion of the Trustee, materially prejudicial to the interests of the Noteholders) or may

agree, without any such consent as aforesaid, to any modification which, in its opinion, is of a formal, minor or technical nature or to correct a manifest error.

14.3 Trustee to have Regard to Interests of Noteholders as a Class

In connection with the exercise by it of any of its trusts, powers, authorities and discretions (including, without limitation, any modification, waiver, authorisation or determination), the Trustee shall have regard to the general interests of the Noteholders as a class but shall not have regard to any interests arising from circumstances particular to individual Noteholders (whatever their number) and, in particular, but without limitation, shall not have regard to the consequences of any such exercise for individual Noteholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer, the Guarantor(s) (if any), the Trustee or any other person any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders except to the extent already provided for in Condition 8 and/or any undertaking given in addition to, or in substitution for, Condition 8 pursuant to the Trust Deed.

14.4 Notification to the Noteholders

Any modification, abrogation, waiver, authorisation or determination shall be binding on the Noteholders and, unless the Trustee agrees otherwise, any such modification, abrogation, waiver, authorisation or determination shall be notified by the Issuer to the Noteholders as soon as practicable thereafter in accordance with Condition 13.

15 INDEMNIFICATION OF THE TRUSTEE AND ITS CONTRACTING WITH THE ISSUER

15.1 Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured to its satisfaction.

15.2 Trustee Contracting with the Issuer

The Trust Deed also contains provisions pursuant to which the Trustee is entitled, *inter alia*, (a) to enter into business transactions with the Issuer and/or the Guarantor(s) (if any) and/or any of the Issuer's Subsidiaries and to act as trustee for the holders of any other securities issued or guaranteed by, or relating to, the Issuer and/or the Guarantor(s) (if any) and/or any of the Issuer's Subsidiaries, (b) to exercise and enforce its rights, comply with its obligations and perform its duties under or in relation to any such transactions or, as the case may be, any such trusteeship without regard to the interests of, or consequences for, the Noteholders, and (c) to retain and not be liable to account for any profit made or any other amount or benefit received thereby or in connection therewith.

16 FURTHER ISSUES

The Issuer is at liberty from time to time without the consent of the Noteholders to create and issue further notes ranking *pari passu* in all respects (save for the issue price and the first payment of interest thereon) so that the same shall be consolidated and form a single series with the Notes. Any such further notes shall be constituted by a deed supplemental to the Trust Deed.

17 GOVERNING LAW AND SUBMISSION TO JURISDICTION

17.1 Governing Law

The Trust Deed and the Notes are governed by, and will be construed in accordance with, English law.

The provisions of articles 86 to 94-8 of the Luxembourg law of 10 August 1915, as amended, on commercial companies are excluded.

17.2 Jurisdiction of English Courts

The Issuer has irrevocably agreed in the Trust Deed for the benefit of the Trustee and the Noteholders that the courts of England are to have exclusive jurisdiction to settle any disputes which may arise out of or in connection with the Trust Deed and the Notes and accordingly has submitted to the exclusive jurisdiction of the English courts.

The Issuer has in the Trust Deed waived any objection to the courts of England on the grounds that they are an inconvenient or inappropriate forum. The Trustee and the Noteholders may take any suit, action or proceeding arising out of or in connection with the Trust Deed or the Notes respectively (together referred to as "**Proceedings**") against the Issuer in any other court of competent jurisdiction and concurrent Proceedings in any number of jurisdictions.

17.3 Appointment of Process Agent

The Issuer has, in the Trust Deed, irrevocably and unconditionally appointed Law Debenture Corporate Services Limited at 100 Wood Street, London EC2V 7EX for the time being as its agent for service of process in England in respect of any Proceedings and has undertaken that in the event of such agent ceasing so to act it will appoint such other person as the Trustee may approve as its agent for that purpose.

18 CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of the Notes (or any of them), but this does not affect any right or remedy of any person which exists or is available apart from that Act.

19 DEFINITIONS

In these Conditions the following terms have the meaning given to them in this Condition 19.

"**12-Month Consolidated EBITDA**" means the aggregate Consolidated EBITDA for the two latest Measurement Periods preceding any date of determination for which consolidated financial statements of the Group are available.

"**Accounts Regulation**" means Article 3 of Regulation (EC) No. 1606/2002.

"**Acquired Indebtedness**" means Indebtedness of a Person (a) existing at the time such Person becomes a Subsidiary or is merged into or consolidated with the Issuer or any Subsidiary of the Issuer (b) assumed by such Person in connection with the acquisition of assets by such Person in each case provided that such Indebtedness was not incurred in connection with, or in contemplation of, such Person becoming as Subsidiary or such acquisition, as the case may be. Acquired Indebtedness shall be deemed to be incurred on the date the acquired Person becomes a Subsidiary or the date of the related acquisition of assets from any Person.

"**Affiliate**" of any specified Person means any other Person, directly or indirectly controlling, controlled by, or under direct or indirect common control with, such specified Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling", "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise; provided that beneficial ownership of 20% or more of the Capital Stock with voting power of a Person shall be deemed to be control.

"**Agency**" means any agency, authority, central bank, department, committee, government, legislature, minister, ministry, official or public or statutory person (whether autonomous or not).

"**Aggregate Subsidiary Indebtedness**" means the aggregate amount of all Indebtedness of Subsidiaries of the Issuer (without duplication (and without limiting the generality of the foregoing, calculating as one item of Indebtedness any Indebtedness in respect of which more than one Subsidiary is obligor) and excluding (i) Indebtedness of the Guarantor(s) (if any), (ii) Indebtedness of any Finance Subsidiary, (iii) Indebtedness of any Subsidiary of the Issuer incurred pursuant to Condition 4.2(iii), (iv) any guarantee by a Subsidiary of the Indebtedness of any other Subsidiary, (v) Indebtedness of a Subsidiary of the Issuer owing solely to the Issuer or a Subsidiary of the Issuer) and (vi) Indebtedness of Mastercroft Limited outstanding on the Issue Date, in each case after giving effect on a *pro forma* basis to the incurrence of the Indebtedness of a Subsidiary of the Issuer the permissibility of which is then being measured, the incurrence or repayment of any Indebtedness of the Issuer or of the Subsidiaries of the Issuer on or after the first day of the Measurement Period relevant for such calculation and, in each case, the receipt and application of the proceeds therefrom.

"**Applicable Premium**" means, with respect to a Note on any redemption date, the greater of:

(a) 1.0% of the principal amount of such Note; and

(b) the excess of (i) the present value at such redemption date of the principal amount of the Note at maturity, plus all required interest payments that would otherwise be due to be paid in respect of such Note during the period between the redemption date and 24 April 2018, excluding accrued but unpaid interest at such redemption date, calculated using a discount rate equal to the Treasury Rate at such redemption date plus 50 basis points over (ii) the principal amount of such Note at maturity.

"**Approved Jurisdiction**" means the United States of America, Russia and any member state of the European Union as constituted on the Issue Date.

"**Asset Acquisition**" means (i) an Investment by the Issuer or any Subsidiary of the Issuer in any other Person pursuant to which such Person shall become a Subsidiary of the Issuer or shall be consolidated or merged with the Issuer or any Subsidiary of the Issuer or (ii) the acquisition by the Issuer or any Subsidiary of the Issuer of assets of any Person which constitute all or substantially all of the assets of such Person or which comprise a division or line of business of such Person.

"**Asset Sale**" means any lease, sale, sale and lease-back, transfer or other disposition either in one transaction or in a series of related transactions, by the Issuer, the Guarantor(s) (if any) or any of their respective Subsidiaries to a Person that is not part of the Group, of any Production Assets the value of which exceeds 10% of the total Production Assets of the Group in any 12-month period (determined in each case by reference to the most recent publicly available audited annual financial statements or reviewed interim financial statements of the Issuer prepared in accordance with IFRS); provided that "Asset Sale" shall not include sales or other dispositions of inventory or stock in trade in the ordinary course of business or assignments of or other arrangements over the rights or revenues arising from contracts for the sale of steel products at Fair Market Value.

"**Board of Directors**" means, as to any Person, the board of directors of such Person or any duly authorised committee thereof.

"**Business Day**" means a day which is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in both London and New York City.

"**Capital Stock**" means, with respect to any Person, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents (however designated, whether voting or nonvoting) of such Person's equity, including any preferred stock of such Person and depositary receipts representing such equity, whether now outstanding or issued after the Issue Date, including

without limitation, all series and classes of such Capital Stock but excluding any debt securities convertible into such Capital Stock.

"**Cash Equivalents**" means:

(a) any evidence of Indebtedness with a maturity of one year or less issued or directly and fully guaranteed or insured by an Approved Jurisdiction or any Agency or instrumentality thereof; provided that the full faith and credit of an Approved Jurisdiction (or similar concept under the laws of the relevant Approved Jurisdiction) is pledged in support thereof;

(b) commercial paper with a maturity of one year or less issued by a corporation organised under the laws of an Approved Jurisdiction and rated at all times at least the same rating as that of the unsecured, unsubordinated debt obligations of the Issuer or the Guarantor(s) (if any), whichever is higher, by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service Limited or Fitch Ratings Ltd. to the extent that the aggregate amount of Cash Equivalents (as defined in this paragraph (b)) invested by application of Disposal Proceeds does not exceed at any time U.S.$50,000,000 or its U.S. Dollar Equivalent; and

(c) commercial paper with a maturity of one year or less, issued by a corporation organised under the laws of an Approved Jurisdiction, and at all times listed or traded on the Moscow Interbank Currency Exchange to the extent that the aggregate amount of Cash Equivalents (as defined in this paragraph (c)) invested by application of Disposal Proceeds does not exceed at any time U.S.$50,000,000 or its U.S. Dollar Equivalent.

"**Consolidated Depreciation and Amortisation**" means the consolidated depreciation and amortisation of fixed assets and intangibles of the Issuer as shown in the latest available consolidated profit and loss account of the Issuer prepared in accordance with IFRS.

"**Consolidated EBITDA**" means the Consolidated Net Income (Loss) for any period, as adjusted by adding back, to the extent deducted in calculating Consolidated Net Income (Loss), without duplication, for such period:

(a) Consolidated Interest Expense

(b) Consolidated Income Tax Expense;

(c) Consolidated Depreciation and Amortisation,

less any non-cash items increasing (decreasing) Consolidated Net Income (Loss) for that period.

"**Consolidated Income Tax Expense**" means in respect of any period the expenses of the Issuer in respect of income taxes as shown in the consolidated profit and loss account of the Issuer for such period prepared in accordance with IFRS.

"**Consolidated Indebtedness**" means at any date of determination (and without duplication) all Indebtedness of the Issuer as calculated in accordance with the then most recently published consolidated financial statements of the Issuer prepared in accordance with IFRS.

"**Consolidated Interest Expense**" means, in relation to any period, the total of the following as calculated in accordance with the consolidated financial statements of the Issuer for such period prepared in accordance with IFRS:

(a) cash and non-cash interest expense (net of interest income) for the relevant period (excluding any amortisation of debt issuance costs), including, without limitation dividends accrued in respect of all Disqualified Capital Stock of the Issuer (other than dividends payable solely in Capital Stock (other than Disqualified Capital Stock) of the Issuer) (in each case, whether or not interest expense in accordance with IFRS);

(b) amortisation of debt discount;

(c) the net costs associated with hedging agreements (including amortisation of fees and discounts);

(d) the interest portion of any deferred payment obligations;

(e) all commissions, discounts and other fees and charges owed with respect to letters of credit and bankers' acceptance financing;

(f) accrued interest;

(g) interest due and payable under any guarantee, indemnity or equivalent arrangement;

(h) the interest component of any capital lease obligation accrued during the relevant period; and

(i) all capitalised interest of the Issuer and its Subsidiaries (including, without limitation and for the avoidance of doubt, the Guarantor(s) (if any)) in each case determined on a consolidated basis in accordance with IFRS.

"**Consolidated Net Income (Loss)**" means in respect of any period the consolidated net income (loss) of the Issuer for such period as shown in the then most recent consolidated profit and loss account of the Issuer prepared in accordance with IFRS adjusted, to the extent included in calculating such net income (loss), by excluding, without duplication:

(a) gains or losses, net of taxes (less all fees and expenses relating thereto), in respect of dispositions of assets other than in the ordinary course of business;

(b) any net foreign exchange gain or loss;

(c) any gain or loss on net monetary position;

(d) any share of the profit or loss of any associated company, associated undertaking or unconsolidated joint venture;

(e) the cumulative effect of changes in accounting principles; and

(f) any extraordinary net of tax gains or losses that are distinguished by their unusual nature and the infrequency of their occurrence.

"**Consolidated Tangible Assets**" means, with respect to a Person, the total of all such Person's assets less (a) goodwill, trade names, trademarks, service marks, patents, licences, organisational expenses, research and development expenses, unamortised debt discount and expense, unamortised deferred charges and all other like intangible assets and (b) all write-ups of fixed assets, net of accumulated depreciation thereon, other than any revaluation made in accordance with IFRS, as reflected in the then most recent consolidated balance sheet of such Person and its consolidated Subsidiaries prepared in accordance with IFRS. For purposes of the calculation of Consolidated Tangible Assets, (i) if, during the relevant period contained in the definition of Subsidiary Indebtedness Threshold for which Consolidated Tangible Assets are being calculated, the relevant Person shall have made an Investment in any Subsidiary of the Issuer (or any Person which becomes a Subsidiary of the Issuer) or an acquisition of assets, including any acquisition of an asset which constitutes all or substantially all of an operating unit of a business, Consolidated Tangible Assets shall be calculated after giving pro forma effect thereto (provided in each case that such Subsidiary of the Issuer or acquisition is not yet reflected in the consolidated balance sheet of such Person and its consolidated Subsidiaries) and (ii) negative goodwill shall be assigned a value of zero. For the purposes of this definition, whenever "pro forma effect" is to be given to an Investment of acquisition of assets such determination shall be made in good faith by a responsible financial or accounting officer of the Issuer.

"**Core or Related Business**" means the business of (a) producing steel and ferrous metal products, (b) investing in property, plant or equipment for the production of steel and ferrous metal products, (c) mining and processing of raw materials and manufacturing equipment for the production of steel and ferrous metal products, (d) conducting business connected with the consumption of steel and

ferrous metal products, (e) industrial construction for the production of steel and ferrous metal products, (f) automobile, railway and ship transportation of steel and ferrous metal products in connection with the Group's production of steel and ferrous metal products, including, without limitation, transportation via the Nakhodka Commercial Sea Port or (g) evaluating, participating in or pursuing any other activity or opportunity that is related to those identified in paragraphs (a) to (f) above.

"**Disinterested Director**" means, with respect to any transaction or series of related transactions, a member of the Board of Directors of the Issuer who does not have any material direct or indirect financial interest in or with respect to such transaction or series of related transactions. A Person shall not be ineligible to constitute a Disinterested Director solely as a result of such Person owning any equity interests of the Issuer or any of its Subsidiaries or acting as an officer, director or employee of the Issuer or any of its Subsidiaries.

"**Disqualified Capital Stock**" means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder thereof), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or is redeemable at the option of the holder thereof, on or prior to the date that is 91 days after the date on which the Notes mature.

"**Equity Interests**" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

"**Euro Equivalent**" means, with respect to any amount denominated in a currency other than the euro, at any time for the determination thereof, the amount of euro obtained by converting such other currency involved into euro at the spot rate for the purchase of euro with such other currency as most recently published under "Currency Rates" in the section of the *Financial Times* entitled "Currencies, Bonds & Interest Rates".

"**Fair Market Value**" means the price that would be paid in an arm's-length transaction between an informed and willing seller under no compulsion to sell and an informed and willing buyer under no compulsion to buy, as determined in good faith by the competent management body of the relevant Issuer or the relevant competent management body of the Material Subsidiary (including a majority of the Disinterested Directors, if applicable) whose determination shall be conclusive if evidenced by a resolution of such relevant competent management body, or, with respect to any transaction or series of related transactions involving an aggregate value in excess of U.S.$30,000,000 (or its U.S. Dollar Equivalent), the price as determined by an Independent Appraiser.

"**Finance Subsidiary**" means a wholly owned direct Subsidiary of the Issuer or a Guarantor (if any), the principal activities of which are the issuance for cash of notes, bonds, debentures, promissory notes and other debt securities and the borrowing of cash pursuant to loans, credit facilities and agreements, notes, certificates and other instruments evidencing Indebtedness and the lending of not less than 85% of the cash proceeds of such issuances and borrowings to the Issuer or such Guarantor, as the case may be.

"**Group**" means the Issuer and its direct and indirect consolidated Subsidiaries.

"**Indebtedness**" means, with respect to any Person at any date of determination (without duplication):

(a) all indebtedness of such Person for borrowed money;

(b) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(c) all obligations of such Person in respect of letters of credit or other similar instruments (including reimbursement obligations with respect thereto);

(d) all obligations of such Person to pay the deferred and unpaid purchase price of property, assets or services, which purchase price is due more than 120 days after the earlier of the date of placing such property in service or taking delivery and title thereof or the completion of such services;

(e) all capitalised lease obligations of such Person;

(f) all Indebtedness of other Persons secured by a Lien granted by such Person on any asset (the value of which, for these purposes, shall be determined by reference to the balance sheet value of such asset in respect of the latest half year period of the Person providing the Lien) of such Person, whether or not such Indebtedness is assumed by such Person;

(g) all Indebtedness of other Persons guaranteed or indemnified by such Person to the extent such Indebtedness is guaranteed or indemnified by such Person;

(h) to the extent not otherwise included in this definition, net obligations under any currency or interest rate hedging agreements; and

(i) any amount raised under any other transaction (including, but without limitation to, any forward sale or purchase agreement) having the economic or commercial effect of a borrowing.

For the avoidance of doubt Indebtedness of any Person does not include (i) trade account payables arising solely in the ordinary course of business of such Person and maturing in less than 120 days (other than promissory notes and similar obligations incurred for the purpose of a borrowing), (ii) for the purposes of Condition 4.2 only, restructured tax payable reported in the most recent balance sheet prepared in accordance with IFRS of such Person and (iii) Indebtedness incurred by the Issuer or a Subsidiary of the Issuer in connection with a transaction where (x) such Indebtedness is borrowed from a bank or trust company incorporated in the Russian Federation, South Africa, any member state of the European Union as of the date of the Trust Deed, or any commercial banking institution that is a member of the U.S. Federal Reserve System, in each case having a combined capital and surplus and undivided profits of not less than €500 million, whose debt has a rating immediately prior to the time such transaction is entered into, of at least A or the equivalent thereof by Standard & Poor's and A2 or the equivalent thereof by Moody's and (y) a substantially concurrent Investment is made by the Issuer or any Subsidiary or Subsidiaries of the Issuer in the form of cash deposited with the lender of such debt, or a Subsidiary or Affiliate thereof, in amount substantially similar to such debt.

For the purpose of determining compliance with any U.S. Dollar-denominated restriction on Indebtedness, the U.S. Dollar Equivalent of Indebtedness denominated in another currency shall be calculated.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above and, with respect to contingent obligations as described above, the maximum liability upon the occurrence of the contingency giving rise to the obligation.

"**Independent Appraiser**" means any of PricewaterhouseCoopers LLC, KPMG LLC, Deloitte & Touche LLP or such investment banking, accountancy or appraisal firm of international standing selected by the Issuer or the relevant competent management body of the relevant Material Subsidiary (with the prior written consent of the Trustee), provided it is not an Affiliate of the Issuer, any Guarantor(s) (if any) or any Material Subsidiary.

"**IFRS**" means the International Financial Reporting Standards as in effect from time to time.

"**Investment**" means, with respect to any Person, directly or indirectly, any advance (other than advances to customers in the ordinary course of business), loan (including guarantees), or other extension of credit (including guarantees) or capital contribution to (by means of any transfer of cash) or other property to others or any payment for property or services for the account or use of others, or any purchase, acquisition or ownership by such Person of any Capital Stock, bonds, notes, debentures, or other securities (including, without limitation, any interests in any partnership or joint venture) or evidence of indebtedness issued or owned by any Person and all other items that would be classified as investments on a balance sheet prepared in accordance with IFRS; provided that:

(a) hedging obligations entered into in the ordinary course of business and in compliance with these Conditions; and

(b) endorsements of negotiable instruments in the ordinary course of business,

shall in each case be deemed not to be an Investment.

"**Issue Date**" means 24 April 2008.

"**Issuer**" means Evraz Group S.A., a société anonyme incorporated with limited liability in the Grand Duchy of Luxembourg.

"**Leverage Ratio**" means the ratio of Consolidated Indebtedness to 12-Month Consolidated EBITDA of the Issuer after giving effect on a *pro forma* basis to:

(a) the incurrence of any Indebtedness the permissibility of which is then being measured, the incurrence or repayment of any other Indebtedness on or after the first day of the Measurement Period relevant for such calculation and, in each case, the receipt and application of the proceeds therefrom, and

(b) the exclusion of Consolidated EBITDA associated with any Asset Sales or the inclusion of Consolidated EBITDA associated with any Asset Acquisitions (including, without limitation, any Asset Acquisition giving rise to the need to make such calculation as a result of the incurrence or assumption of Indebtedness) on or after the first day of the Measurement Period relevant for such calculation,

provided, however, that any such *pro forma* Consolidated EBITDA in respect of an Asset Acquisition may only be so included if such *pro forma* Consolidated EBITDA shall have been derived from (i) financial statements of, or relating to or including, such acquired entity, that have been prepared in accordance with IFRS, U.S. GAAP or any body of accounting principles that has been determined by the European Commission to be equivalent to IFRS as provided in the Accounts Regulation (without regard to any modifications to such principles that may be required after the date of such financial statements in connection with or pursuant to such determination) provided that such financial statements are available or can be prepared without unreasonable expense; or (ii) such other financial statements and information of the acquired entity that the chief financial officer of the Issuer believes in good faith to present fairly the financial position of the acquired entity so as to permit such a pro forma Consolidated EBITDA to be prepared on the basis of reasonable assumptions and estimates.

"**Lien**" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof, any sale with recourse against the seller or any Affiliate of the seller, or any agreement to give any security interest) securing any obligation of any Person.

"**Material Subsidiary**" means at any relevant time a direct or indirect Subsidiary of the Issuer:

(a) whose total consolidated assets represent not less than 10% of the total consolidated assets of the Issuer, or whose gross consolidated revenues represent not less than 10% of the gross consolidated revenues of the Issuer (determined by reference to the most recent publicly available annual or interim financial statements of the Issuer, prepared in accordance with IFRS and the latest financial statements of the Subsidiary of the Issuer); or

(b) to which is transferred all or substantially all the assets and undertakings of a Subsidiary of the Issuer which immediately prior to such transfer is a Material Subsidiary.

"**Measurement Period**" means each financial half-year ending on 30 June or 31 December for which consolidated financial statements of the Issuer (or the other relevant Person in respect of which the particular calculation is to be made, as the case may be) prepared in accordance with IFRS are available. For the avoidance of doubt, any non-balance sheet financial information for a Measurement Period ending on 31 December of any year shall be calculated by subtracting (a) the relevant information for the Measurement Period ending on 30 June of that year from (b) the equivalent information for that year.

"**Moody's**" means Moody's Investors Service Limited.

"**Permitted Liens**" means:

(a) Liens granted by a Subsidiary of the Issuer in favour of the Issuer or the Guarantor(s) (if any) or a Subsidiary of the Issuer or the Guarantor(s) (if any) or by the Issuer or the Guarantor(s) (if any) in favour of a Subsidiary of the Issuer or the Guarantor(s) (if any) with respect to the property or assets, or any income or profits therefrom, of the Issuer or the Guarantor(s) (if any) or such Subsidiary of the Issuer, as the case may be;

(b) any Lien existing on the Issue Date;

(c) Liens imposed by law, including but without limitation, Liens of landlords and carriers, warehousemen, mechanics, suppliers, material men, repairmen or other similar Liens arising in the ordinary course of business;

(d) any Lien on any property, income, assets or revenues of any Person existing at the time such Person is acquired, merged or consolidated with or into the Issuer, the Guarantor(s) (if any) or any of their respective Subsidiaries and not created in contemplation of such event; provided that no such Lien shall extend to any other property, income, assets or revenues of such Person or to any other property or assets of the Subsidiaries of such Person or the Issuer, the Guarantor(s) (if any) or any of their respective Subsidiaries;

(e) any Lien existing on any property, income, assets or revenues prior to the acquisition thereof by the Issuer, the Guarantor(s) (if any) or any of their respective Subsidiaries and not created in contemplation of such acquisition; provided that no such Lien shall extend to any other property, income, assets or revenues of the Issuer, the Guarantor(s) (if any) or any of their respective Subsidiaries;

(f) any extension, renewal or replacement of any Lien described in paragraphs (a) to (e) above, provided that (i) such extension, renewal or replacement shall be no more restrictive to the relevant Person in any material respect than the original Lien, (ii) the amount of Indebtedness secured by such Lien is not increased and (iii) if the property, income, assets or revenues securing the Indebtedness subject to such Lien are changed in connection with such refinancing, extension or replacement, the Fair Market Value of such property, income, assets or revenues is not increased;

(g) any Lien on the property, income, assets or revenues of the Issuer, the Guarantor(s) (if any) or any of their respective Subsidiaries securing Indebtedness of the Issuer, the Guarantor(s) (if any) or any of its Subsidiaries incurred in an aggregate principal amount outstanding at any one time not to exceed 20% of the total assets of the Issuer (determined on a consolidated basis by reference to the then most recent publicly available annual or interim financial statements of the Issuer prepared in accordance with IFRS). For the avoidance of doubt this paragraph (g) does not include any Lien created in accordance with paragraphs (a) to (f) or (h) to (n) hereof;

(h) any Lien on the property, income, assets or revenues of the Issuer, the Guarantor(s) (if any) or any of their respective Subsidiaries securing working capital facilities which make advances of a tenor of 180 days or less with an aggregate principal amount outstanding at any time not to exceed 10 per cent. of the Consolidated Tangible Assets;

(i) any Lien on any property, income, assets or revenues of the Issuer, the Guarantor(s) (if any) or any of their respective Subsidiaries (including any Capital Stock of an acquired company that is used as security in connection with the acquisition of such company) securing Indebtedness incurred for the purpose of financing all or part of the acquisition, maintenance, repair or construction of such property or assets provided that (i) such Lien is created solely for the purpose of securing Indebtedness incurred by the Issuer, the Guarantor(s) (if any) or the relevant Subsidiary of the Issuer in compliance with Condition 4.2, (ii) no such Lien shall extend to any other property or assets of the Issuer, the Guarantor(s) (if any) or any of its relevant Subsidiaries, (iii) the aggregate principal amount of all Indebtedness secured by Liens under this paragraph (i) on such property or assets does not exceed the purchase price of such

property or assets (including customs duties, transport, insurance, construction and installation costs and other incidental costs and expenses of purchase and any VAT or similar taxes thereon) and (iv) such Lien attaches to such property or assets concurrently with the maintenance or repair thereof or within 90 days after the acquisition or commencement of construction thereof, as the case may be;

(j) any Lien granted in favour of a Person providing Project Financing if the Lien is solely on the property, income, assets or revenues of the project for which the financing was incurred provided that (i) the person or persons providing such financing limits its recourse solely to the property, income, assets or revenues subject to such Lien, (ii) such Lien is created solely for the purpose of securing Indebtedness incurred by the Issuer, the Guarantor(s) (if any) or a Subsidiary of the Issuer or the Guarantor(s) (if any) in compliance with Condition 4.2, and (iii) no such Lien shall extend to any other property, income, assets or revenues of the Issuer, or the Guarantor(s) (if any) or their respective Subsidiaries;

(k) any Lien upon any steel, ferrous metal, iron ore or coal export contract with or through any Material Subsidiary (including contracts for sale, transportation or exchange, utilisation and pooling declarations and agreements), and any related inventory and products, and proceeds thereof, which contract is entered into from time to time between any of the Issuer or the Guarantor(s) (if any) or their respective Subsidiaries, on the one hand, and a purchaser in the ordinary course of the business of the Issuer, the Guarantor(s) (if any) or such Subsidiaries, as the case may be, on the other hand, in a form that is customary in the steel, iron ore mining or coal mining industry, as applicable;

(l) any Lien in respect of obligations arising under hedging agreements so long as the related Indebtedness is permitted to be incurred under these Conditions and any such hedging agreement is not speculative;

(m) a right of set-off, right to combine accounts or any analogous right which any bank or other financial institution may have relating to any credit balance of any member of the Group; and

(n) any Lien for *ad valorem*, income or property taxes or assessments, customs charges and similar charges which either are not delinquent or are being contested in good faith by appropriate proceedings for which the Issuer, the Guarantor(s) (if any) or any Subsidiary of the Issuer or the Guarantor(s) (if any) has set aside in its accounts reserves to the extent required by IFRS.

"**Person**" means any individual, corporation, partnership, joint venture, trust, unincorporated organisation or government or any Agency or political subdivision thereof.

"**Potential Event of Default**" means any condition, event or act which, with the lapse of time

and/or the issue, making or giving of any notice, certification, declaration, demand, determination and/or request and/or the taking of any similar action and/or the fulfilment of any similar condition, could constitute an Event of Default.

"**Production Assets**" means property, plant and equipment of the Group determined in accordance with IFRS.

"**Project Financing**" means any financing of all or part of the costs of the acquisition, construction, development or operation of any asset or project if the person or persons providing such financing limits its recourse solely to the asset or project financed and the revenues derived from such asset or project.

"**Qualified Securitisation Transaction**" means any asset securitisation transaction or series of asset securitisation transactions that may be entered into by the Issuer, the Guarantor(s) (if any) or any Material Subsidiary pursuant to which such person may sell or otherwise transfer or dispose its accounts receivables and other related assets to (a) a Securitisation Entity (in the case of a transfer by the Issuer, the Guarantor(s) (if any) or any Material Subsidiary) or (b) any other Person (in the case of a transfer by a Securitisation Entity).

"**Reporting Package**" means, for any period, the financial statements of a Material Subsidiary prepared in accordance with IFRS and used in preparing the consolidated financial statements of the Issuer for such period prepared in accordance with IFRS.

"**Russia**" shall mean the Russian Federation and any province or political subdivision or Agency thereof or therein, and "**Russian**" shall be construed accordingly.

"**Securitisation Entity**" means a wholly owned Material Subsidiary, or a wholly owned Subsidiary of another Person in which the Issuer, the Guarantor(s) (if any) or any Affiliate of the Issuer or the Guarantor(s) (if any) makes an Investment, and in each case to which the Issuer, the Guarantor(s) (if any) or any Affiliate of the Issuer or the Guarantor(s) (if any) transfers accounts receivables and related assets, that engages in no activities other than in connection with the financing of accounts receivables which is designated by the Board of Directors of the Issuer or the Guarantor(s) (if any) (as provided below) as a Securitisation Entity; and

(a) no portion of the Indebtedness or any other obligations (contingent or otherwise) of which:

  (i) is guaranteed by the Issuer, the Guarantor(s) (if any) or any Material Subsidiary;

  (ii) gives recourse to or obliges the Issuer, the Guarantor(s) (if any) or any Material Subsidiary (other than such Securitisation Entity) in any way; or

  (iii) subjects any property or asset of the Issuer, the Guarantor(s) (if any) or any Material Subsidiary (other than such Securitisation Entity), directly or indirectly, contingently or otherwise, to the satisfaction thereof,

  in each case other than pursuant to representations, warranties, covenants and indemnities by the Issuer, the Guarantor(s) (if any) or any Material Subsidiary that are reasonably customary in an accounts receivables securitisation transaction;

(b) with which none of the Issuer, the Guarantor(s) (if any) or any Material Subsidiary (other than such Securitisation Entity) has any material contract, agreement, arrangement or understanding other than on terms no less favourable to the Issuer. the Guarantor(s) (if any) or the relevant Material Subsidiary than those that might be obtained at the time from Persons that are not Affiliates of the Issuer or the Guarantor(s) (if any), other than fees payable in the ordinary course of business in connection with servicing accounts receivable of such entity; and

(c) to which none of the Issuer, the Guarantor(s) (if any) or the Material Subsidiaries (other than such Securitisation Entity) has any obligation to maintain or preserve such entity's financial condition or cause such entity to achieve certain levels of operating results.

Any designation of a Material Subsidiary or an Affiliate as a Securitisation Entity shall be evidenced to the Trustee by filing with the Trustee a certified copy of the resolution of the relevant Board of Directors giving effect to the designation and any officers' certificate certifying that the designation complied with the preceding conditions and was permitted by these Conditions which shall be binding on the Trustee.

"**Standard & Poor's**" means Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies, Inc.

"**Subsidiary**" of any Person means (a) any corporation more than 50% of the outstanding voting power of the Capital Stock of which is owned or controlled, directly or indirectly, by such Person or by one or more other Subsidiaries of such Person, or by such Person and one or more other Subsidiaries thereof, (b) any limited partnership of which such Person or any Affiliate of such Person is a general partner, (c) any other Person in which such Person, or one or more other Subsidiaries of such Person, or such Person and one or more other Subsidiaries, directly or indirectly, has more than 50% of the outstanding partnership or similar interests or has the power, by contract or otherwise, to direct or cause the direction of the policies, management and affairs thereof or (d) any Person whose

financial statements are required by IFRS to be consolidated into the financial statements of such Person.

"**Subsidiary Indebtedness Threshold**" means (a) prior to the second anniversary of the Issue Date, 35 per cent. of the Issuer's Consolidated Tangible Assets, (b) on and after the second anniversary, and prior to the fourth anniversary, of the Issue Date, 32.5 per cent. of the Issuer's Consolidated Tangible Assets, (c) on and after the fourth anniversary, and prior to the sixth anniversary, of the Issue Date, 30 per cent. of the Issuer's Consolidated Tangible Assets, and (d) on and after the sixth anniversary 25% of the Issuer's Consolidated Tangible Assets.

"**Treasury Rate**" means the yield to maturity at the time of computation of U.S. Treasury securities with a constant maturity most nearly equal to the period from the redemption date to 24 April 2018. The Issuer will obtain such yield to maturity from the information compiled and published in the most recent Federal Reserve Statistical Release H.15(519) which has become publicly available at least two Business Days prior to the redemption date. If such Statistical Release is no longer published, the Issuer will use any publicly available source or similar market data. If the period from the redemption date to 24 April 2018 is not equal to the constant maturity of a U.S. Treasury security for which a weekly average yield is given, the Issuer will obtain the Treasury Rate by linear interpolation, calculated to the nearest one-twelfth of a year, from the weekly average yields of U.S. Treasury securities for which such yields are given. If the period from the redemption date to 24 April 2018 is less than one year, the Issuer will use the weekly average yield on actually traded U.S. Treasury securities adjusted to a constant maturity of one year to make such calculation.

"**U.S. Dollar Equivalent**" means with respect to any amount denominated in a currency other than U.S. Dollars, at any time for the determination thereof, the amount of U.S. Dollars obtained by converting such other currency involved into U.S. Dollars at the spot rate for the purchase of U.S. Dollars with such other currency as most recently published under "Currency Rates" in the section of the *Financial Times* entitled "Currencies, Bonds & Interest Rates".

"**U.S. GAAP**" means United States generally accepted accounting principles as in effect from time to time.

TRANSFER RESTRICTIONS

Rule 144A Notes

Each purchaser of Rule 144A Notes, by accepting delivery of this Prospectus and the Notes, will be deemed to have represented, agreed and acknowledged that:

It is (a) a QIB, (b) acting for its own account, or for the account of a QIB, (c) not formed for the purpose of investing in the Issuer, and (d) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.

It understands that the Rule 144A Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB or, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S under the Securities Act, in each case in accordance with any applicable securities laws of any State or another jurisdiction of the United States.

It understands that the Rule 144A Notes, unless otherwise agreed between the Issuer and the Trustee in accordance with applicable law, will bear a legend to the following effect:

> THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933 (THE "SECURITIES ACT") OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A (A "QIB"), THAT IS ACQUIRING THIS NOTE FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (4) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALES OF THE NOTES.

It acknowledges that the Issuer, the Registrar (as defined in the Terms and Conditions), the Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Rule 144A Notes is no longer accurate, it shall promptly notify the Issuer and the Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each of those accounts and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.

It understands that the Rule 144A Notes will be evidenced by the Rule 144A Global Note Certificates. Before any interest in the Rule 144A Global Note Certificates may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Regulation S Global Note Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S Notes

Each purchaser of Regulation S Notes outside the United States, by accepting delivery of this Prospectus and the Regulation S Notes, will be deemed to have represented, agreed and acknowledged that:

It is, or at the time Regulation S Notes are purchased will be, the beneficial owner of such Regulation S Notes and (a) it is located outside the United States (within the meaning of Regulation S) and (b) it is not an affiliate of the Issuer or a person acting on behalf of such an affiliate.

It understands that the Regulation S Notes have not been and will not be registered under the Securities Act and, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believes is a QIB purchasing for its own account or for the account of a QIB or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.

It understands that Regulation S Notes will be evidenced by the Regulation S Global Note Certificates. Before any interest in a Regulation S Global Note Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Rule 144A Global Note Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.

It acknowledges that the Issuer, the Registrar, the Managers and their affiliates and others will rely upon the truth and accuracy of the above acknowledgements, representations and agreements and agree that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Notes is no longer accurate, it shall promptly notify the Issuer and the Managers. If it is acquiring any Notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the above acknowledgements, representations and agreements on behalf of each account.

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

The Global Note Certificates

The Notes will be represented on issue by the Regulation S Global Note Certificates (deposited with, and registered in the name of a nominee for, a common depositary for Euroclear and Clearstream, Luxembourg) and the Rule 144A Global Note Certificates (deposited with a custodian for, and registered in the name of Cede & Co. as nominee of, DTC).

Beneficial interests in the Regulation S Global Note Certificates may be held only through Euroclear or Clearstream, Luxembourg at any time. See "Clearing and Settlement—Book-Entry Procedures for the Global Note Certificates". By acquisition of a beneficial interest in the Regulation S Global Note Certificates, the purchaser thereof will be deemed to represent, among other things, that it is located outside the United States. See "Transfer Restrictions".

Beneficial interests in the Rule 144A Global Note Certificates may only be held through DTC at any time. See "Clearing and Settlement—Book-Entry Procedures for the Global Note Certificates". By acquisition of a beneficial interest in the Rule 144A Global Note Certificates, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Trust Deed. See "Transfer Restrictions".

Beneficial interests in each Global Note Certificate will be subject to certain restrictions on transfer set forth therein and in the Trust Deed, and with respect to Rule 144A Notes, as set forth in Rule 144A, and the Notes will bear the legends set forth thereon regarding such restrictions set forth under "Transfer Restrictions". A beneficial interest in the Regulation S Global Note Certificates may be transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note Certificates in denominations greater than or equal to the minimum denominations applicable to interests in the Rule 144A Global Note Certificates and only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) to the effect that the transferor reasonably believes that the transferee is a QIB and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Beneficial interests in the Rule 144A Global Note Certificates may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note Certificates only upon receipt by the Registrar of a written certification (in the form provided in the Agency Agreement) from the transferor to the effect that the transfer is being made in an offshore transaction and in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Note Certificates that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Note Certificates will, upon transfer, cease to be an interest in the Regulation S Global Note Certificates and become an interest in the Rule 144A Global Note Certificates, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Note Certificates for as long as it remains such an interest. Any beneficial interest in the Rule 144A Global Note Certificates that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note Certificates will, upon transfer, cease to be an interest in the Rule 144A Global Note Certificates and become an interest in the Regulation S Global Note Certificates and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Note Certificates for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Notes, but the Registrar may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith. Except in the limited circumstances described below, owners of beneficial interests in Global Note Certificates will not be entitled to receive physical delivery of the Individual Certificates. The Notes are not issuable in bearer form.

In the event that a Global Note Certificate is exchanged for Individual Certificates, such Individual Certificates shall be issued in denominations of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof. Noteholders who hold Notes in the relevant clearing system in amounts that are not integral

multiples of U.S.$100,000 or U.S.$1,000 in excess thereof may need to purchase or sell, on or before the relevant Exchange Date (as defined below), a principal amount of Notes such that their holding is an integral multiple of U.S.$100,000 or U.S.$1,000 in excess thereof.

Amendments to Terms and Conditions

Each Global Note Certificate contains provisions that apply to the Notes that it represents, some of which modify the effect of the above Terms and Conditions of the Notes. The following is a summary of those provisions:

Payments. Payments of principal and interest in respect of Notes evidenced by a Global Note Certificate will be made against presentation for endorsement by the Principal Paying and Transfer Agent and, if no further payment falls to be made in respect of the relevant Notes, surrender of such Global Note Certificate to or to the order of the Principal Paying and Transfer Agent or such other Paying and Transfer Agent as shall have been notified to the relevant Noteholders for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the relevant Global Note Certificate, which endorsement will be prima facie evidence that such payment has been made in respect of the relevant Notes.

Notices. So long as any Notes are evidenced by a Global Note Certificate and such Global Note Certificate is held by or on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled account holders in substitution for delivery thereof as required by Condition 13 of such Notes.

Meetings. The holder of each Global Note Certificate will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and in any such meeting as having one vote in respect of each U.S.$1,000 for which the relevant Global Note Certificate may be exchangeable.

Trustee Powers. In considering the interests of Noteholders while the Global Note Certificates are held on behalf of a clearing system, the Trustee, to the extent it considers it appropriate to do so in the circumstances, may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to each Global Note Certificate and may consider such interests as if such accountholders were the holders of any Global Note Certificate.

Cancellation. Cancellation of any Note required by the Terms and Conditions of the Notes to be cancelled will be effected by reduction in the principal amount of the applicable Global Note Certificate.

Tradable Amounts

So long as the Notes are represented by a Global Note Certificate and the relevant clearing system(s) so permit, the Notes shall be tradable only in principal amounts of at least U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof.

Exchange for Individual Certificates

Exchange

Each Global Note Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for Notes in definitive form if: (i) a Global Note Certificate is held by or on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, by the holder giving notice to the Registrar or any transfer agent or (ii) if the Issuer would suffer a material disadvantage in respect of the Notes as a result of a change in the laws or regulations (taxation or otherwise) of any jurisdiction referred to in Condition 9 which would not be suffered were the Notes in definitive form and a notice to such effect signed by two directors of the Issuer or by any person(s) empowered by the board of directors of the Issuer to sign on behalf of the Issuer is delivered to the Trustee, by the Issuer giving notice to the Registrar or the Transfer Agent and the Noteholders of its intention to

exchange the relevant Global Note Certificate for Individual Certificates on or after the Exchange Date (as defined below) specified in the notice.

The Registrar will not register the transfer of, or exchange of interests in, a Global Note Certificate for Individual Certificates for a period of 15 calendar days ending on the date for any payment of principal or interest in respect of the Notes.

"Exchange Date" means a day falling not later than 90 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Registrar or the Transfer Agent is located.

Delivery

In such circumstances, the relevant Global Note Certificate shall be exchanged in full for Individual Certificates and the Issuer will, free of charge to the Noteholders (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Individual Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Noteholders. A person having an interest in a Global Note Certificate must provide the Registrar with (a) a written order containing instructions and such other information as the Issuer and the Registrar may require to complete, execute and deliver such Notes and (b) in the case of the Rule 144A Global Note Certificates only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a QIB. Individual Certificates issued in exchange for a beneficial interest in the Rule 144A Global Note Certificates shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "Transfer Restrictions".

Legends

The holder of an Individual Certificate may transfer the Notes evidenced thereby in whole or in part in the applicable minimum denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Rule 144A Individual Certificate bearing the legend referred to under "Transfer Restrictions", or upon specific request for removal of the legend on a Rule 144A Individual Certificate, the Issuer will deliver only Rule 144A Individual Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

CLEARING AND SETTLEMENT

Book-Entry Procedures for the Global Note Certificates

Custodial and depository links are to be established between DTC, Euroclear and Clearstream, Luxembourg to facilitate the initial issue of the Notes and cross market transfers of the Notes associated with secondary market trading. See "—Book-Entry Ownership" and "—Settlement and Transfer of Notes".

Investors may hold their interests in the Global Note Certificates directly through DTC, Euroclear or Clearstream, Luxembourg if they are accountholders ("Direct Participants") or indirectly ("Indirect Participants" and together with Direct Participants, "Participants") through organisations which are accountholders therein.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions through electronic book-entry transfer between their respective accountholders. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions which clear through or maintain a custodial relationship with an accountholder of either system. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Their customers are worldwide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations.

DTC

DTC has advised the Issuer as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a "banking organisation" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its Participants and facilitate the clearance and settlement of securities transactions between Participants through electronic computerised book-entry changes in accounts of its Participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC Direct Participant, either directly or indirectly.

Investors may hold their interests in the Rule 144A Global Note Certificates directly through DTC if they are Direct Participants in the DTC system, or as Indirect Participants through organisations which are Direct Participants in such system.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more Direct Participants and only in respect of such portion of the aggregate principal amount of the Rule 144A Global Note Certificates as to which such Participant or Participants has or have given such direction. However, in the circumstances described under "Summary of Provisions Relating to the Notes while in Global Form—Exchange for Individual Certificates", DTC will surrender the Rule 144A Individual Certificate for exchange for individual Rule 144A Definitive Note Certificates (which will bear the legend applicable to transfers pursuant to Rule 144A).

Book-Entry Ownership

Euroclear and Clearstream, Luxembourg

The Regulation S Global Note Certificates representing the Regulation S Notes will have an ISIN, a Common Code and a CUSIP number and will be registered in the name of a nominee for, and deposited with a common depositary on behalf of, Euroclear and Clearstream, Luxembourg.

The address of Euroclear is 1 Boulevard du Roi Albert 11, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue J.F. Kennedy, L-1855, Luxembourg.

DTC

The Rule 144A Global Note Certificates representing the Rule 144A Notes will have an ISIN, a Common Code and a CUSIP number and will be deposited with a custodian (the "Custodian") for, and registered in the name of Cede & Co. as nominee of, DTC. The Custodian and DTC will electronically record the principal amount of the Notes held within the DTC System. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

Relationship of Participants with Clearing Systems

Each of the persons shown in the records of DTC, Euroclear, Clearstream, Luxembourg as the holder of a Note evidenced by a Global Note Certificate must look solely to DTC, Euroclear or Clearstream, Luxembourg (as the case may be) for his share of each payment made by the Issuer to the holder of such Global Note and in relation to all other rights arising under such Global Note Certificate, subject to and in accordance with the respective rules and procedures of DTC, Euroclear or Clearstream, Luxembourg (as the case may be). The Issuer expects that, upon receipt of any payment in respect of Notes evidenced by a Global Note Certificate, the common depositary by whom such Note is held, or nominee in whose name it is registered, will immediately credit the relevant Participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the principal amount of the relevant Global Note Certificate as shown on the records of the relevant common depositary or its nominee. The Issuer also expects that payments by Direct Participants in any clearing system to owners of beneficial interests in any Global Note Certificate held through such Direct Participants in any clearing system will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are evidenced by such Global Note Certificate, and the obligations of the Issuer will be discharged by payment to the registered holder, as the case may be, of such Global Note Certificate in respect of each amount so paid. None of the Issuer, the Trustee or any Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Note Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Settlement and Transfer of Notes

Subject to the rules and procedures of each applicable clearing system, purchases of Notes held within a clearing system must be made by or through Direct Participants, which will receive a credit for such Notes on the clearing system's records. The ownership interest of each actual purchaser of each such Note (the "Beneficial Owner") will in turn be recorded on the Direct and Indirect Participants' records.

Beneficial Owners will not receive written confirmation from any clearing system of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which such Beneficial Owner entered into the transaction.

Transfers of ownership interests in Notes held within the clearing system will be effected by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive

certificates representing their ownership interests in such Notes, unless and until interests in any Global Note Certificate held within a clearing system are exchanged for Individual Certificates.

No clearing system has knowledge of the actual Beneficial Owners of the Notes held within such clearing system, and its records will reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by the clearing systems to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

The laws of some jurisdictions may require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in a Global Note Certificate to such persons may be limited. As DTC can only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, the ability of a person having an interest in the Rule 144A Global Note Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by a lack of physical certificate in respect of such interest.

Trading between Euroclear and/or Clearstream, Luxembourg Participants

Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

Trading between DTC Participants

Secondary market sales of book-entry interests in the Notes between DTC Participants will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to United States corporate debt obligations in DTC's Same-Day Funds Settlement system in same-day funds, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in Notes are to be transferred from the account of a DTC Participant holding a beneficial interest in the Rule 144A Global Note Certificates to the account of a Euroclear or Clearstream, Luxembourg accountholder wishing to purchase a beneficial interest in the Regulation S Global Note Certificates (subject to the certification procedures provided in the Agency Agreement), the DTC participant will deliver instructions for delivery to the relevant Euroclear or Clearstream, Luxembourg accountholder to DTC by 12 noon, New York time, on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg Participant. On the settlement date, the custodian of the Rule 144A Global Note Certificates will instruct the Registrar to (i) decrease the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note Certificates of the relevant class and (ii) increase the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note Certificates. Book-entry interests will be delivered free of payment to Euroclear or Clearstream, Luxembourg, as the case may be, for credit to the relevant accountholder on the first business day following the settlement date.

Trading between Euroclear/Clearstream, Luxembourg seller and DTC purchaser

When book-entry interests in the Notes are to be transferred from the account of a Euroclear or Clearstream, Luxembourg accountholder to the account of a DTC Participant wishing to purchase a beneficial interest in the Rule 144A Global Note Certificates (subject to the certification procedures provided in the Agency Agreement), the Euroclear or Clearstream, Luxembourg Participant must send to Euroclear or Clearstream, Luxembourg delivery free of payment instructions by 7:45 p.m., Brussels or Luxembourg time, one business day prior to the settlement date. Euroclear or Clearstream, Luxembourg, as the case may be, will in turn transmit appropriate instructions to the common depositary for Euroclear and Clearstream, Luxembourg and the Registrar to arrange delivery to the DTC Participant on the settlement date. Separate payment arrangements are required to be made between the DTC Participant and the relevant Euroclear or Clearstream, Luxembourg accountholder, as the case may be. On the settlement date, the common depositary for Euroclear and Clearstream, Luxembourg will (a) transmit appropriate instructions to the custodian of the Rule 144A Global Note Certificates who will in turn deliver such book-entry interests in the Notes free of payment to the relevant account of the DTC Participant and (b) instruct the Registrar to (i) decrease the amount of Notes registered in the name of the nominee of the common depositary for Euroclear and Clearstream, Luxembourg and evidenced by the Regulation S Global Note Certificates; and (ii) increase the amount of Notes registered in the name of Cede & Co. and evidenced by the Rule 144A Global Note Certificates.

Although DTC, Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in Global Note Certificates among Participants and accountholders of DTC, Euroclear and Clearstream, Luxembourg, they are under no obligation to perform or continue to perform such procedure, and such procedures may be discontinued at any time. None of the Issuer, the Trustee or any Agent will have the responsibility for the performance by DTC, Euroclear, Clearstream, Luxembourg or their respective Direct or Indirect Participants of their respective obligations under the rules and procedures governing their operations.

Pre-issue Trades Settlement

It is expected that delivery of Notes will be made against payment therefor on the Closing Date, which could be more than three business days following the date of pricing. Under Rule 15c6-1 under the Exchange Act, trades in the United States secondary market generally are required to settle within three business days (T+3), unless the parties to any such trade expressly agree otherwise.

Accordingly, purchasers who wish to trade Notes in the United States on the date of pricing or the next succeeding business days until three days prior to the Closing Date will be required, by virtue of the fact the Notes initially will settle beyond T+3, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary.

Purchasers of Notes may be affected by such local settlement practices, and purchasers of Notes between the relevant date of pricing and the Closing Date should consult their own advisers.

SUBSCRIPTION AND SALE

ABN AMRO Bank N.V., CALYON, Deutsche Bank AG, London Branch and UBS Limited (together the "Managers") have, pursuant to a subscription agreement between the Issuer and the Managers relating to the 2013 Notes (the "2013 Subscription Agreement") dated 23 April 2008 and pursuant to a subscription agreement between the Issuer and the Managers relating to the 2018 Notes (the "2018 Subscription Agreement") dated 23 April 2008 (the 2013 Subscription Agreement and the 2018 Subscription Agreement, together the "Subscription Agreements"), agreed to subscribe or procure subscribers for the Notes at the issue price of 100% of the principal amount of the Notes less a combined commission based, in part, on the aggregate size of the transaction (and including an element payable at the sole discretion of the Company) of up to 0.85% of the principal amount of the Notes. The Issuer will also reimburse the Managers in respect of certain of their expenses, and the Issuer has agreed to indemnify the Managers against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreements may be terminated in certain circumstances set out therein prior to payment of the Issuer.

The Managers and their affiliates have from time to time performed and in the future may perform various financial advisory, commercial banking and investment banking services for Evraz and its shareholders and affiliates, for which they have received and/or will receive fees and expenses. ABN AMRO Bank N.V. and CALYON are parties to the IPSCO Bridge Commitment with the Issuer pursuant to which they have agreed to provide a U.S.$2,100 million acquisition bridge facility in connection with the pending acquisition of IPSCO Canada. Under the IPSCO Bridge Commitment, the commitments of the lenders will be reduced by an amount equal to the proceeds of the offer and sale of the Notes. See "Description of Business—Overview" and "Use of Proceeds".

United States

The Notes have not been and will not be registered under the Securities Act, the securities laws of any State or other jurisdiction of the United States or the securities laws of any other jurisdiction. Each Manager has agreed that:

- the Notes may not be offered or sold within the United States except pursuant to an exemption from the registration requirements of the Securities Act or in transactions not subject to those registration requirements; and
- the Notes are being offered and sold outside of the United States in reliance on Regulation S. The Subscription Agreements provide that the Managers may, directly or through their respective U.S. broker dealer affiliates, arrange for the offer and resale of Notes within the United States only to qualified institutional buyers in reliance on Rule 144A.

Terms used in this section have the meanings given to them by Regulation S.

In addition, until 40 days after commencement of the offering of the Notes, an offer or sale of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act, if such offer or sale is made otherwise than in accordance with Rule 144A.

This Prospectus has been prepared by the Issuer for use in connection with the offer and sale of the Notes outside the United States, the resale of the Notes in the United States and for the listing of Notes on the London Stock Exchange. The Issuer and the Managers reserve the right to reject any offer to purchase the Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States other than any QIB and to whom an offer has been made directly by one of the Managers or its U.S. broker affiliate. Distribution of this Prospectus by any person outside the United States or by any QIB in the United States to any person within the United States, other than any QIB and those persons, if any, retained to advise such person outside the United States or QIB with respect thereto, is unauthorised and any disclosure without the prior written consent of the Issuer of any of its contents to any person within the United States, other than any QIB and those persons, if any, retained to advise such person outside the United States or QIB, is prohibited.

United Kingdom

Each Manager has represented and agreed that:

(a) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the U.K.; and

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer.

Russian Federation

Each Manager has represented and agreed that it has not offered, sold or otherwise transferred and will not offer or sell or otherwise transfer as part of their initial distribution or at any time thereafter any Notes to or for the benefit of any persons (including legal entities) resident, incorporated, established or having their usual residence in the Russian Federation or to any person located within the territory of the Russian Federation unless and to the extent otherwise permitted by Russian law.

Since no Russian issue prospectus has been registered or is intended to be registered with respect to the Notes, and the Notes have not been registered in Russia, no person should at any time carry out any activities in breach of the restrictions set out above.

General

Each Manager has agreed that it has, to the best of its knowledge and belief, complied and will comply with applicable laws and regulations in each jurisdiction in which they offer, sell or deliver Notes or distribute this Prospectus (and any amendments thereof and supplements thereto) or any other offering or publicity material relating to the Notes or the Issuer.

No action has been taken, in any jurisdiction, by the Issuer or any of the Managers that would, or is intended to, permit a public offer of the Notes or possession or distribution of the Prospectus or any other offering or publicity material relating to the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or have in its possession, distribute or publish any prospectus, offering circular, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations, and all offers and sales of the Notes by it will be made on the same terms.

Persons into whose hands this Prospectus comes are required by the Issuer and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

TAXATION

The following summary of certain Luxembourg, United Kingdom and United States tax consequences of ownership of Notes is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the Notes. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of Notes. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of Notes, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of the date of this Prospectus, and of any actual changes in applicable tax laws after such date.

Grand Duchy of Luxembourg

The following is a general discussion of certain Luxembourg tax consequences of the acquisition, ownership and disposal of Notes by purchasers resident or non-resident in Luxembourg. The discussion is based on laws currently in force and as applied in practice on the date of this Prospectus, all of which are subject to change, possibly with retroactive effect. The information provided below does not purport to be a complete or exhaustive summary of the tax laws and practice currently applicable in Luxembourg. Prospective investors should therefore consult their own tax advisors regarding the tax consequences of investing in the Notes in their own particular circumstances.

Luxembourg tax residency of the Noteholders

A Noteholder will not become resident, or be deemed to be resident, in Luxembourg by reason only of the holding of the Notes, or the execution, performance, delivery and/or enforcement of the Notes.

Withholding tax

Without taking into account the application of the European Directive on the Taxation of Savings Income (as discussed below under "European Union"), under Luxembourg tax law currently in effect, no withholding tax for Luxembourg resident and non-resident Noteholders on payments of interest (including accrued but unpaid interest) applies to the extent that the interest rate of the Notes is at arm's length and is not profit participating.

Taxation of the Noteholders

Taxation of Luxembourg non-residents

Noteholders who are non-residents of Luxembourg and who have neither a permanent establishment, a permanent representative nor a fixed base of business in Luxembourg with which the holding of the Notes is connected are not liable to any Luxembourg income tax, whether they receive payments of principal, payments of interest (including accrued but unpaid interest), payments received upon redemption or repurchase of the Notes, or realise capital gains on the sale of any Notes.

Taxation of Luxembourg residents—General

Noteholders who are residents of Luxembourg, or non-resident Noteholders who have a permanent establishment, a permanent representative or a fixed base of business in Luxembourg with which the holding of the Notes is connected, must, for income tax purposes, include any interest received in their taxable income. They will not be liable to any Luxembourg income tax on repayment of principal.

Luxembourg resident individuals

Taxation of capital gains. The definition of "capital gain" corresponds to the difference between the subscription or acquisition price and the sale price, but excludes any accrued interest income, which is taxed as portfolio income (as discussed below).

Luxembourg resident individual Noteholders are not subject to taxation on capital gains upon the disposal of the Notes unless the Notes are disposed of within six months of the date of acquisition of these Notes or the disposal of the Notes precedes the acquisition of the Notes. Such speculative gain is taxable as miscellaneous income, and consequently added to the taxpayers' other income for determining their taxable basis. As such, it is subject to the progressive income tax table (up to a maximum of 38.95%). Yearly speculative gains less than €500 are exempted and an amount up €50,000 (which is doubled for married taxpayers who are taxable jointly) is available for a ten-year period as a lump-sum deduction against the capital gain.

Taxation of the portion of the repurchase or redemption price corresponding to accrued but unpaid interest. Upon a repurchase or redemption of the Notes, the portion of the repurchase or redemption price corresponding to accrued but unpaid interest is taxable as portfolio income and consequently added to taxpayers' other income for determining their taxable basis. A yearly lump-sum deduction of €1,500 (which is doubled for married taxpayers who are taxable jointly) applies on total portfolio income received during the year.

Luxembourg resident companies (société de capitaux). Noteholders that are Luxembourg resident companies or foreign entities of the same type that have a permanent establishment in Luxembourg with which the holding of the Notes is connected, must include in their taxable income the difference between the sale or redemption price (including accrued but unpaid interest) and the lower of the cost or book value of the Notes sold or redeemed. These Noteholders should not be liable for any Luxembourg income tax on repayment of principal upon redemption of the Notes.

Luxembourg resident companies benefiting from a special tax regime. Noteholders who are holding companies subject to the law of 31 July 1929 ("1929 holding companies") or to the law of 11 May 2007 or undertakings for collective investment subject to the law of 20 December 2002 or to the law of 13 February 2007 are tax exempt entities in Luxembourg, and are thus not subject to any Luxembourg tax (*i.e.*, corporate income tax, municipal business tax and net wealth tax), other than the subscription tax.

A 1929 holding company is liable for the so-called subscription tax at a rate of 0.2%. In principle, the tax basis is composed of the average capital market value (for listed 1929 holding companies) or paid-up capital and share premium (for non-listed 1929 holding companies). However, if dividends paid exceed 10% of the paid-up capital and share premium, the tax basis will be equal to ten times the amount of dividends distributed.

Finally, Luxembourg undertakings for collective investment are liable to the so-called subscription tax at the general rate of 0.05% or 0.01% (under certain conditions, lower tax rates may apply). In principle, the tax basis is composed of the total net assets as determined at the end of each quarter.

Net Wealth Tax

Luxembourg net wealth tax will not be levied on a Noteholder, unless (i) such holder is a fully taxable Luxembourg resident company or (ii) such Notes are attributable to an enterprise or part thereof which is carried on in Luxembourg through a permanent establishment or a permanent representative or (iii) such Notes are attributable to a fixed base of business in Luxembourg of the Noteholder.

Other Taxes and Duties

There is no Luxembourg registration tax, stamp duty or any other similar tax or duty payable in Luxembourg by Noteholders as a consequence of the issuance of the Notes, nor will any of these taxes be payable as a consequence of a subsequent transfer, repurchase or redemption of the Notes. Proceedings in a Luxembourg court or the presentation of documents relating to the Notes, other than the Notes themselves,

to an *"autorité constituée"* may require registration of the documents, in which case the documents will be subject to registration duties depending on the nature of the documents. In particular, a loan agreement not represented by the Notes will be subject to an *ad valorem* registration of 0.24% of the amounts mentioned therein.

There is no Luxembourg value added tax payable in respect of payments in consideration for the issuance of the Notes or in respect of the payment of interest or principal under the Notes or the transfer of the Notes. Luxembourg value added tax may, however, be payable in respect of fees charged for certain services rendered to the Issuer, if for Luxembourg value added tax purposes such services are rendered or are deemed to be rendered in Luxembourg and an exemption from Luxembourg value added tax does not apply with respect to such services.

No Luxembourg gift, estate or inheritance tax is levied on the transfer of the Notes upon death of a Noteholder in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes.

United Kingdom

The following is a general discussion of certain U.K. withholding tax, stamp duty and stamp duty reserve tax considerations relating to the Notes and is not intended to be exhaustive. It is based on current tax law and HM Revenue & Customs ("HMRC") published practice in the U.K. and does not discuss any other U.K. tax considerations relating to the Notes, including but not limited to their acquisition, holding or disposal. Prospective noteholders should consult their own tax advisors as to the consequences, both under the tax law of the country of which they are resident for tax purposes and the tax law of the U.K., of acquiring, holding and disposing of the Notes and receiving payments of interest, principal and/or other amounts under the Notes.

Withholding tax

Payments of interest on the Notes may be made without withholding or deduction for or on account of U.K. tax, provided that such interest does not have a U.K. source. It is currently expected that the circumstances will be such that interest on the Notes would not have a U.K. source.

Stamp duty and Stamp Duty Reserve Tax

No U.K. stamp duty or stamp duty reserve tax will be payable on the issue or a transfer of the Notes.

Provision of Information

Persons in the U.K. by or through whom interest is paid to, or by or through whom interest is received on behalf of, another person who is an individual may, in certain circumstances, be required to provide information to HMRC regarding the payment and the individual concerned (including as to the identity of the individual). These provisions will apply whether the individual is resident in the U.K. or elsewhere. In certain circumstances, the information may be exchanged with tax authorities in other jurisdictions.

The provisions referred to above may also apply, in certain circumstances, to payments made on redemption of Notes where the amount payable on redemption is greater than the issue of the Notes.

United States

TO ENSURE COMPLIANCE WITH U.S. TREASURY DEPARTMENT CIRCULAR 230, HOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL INCOME TAX ISSUES IN THIS PROSPECTUS IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON, BY HOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON HOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS INCLUDED HEREIN BY THE ISSUER IN CONNECTION WITH THE PROMOTION OR MARKETING (WITHIN THE MEANING OF CIRCULAR 230) BY THE ISSUER OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C)

HOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following is a summary of certain material U.S. federal income tax consequences of the acquisition, ownership and disposition of Notes by a U.S. Holder (as defined below). This summary deals only with U.S. Holders that purchase Notes at their issue price as part of the initial offering and that hold the Notes as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Notes by particular investors, and does not address state, local, foreign or other tax laws. In particular, this summary does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, investors liable for the alternative minimum tax, tax-exempt organisations, dealers in securities or currencies, traders in securities that elect mark-to-market treatment, investors that will hold the Notes as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes or investors whose functional currency is not the U.S. dollar).

As used herein, the term "U.S. Holder" means a beneficial owner of Notes that is, for U.S. federal income tax purposes, an individual citizen or resident of the United States, a corporation created or organised in or under the laws of the United States or any political subdivision thereof or therein, or any other person that is subject to U.S. federal income taxation on a net income basis in respect of its investment in the Notes.

The U.S. federal income tax treatment of a partner in a partnership that holds Notes will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships should consult their tax advisors concerning the U.S. federal income tax consequences to their partners of the acquisition, ownership and disposition of Notes by the partnership.

The following summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as currently in effect and all subject to change at any time, possibly with retroactive effect.

Persons considering the purchase, ownership or disposition of Notes should consult their own tax advisors concerning the U.S. federal income tax consequences in light of their particular situations as well as any consequences arising under the laws of any other taxing jurisdiction.

Payments of Interest

Payments of interest on a Note will be taxable to a U.S. Holder as foreign-source ordinary income at the time such amounts are received or accrued, in accordance with the holder's regular method of accounting for U.S. federal income tax purposes.

Dispositions of Notes

A U.S. Holder generally will recognise U.S.-source gain or loss on the sale, redemption or other taxable disposition of a Note equal to the difference between the amount realised on the transaction (excluding any accrued but unpaid interest, which will be taxable as such) and the U.S. Holder's tax basis in the Note. A U.S. Holder's tax basis in a Note generally will be its U.S. dollar cost. Gain or loss recognised by a U.S. Holder on the disposition of a Note generally will be capital gain or loss, and will be long-term capital gain or loss if the Note was held by the U.S. Holder for more than one year on the date of disposition. Net long-term capital gain recognised by an individual U.S. holder generally is subject to tax at a lower rate than net short-term capital gain or ordinary income. The deductibility of capital losses is subject to limitations.

Backup Withholding and Information Reporting

Payments in respect of the Notes that are paid within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding

unless the U.S. Holder (i) is a corporation or other exempt recipient, or (ii) in the case of backup withholding, provides a taxpayer identification number and certifies that it has not lost its exemption from backup withholding. Holders of Notes that are not U.S. Holders generally are not subject to information reporting or backup withholding; however, any such holder may be required to provide a certification to establish its non-U.S. status in connection with payments received within the United States or from certain U.S.-related payors. The amount of backup withholding from a payment to a Noteholder will be allowed as a credit against the holder's U.S. federal income tax liability and may entitle the holder to a refund, provided the required information is furnished to the Internal Revenue Service.

European Union

Under the European Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to an individual beneficial owner who is resident in that other Member State. However, for a transitional period, Austria, Belgium and Luxembourg will (unless during such period they elect otherwise) instead apply a withholding system in relation to such payments. Under such a withholding system, tax will be deducted at rates rising over time from 15% to 35% unless the recipient of the interest payment elects instead for an exchange of information procedure. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to similar exchange of information procedures relating to interest and other similar payments.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have agreed to adopt similar measures (either provision of information or transitional withholding) in relation to payments made by a person within their respective jurisdictions to an individual beneficial owner who is resident in a Member State. In addition, the Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to an individual beneficial owner who is resident in one of those territories.

Noteholders and potential investors are advised to consult their professional advisors concerning possible taxation or other consequences of purchasing, holding, selling or otherwise disposing of the Notes under the laws of their country of incorporation, establishment, citizenship, residence or domicile. The above statements on taxation are based on the laws and practices in force at the date of this Prospectus. As is the case with any investment, there can be no guarantee that the tax position or proposed tax position at the time of an investment will endure indefinitely.

INDEPENDENT AUDITORS

The consolidated financial statements of Evraz as at and for the years ended 31 December 2007, 2006 and 2005 included in the Prospectus have been audited by Ernst & Young LLC, independent auditors, of Sadovnicheskaya Naberezhnaya 77/1, Moscow 115035, Russian Federation, as stated in their report (which contains an emphasis of matter paragraph drawing attention to the significance of related party transactions as described in Note 1 to the consolidated financial statements) appearing herein. Ernst & Young LLC is a member of the Institute of Professional Accountants of Russia.

INFORMATION RELATING TO THE TRUSTEE

BNY Corporate Trustee Services Limited is a professional trustee company, which is providing its services in relation to the Notes on an arm's length basis in consideration of a fee. Under the terms of the Trust Deed, the power of appointing new trustees is vested in the Issuer, but a trustee so appointed must in the first place be approved by an Extraordinary Resolution of Noteholders. The Noteholders have the power, exercisable by Extraordinary Resolution, to remove any trustee or trustees. The removal of any trustee is only effective if following the removal there remains a trustee (being a trust corporation) in office after such removal. In addition, BNY Corporate Trustee Services Limited, or any other trustee duly appointed, may retire at any time upon giving not less than 60 days' notice in writing to the Issuer. The retirement of any trustee is only effective if following the retirement there remains a trustee (being a trust corporation) in office after such retirement. If a trustee (being the only trustee which is a trust corporation) has given notice of its desire to retire, or has been removed by an Extraordinary Resolution of the Noteholders, and no appointment of a trust corporation as new trustee has become effective within 60 days of the date of such notice or Extraordinary Resolution, the trustee shall have the power of appointing such new trustee. However, no such appointment by the trustee shall take effect unless previously approved by an Extraordinary Resolution of Noteholders.

The Trust Deeds also provide, *inter alia*, that the Trustee may act and/or rely on the opinion or advice of or a certificate of any information obtained from any lawyer, banker, valuer, surveyor, broker, auctioneer, accountant or other expert (whether or not addressed to the Trustee), notwithstanding that such opinion, advice, certificate or information contains a monetary or other limit on the liability of any of the above mentioned persons in respect thereof.

GENERAL INFORMATION

1. The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg and DTC. The Common Code, ISIN and CUSIP numbers for the 2013 Regulation S Notes are 036005505, XS0360055056 and L33634 AD5, respectively. The Common Code, ISIN and CUSIP Numbers of the 2013 Rule 144A Notes are 036007869, US30050AAC71 and 30050A AC7, respectively. The Common Code, ISIN and CUSIP numbers for the 2018 Regulation S Notes are 035938133, XS0359381331 and L33634 AC7, respectively. The Common Code, ISIN and CUSIP Numbers of the 2018 Rule 144A Notes are 035938362, US30050AAB98 and 30050A AB9, respectively.

2. The Company has obtained all necessary consents, approval, authorisations or other orders for the issue of the Notes and the other documents to be entered into by the Company in connection with the issue of the Notes in Luxembourg.

3. The issue of the Notes and their offer, sale and listing was approved by the Board of Directors of the Company on 10 April 2008.

4. It is expected that listing of the Notes on the Official List of the U.K. Listing Authority and admission of the Notes to trading on the Regulated Market of the London Stock Exchange will be granted on or before 24 April 2008, subject only to the issue of the Notes. Prior to official listing and admission to trading, however, the London Stock Exchange will permit dealings in accordance with its rules. Transactions will normally be effected for settlements in U.S. dollars and for delivery on the third business day after the day of the transaction. The Company expects that the total expenses related to the listing and admission of the Notes to trading will be approximately U.S.$14.7 million.

5. There has been no significant change in the financial or trading position of Evraz since 31 December 2007, such date being the date of the latest audited financial statements.

6. There has been no material adverse change in the prospects of the Company since 31 December 2007, such date being the date of the latest audited financial statements.

7. Copies in English of the following documents may be inspected at the offices of the Principal Paying and Transfer Agent during usual business hours on any weekday (Saturday, Sunday and public holidays excepted) for so long as any Notes are outstanding:

   (a) the articles of incorporation of the Issuer;

   (b) the Annual Financial Statements audited in accordance with IFRS for the years ended 31 December 2007, 2006 and 2005, together with the report of Ernst & Young LLC contained therein; and

   (c) the Trust Deeds to constitute the Notes.

8. The Company prepares annual and interim consolidated financial statements in accordance with IFRS.

9. Save for the fees payable to the Managers, the Trustee and the Agents, so far as the Company is aware no person involved in the issue of the Notes has an interest that is material to the issue of the Notes.

APPENDIX I: GLOSSARY OF SELECTED TERMS

Angle	Angle shaped section for construction.
Billet	A usually square, semi finished product obtained by continuous casting or rolling of blooms. Sections, rails, wire rod and other rolled products are made from billets.
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.
Channel	U shaped section for construction.
Converter shop	The shop where pig iron is processed into steel using basic oxygen furnaces.
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, desulphurisation, and adding strength. Examples: ferrochrome, ferromanganese and ferrosilicon.
Flat products	Category of steel that includes sheet, strip and tin plate, among others.
Grinding balls	Grinding balls for mining and cement industry.
H beam	H shaped section for construction.
Long products	Classification of steel products that includes bars, rods and structural products that are "long" rather than "flat" and that are produced from blooms or billets.
Mine upright	V shaped section for underground working reinforcement.
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	Product of blast furnace production used in production of steel.
Pipe blank	A round shaped semi finished product used in pipe manufacturing industry.
Railcar upright	Section for carriage building industry.
Rails	A steel bar laid on the ground, forming a railway track.
Rail fasteners	Metal devices used to link rails on railway lines.
Rebar (Reinforcing bar)	A commodity grade steel used to strengthen concrete in highway and building construction.
Rounds	A round shaped, semi finished product normally with diameter exceeding 10 mm used in various applications of hardware & engineering sector.
Scrap	Scrap iron containing material (mainly industrial or household waste) that generally is remelted and recast into new steel.
Sections	Sections are manufactured by rolling reheated concast billets and blooms to produce particular product shapes. Sections are

	used in the constructions, engineering, hardware and mining industries and railways.
Semi finished products	A product category that includes pig iron, slabs, blooms and billets. Slabs, blooms and billets are the first solid forms in the steel making process. These usable shapes are further processed to become more finished products rebars and shapes, structural steel and wire rod.
Sinter	An iron rich clinker formed by heating iron ore fines and coke in a sinter line.
Slabs	The most common type of semi finished steel. Subsequent to casting, slabs are sent to the hot strip mill to be rolled into coiled 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. Slag is used in cement and fertiliser production as well as for base course material in road construction.
Strips	Strips are delivered as coil, sheet and narrow strip in a wide range of alloys, widths and thicknesses and are mostly delivered to specific customer specifications.
Walking beam furnace	The walking beam furnace is an advanced, heavy load, continuous processing system that is designed to provide accurate, stable and consistent reheating of the semi finished products before the rolling process.
Wire	A broad range of products produced by cold and hot reducing, or drawing, wire rod through a series of dies to reduce the diameter, improve surface finish, dimensional accuracy, and physical properties. Typical applications include nets, screws, rivets, upholstery springs, furniture wire, concrete wire, electrical conductors, rope wire and structural cables.
Wire rod	Formed from billets, wire rod in coils is an intermediate product of uniform round cross section dimension.

APPENDIX II: CLASSIFICATION OF RESERVES AND RESOURCES

International Reporting Methodologies

Several codes exist for reporting reserves in the international mining industry. The technical differences between these codes are minor, and results are generally comparable regardless of which methodology is employed in assessing a particular deposit. The principal reporting codes in current use are:

United States Geologic Survey Circular 831 (United States);

Ontario Securities Commission Instrument 43-101 (Canada);

Australasian Joint Ore Reserves Committee ("JORC") Code (Australia);

Institute of Materials, Minerals and Mining ("IMMM") Reporting Code (United Kingdom and Ireland); and

South African Institute of Mining and Metallurgy ("SAIMM") Reporting Code (South Africa).

Each of these codes recognises the difference between mineral resources and ore reserves. Conversion from a mineral resource to an ore reserve requires the application of "modifying factors", including mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. A "resource" is geologically defined; it becomes a "reserve" when the modifying factors, especially technical and economic factors, are taken into account. Each of these codes also includes strict guidelines for data quality and reporting in mining commodities.

Mineral resources

A mineral resource is a concentration or occurrence of material of intrinsic economic interest in or on the earth's crust (a "deposit") in such a form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are subdivided, in order of increasing geological confidence, into inferred, indicated and measured categories. Portions of a deposit that do not have reasonable prospects for eventual economic extraction are not included as mineral resources.

Inferred Mineral Resource

An inferred mineral resource is that part of a mineral resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity, and based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which is limited or of uncertain quality and/or reliability.

Indicated mineral resource

An indicated mineral resource is that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes. The locations are too widely or inappropriately spaced to confirm geological continuity and/or grade continuity but are spaced closely enough for continuity to be assumed.

Measured mineral resource

A measured mineral resource is that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate

techniques from locations such as outcrops, trenches, pits, workings, and drill holes. The locations are spaced closely enough to confirm geological and/or grade continuity.

Ore reserves

Ore reserves are the economically mineable parts of an indicated or measured mineral resource. Ore reserves take account of diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out on the deposit and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments establish that at the time of reporting extraction is reasonably justified.

Probable ore reserve

A probable ore reserve is the economically mineable part of an indicated and, in some circumstances, a measured mineral resource.

Proved ore reserve

A proved ore reserve is the economically mineable part of a measured mineral resource.

Russian Reporting Methodologies

Russia has a long-established system of reserve and resource reporting, set forth by the Russian Federation Ministry of Natural Resources. The primary difference between Russian and international methodologies is that Russian methodologies rely on "geometrical" methods to determine reserves, as compared to international methodologies, which utilise sampling and extrapolation techniques.

Deposits are classified into one of four classes, based on the complexity of their geological structure. This classification may take into account quantitative results measuring the inconsistencies in the basic features of mineralisation. This initial classification is intended to identify those resources warranting further study. Depending on the extent of further exploration, mineral resources are subsequently divided into "explored" and "evaluated" deposits. Explored deposits have been sufficiently explored to proceed with a feasibility study relating to commercial development, and evaluated deposits have been explored to the extent necessary to determine whether continued exploration is warranted. Resources that do not meet the standards for explored or evaluated deposits are classified as projected resources.

Explored and evaluated deposits are further classified based on the type, quantity and quality of the measurements taken to evaluate the reserves.

Category A reserves

Category A reserves include only explored deposits, and must meet the following criteria:

1. the sizes, forms and bedding conditions of the mineral body have been determined; the nature and regularities in their morphology and internal fabric have been studied; the barren and off-grade segments within the mineral bodies have been detected and mapped; and the locations and fault amplitudes of dislocations with a break have been identified;

2. the natural varieties of the minerals within the body have been determined; its categories and grades have been identified and mapped; its compositions and properties have been verified; and the quality of all categories and grades of the identified minerals have been characterised in terms of all parameters stipulated by industrial regulations;

3. the distribution and forms of those valuable and noxious components found in the mineral body and products of its processing have been investigated; and

4. the mineral reserves have been mapped based on test wells, mine workings and detailed trial runs.

Category B reserves

Category B reserves include only explored deposits. Category B reserves have been subject to a high level of investigation, though their boundaries have been determined with less accuracy than Category A reserves. Category B reserves meet the criteria established for Category A reserves, except that Category B reserves may contain a limited extrapolation zone that is substantiated on the basis of geological criteria and geophysical and geochemical research.

Category C1 reserves

Category C1 reserves are characterised by a lower level of accuracy than the determination of Category B reserves. Most explored deposits are Category C1 reserves. Category C1 reserves meet the criteria established for Category B, except that additional extrapolation is permitted in mapping the mineral deposit.

Category C2 reserves

Category C2 reserves consist of evaluated deposits. Category C2 reserves must meet the criteria established for Category C1, except that:

1. the sizes, forms, internal fabric and bedding conditions of the mineral body are confirmed by means of only a limited number of test wells and core samples; and

2. the boundaries of the deposit (including core samples and outcroppings) are mapped based on data gathered from only a limited number of test wells, and a geologically substantiated extrapolation of deposit parameters is permitted.

Resources that do not meet the standards for classification as A, B, C1 or C2 reserves may be classified as probable resources, in categories P1, P2 or P3. Such deposits have undergone some exploration, but require further geological work in order to be upgraded to A, B, C1 or C2 reserves.

Comparison of international and Russian reporting methodologies

While a direct comparison between international and Russian reporting methodologies is difficult because each is founded on different principles, it is often the case that category A and B Russian reserves correlate to proved reserves, and C1 Russian reserves to probable reserves. However, these relationships may vary among deposits, and at different times for the same deposits.

Evraz Group S.A.

Consolidated Financial Statements

Years Ended December 31, 2007, 2006 and 2005

Evraz Group S.A.

Consolidated Financial Statements

Years ended December 31, 2007, 2006 and 2005

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Evraz Group S.A.

Consolidated Financial Statements

Year ended December 31, 2007, 2006 and 2005

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Evraz Group S.A. and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as at December 31, 2007, 2006 and 2005, and the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

ERNST & YOUNG

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2007, 2006 and 2005, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

Ernst & Young LLC

April 1, 2008

Evraz Group S.A.

Consolidated Income Statement

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

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

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

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

Evraz Group S.A.

Consolidated Balance Sheet

(In millions of US dollars)

	Notes	December 31, 2007	2006*	2005*
ASSETS				
Non-current assets				
Property, plant and equipment	**9**	**$ 8,161**	$ 3,655	$ 3,062
Intangible assets other than goodwill	**10**	**806**	37	19
Goodwill	**5**	**1,271**	112	67
Investments in joint ventures and associates	**11**	**787**	1,494	906
Restricted deposits at banks	**13**	**5**	12	8
Other non-current assets	**14**	**1,317**	271	48
		12,347	5,581	4,110
Current assets				
Inventories	**15**	**1,575**	864	964
Trade and other receivables	**16**	**1,117**	556	375
Prepayments		**175**	82	54
Loans receivable		**48**	19	–
Receivables from related parties	**17**	**60**	54	90
Income tax receivable		**87**	51	16
Other taxes recoverable	**18**	**343**	331	461
Short-term investments and notes receivable		**25**	25	19
Restricted deposits at banks	**13**	–	–	24
Cash and cash equivalents	**13**	**327**	842	641
		3,757	2,824	2,644
Assets of disposal groups classified as held for sale	**12**	**276**	105	–
		4,033	2,929	2,644
Total assets		**$ 16,380**	$ 8,510	$ 6,754
EQUITY AND LIABILITIES				
Equity				
Equity attributable to equity holders of the parent entity				
Issued capital	**19**	**$ 320**	$ 318	$ 316
Treasury shares	**19**	–	–	–
Additional paid-in capital	**19**	**286**	531	547
Revaluation surplus	**4**	**233**	–	–
Legal reserve	**19**	**29**	28	22
Accumulated profits		**4,124**	2,750	1,751
Translation difference		**994**	439	72
		5,986	4,066	2,708
Minority interests		**371**	169	179
		6,357	4,235	2,887
Non-current liabilities				
Long-term loans	**20**	**4,653**	1,855	1,515
Deferred income tax liabilities	**8**	**1,277**	277	265
Finance lease liabilities	**21**	**54**	42	30
Employee benefits	**22**	**291**	117	79
Provisions	**24**	**126**	39	14
Amounts payable under put options for shares of subsidiaries	**4**	–	–	67
Other long-term liabilities	**25**	**56**	47	2
		6,457	2,377	1,972
Current liabilities				
Trade and other payables	**26**	**933**	462	404
Advances from customers		**111**	67	43
Short-term loans and current portion of long-term loans	**20**	**1,958**	741	835
Payables to related parties	**17**	**136**	176	315
Income tax payable		**74**	77	70
Other taxes payable	**27**	**138**	96	189
Current portion of finance lease liabilities	**21**	**15**	11	7
Provisions	**24**	**53**	8	15
Amounts payable under put options for shares of subsidiaries	**4**	**6**	175	–
Dividends payable by the parent entity to its shareholders		**80**	38	3
Dividends payable by the Group's subsidiaries to minority shareholders		**16**	24	14
		3,520	1,875	1,895
Liabilities directly associated with disposal groups classified as held for sale	**12**	**46**	23	–
		3,566	1,898	1,895
Total equity and liabilities		**$ 16,380**	$ 8,510	$ 6,754

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

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

Evraz Group S.A.

Consolidated Cash Flow Statement

(In millions of US dollars)

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

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

Continued on the next page

Evraz Group S.A.

Consolidated Cash Flow Statement (continued)

(In millions of US dollars)

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

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

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

Evraz Group S.A.

Consolidated Statement of Changes in Equity

(In millions of US dollars)

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

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

Evraz Group S.A.

Consolidated Statement of Changes in Equity (continued)

(In millions of US dollars)

	Attributable to equity holders of the parent entity									
	Issued capital	**Treasury shares**	**Additional paid-in capital**	**Revaluation surplus**	**Legal reserve**	**Accumulated profits**	**Translation difference**	**Total**	**Minority interests**	**Total equity**
At December 31, 2005 (as previously reported)	$ 316	$ –	$ 547	$ –	$ 22	$ 1,738	$ 72	$ 2,695	$ 190	$ 2,885
Adjustments to provisional values *(Notes 4 and 11)*	–	–	–	–	–	13	–	13	(11)	2
At December 31, 2005 (as restated)	316	–	547	–	22	1,751	72	2,708	179	2,887
Effect of exchange rate changes	–	–	–	–	–	–	367	367	23	390
Total income and expense for the year recognised directly in equity	–	–	–	–	–	–	367	367	23	390
Net profit*	–	–	–	–	–	1,377	–	1,377	73	1,450
Total income and expense for the year*	–	–	–	–	–	1,377	367	1,744	96	1,840
Exercise of share options (*Notes 19 and 23*)	2	–	24	–	–	–	–	26	–	26
Acquisition of minority interests in existing subsidiaries *(Notes 6)*	–	–	1	–	–	(42)	–	(41)	(56)	(97)
Minority interests arising on acquisition of subsidiaries *(Note 4)* *	–	–	–	–	–	–	–	–	42	42
Derecognition of minority interests in subsidiaries *(Note 4 and 6)*	–	–	–	–	–	(64)	–	(64)	(42)	(106)
Acquisition of minority interests by an associate *(Note 19)*	–	–	1	–	–	–	–	1	–	1
Sale of shares in a joint venture's subsidiary *(Notes 19)*	–	–	58	–	–	–	–	58	–	58
Reorganisation of ownership structure within a joint venture	–	–	–	–	–	(1)	–	(1)	–	(1)
Allocation of losses of prior periods to minority shareholders *(Note 19)*	–	–	–	–	–	5	–	5	–	5
Share-based payments *(Notes 23)*	–	–	17	–	–	–	–	17	–	17
Appropriation of net profit to legal reserve	–	–	–	–	6	(6)	–	–	–	–
Dividends declared by the parent entity to its shareholders *(Note 19)*	–	–	(117)	–	–	(270)	–	(387)	–	(387)
Dividends declared by the Group's subsidiaries to minority shareholders *(Note 19)*	–	–	–	–	–	–	–	–	(50)	(50)
At December 31, 2006*	$ 318	$ –	$ 531	$ –	$ 28	$ 2,750	$ 439	$ 4,066	$ 169	$ 4,235

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

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

Evraz Group S.A.

Consolidated Statement of Changes in Equity (continued)

(In millions of US dollars)

	Attributable to equity holders of the parent entity									
	Issued capital	**Treasury shares**	**Additional paid-in capital**	**Revaluation surplus**	**Legal reserve**	**Accumulated profits**	**Translation difference**	**Total**	**Minority interests**	**Total equity**
At December 31, 2004	$ –	$ –	$ 319	$ –	$ –	$ 1,126	$ 164	$ 1,609	$ 358	$ 1,967
Change in accounting policies: derecognition of negative goodwill *(Notes 2 and 5)*	–	–	–	–	–	378	–	378	12	390
At January 1, 2005	–	–	319	–	–	1,504	164	1,987	370	2,357
Effect of exchange rate changes	–	–	–	–	–	–	(92)	(92)	(13)	(105)
Total income and expense for the year recognised directly in equity	–	–	–	–	–	–	(92)	(92)	(13)	(105)
Net profit*	–	–	–	–	–	918	–	918	135	1,053
Total income and expense for the year*	–	–	–	–	–	918	(92)	826	122	948
Issue of share capital, net of transaction costs (*Note 19*)	24	–	376	–	–	–	–	400	–	400
Issue of share capital in exchange for shares in Mastercroft *(Note 19)*	292	–	(292)	–	–	–	–	–	–	–
Acquisition of minority interests in existing subsidiaries *(Note 6)*	–	–	2	–	–	(131)	–	(129)	(287)	(416)
Acquisition of minority interests by a joint venture *(Note 19)*	–	–	3	–	–	–	–	3	–	3
Minority interests arising on acquisition of subsidiaries *(Note 4)* *	–	–	–	–	–	–	–	–	3	3
Contributions from Crosland Limited (*Note 19*)	–	–	131	–	–	–	–	131	–	131
Share-based payments *(Note 23)*	–	–	8	–	–	–	–	8	–	8
Appropriation of net profit to legal reserve	–	–	–	–	22	(22)	–	–	–	–
Dividends declared by the parent entity to its shareholders *(Note 19)*	–	–	–	–	–	(518)	–	(518)	(6)	(524)
Dividends declared by the Group's subsidiaries to minority shareholders *(Note 19)*	–	–	–	–	–	–	–	–	(23)	(23)
At December 31, 2005*	$ 316	$ –	$ 547	$ –	$ 22	$ 1,751	$ 72	$ 2,708	$ 179	$ 2,887

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

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

1. Corporate Information

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

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

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

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

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

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

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

1. Corporate Information (continued)

(1) 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).

(2) Actual ownership interest in subsidiaries differs from the effective ownership interest due to the existence of minority interests in subsidiaries that hold ownership interests in other subsidiaries as well as due to the derecognition of minority interests for which minority shareholders hold put options (Notes 4 and 6).

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

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

In the years ended December 31, 2007, 2006 and 2005, approximately 5%, 8% and 7%, respectively, of the Group's revenues were generated in transactions with related parties. In addition, a certain part of the Group's purchases was made in transactions with related parties, including, but not limited to, associates and a joint venture. For detailed information related to such activities refer to Note 17.

At December 31, 2007, the Group employed approximately 127,000 employees, excluding joint venture's and associates' employees.

2. Significant Accounting Policies

Basis of Preparation

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

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

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

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

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

Changes in Accounting Policies

The accounting policies applied are consistent with those of the previous financial year except that the Group has adopted those new/revised standards mandatory for financial years beginning on or after January 1, 2007. The changes in accounting policies result from adoption of the following new or revised standards:

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

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

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

IFRS 7 “Financial Instruments: Disclosures”

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

IAS 1 “Presentation of Financial Statements”

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

IFRIC 8 “Scope of IFRS 2”

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

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

Changes in Accounting Policies (continued)

IFRIC 10 "Interim Financial Reporting and Impairment"

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

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

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

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

Standards Issued But Not Yet Effective

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

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

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's results of operations and financial position in the period of initial application.

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates

Accounting Judgements

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

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

Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of Property, Plant and Equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. In 2007, 2006 and 2005, the Group recognised an impairment loss of $7 million, $20 million and $7 million, respectively (Note 9).

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Impairment of Property, Plant and Equipment (continued)

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

Useful Lives of Items of Property, Plant and Equipment

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

In 2005, the change in estimates of useful lives of property, plant and equipment resulted in an additional depreciation expense of approximately $33 million. No such changes took place in 2006 and 2007.

Fair Values of Assets and Liabilities Acquired in Business Combinations

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

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at December 31, 2007, 2006 and 2005 was $1,271 million, $112 million and $67 million, respectively. More details are provided in Note 5.

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty (continued)

Mineral Reserves

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

Site Restoration Provisions

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

Post-Employment Benefits

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

In addition, post-employment benefit obligations were calculated taking into consideration that certain of the Group's subsidiaries plan to discontinue to pay lump-sum amounts at retirement date after 2008-2009 (Note 22).

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty (continued)

Allowances

The Group makes allowances for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As of December 31, 2007, 2006 and 2005, allowances for doubtful accounts in respect of trade and other receivables have been made in the amount of $79 million, $59 million and $54 million, respectively (Notes 16 and 17).

The Group makes an allowance for obsolete and slow-moving raw materials and spare parts. As of December 31, 2007, 2006 and 2005, the allowance for the obsolete and slow-moving items was $12 million, $13 million and $21 million, respectively (Note 15). In addition, certain finished goods of the Group are carried at net realisable value. Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of the period.

Litigations

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

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty (continued)

Current Taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. In Russia the periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. More details are provided in Note 30.

Deferred Income Tax Assets

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

Foreign Currency Transactions

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

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

2. Significant Accounting Policies (continued)

Foreign Currency Transactions (continued)

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.

2. Significant Accounting Policies (continued)

Basis of Consolidation (continued)

Acquisition of Subsidiaries (continued)

Minority interests at the balance sheet date represents the minority shareholders' portion of the pre-acquisition carrying amounts (for business combinations for which the agreement date was before March 31, 2004) or the fair values (for business combinations for which agreement date was on or after March 31, 2004) of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination. Minority interests are presented in the consolidated balance sheet within equity, separately from the parent's shareholders' equity.

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

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

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

Increases in Ownership Interests in Subsidiaries

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

Purchases of Controlling Interests in Subsidiaries from Entities under Common Control

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

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

2. Significant Accounting Policies (continued)

Basis of Consolidation (continued)

Purchases of Controlling Interests in Subsidiaries from Entities under Common Control (continued)

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

Put Options Over Minority Interests

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

Investments in Associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control.

Investments in associates are accounted for under the equity method of accounting and are initially recognised at cost including goodwill. Subsequent changes in the carrying value reflect the post acquisition changes in the Group’s share of net assets of the associate and goodwill impairment charges, if any. The Group’s share of its associates’ profits or losses is recognised in the income statement and its share of movements in reserves is recognised in equity. However, when the Group’s share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obligated to make further payments to, or on behalf of, the associate.

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

Interest in a Joint Venture

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

2. Significant Accounting Policies (continued)

Property, Plant and Equipment

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

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

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

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

	Useful lives (years)	Weighted average useful life (years)
Buildings and constructions	15-60	21
Machinery and equipment	4-45	11
Transport and motor vehicles	7-20	10
Other assets	3-15	6

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

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

2. Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

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.

2. Significant Accounting Policies (continued)

Goodwill (continued)

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

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

In accordance with the transitional provisions of IFRS 3, on January 1, 2005, the Group ceased to recognise negative goodwill in the consolidated balance sheet. Negative goodwill is recognised in the income statement.

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

2. Significant Accounting Policies (continued)

Intangible Assets Other Than Goodwill (continued)

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

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

Emission Rights

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

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

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

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

Financial Assets

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

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

2. Significant Accounting Policies (continued)

Financial Assets (continued)

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.

2. Significant Accounting Policies (continued)

Inventories

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

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

Accounts Receivable

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

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

Value Added Tax

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

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

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

Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Cash and Cash Equivalents

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

2. Significant Accounting Policies (continued)

Borrowings

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

Financial Guarantee Liabilities

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

Equity

Share Capital

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

Treasury Shares

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

Dividends

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

Provisions

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

2. Significant Accounting Policies (continued)

Provisions (continued)

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

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

Employee Benefits

Social and Pension Contributions

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

Post-Employment Benefits

The Group companies provide pensions and other benefits to their employees. The entitlement to these benefits is usually conditional on the completion of a minimum service period. Certain benefit plans require the employee to remain in service up to retirement age. Other employee benefits consist of various compensations and non-monetary benefits. The amount of the benefits is stipulated in the collective bargaining agreements and/or in the plan documents.

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

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

2. Significant Accounting Policies (continued)

Employee Benefits (continued)

Post-Employment Benefits (continued)

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

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

Other Costs

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

Share-based Payments

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

The cost of equity-settled transactions with non-executive directors and employees is measured by reference to the fair value of options at the date on which they are granted. The fair value is determined using the Black-Scholes-Merton model, further details of which are given in Note 23. In valuing equity-settled transactions, no account is taken of any conditions, other than market conditions.

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

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

2. Significant Accounting Policies (continued)

Share-based Payments (continued)

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

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (Note 19).

Revenue

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

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

Sale of Goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. The moment of transfer of the risks and rewards of ownership is determined by the contract terms.

Rendering of Services

The Group's revenues from rendering of services include electricity, transportation, port and other services. Revenue is recognised when services are rendered.

Interest

Interest is recognised using the effective interest method.

2. Significant Accounting Policies (continued)

Revenue (continued)

Dividends

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

Rental Income

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

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred Income Tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

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

3. Segment Information

The Group's primary reporting format is business segments and its secondary format is geographical segments. The Group's major business segments are steel production and mining. Steel production segment includes production of steel and related products at six steel mills. Mining segment includes ore and coal mining and enrichment.

In 2005 – 2007, inter-segment operations were made at prevailing market prices at the dates of transactions.

The following tables present revenue and profit information and certain asset and liability information regarding business segments for the years ended December 31, 2007, 2006, and 2005:

Year ended December 31, 2007

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

3. Segment Information (continued)

Year ended December 31, 2006

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

3. Segment Information (continued)

Year ended December 31, 2005

US$ million	Steel production	Mining	Other operations	Eliminations	Total
Revenue					
Sales to external customers	$ 6,133	$ 147	$ 228	$ –	$ 6,508
Inter-segment sales	88	842	417	(1,347)	–
Total revenue	6,221	989	645	(1,347)	6,508
Result					
Segment result	$ 1,308	$ 259	$ 34	$ –	$ 1,601
Unallocated expenses					(19)
Profit from operations					$ 1,582
Share of profits/(losses) of joint ventures and associates	1	56	–		57
Other income/(expenses), net					(111)
Income tax expense					(475)
Net profit					$ 1,053
Assets and liabilities					
Segment assets	$ 4,270	$ 949	$ 204		$ 5,423
Investments in joint ventures and associates	2	904	–		906
Unallocated assets					425
Total assets					$ 6,754
Segment liabilities	$ 1,518	$ 181	$ 128		$ 1,827
Unallocated liabilities					2,040
Total liabilities					$ 3,867
Other segment information					
Additions to property, plant and equipment and intangible assets	$ 611	$ 125	$ 37		$ 773
Property, plant and equipment and intangible assets acquired in business combinations	319	10	–		329
Depreciation, depletion and amortisation	(191)	(54)	(13)		(258)
Impairment of assets	–	(1)	–		(1)

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

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

3. Segment Information (continued)

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

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

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

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

4. Business Combinations

Palini & Bertoli S.p.A.

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

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

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

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

4. Business Combinations (continued)

Palini & Bertoli S.p.A. (continued)

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

In 2005, cash flow on acquisition was as follows:

US$ million

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

In 2006, the Group paid $2 million of the purchase consideration outstanding at December 31, 2005. The difference between the cash portion of the purchase consideration ($112 million) and amounts paid on acquisition ($115 million) represents translation difference.

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

The goodwill of €57 million comprises the fair value of expected synergies arising from the acquisition.

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

Vitkovice Steel

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

At December 31, 2005, the acquisition of Vitkovice was accounted for based on provisional values. In 2006, the Group finalised its purchase price allocation on the acquisition of Vitkovice, but no adjustments were required to the amounts initially recognised.

4. Business Combinations (continued)

Vitkovice Steel (continued)

The identifiable assets, liabilities and contingent liabilities as at November 14, 2005 were as follows:

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

In 2005, cash flow on acquisition was as follows:

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

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

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

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.

4. Business Combinations (continued)

Strategic Minerals Corporation

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

As a result, the financial position and the results of operations of Stratcor were included in the Group's consolidated financial statements beginning August 23, 2006.

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

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

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

4. Business Combinations (continued)

Strategic Minerals Corporation (continued)

In 2006, cash flow on acquisition was as follows:

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

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

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

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

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

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

Oregon Steel Mills

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

In accordance with the US legislation, following the acquisition of the controlling interest in OSM, all the untendered shares were converted into the right to receive $63.25 in cash which is the same price per share paid during the tender offer. As a result, the Group effectively acquired a 100% ownership interest in OSM. On January 23, 2007, OSM was merged with the Group’s wholly owned subsidiary and the merged entity was named as Evraz Oregon Steel Mills, Inc.

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

4. Business Combinations (continued)

Oregon Steel Mills (continued)

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

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

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

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

In 2007, cash flow on acquisition was as follows:

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

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

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

4. Business Combinations (continued)

Highveld Steel and Vanadium Corporation

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

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

These conditions included divestment commitments in respect of certain business of Highveld (Note 12) and a commitment to maintain and strengthen the existing feedstock supply relationships with Vanadium-Tula, Chussovskoy Metallurgical Plant, both located in Russia, and Treibacher (Austria) – the major consumers of the feedstock sold by the Group and Highveld.

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

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

The acquisition of a controlling interest in Highveld was accounted for based on provisional values as the Group, as of the date of authorisation of issue of these financial statements, has not completed purchase price allocation in accordance with IFRS 3 "Business Combinations". The Group made certain adjustments to the provisional fair values of Highveld's consolidated identifiable assets, liabilities and contingent liabilities at April 26, 2007 as compared with those values recorded in the Group's interim consolidated financial statements for the six-month period ended June 30, 2007.

4. Business Combinations (continued)

Highveld Steel and Vanadium Corporation (continued)

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

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

In 2007, cash flow on acquisition was as follows:

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

4. Business Combinations (continued)

Highveld Steel and Vanadium Corporation (continued)

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

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

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

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

On May 4, 2007, the Group exercised its option and acquired a 29% ownership interest in Highveld for cash consideration of $238 million from Anglo. In addition, the Group incurred transaction costs amounting to $2 million.

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

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

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

4. Business Combinations (continued)

Highveld Steel and Vanadium Corporation (continued)

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

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

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

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

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

West-Siberian Heat and Power Plant

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

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

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

4. Business Combinations (continued)

West-Siberian Heat and Power Plant (continued)

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

In 2007, cash flow on acquisition was as follows:

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

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

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

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

4. Business Combinations (continued)

West-Siberian Heat and Power Plant (continued)

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

ZAO Yuzhkuzbassugol

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

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

The acquisition of a controlling interest in Yuzhkuzbassugol was accounted for based on provisional values as the Group, as of the date of authorisation of issue of these financial statements, has not completed purchase price allocation in accordance with IFRS 3 "Business Combinations". The Group made certain adjustments to the provisional fair values of Yuzhkuzbassugol's consolidated identifiable assets, liabilities and contingent liabilities at June 8, 2007 as compared with those values recorded in the Group's interim consolidated financial statements for the six-month period ended June 30, 2007.

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

US$ million	**Carrying amounts immediately before the business combination**	**Initial estimation of fair values**	**Adjusted provisional fair values**
Mineral reserves	$ 1,170	$ 1,578	$ 1,403
Other property, plant and equipment	663	663	856
Investments in associates (Note 11)	154	211	204
Other non-current assets	45	45	45
Inventories	35	38	38
Accounts and notes receivable	97	99	115
Cash	17	17	17
Total assets	2,181	2,651	2,678

4. Business Combinations (continued)

ZAO Yuzhkuzbassugol (continued)

US$ million	Carrying amounts immediately before the business combination	Initial estimation of fair values	Adjusted provisional fair values
Deferred income tax liabilities	298	394	402
Non-current liabilities	180	145	192
Current liabilities	321	361	327
Total liabilities	799	900	921
Minority interests	9	9	15
Net assets	**$ 1,373**	**$ 1,742**	**$ 1,742**
Fair value of net assets attributable to 50% ownership interest		**$ 871**	**$ 871**
Purchase consideration		**$ 871**	**$ 871**

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

In 2007, cash flow on acquisition was as follows:

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

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

Other Acquisitions

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

4. Business Combinations (continued)

Other Acquisitions (continued)

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

On December 20, 2007, the Group acquired 100% in Nikom, a.s., ("Nikom"), a ferrovanadium producer located in the Czech Republic, for cash consideration of $43 million. The acquisition of Nikom was accounted for based on provisional values as the Group, as of the date of authorisation of issue of these financial statements, has not completed purchase price allocation in accordance with IFRS 3 "Business Combinations". Goodwill of $37 million arising on the acquisition of Nikom was recorded in the consolidated balance sheet as of December 31, 2007.

Disclosure of Other Information in Respect of Business Combinations

As the acquired subsidiaries either did not prepare financial statements in accordance with IFRS before the business combinations or applied accounting policies that are significantly different from the Group's accounting policies, it is impracticable to determine revenues and net profit of the combined entity for each year presented on the assumption that all business combinations effected during each year had occurred at the beginning of the respective year.

Except for the relevant disclosures in respect of Yuzhkuzbassugol and Highveld, it is impracticable to determine the carrying amounts of each class of the acquirees' assets, liabilities and contingent liabilities, determined in accordance with IFRS, immediately before the combination, because the acquirees did not prepare financial statements in accordance with IFRS before acquisitions.

5. Goodwill

Negative Goodwill

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

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

In accordance with the transitional provisions of IFRS 3, on January 1, 2005, the Group ceased to recognise negative goodwill in the consolidated balance sheet. The carrying amount of negative goodwill at December 31, 2004 that arose from business combinations, for which the agreement date was before March 31, 2004, or interests in a jointly controlled entity obtained before March 31, 2004 and accounted for by applying the equity method, was derecognised at January 1, 2005, with a corresponding adjustment of $390 million to the opening balance of accumulated profits and minority interest (Notes 4 and 11).

Goodwill

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

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

5. Goodwill (continued)

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

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

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

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

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

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

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

6. Acquisitions of Minority Interests in Subsidiaries

Mastercroft

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

LDPP

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

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

Minority Interests Derecognised in 2006

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

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

In 2006, the new regulations were introduced in the Russian Federation in respect of the companies in which a controlling shareholder owns at least 95% of the share capital as of July 1, 2006. These amendments obliged a controlling shareholder to acquire the company's shares in case when the minority shareholders are willing to sell their stakes. On the other hand, a controlling shareholder can initiate a forced disposal of the shares held by minority shareholders. As such, a controlling shareholder obtained a call option and minority shareholders obtained a put option for the minority shares in a subsidiary.

At July 1, 2006, the Group was the owner of 96.68% shares of ZapSib and 97.72% shares of KGOK. At this date, the Group derecognised minority interests of $42 million and accrued a liability to minority shareholders in the amount of $106 million. The liability was measured based on the highest price for the shares during the period of six months up to the date of its recognition as required by the regulations. The excess of the amount of the liability over the carrying value of the derecognised minority interests amounting to $64 million was charged to accumulated profits.

6. Acquisitions of Minority Interests in Subsidiaries (continued)

Minority Interests Derecognised in 2006 (continued)

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

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

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

Minority Interests Derecognised in 2007

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

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

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

In March 2007, the Group made voluntary offers to minority shareholders of its three subsidiaries (Nizhny Tagil Iron and Steel Plant, Vysokogorsky Mining-and-Processing Integrated Works and Nakhodka Trade Sea Port) to sell their stakes to the Group.

6. Acquisitions of Minority Interests in Subsidiaries (continued)

Minority Interests Derecognised in 2007 (continued)

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

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

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

As a result, the Group has obtained in each of the above mentioned subsidiaries an ownership interest exceeding 95% of the share capital. As such, the Group became subject to the regulations that require a controlling shareholder to acquire the company's shares in case when the minority shareholders are willing to sell their stakes. On the other hand, a controlling shareholder can require the minority shareholders to sell their stakes.

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 (Nizhny Tagil Iron and Steel Plant, West-Siberian Iron and Steel Plant, Kachkanarsky Mining-and-Processing Integrated Works, Vysokogorsky Mining-and-Processing Integrated Works and Nakhodka Trade Sea Port). The buy outs have been successfully completed in October 2007.

7. Income and Expenses

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

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

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

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

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

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

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

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

7. Income and Expenses (continued)

Other Non-Operating Loss

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

8. Income Taxes

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

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

Ferrotrade Limited (Gibraltar) has a Taxation Exemption Certificate under which it is currently liable to tax at the fixed annual amount of £225. This certificate is valid through 2010.

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

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

8. Income Taxes (continued)

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

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

8. Income Taxes (continued)

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

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

As of December 31, 2007, 2006 and 2005, deferred income taxes have been provided for in respect of undistributed earnings of the Group's subsidiaries amounting to $1,046 million, $255 million and $465 million, respectively, as management intended to dividend these amounts. Management does not intend to distribute other accumulated earnings in the foreseeable future.

At December 31, 2007, the Group has not recognised a deferred tax liability and deferred tax asset in respect of temporary differences of $3,685 million and $857 million, respectively.

These differences are associated with investments in subsidiaries and were not recognised as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

The current tax rate for dividend income in respect of the Group's subsidiaries varies from 0% to 12.5%.

8. Income Taxes (continued)

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies, except for the companies registered in Cyprus where group relief can be applied. As of December 31, 2007, the unused tax losses carry forward approximated to $369 million (2006: $152 million, 2005: $156 million). The Group recognised deferred tax asset of $22 million (2006: $2 million, 2005: $2 million) in respect of unused tax losses. Deferred tax asset in the amount of $45 million (2006: $28 million, 2005: $26 million) has not been recorded as it is not probable that sufficient taxable profits will be available in the foreseeable future to offset these losses. Tax losses of $283 million (2006: $146 million, 2005: $139 million) for which deferred tax asset was not recognised arose in companies registered in Luxembourg, Cyprus and Russia. Losses in the amount of $270 million (2006: $130 million, 2005: $119 million) are available indefinitely for offset against future taxable profits of the companies in which the losses arose and $13 million (2006: $16 million, 2005: $20 million) will expire during 2012 – 2017.

9. Property, Plant and Equipment

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

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

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

9. Property, Plant and Equipment (continued)

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

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

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

9. Property, Plant and Equipment (continued)

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

US$ million	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Mining assets	Other assets	Assets under construction	Total
At December 31, 2004 cost, net of accumulated depreciation and government grants	$ 53	$ 592	$ 827	$ 131	$ 270	$ 20	$ 499	$ 2,392
Reclassifications	–	17	(17)	–	–	–	–	–
Additions	1	–	5	18	17	–	728	769
Assets acquired in business combination	13	80	200	2	9	7	6	317
Assets put into operation	1	107	366	27	19	10	(530)	–
Disposals	(1)	(13)	(18)	(2)	–	(1)	(11)	(46)
Depreciation & depletion charge	–	(35)	(179)	(18)	(15)	(8)	–	(255)
Change in site restoration provision	–	–	–	–	(9)	–	–	(9)
Impairment loss	(7)	–	–	–	–	–	–	(7)
Translation difference	(2)	(24)	(37)	(3)	(10)	(1)	(22)	(99)
At December 31, 2005, cost, net of accumulated depreciation and government grants	$ 58	$ 724	$ 1,147	$ 155	$ 281	$ 27	$ 670	$ 3,062

10. Intangible Assets Other Than Goodwill

Intangible assets consisted of the following as of December 31:

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

10. Intangible Assets Other Than Goodwill (continued)

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

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

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

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

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

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

10. Intangible Assets Other Than Goodwill (continued)

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

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

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

11. Investments in Joint Ventures and Associates

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

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

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

11. Investments in Joint Ventures and Associates (continued)

Corber Enterprises Limited

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

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

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

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

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

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

11. Investments in Joint Ventures and Associates (continued)

Corber Enterprises Limited (continued)

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

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

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

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

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

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

11. Investments in Joint Ventures and Associates (continued)

Corber Enterprises Limited (continued)

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 (Note 17). Yuzhkuzbassugol, a closed joint stock company, is a vertically integrated group being one of the largest coking coal producers in Russia. The Group determined that its ownership interest in Yuzhkuzbassugol represents the purchase of an associate and accounted for the investment under the equity method.

At December 31, 2005, the acquisition of Yuzhkuzbassugol was accounted for based on provisional values as at the date of authorisation of issue of financial statements for the year ended December 31, 2005 the associate has not completed preparation of IFRS financial statements. In 2006, the Group finalised its purchase price allocation on the acquisition of an ownership interest in Yuzhkuzbassugol. As a result, the Group recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities as at December 30, 2005, which were as follows:

US$ million	**Initial estimation of fair values**	**Final estimation of fair values**
Mineral reserves	$ 1,225	$ 1,106
Other property, plant and equipment	615	615
Investment in an associate	7	146
Other non-current assets	14	14
Inventories	42	42
Accounts and notes receivable	81	81
Other current assets	1	1
Cash	12	12
Total assets	**1,997**	**2,017**
Non-current liabilities	106	120
Deferred income tax liabilities	313	295
Current liabilities	238	238
Total liabilities	**657**	**653**
Minority interests	**15**	**14**
Net assets	**$ 1,325**	**$ 1,350**
Fair value of net assets attributable to 50% ownership interest	**$ 663**	**$ 675**
Goodwill	**$ 12**	**$ –**
Purchase consideration	**$ 675**	**$ 675**

11. Investments in Joint Ventures and Associates (continued)

Yuzhkuzbassugol (continued)

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

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

US$ million	**2006**
Mineral reserves	$ 1,161
Other property, plant and equipment	658
Investment in an associate	152
Other non-current assets	40
Inventories	27
Accounts and notes receivable	71
Other current assets	6
Cash	18
Total assets	**2,133**
Non-current liabilities	216
Deferred income tax liabilities	294
Current liabilities	255
Total liabilities	**765**
Minority interests	**9**
Net assets	**$ 1,359**

The table below sets forth Yuzhkuzbassugol's income and expenses for the periods from its acquisition till the date when the entity became a subsidiary of the Group:

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

11. Investments in Joint Ventures and Associates (continued)

Kazankovskaya

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

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

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

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

US$ million	**Period from June 8 to December 31, 2007**
Revenue	$ 7
Cost of revenue	(11)
Other expenses, including income taxes	(5)
Net loss	**$ (9)**
Group's share of loss of the associate	**$ (5)**

11. Investments in Joint Ventures and Associates (continued)

Highveld Steel and Vanadium Corporation

On July 13, 2006, the Group acquired a 24.9% ownership interest in Highveld (Note 4). The Group determined that its ownership interest in Highveld represents an investment in an associate and accounted for it under the equity method.

In 2006, the acquisition of a 24.9% ownership interest in Highveld was accounted for based on provisional values as the associate, as of the date of authorisation of issue of the financial statements for the year ended December 31, 2006, had not completed valuation of assets in accordance with IFRS 3. In 2007, the Group completed purchase price allocation and recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities of Highveld as of July 13, 2006.

The table below sets forth the fair values of Highveld's consolidated identifiable assets, liabilities and contingent liabilities at July 13, 2006:

US$ million	**Initial estimation of fair values**	**Final estimation of fair values**
Mineral reserves	$ 241	$ –
Other property, plant and equipment	306	419
Intangible assets	–	352
Other non-current assets	18	4
Inventories	50	74
Accounts and notes receivable	112	149
Cash and cash equivalents	92	108
Assets of disposal groups classified as held for sale	285	170
Total assets	**1,104**	**1,276**
Non-current liabilities	30	32
Deferred income tax liabilities	172	184
Current liabilities	273	323
Liabilities directly associated with disposal groups classified as held for sale	–	6
Total liabilities	**475**	**545**
Net assets	**$ 629**	**$ 731**
Fair value of net assets attributable to 24.9% ownership interest	**$ 157**	**$ 182**
Purchase consideration	**$ 216**	**$ 216**
Goodwill *(Note 5)*	**$ 59**	**$ 34**
including goodwill associated with disposal groups subsequently classified as held for sale	–	$ 16

11. Investments in Joint Ventures and Associates (continued)

Highveld Steel and Vanadium Corporation (continued)

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

US$ million	December 31, 2006
Property, plant and equipment	$ 489
Intangible assets	344
Other non-current assets	2
Inventories	69
Accounts and notes receivable	167
Cash and cash equivalents	74
Assets of disposal groups classified as held for sale	176
Total assets	**1,321**
Non-current liabilities	44
Deferred income tax liabilities	192
Current liabilities	275
Liabilities directly associated with disposal groups classified as held for sale	19
Total liabilities	**530**
Net assets	**$ 791**

On February 26, 2007, when the Board of directors of the Company approved the acquisition transaction, the completion of the acquisition of controlling interest in Highveld became probable and the Group recognised liabilities to Anglo and Credit Suisse under the option agreements (Note 4) in the amount of $442 million.

As a result, taking into account the eventual exercise of potential voting rights under the option agreements concluded by the Group with Anglo and Credit Suisse in 2006 in respect of an additional 54.1% ownership interest in Highveld, under which the exercise price for put and call options was fixed and adjusted for dividends to be distributed by Highveld to Anglo and Credit Suisse, the Group, in substance, obtained access to the economic benefits associated with that additional ownership interest. Consequently, the Group accounted for a 79% ownership interest in the associate under the equity method beginning February 26, 2007.

The table below sets forth the provisional fair values of Highveld's consolidated identifiable assets, liabilities and contingent liabilities at February 26, 2007, when the beneficial interest was increased:

11. Investments in Joint Ventures and Associates (continued)

Highveld Steel and Vanadium Corporation (continued)

US$ million	Initial estimation of fair values	Adjusted provisional fair values
Property, plant and equipment	$ 375	$ 413
Intangible assets	310	385
Other non-current assets	4	2
Inventories	61	71
Accounts and notes receivable	162	184
Cash and cash equivalents	58	58
Assets of disposal groups classified as held for sale	451	330
Total assets	**1,421**	**1,443**
Non-current liabilities	41	55
Deferred income tax liabilities	176	180
Current liabilities	343	335
Liabilities directly associated with disposal groups classified as held for sale	39	39
Total liabilities	**599**	**609**
Net assets	**$ 822**	**$ 834**
Fair value of net assets attributable to 54.1% beneficial ownership interest	**$ 444**	**$ 451**
Purchase consideration consisting of a liability under the option agreements	**$ 442**	**$ 442**
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**$ (2)**	**$ (9)**

The Group classified assets, including goodwill, and liabilities of the businesses to be disposed of in accordance with the resolution of the European Commission as disposal groups held for sale (Note 12).

The table below sets forth Highveld's income and expenses for the periods from its acquisition till the date when the entity became a subsidiary of the Group:

US$ million	Period from January 1 to April 26, 2007	Period from July 13 to December 31, 2006
Revenue	$ 351	$ 481
Cost of revenue	(276)	(376)
Other expenses, including income taxes	(42)	(37)
Net profit	**$ 33**	**$ 68**
Group's share of profits of the associate	**$ 21**	**$ 17**

12. Disposal Groups Held for Sale

The major classes of assets and liabilities of the disposal groups measured at the lower of carrying amount and fair value less costs to sell were as follows as of December 31:

US$ million	**2007**	**2006**	**2005**
Land	**$ 1**	$ 5	$ –
Other property, plant and equipment	**161**	71	–
Goodwill	**58**	–	–
Other non-current assets	**–**	9	–
Current assets	**56**	20	–
Assets classified as held for sale	**276**	105	–
Liabilities directly associated with assets classified as held for sale	**46**	23	–
Net assets classified as held for sale	**$ 230**	$ 82	$ –

At December 31, 2006, assets held for sale were mostly represented by OAO Nerungriugol ("Nerungriugol"), a subsidiary, which the Group intended to dispose of in April 2007. In addition, these assets included a few small subsidiaries involved in non-core activities (construction business, trading activity and recreational services), certain assets located at one of the Group's steel subsidiaries and a parcel of land, which were expected to be sold in 2007.

Nerungiugol was included in the mining segment of the Group's operations. The Group recognised a $66 million impairment loss of Nerungriugol's assets based on intended disposal terms and included it in loss on assets held for sale in the consolidated income statement for the year ended December 31, 2006. The other losses on assets held for sale for the year ended December 31, 2006 related to OOO Nikomogneupor, the Group's subsidiary involved in the production of refractory materials, which was sold in November 2006.

In addition, in 2006, the Group recognised an impairment loss of $5 million for write-down of land to fair value which was included in gain/(loss) on assets held for sale in the consolidated income statement for the year ended December 31, 2006. In 2007, the Group reversed this impairment and recorded the gain on sale of land in the amount of $4 million.

On April 25, 2007, the Group completed the sale of Nerungriugol, the Group's subsidiary, which was classified as a disposal group held for sale in 2006. The total disposal consideration amounted to $84 million. Upon completion of the transaction, the Group recognised additional loss representing the difference between the estimated recoverable amount of the disposal group as of December 31, 2006 and actual proceeds. This additional loss amounting to $3 million was included in the consolidated income statement for the year ended December 31, 2007.

12. Disposal Groups Held for Sale (continued)

In 2007, for the purpose of acquisition of Highveld (Note 4), the Group committed to divest Highveld's vanadium extraction, vanadium oxides and vanadium chemicals plants located at the Vanchem site in Witbank, Republic of South Africa (collectively referred to as the Vanchem operations) along with an equity interest or a portion of the Mapoch iron and vanadium ore mine which guarantees supply of ore and slag to Vanchem operations. The divestment package also includes a ferrovanadium smelter located on the site of Highveld steel facility and Highveld's 50% shareholding in SAJV, a joint venture between Highveld and two Japanese partners which own another ferrovanadium smelter at the same site. The assets and liabilities of the above mentioned business units were classified as assets and liabilities of disposal groups held for sale (Notes 4 an 11).

The Group was obliged to enter into a binding agreement for the sale of the divestment package by November 20, 2007. In November 2007, the sale of the divestment package was extended to January 20, 2008 (Note 31). The Highveld divestment package was included in the steel segment of the Group's operations.

In addition, the assets held for sale at the date of acquisition of ownership interests in Highveld (Notes 4 and 11) included two divisions of Highveld (Transalloys, producing manganese alloys, and Rand Carbide, producing ferrosilicon and various carbonaceous products). Transalloys division was sold in July 2007 for cash consideration of $136 million, which approximated the carrying value of the disposed assets.

The table below demonstrates the carrying values of assets and liabilities of the subsidiaries and other business units disposed of in 2007.

US$ million	**At the dates of disposal**
Property, plant and equipment	$ 74
Other non-current assets	8
Accounts and notes receivable	20
Cash	–
Assets held for sale acquired in business combinations	137
Total assets	**239**
Non-current liabilities	–
Deferred income tax liabilities	–
Current liabilities	7
Total liabilities	**7**
Net assets	**$ 232**

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

US$ million	
Net cash disposed with the subsidiary	$ –
Cash received	223
Net cash inflow	**$ 223**

13. Cash and Cash Equivalents and Restricted Deposits at Banks

Cash and cash equivalents were denominated in the following currencies as of December 31:

US$ million	**2007**	**2006**	**2005**
Russian rouble	**$ 55**	$ 110	$ 96
US dollar	**72**	632	421
Euro	**83**	36	80
Czech koruna	**10**	19	43
South African rand	**105**	42	–
Other	**2**	3	1
	$ 327	$ 842	$ 641

The above cash and cash equivalents mainly consist of cash at banks.

Restricted deposits at banks were as follows as of December 31:

US$ million	**2007**	**2006**	**2005**
Deposits to secure bank loans	**$ –**	$ 8	$ 25
Other	**5**	4	7
	5	12	32
Less: deposits with current maturities	**–**	–	(24)
	$ 5	$ 12	$ 8

The deposits were mainly denominated in US dollars.

14. Other Non-Current Assets

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

US$ million	**2007**	**2006**	**2005**
Prepayments for acquisition of subsidiaries	**$ 1,060**	$ 6	$ –
Deposit to secure put option for the shares of OAO Vanady	**126**	–	–
Deposit to secure put option for the Highveld's shares (Note 4)	**–**	207	
Deferred income tax assets (Note 8)	**22**	11	14
Long-term input VAT	**2**	19	16
Loans issued to related parties (Note 28)	**46**	1	–
Loans receivable (Note 28)	**12**	7	1
Trade and other receivables (Note 28)	**27**	–	–
Other	**22**	20	17
	$ 1,317	$ 271	$ 48

14. Other Non-Current Assets (continued)

As of December 31, 2007, prepayments for acquisition of subsidiaries represent the amounts paid for the businesses in the Ukraine (Note 31).

Deposit to secure put option for the Highveld's shares did not earn interest and matured upon the completion of the transaction (Note 29).

On December 20, 2007, the Group signed an option agreement with OOO SGMK-Engineering in respect of shares of OAO Vanady, a vanadium refinery located in Russia. Under the agreement, the Group has the right to acquire (and OOO SGMK-Engineering has the right to sell to the Group) 90.84% of shares of OAO Vanady for 3,140 million roubles ($128 million at the exchange rate as of December 31, 2007). The option expires on December 31, 2008. The exercise of the option is conditional upon the receipt of the approval of the regulatory authorities. As of the date of the issuance of these consolidated financial statements, the Group did not apply for this approval and the option was not exercisable. To secure the put option the Group provided the seller with the repayable non-interest bearing deposit in the amount of 3,091 million roubles ($126 million at the exchange rate as of December 31, 2007).

Amounts receivable from related parties represent rouble-denominated loans granted by Yuzhkuzbassugol to Kazankovskaya (Note 11) in 2004 – 2005. The loans bear interest of 10% per annum and mature in 2013.

15. Inventories

Inventories consisted of the following as of December 31:

US$ million	**2007**	**2006**	**2005**
Raw materials and spare parts, at cost	**$ 762**	$ 431	$ 434
Work-in-progress, at cost	**202**	106	115
Finished goods:			
– at cost	**623**	334	282
– at net realisable value	**–**	6	154
	1,587	877	985
Allowance for obsolete and slow-moving items	**(12)**	(13)	(21)
	$ 1,575	$ 864	$ 964

As of December 31, 2007, 2006 and 2005, certain items of inventory with an approximate carrying amount of $415 million, $194 million and $204 million, respectively, were pledged to banks as collateral against loans provided to the Group (Note 20).

16. Trade and Other Receivables

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

US$ million	**2007**	**2006**	**2005**
Trade accounts receivable	**$ 1,119**	$ 586	$ 403
Other receivables	**75**	29	21
	1,194	615	424
Allowance for doubtful accounts	**(77)**	(59)	(49)
	$ 1,117	$ 556	$ 375

Ageing analysis and movement in allowance for doubtful accounts are provided in Note 28.

17. Related Party Disclosures

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

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

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

	Amounts due from related parties			**Amounts due to related parties**		
US$ million	**2007**	**2006**	**2005**	**2007**	**2006**	**2005**
Corber	**$ –**	$ –	$ 14	**$ 70**	$ 151	$ –
Crondale	**–**	–	–	**–**	–	275
Evrazmetall-Centre	**–**	1	6	**–**	–	9
Evrazmetall-Sibir	**–**	18	36	**–**	–	19
Evrazmetall-Ural	**–**	11	5	**–**	–	–
Ferrotranstrade	**–**	–	2	**–**	–	–
Marens	**31**	–	–	–	–	–
Raspadsky Ugol	**–**	–	–	**24**	3	–
SEAR-MF	**–**	**–**	**–**	**19**	**–**	**–**
Sojitz Noble Alloys Corp.	**2**	–	–	**3**	8	**–**
Yuzhkuzbassugol	**–**	–	**–**	**–**	7	–
Other entities	**29**	24	32	**20**	7	12
	62	54	95	**136**	176	315
Less: allowance for doubtful accounts	**(2)**	–	(5)	**–**	–	–
	$ 60	$ 54	$ 90	**$ 136**	$ 176	$ 315

17. Related Party Disclosures (continued)

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

	Sales to related parties			Purchases from related parties		
US$ million	**2007**	**2006**	**2005**	**2007**	**2006**	**2005**
Evrazmetall-Centre	**$ 144**	$ 141	$ 100	**$ –**	$ –	$ –
Evrazmetall-Chernozemie	**65**	53	18	**–**	–	–
Evrazmetall-Povolzhie	**65**	62	22	**–**	–	–
Evrazmetall-Severo-Zapad	**46**	45	20	**–**	–	–
Evrazmetall-Sibir	**137**	146	123	**–**	–	–
Evrazmetall-Ural	**157**	150	67	**–**	–	–
Evro-Aziatskaya Energy Company	**–**	23	14	**–**	104	75
Ferrotranstrade	**–**	–	–	**–**	–	1
KMK- Energo	**–**	–	–	**–**	–	2
Marteck Shipping	**–**	–	–	**–**	–	40
Raspadsky Ugol	**–**	–	–	**192**	80	147
Sojitz Noble Alloys Corp.	**–**	18	–	**1**	1	–
Yuzhkuzbassugol	**1**	12	26	**121**	279	426
Other entities	**17**	14	10	**55**	59	38
	$ 632	$ 664	$ 400	**$ 369**	$ 523	$ 729

In addition to the balances and transactions disclosed in this note, loans due to and receivable from related parties are presented separately in the consolidated balance sheets and in Note 14.

Corber is the Group's joint venture (Note 11). At December 31, 2007 and 2006, amounts due to Corber represented advances received from the entity in respect of dividends to be declared for 2007. At December 31, 2005, amounts due from Corber represented dividends receivable from the entity in respect of 2005.

Crosland Global Limited ("CGL") was the Company's parent up to August 3, 2006 (Note 1). In 2005, the Company provided a $200 million short-term loan to CGL which bore interest of 4.25% per annum. The loan was fully repaid in 2005.

Crondale is an entity under control of an ultimate principal shareholder of the Group. At December 31, 2005, accounts payable to Crondale represented the Group's liabilities for the purchase of 50% share in Yuzhkuzbassugol payable by January 31, 2006 (Note 11). In 2006, the Group fully repaid its liabilities to Crondale.

OOO Evrazmetall-Centre, OOO Evrazmetall-Sibir, OOO Evrazmetall-Ural, OOO Evrazmetall-Povolzhie, OOO Evrazmetall-Severo-Zapad, OOO Evrazmetall-Chernozemie were the entities under control of an ultimate principal shareholder of the Group and purchased steel products from the Group. In 2007, 2006 and 2005, the Group sold approximately 5%, 7% and 6%, respectively, of volume of steel products to these entities. The transactions were made on terms equivalent to those that prevail in arm's length transactions. In December 2007, the ultimate principal shareholder of the Group sold its ownership interests in these companies and they ceased to be the related parties to the Group.

17. Related Party Disclosures (continued)

OOO Evro-Aziatskaya Energy Company ("EvrazEK"), an energy generating company, was an entity under common control. In 2006, the Group acquired the entity (Note 4). EvrazEK supplies natural gas, steam and electricity to certain subsidiaries of the Group and purchases steel products and materials from the Group companies.

OAO Ferrotranstrade ("Ferrotranstrade"), an entity under control of an ultimate principal shareholder of the Group, acted as the Group's sales agent. In 2007, Ferrotranstrade ceased to be a related party with the Group.

KMK-Energo, an entity under control of an ultimate principal shareholder of the Group, supplied electricity to certain subsidiaries of the Group. In 2006, KMK-Energo was liquidated and ceased to be a related party with the Group.

Marens is an entity under control of ultimate principal shareholders of the Group. In 2007, the Group granted a short-term interest-bearing loan to Marens for financing the construction of the office building to be rented by one of the Group's subsidiaries.

Marteck Shipping Limited ("Marteck Shipping"), an entity under control of an ultimate principal shareholder of the Group, provided freight services to the Group. At the end of 2005, Marteck Shipping discontinued entering into new shipping contracts and the business was assumed by the Group. The transactions were made at prevailing market prices at the dates of transactions.

OOO Raspadsky Ugol ("Raspadsky Ugol"), a subsidiary of the Group's joint venture, sells coal to the Group. Raspadsky Ugol represents approximately 16% of volume of the Group's coal purchases. In 2007, coal was sold at prevailing market prices at the dates of transactions.

ZAO SEAR MF ("SEAR MF") is an entity under control of an ultimate principal shareholder of the Group. The accounts payable to SEAR-MF represent zero-interest loans to Yuzhkuzbassugol.

Sojitz Noble Alloys Corp. ("Sojitz"), a Japanese trade house, is a minority shareholder of Stratcor, the Group's subsidiary. Sojitz exercises a significant influence over Stratcor. In 2007 and 2006, Sojitz acted as a sales agent of Stratcor. At December 31, 2007 and 2006, other long-term liabilities (Note 25) include a $14 million financial liability in respect of the fixed cumulative preferred dividends of $1 million per year payable to Sojitz.

Yuzhkuzbassugol, the major coal supplier, was the Group's associate. In 2005, the Group sold coal to processing mills of Yuzhkuzbassugol. The transactions were made at prevailing market prices at the dates of transactions.The entity provides approximately 50% of volume of the Group's coal purchases. In 2007, Yuzhkuzbassugol became the Group's subsidiary (Note 4).

17. Related Party Disclosures (continued)

Compensation to Key Management Personnel

Key management personnel totalled 48, 46 and 33 persons as at December 31, 2007, 2006 and 2005, respectively. Total compensation to key management personnel were included in general and administrative expenses in the accompanying income statement and consisted of the following:

US$ million	**2007**	**2006**	**2005**
Salary	**$ 25**	$ 18	$ 11
Performance bonuses	**20**	21	12
Social security taxes	**10**	1	2
Share-based payments (Note 23)	**3**	11	5
Termination benefits	**10**	–	–
Other benefits	**1**	3	11
	$ 69	$ 54	$ 41

18. Other Taxes Recoverable

Taxes recoverable were denominated in roubles and consisted of the following as of December 31:

US$ million	**2007**	**2006**	**2005**
Input VAT	**$ 270**	$ 264	$ 384
Other taxes	**73**	67	77
	$ 343	$ 331	$ 461

Input VAT, representing amounts payable or paid to suppliers, is recoverable from the tax authorities via offset against VAT payable to the tax authorities on the Group's revenue or direct cash receipts from the tax authorities. Management periodically reviews the recoverability of the balance of input value added tax and believes it is fully recoverable within one year.

19. Equity

Share Capital

As described in Note 1, Evraz Group was formed through a series of transactions between entities under common control with the Group. Prior to the reorganisation of the Group, in which 95.83% of Mastercroft shares were contributed into Evraz Group, share capital of the Group comprised the share capital of Mastercroft.

Share Capital of Mastercroft

At December 31, 2004, the authorised and issued share capital of Mastercroft comprising 300,019,666 ordinary shares of $1 each was paid up to $169 million.

In January 2005, prior to the completion of the Group's reorganisation, Mastercroft called up for payment the remaining $131 million for shares issued in 2003 and received this amount from Crosland.

As Mastercroft is a subsidiary of Evraz Group at December 31, 2007, 2006 and 2005, the share capital of Mastercroft is eliminated on consolidation.

Share Capital of Evraz Group

Number of shares	**2007**	**2006**	**2005**
Authorised			
Ordinary shares of €2 each	**157,204,326**	157,204,326	157,204,326
Issued and fully paid			
Ordinary shares of €2 each	**118,309,653**	117,499,606	116,904,326

As of December 31, 2004, Evraz Group issued 15,500 ordinary shares with par value of €2 each, which resulted in the share capital of €31,000 ($42 thousand at the exchange rate as of December 31, 2004). As of December 31, 2004, these shares were fully paid. On April 5, 2005, Evraz Group issued additional 107,204,325 ordinary shares with a par value of €2 each in exchange for the contribution of 95.83% of Mastercroft shares. On the same date, the share capital of Evraz Group was reduced by the cancellation of 15,499 ordinary shares with par value of €2 each. As the consideration for these additional shares issued subsequent to year end has been accounted for in the consolidated financial statements as at December 31, 2004, the April 5, 2005 issue of shares resulted in a capitalisation of reserves within equity.

On May 17, 2005, the Group's shareholders resolved to increase authorised share capital to €314,408,652 represented by 157,204,326 shares with par value of €2 each.

On June 7, 2005, 29,100,000 global depositary receipts, representing additionally issued 9,700,000 shares with par value of €2 each (totalling $24 million at the exchange rate as of June 7, 2005) were placed on the London Stock Exchange for $422 million. Share premium arising on the share issue amounted to $376 million, net of transaction costs of $22 million.

19. Equity (continued)

Share Capital (continued)

Share Capital of Evraz Group (continued)

In 2006, some of the share options granted under the Company's Incentive Plan (Note 23) were exercised. The Company issued 595,280 shares with par value of €2 each and received $26 million in cash from the Plan's participants. Share premium of $24 million arising on the transaction was included in additional paid-in capital.

In 2007, the grantees exercised additional share options. The Company issued 810,047 shares with par value of €2 each and received $35 million in cash from the Plan's participants. Share premium of $33 million arising on the transaction was included in additional paid-in capital.

Starting from May 23, 2007, the Group made a decision to cease the issuance of new shares under the share options plans. Since that date the Group acquires its own shares on the open market for the grantees. During 2007, the Group purchased 299,528 treasury shares for $41 million and sold 298,991 shares to participants at exercise prices determined in the Incentive Plans. The excess of the purchase cost of treasury shares over the proceeds from their sale amounting to $27 million was charged to accumulated profits.

As of December 31, 2007, the Group had 535 treasury shares.

Shareholders of Evraz Group are entitled to standard rights provided under the laws of Luxembourg to shareholders of stock companies ("société anonyme"). These rights comprise the right to vote at the shareholders meetings and the right to receive dividends.

Earnings per Share

Earnings per share are calculated by dividing the net income attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all the potential dilutive ordinary shares into ordinary shares.

As the number of shares has increased as a result of the reorganisation of the Group in transactions between entities under common control, the earnings per share for the year ended December 31, 2005 have been calculated based on the assumption that the number of shares issued on April 5, 2005 was outstanding from the beginning of the earliest period presented.

In 2005 – 2007, share options granted to participants of the Group's Incentive Plans (Note 23) had a dilutive effect. The Group has no other potential dilutive ordinary shares.

19. Equity (continued)

Earnings per Share (continued)

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2007	2006	2005
Weighted average number of ordinary shares for basic earnings per share	**118,076,909**	117,073,156	112,731,997
Effect of dilution: share options	**890,306**	829,804	132,141
Weighted average number of ordinary shares adjusted for the effect of dilution	**118,967,215**	117,902,960	112,864,138
Profit for the year attributable to equity holders of the parent, US$ million	**$ 2,144**	$ 1,377	$ 918
Basic earnings per share	**$ 18.16**	$ 11.76	$ 8.14
Diluted earnings per share	**$ 18.02**	$ 11.68	$ 8.13

Dividends

On January 13, 2005, directors of Mastercroft approved distribution of dividends of $131 million to Crosland and other shareholders registered as of December 31, 2004, which represents $0.44 of dividends per share.

Dividends declared by Evraz Group S.A. were as follows:

	Date of declaration	To holders registered at	Dividends declared, US$ million	US$ per share
Interim for 2005	27/07/2005	31/05/2005	200	1.87
Interim for 2005	24/11/2005	24/11/2005	193	1.65
Final for 2005	20/06/2006	20/06/2006	158	1.35
Interim for 2006	14/11/2006	14/11/2006	229	1.95
Final for 2006	20/06/ 2007	20/06/2007	390	3.30
Interim for 2007	05/10/2007	19/10/2007	568	4.80

The final dividends for 2006 and 2005 were distributed from accumulated profits to the extent that distributable amounts were available as of December 31, 2006 and 2005, respectively. Distributable profits were determined based on separate financial statements of Evraz Group S.A. prepared in accordance with the statutory requirements. The amount of $283 million and $117 million representing the excess of declared dividends over the Company's distributable accumulated profits as of December 31, 2006 and 2005, respectively, reduced additional paid-in capital in 2007 and 2006, respectively.

In addition, in 2007, 2006 and 2005, certain subsidiaries of the Group declared dividends. The share of minority shareholders in those dividends was $40 million, $50 million and $23 million, respectively.

19. Equity (continued)

Legal Reserve

According to the Luxembourg Law, the Company is required to create a legal reserve of 10% of share capital per the Luxembourg statutory accounts by annual appropriations which should be at least 5% of the annual net profit per statutory financial statements. The legal reserve can be used only in case of a bankruptcy.

Acquisitions of Minority Interests by a Joint Venture

In 2005, Corber, the Group's joint venture, acquired additional 1.43% ownership interest in Raspadskaya, Corber's subsidiary, for cash consideration of $1 million. The 50% of excess of the carrying value of acquired minority interest over the amount of consideration paid by the joint venture amounting to $3 million was recorded in additional paid-in capital (Note 11).

Acquisitions of Minority Interests by an Associate

In 2006, Yuzhkuzbassugol, the Group's associate, acquired an additional 13% ownership interest in OAO Kuznetskpogruztrans, Yuzhkuzbassugol's subsidiary, for cash consideration of $1 million. The 50% of excess of the carrying value of acquired minority interest over the amount of consideration paid by the associate amounting to $1 million was recorded in additional paid-in capital (Note 11).

Sale of Shares in a Joint Venture's Subsidiary

In November 2006, Corber sold 18% shares in Raspadskaya to public investors for cash consideration of $301 million. The 50% of the excess of the amount of consideration over 18% of the net assets of Raspadskaya at the date of the sale amounting to $58 million was included in additional paid-in capital (Note 11).

Acquisitions of Minority Interests in Subsidiaries

In 2006 and 2005, the Group acquired minority interests in certain subsidiaries (Note 6). The excess of acquired minority interests over the consideration amounting to $1 million and $2 million, respectively, was recorded as additional paid-in capital and the excess of consideration over the carrying value of minority interests amounting to $42 million and $131 million, respectively, was charged to accumulated profits.

Allocation of Losses of Prior Periods to Minority Shareholders

Prior to 2006, losses of the minority in Caplink (Note 1) exceeded the minority interest in Caplink's consolidated equity. These losses were allocated to the Group due to the minority had no obligations to cover losses. In 2006, a minority shareholder paid $5 million to the charter capital of Caplink and the Group recovered the accumulated losses.

20. Loans and Borrowings

Short-term and long-term loans and borrowings were as follows as of December 31:

US$ million	**2007**	**2006**	**2005**
Bank loans	**$ 5, 604**	$ 1,556	$ 1,132
8.25 per cent notes due 2015	**750**	750	750
10.875 per cent notes due 2009	**300**	300	300
8.875 per cent notes due 2006	**–**	–	175
Unamortised debt issue costs	**(82)**	(40)	(36)
Interest payable	**39**	30	29
	$ 6, 611	$ 2,596	$ 2,350

As of December 31, 2007, 2006 and 2005, total interest bearing loans and borrowings consisted of short-term loans and borrowings in the amount of $1,116 million, $608 million and $500 million, respectively, and long-term loans and borrowings in the amount of $5,538 million, $1,998 million and $1,857 million, respectively, including the current portion of long-term liabilities of $804 million, $104 million and $310 million, respectively.

In the years ended December 31, 2007, average effective annual interest rates were as follows:

	Long-term borrowings			**Short-term borrowings**		
	2007	**2006**	**2005**	**2007**	**2006**	**2005**
Russian rouble	**9.1%**	8.6%	12.5%	**8.0%**	7.1%	8.2%
US dollar	**7.9%**	8.3%	8.7%	**6.2%**	6.6%	6.1%
Euro	**5.9%**	5.6%	5.9%	**5.5%**	3.8%	4.1%
South African rand	**–**	–	–	**12.5%**	–	–
Canadian dollar	**7.3%**	–	–	**–**	–	–
Czech koruna	**–**	–	–	**–**	–	2.8%

The liabilities are denominated in the following currencies:

US$ million	**2007**	**2006**	**2005**
Russian rouble	**$ 182**	$ 24	$ 18
US dollar	**6,195**	2,308	1,987
Euro	**311**	304	354
Canadian dollar	**5**	–	–
Czech koruna	**–**	–	27
Unamortised debt issue costs	**(82)**	(40)	(36)
	$ 6,611	$ 2,596	$ 2,350

Some of the loan agreements and terms and conditions of guaranteed notes provide for certain covenants in respect of Evraz Group S.A. and its subsidiaries. The covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness and profitability.

20. Loans and Borrowings (continued)

At December 31, 2007, the Group's borrowings included the loan from ZAO Raiffeisen Bank with the carrying amount of $19 million. In Setember 2007, one of the loan covenants related to the level of the sales proceeds passing through the lender's account was breached. In October 2007, the Group obtained a waiver letter from the lender in respect of this covenant violation.

The Group pledged its rights under some export contracts as collateral under the loan agreements. All proceeds from sales of steel pursuant to these contracts can be used to satisfy the obligations under the loan agreements in the event of a default.

At December 31, 2007, 2006 and 2005, the Group had equipment with a carrying value of $121 million, $39 million and $156 million, respectively, pledged as collateral under the loan agreements. In addition, the Group pledged finished goods with a carrying value of $415 million, $194 million and $204 million as of December 31, 2007, 2006 and 2005, respectively.

Guaranteed Notes

In September and December 2003, EvrazSecurities, the Group's subsidiary, issued notes amounting to $175 million. The notes bore interest of 8.875% per annum payable semi-annually and matured on September 25, 2006. Mastercroft Limited, Ferrotrade Limited, ZapSib, NTMK, NKMK and KGOK, the Group's subsidiaries, jointly and severally, guaranteed the due and punctual payments of all amounts in respect of the notes except that NKMK's and KGOK's liabilities were limited to $138 million and $202 million, respectively. On September 25, 2006, EvrazSecurities repaid all its liabilities under the guaranteed notes.

In August and September 2004, EvrazSecurities issued notes amounting to $300 million. The notes bear interest of 10.875% per annum payable semi-annually and mature on August 3, 2009. Mastercroft Limited, Ferrotrade Limited, ZapSib, NTMK, NKMK and KGOK jointly and severally, guaranteed the due and punctual payments of all amounts in respect of the notes except that the liability of ZapSib and NTMK, each, is subject to a limit of $300 million and KGOK's liabilities are limited to $202 million.

In November 2005, Evraz Group S.A. issued notes amounting to $750 million. The notes bear interest of 8.25% per annum payable semi-annually and mature on November 10, 2015. Mastercroft Limited unconditionally and irrevocably guaranteed the due and punctual payments of all amounts in respect of the notes.

Bearer Coupon Debt Securities

On December 6, 2002, Financial Company EvrazHolding, the Group's subsidiary, issued 1,000,000 of bearer coupon bonds with a par value of 1,000 roubles each. These securities were issued at par value and matured on December 5, 2005. Interest payments on the coupons were due semi-annually from the date of issuance. First coupon bore interest of 17.70% per annum; second coupon bore 16.50% per annum; third and fourth coupons bore 15.00% per annum; fifth and sixth coupons bore 12.50% per annum. In December 2005, the Group repaid its liabilities under the debt securities.

20. Loans and Borrowings (continued)

Unamortised Debt Issue Costs

Unamortised debt issue costs represent agent commission and arrangement costs paid by the Group in relation to the arrangement of loans and issue of notes.

Unutilised Borrowing Facilities

The Group had the following unutilised borrowing facilities as of December 31:

US$ million	**2007**	**2006**	**2005**
Unutilised borrowing facilities	**$ 863**	$ 2,428	$ 716

21. Finance Lease Liabilities

The Group has several lease agreements under which it has an option to acquire the leased assets at the end of lease term ranging from 2 to 14 years. The estimated remaining useful life of leased assets varies from 3 to 21 years.

The leases were accounted for as finance leases in the consolidated financial statements. The carrying value of the leased assets was as follows as at December 31:

US$ million	**2007**	**2006**	**2005**
Machinery and equipment	**$ 17**	$ 10	$ 3
Transport and motor vehicles	**93**	75	52
	$ 110	$ 85	$ 55

The leased assets are included in property, plant and equipment in the consolidated balance sheet (Note 9).

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

US$ million	**2007**		**2006**		**2005**	
	Minimum lease payments	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
Not later than one year	**$ 22**	**$ 15**	$ 16	$ 11	$ 11	$ 7
Later than one year and not later than five years	**57**	**46**	47	39	33	25
Later than five years	**9**	**8**	3	3	6	5
	88	**69**	66	53	50	37
Less: amounts representing finance charges	**(19)**	**–**	(13)	–	(13)	–
	$ 69	**$ 69**	$ 53	$ 53	$ 37	$ 37

In the years ended December 31, 2007, 2006 and 2005, the average interest rates under the finance lease liabilities were 9.6%, 10.4% and 12.5%.

22. Employee Benefits

Russian Plans

In 2007, the Russian subsidiaries of the Group continued to provide regular lifetime pension payments and lump-sum amounts payable at the retirement date. These benefits generally depend on years of service, level of compensation and amount of pension payment under the collective bargaining agreements. Other post-employment benefits consist of different compensations and certain non-cash benefits. The Group funds the benefits when the amounts of benefits fall due for payment.

In 2006, the Group started the process of changing the system of post-employment benefits at its certain Russian subsidiaries and it is planned that lifetime pension payments will be cancelled for employees retiring after January 1, 2009 and lump-sum amounts payable at the retirement date will be stopped during 2009 – 2010. These benefits are planned to be replaced by new defined benefit plans under which the contributions have to be made to a separately administered non-state pension fund. Under the new plan, the Group matches 100% of the employees' contributions to the fund up to 4% of their monthly salary. The Group's contributions become payable at the participants' retirement dates.

USA and Canadian Plans

The Group's subsidiaries in the USA and Canada have non-contributory defined benefit pension plans, post-retirement healthcare and life insurance benefit plans and supplemental retirement plans that cover all eligible employees. Certain employees that were hired after September 1, 2005 are no longer eligible to participate in the defined benefit plans. Those employees are instead enrolled in a defined contribution plan and receive a contribution funded by the Group's subsidiaries equal to 3% of annual wages.

The new defined contribution plan is funded annually, and participants' benefits vest after three years of service. The subsidiaries also offer qualified Thrift (401(k)) plans to all of their eligible employees.

Other Plans

Defined benefit pension plans and a defined contribution plan are maintained by the subsidiaries located in South Africa, Italy and the Czech Republic.

Defined Contribution Plans

The Group's expenses under defined contribution plans were as follows:

US$ million	**2007**	**2006**	**2005**
Expense under defined contribution plans	**$ 220**	$ 181	$ 143

Defined Benefit Plans

The Russian and the Other defined benefit plans are mostly unfunded and the USA and Canada plans are partially funded.

22. Employee Benefits (continued)

The components of net benefit expense recognised in the consolidated income statement for the years ended December 31, 2007, 2006 and 2005 and amounts recognised in the consolidated balance sheet as of December 31, 2007, 2006 and 2005 for the defined benefit plans were as follows:

Net benefit expense (recognised in cost of sales and general and administrative expenses)

Year ended December 31, 2007

US$ million	**Russian plans**	**USA & Canadian plans**	**Other plans**	**Total**
Current service cost	**$ (5)**	**$ (8)**	**$ (1)**	**$ (14)**
Interest cost on benefit obligation	**(9)**	**(15)**	**(1)**	**(25)**
Expected return on plan assets	**–**	**15**	**–**	**15**
Net actuarial (gains)/losses recognised in the year	**(1)**	**–**	**–**	**(1)**
Past service cost	**1**	**–**	**–**	**1**
Net benefit expense	**$ (14)**	**$ (8)**	**$ (2)**	**$ (24)**

Year ended December 31, 2006

US$ million	**Russian plans**	**USA & Canadian plans**	**Other plans**	**Total**
Current service cost	$ (4)	$ –	$ –	$ (4)
Interest cost on benefit obligation	(6)	(1)	–	(7)
Expected return on plan assets	–	1	–	1
Net actuarial (gains)/losses recognised in the year	1	2	–	3
Past service cost	(9)	–	(1)	(10)
Net benefit expense	$ (18)	$ 2	$ (1)	$ (17)

Year ended December 31, 2005

US$ million	**Russian plans**	**USA & Canadian plans**	**Other plans**	**Total**
Current service cost	$ (2)	$ –	$ –	$ (2)
Interest cost on benefit obligation	(5)	–	–	(5)
Expected return on plan assets	–	–	–	–
Net actuarial (gains)/losses recognised in the year	–	–	–	–
Past service cost	(22)	–	–	(22)
Net benefit expense	$ (29)	$ –	$ –	$ (29)

22. Employee Benefits (continued)

Actual return on plan assets was as follows:

US$ million	**2007**	**2006**	**2005**
Actual return on plan assets	**$ 19**	$ 2	$ –
including:			
USA & Canadian plans	**18**	2	–
Russian plans	**1**	–	–

Benefit liability

December 31, 2007

US$ million	**Russian plans**	**USA & Canadian plans**	**Other plans**	**Total**
Benefit obligation	**$ 183**	**$ 275**	**$ 21**	**$ 479**
Plan assets	**(2)**	**(199)**	**–**	**(201)**
	181	**76**	**21**	**278**
Unrecognised net actuarial gains/ (losses)	**(24)**	**18**	**(3)**	**(9)**
Unrecognised past service cost	**22**	**–**	**–**	**22**
Benefit liability	**$ 179**	**$ 94**	**$ 18**	**$ 291**

December 31, 2006

US$ million	**Russian plans**	**USA & Canadian plans**	**Other plans**	**Total**
Benefit obligation	$ 89	$ 36	$ 6	$ 131
Plan assets	(1)	(23)	–	(24)
	88	13	6	107
Unrecognised net actuarial gains/ (losses)	(13)	1	–	(12)
Unrecognised past service cost	22	–	–	22
Benefit liability	$ 97	$ 14	$ 6	$ 117

December 31, 2005

US$ million	**Russian plans**	**USA & Canadian plans**	**Other plans**	**Total**
Benefit obligation	$ 79	$ –	$ 2	$ 81
Plan assets	–	–	–	–
	79	–	2	81
Unrecognised net actuarial gains/ (losses)	(2)	–	–	(2)
Benefit liability	$ 77	$ –	$ 2	$ 79

22. Employee Benefits (continued)

Movements in benefit obligation

US$ million	Russian plans	USA & Canadian plans	Other plans	Total
At January 1, 2005	$ 52	$ –	$	$ 52
Interest cost on benefit obligation	5	–	–	5
Current service cost	2	–	–	2
Past service cost	22	–	–	22
Change in liability due to business combinations	4	–	2	6
Benefits paid	(8)	–	–	(8)
Actuarial (gains)/losses on benefit obligation	5	–	–	5
Translation difference	(3)	–	–	(3)
At December 31, 2005	**$ 79**	**$ –**	**$ 2**	**$ 81**
Interest cost on benefit obligation	6	1	–	7
Current service cost	4	–	–	4
Past service cost	(13)	–	1	(12)
Change in liability due to business combinations	1	38	3	42
Benefits paid	(6)	(1)	–	(7)
Actuarial (gains)/losses on benefit obligation	10	(2)	–	8
Translation difference	8	–	–	8
At December 31, 2006	**$ 89**	**$ 36**	**$ 6**	**$ 131**
Interest cost on benefit obligation	9	15	1	25
Current service cost	5	8	1	14
Past service cost	–	–	–	–
Change in liability due to business combinations	70	235	14	319
Benefits paid	(12)	(13)	(1)	(26)
Actuarial (gains)/losses on benefit obligation	11	(13)	3	1
Curtailment gain	1	–	–	1
Translation difference	9	7	(2)	14
At December 31, 2007	**$ 182**	**$ 275**	**$ 22**	**$ 479**

The amount of contributions expected to be paid to the defined benefit plans during 2008 approximates to $28 million.

22. Employee Benefits (continued)

Changes in the fair value of plan assets

US$ million	Russian plans	USA & Canadian plans	Other plans	Total
At January 1, 2006	$ –	$ –	$ –	$ –
Change in plan assets due to business combinations	1	20	–	21
Expected return on plan assets	–	1	–	1
Contributions by employer	6	2	–	8
Benefits paid	(6)	(1)	–	(7)
Actuarial gains/(losses) on plan assets	–	1	–	1
Translation difference	–	–	–	–
At December 31, 2006	1	23	–	24
Change in plan assets due to business combinations	–	153	–	153
Expected return on plan assets	–	15	–	15
Contributions by employer	13	13	1	27
Benefits paid	(12)	(13)	(1)	(26)
Actuarial gains/(losses) on plan assets	–	4	–	4
Translation difference	–	4	–	4
At December 31, 2007	$ 2	$ 199	$ –	$ 201

At December 31, 2007, the major categories of plan assets as a percentage of total plan assets were as follows:

	2007	2006	2005
USA & Canadian plans:			
Equity funds and investment trusts	**58%**	6%	–
Corporate bonds and notes	**22%**	25%	–
Shares	**8%**	67%	–
Property	**9%**	2%	–
Cash	**3%**	–	–

22. Employee Benefits (continued)

The following table is a summary of the present value of the benefit obligation, fair value of the plan assets and experience adjustments for the current year and previous four annual periods.

US$ million	**2007**	**2006**	**2005**	**2004**	**2003**
Defined benefit obligation	**$ 479**	$ 131	$ 81	$ 52	$ 29
Plan assets	**201**	24	–	–	–
(Deficit)/surplus	**(278)**	(107)	(81)	(52)	(29)
Experience adjustments on plan liabilities	**(18)**	11	–	–	–
Experience adjustments on plan assets	**5**	–	–	–	–

The principal assumptions used in determining pension obligations for the Group's plans are shown below:

	2007			**2006**			**2005**		
	Russian plans	**USA & Canadian plans**	**Other plans**	**Russian plans**	**USA & Canadian plans**	**Other plans**	**Russian plans**	**USA & Canadian plans**	**Other plans**
Discount rate	6.8%	5.0-6.4%	4.7-8.3%	6.8%	5.8%	3.9-4.0%	8%	–	4.0%
Expected rate of return on assets	12%	7.8- 8.5%	–	12%	7.8%	–	–	–	–
Future benefits increases	5%	0%	0-3%	5%	0%	0-3%	5%	–	0-3%
Future salary increase	5%	3 - 4%	3-5%	5%	4%	3-4%	5%	–	3-4%
Healthcare costs increase rate	–	7 - 10%	–	–	–	–	–	–	–

The expected long-term rate of return on defined benefit pension plan assets represents the weighted-average asset return for each forecasted asset class return over several market cycles.

A one percentage point change in the assumed rate of increase in healthcare costs would have insignificant effects on the Group's current service cost and the defined benefit obligation.

23. Share-based Payments

On April 25, 2005 and September 5, 2006, the Group adopted Incentive Plans under which certain members of the Board of Directors, senior executives and employees ("participants") may acquire shares of the Company. The exercise price of the options granted on June 15, 2005 under the Incentive Plan 2005 was fixed at $27.75 and $43.5 per share. Share options granted on September 5, 2006 under the Incentive Plan 2006 can be exercised for $65.37 per share.

The options become exercisable from eight months to three years from the grant date. The vesting dates under Plan 2005 are determined by the reference to the grant date, which is June 15, 2005, and become vested on the first, second and third anniversary of the grant date. Under Plan 2006, the vesting date for each tranche is the date falling 15 days after the date when the Board of directors decides to announce annual results. The actual and expected vesting dates are as follows:

	Incentive Plan 2006	Incentive Plan 2005
December 15, 2005	–	63,685
June 15, 2006	–	555,170
May 11, 2007	99,282	–
June 15, 2007	–	750,000
April 16, 2008	148,904	–
June 15, 2008	–	1,250,000
April 16, 2009	248,183	–
	496,369	**2,618,855**

The plans are administrated by the Board of Directors of the Company. The Board of Directors has the right to accelerate vesting of the grant. In the event of a participant's employment termination, all options granted to that participant, whether vested or not, expire on termination date. All options granted to the participants, whether vested or not, become immediately exercisable in the event of a change in the controlling shareholder.

The Group accounted for its share options at fair value pursuant to the requirements of IFRS 2 "Share-based Payment". The weighted average fair value of options granted during 2006 and 2005 was $14.15 and $10.88 per share, respectively. The fair value of these options was estimated at the date of grant using the Black-Scholes-Merton option pricing model with the following inputs, including assumptions:

	Incentive Plan 2006	Incentive Plan 2005
Dividend yield (%)	4 – 6	6 – 8
Expected volatility (%)	45.37	55.00
Risk-free interest rates (%)	5.42 – 5.47	4.36 – 4.59
Expected life of options (years)	0.7 – 2.7	0.5 – 3
Market prices of the shares at the grant dates	$66.06	$42.90

23. Share-based Payments (continued)

The industry average volatility has been used for valuation of the share options granted in 2005, while for the share options granted in 2006 the historical volatility has been taken. The expected volatility reflects the assumption that it is indicative of future trends which may not necessarily be the actual outcome.

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options during the years.

	2007 No.	2007 WAEP	2006 No.	2006 WAEP	2005 No.	2005 WAEP
Outstanding at January 1	**2,266,580**	**$ 48.29**	**2,567,131**	**$ 43.10**	**–**	**$ –**
Granted during the year	–	–	496,369	65.37	2,618,855	43.10
Forfeited during the year	(224,258)	65.37	(137,955)	43.50	(51,724)	43.50
Exercised during the year:						
by issue of shares	(810,047)	43.50	(595,280)	43.50	–	–
by sale of shares by the Company's parent	–	–	(63,685)	27.75	–	–
by purchase of shares on the open market	(298,991)	47.12	–	–	–	–
Outstanding at December 31	**933,284**	**$ 48.72**	**2,266,580**	**$ 48.29**	**2,567,131**	**$ 43.10**
Vested at December 31	176,842	$ 45.00	813,915	$ 43.50	63,685	$ 27.75
Exercisable at December 31	42,619	44.02	537,703	43.50	63,685	27.75

The weighted average share price at the dates of exercise was $111.33 and $69.92 in 2007 and 2006, respectively.

In 2006, the vesting date of the share options held by certain participants resigned from the Group was accelerated. There have been no other modifications or cancellations to the plans during 2005 – 2007.

The revised expected time schedule of exercise of the share options outstanding at December 31, 2007 is presented below:

Number of shares	Incentive Plan 2006	Incentive Plan 2005
Immediately exercisable	1,009	41,610
April 16, 2008	90,061	–
June 15, 2008	–	669,059
April 16, 2009	131,545	–
	222,615	**710,669**

23. Share-based Payments (continued)

The weighted average remaining contractual life of the share options outstanding as at December 31, 2007, 2006 and 2005 was 0.54, 0.82 and 1.68 years, respectively.

In the years ended December 31, 2007, 2006 and 2005, compensation expense arising from the share option plans amounted to $5 million, $17 million and $8 million, respectively.

24. Provisions

In the years ended December 31, 2007, 2006 and 2005, the movement in provisions was as follows:

US$ million	**Site restoration costs**	**Legal claims**	**Other provisions**	**Total**
At December 31, 2004	**$ 20**	**$ 1**	**$ –**	**$ 21**
Additional provisions	–	4	2	6
Increase from passage of time	3	–	–	3
Effect of change in estimated costs and timing	(9)	–	–	(9)
Change in provisions due to business combinations	–	–	9	9
Translation difference	(1)	–	–	(1)
At December 31, 2005	**$ 13**	**$ 5**	**$ 11**	**$ 29**
Additional provisions	2	4	4	10
Increase from passage of time	2	–	–	2
Effect of change in the discount rate	16	–	–	16
Change in provisions due to business combinations	4	–	–	4
Utilised in the year	–	(6)	(10)	(16)
Translation difference	1	–	1	2
At December 31, 2006	**38**	**3**	**6**	**47**
Additional provisions	7	10	14	31
Increase from passage of time	4	–	–	4
Change in provisions due to business combinations	77	9	52	138
Utilised in the year	(2)	(2)	(24)	(28)
Unused amounts reversed	–	(9)	(8)	(17)
Translation difference	4	–	–	4
At December 31, 2007	**$ 128**	**$ 11**	**$ 40**	**$ 179**

24. Provisions (continued)

Site Restoration Costs

Under the legislation, mining companies and steel mills have obligations to restore mining and certain other sites. As of December 31, 2007, 2006 and 2005, the Group accrued a provision for site restoration costs in the amount of $128 million, $38 million and $13 million, respectively. The liabilities were measured based on estimates of restoration costs which are expected to be incurred in the future discounted at the annual rate ranging from 6.85% to 8.5% in 2007 and 2006. In 2005, the discount rates varied from 17.6% to 20.9%.

25. Other Long-Term Liabilities

Other long-term liabilities consisted of the following as of December 31:

US$ million	**2007**	**2006**	**2005**
Earn out and synergy payments (Note 4)	**$ 34**	$ 22	$ –
Dividends payable under cumulative preference shares of a subsidiary to a related party (Note 17)	**14**	15	–
Employee income participation plans and compensations	**15**	9	–
Tax liabilities	**13**	1	7
Other liabilities	**7**	1	2
	83	48	9
Less: current portion (Note 26)	**(27)**	(1)	(7)
	$ 56	$ 47	$ 2

Restructured taxes

Restructured taxes payable, that are included in tax liabilities in 2005, represent tax liabilities restructured in accordance with State restructuring programme. In 2001 – 2003, certain of the Group's subsidiaries agreed with the tax authorities to restructure their liabilities under social insurance taxes, road users' tax, other taxes and related fines and penalties.

Restructured taxes payable were carried at amortised cost being the present value of liabilities determined based on the future cash payments discounted at the prevailing market rates at the date of each restructuring or a business combination, whichever was later.

25. Other Long-Term Liabilities (continued)

Restructured taxes (continued)

In 2005, the tax authorities approved the forgiveness of certain restructured tax-related fines and penalties. The gain on the forgiveness of the tax-related fines and penalties of $14 million was included in gain on financial assets and liabilities in the consolidated income statement for the year ended December 31, 2005. Loss arising from the early repayment of restructured taxes of $2 million was included in loss on financial assets and liabilities in the consolidated income statement for the year ended December 31, 2005.

In 2006, the Group fully repaid its outstanding liabilities under restructuring agreements.

26. Trade and Other Payables

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

US$ million	**2007**	**2006**	**2005**
Trade accounts payable	**$ 590**	$ 308	$ 249
Long-term promissory notes with current maturities	**–**	–	21
Accrued payroll	**193**	102	78
Termination benefits	**–**	13	–
Other long-term obligations with current maturities (Note 25)	**27**	1	7
Other payables	**123**	38	49
	$ 933	$ 462	$ 404

Maturity profile of the accounts payable is shown in Note 28.

27. Other Taxes Payable

Taxes payable were mainly denominated in roubles and consisted of the following as of December 31:

US$ million	**2007**	**2006**	**2005**
Social insurance taxes	**$ 36**	$ 27	$ 22
VAT and related fines and penalties	**47**	27	138
Property tax	**15**	12	6
Land tax	**10**	10	–
Personal income tax	**12**	8	6
Other taxes, fines and penalties	**18**	12	17
	$ 138	$ 96	$ 189

28. Financial Risk Management Objectives and Policies

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and trade accounts receivable.

To manage credit risk related to cash, the Group maintains its available cash, mainly in US dollars, in reputable international banks, Russian affiliates of international banks and major Russian banks. Management periodically reviews the creditworthiness of the banks in which it deposits cash.

The Group's trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. The most part of the Group's sales are made on terms of letter of credit. In addition, the Group requires prepayments from certain customers.

The Group does not require collateral in respect of trade and other receivables, except when a customer asks for a payment period which is longer than normal terms. In this case, the Group requires bank guarantees or other liquid collateral.

The Group developed standard payment terms and constantly monitors the status of accounts receivable collection and the creditworthiness of the customers.

28. Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

Certain of the Group's long-standing Russian customers for auxiliary products, such as heat and electricity, represent municipal enterprises and governmental organisations that experience financial difficulties. The most part of doubtful debts allowance consists of receivables from such customers. The Group has no practical ability to terminate the supply to these customers and negotiates with regional and municipal authorities the terms of recovery of these receivables.

There are no significant concentrations of credit risk within the Group. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5% of gross monetary assets at any time during the year.

The maximum exposure to credit risk is equal to the carrying amount of financial assets, which is disclosed below.

US$ million	**2007**	**2006**	**2005**
Restricted deposits at banks	**$ 5**	$ 219	$ 32
Financial instruments included in other non-current assets	**3**	–	5
Trade and other receivables	**1,144**	556	375
Loans receivable	**60**	26	1
Receivables from related parties	**106**	55	90
Short-term investments and notes receivable	**25**	25	19
Cash and cash equivalents	**327**	842	641
	$ 1,670	$ 1,723	$ 1,163

The ageing analysis of trade and other receivables, loans receivable and receivables from related parties is presented in the table below.

US$ million	**2007**		**2006**		**2005**	
	Gross amount	**Impairment**	**Gross amount**	**Impairment**	**Gross amount**	**Impairment**
Not past due	**$ 1,167**	**$ (3)**	$ 519	$ (2)	$ 410	$ (1)
Past due	**222**	**(76)**	177	(57)	110	(53)
less than six months	**133**	**(4)**	101	(3)	59	(9)
between six months and one year	**16**	**(4)**	13	(7)	12	(5)
over one year	**73**	**(68)**	63	(47)	39	(39)
	$ 1,389	**$ (79)**	$ 696	$ (59)	$ 520	$ (54)

28. Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

In the years ended December 31, 2007, 2006 and 2005, the movement in allowance for doubtful accounts was as follows:

US$ million	**2007**	**2006**	**2005**
At January 1	**$ 59**	$ 54	$ 45
Charge for the year	**15**	7	19
Utilised	**–**	(6)	(7)
Translation difference	**5**	4	(3)
At December 31	**$ 79**	$ 59	$ 54

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group prepares a financial plan on a monthly basis which ensures that the Group has sufficient cash on demand to meet expected operational expenses, financial obligations and investing activities for a period of 30 days. In addition, the Group maintains credit lines and overdraft facilities that can be drawn down to meet short-term financing needs.

The Group developed standard payment periods in respect of trade accounts payable and monitors the timeliness of payments to its suppliers and contractors.

All of the Group's financial liabilities represent non-derivative financial instruments. The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, incluing interest payments.

28. Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

Year ended December 31, 2007

US$ million	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	After 5 years	Total
Fixed –rate debt							
Loans and borrowings							
Principal	**$ –**	**$ 35**	**$ 131**	**$ 412**	**$ 176**	**$ 792**	**$ 1,546**
Interest	**–**	**23**	**98**	**110**	**202**	**191**	**624**
Finance lease liabilities		**1**	**4**	**4**	**8**	**8**	**25**
Financial instruments included in long-term liabilities	**–**	**–**	**15**	**1**	**13**	**32**	**61**
Total fixed-rate debt	**–**	**59**	**248**	**527**	**399**	**1,023**	**2,256**
Variable-rate debt							
Loans and borrowings							
Principal	**–**	**398**	**1,356**	**947**	**2,393**	**14**	**5,108**
Interest	**–**	**84**	**235**	**190**	**234**	**1**	**744**
Finance lease liabilities	**–**	**4**	**13**	**15**	**30**	**1**	**63**
Total variable-rate debt	**–**	**486**	**1,604**	**1,152**	**2,657**	**16**	**5,915**
Non-interest bearing debt							
Financial instruments included in long-term liabilities	**6**	**–**	**–**	**1**	**–**	**–**	**7**
Trade and other payables	**91**	**580**	**42**	**–**	**–**	**–**	**713**
Payables to related parties	**26**	**38**	**2**	**–**	**–**	**–**	**66**
Amounts payable under put options for shares of subsidiaries	**6**	**–**	**–**	**–**	**–**	**–**	**6**
Dividends payable	**96**	**–**	**–**	**–**	**–**	**–**	**96**
Total non-interest bearing debt	**225**	**618**	**44**	**1**	**–**	**–**	**888**
	$ 225	**$ 1,163**	**$ 1,896**	**$ 1,680**	**$ 3,056**	**$ 1,039**	**$ 9,059**

28. Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

Year ended December 31, 2006

US$ million	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	After 5 years	Total
Fixed –rate debt							
Loans and borrowings							
Principal	$ –	$ 9	$ 48	$ 117	$ 577	$ 780	$ 1,531
Interest	–	23	99	117	243	249	731
Financial instruments included in long-term liabilities	1	–	7	6	9	21	44
Total fixed-rate debt	1	32	154	240	829	1,050	2,306
Variable-rate debt							
Loans and borrowings							
Principal	–	24	631	265	130	25	1,075
Interest	–	18	40	24	16	1	99
Finance lease liabilities	–	4	12	14	33	3	66
Total variable-rate debt	–	46	683	303	179	29	1,240
Non-interest bearing debt							
Trade and other payables	67	250	29	–	–	–	346
Payables to related parties	25	–	–	–	–	–	25
Amounts payable under put options for shares of subsidiaries	–	–	176	–	–	–	176
Dividends payable	62	–	–	–	–	–	62
Total non-interest bearing debt	154	250	205	–	–	–	609
	$ 155	$ 328	$ 1,042	$ 543	$ 1,008	$ 1,079	$ 4,155

28. Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

Year ended December 31, 2005

US$ million	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	After 5 years	Total
Fixed –rate debt							
Loans and borrowings							
Principal	$ –	$ 16	$ 243	$ 74	$ 488	$ 776	$ 1,597
Interest	–	30	101	111	269	311	822
Payables to related parties							
Principal	–	19	–	–	–	–	19
Interest	–	2	–	–	–	–	2
Total fixed-rate debt	–	67	344	185	757	1,087	2,440
Variable-rate debt							
Loans and borrowings							
Principal	–	131	420	43	125	41	760
Interest	–	11	26	10	16	7	70
Finance lease liabilities	–	3	8	10	23	6	50
Total variable-rate debt	–	145	454	63	164	54	880
Non-interest bearing debt							
Trade and other payables	93	186	19	–	–	–	298
Payables to related parties	40	275	–	–	–	–	315
Financial instruments included in long-term liabilities	–	–	–	–	1	1	2
Amounts payable under put options for shares of subsidiaries	–	–	–	72	–	–	72
Dividends payable	17	–	–	–	–	–	17
Total non-interest bearing debt	150	461	19	72	1	1	704
	$ 150	$ 673	$ 817	$ 320	$ 922	$ 1,142	$ 4,024

28. Financial Risk Management Objectives and Policies (continued)

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures, while optimising the return on risk.

Interest Rate Risk

The Group borrows on both a fixed and variable rate basis and has other interest-bearing liabilities, such as finance lease liabilities and obligations under cumulative preference shares of one of the Group's subsidiary.

The Group incurs interest rate risk on liabilities with variable interest rate. The Group's Treasury function performs analysis of current interest rates and prepares forecasts for the next year. Depending on that, the management makes decisions whether it would be more beneficial to obtain financing on a fixed-rate or variable-rate basis. In case of changes in the current market fixed or variable rates the management may consider refinancing of a particular debt on more favourable terms.

The Group does not have any financial assets with variable interest rate.

Fair Value Sensitivity Analysis for Fixed Rate Instruments

The Group does not account for any fixed rate financial asstes or liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect the Group's profits.

The Group does not account for any fixed rate financial assets as assets available for sale. Therefore, a change in interest rates at the reporting date would not affect the Group's equity.

28. Financial Risk Management Objectives and Policies (continued)

Market Risk (continued)

Interest Rate Risk (continued)

Cash Flow Sensitivity Analysis for Variable Rate Instruments

Based on the analysis of exposure during the years presented, reasonably possible changes in floating interest rates at the reporting date would have changed profit before tax ("PBT") by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	2007		2006		2005	
	Basis points	Effect on PBT	Basis points	Effect on PBT	Basis points	Effect on PBT
		US$ millions		*US$ millions*		*US$ millions*
Liabilities denominated in US dollars						
Decrease in LIBOR	**(125)**	**$ 24**	**(100)**	**$ 9**	**(50)**	**$ 3**
Increase in LIBOR	**75**	**(14)**	**50**	**(5)**	**100**	**(5)**
Liabilities denominated in euro						
Decrease in EURIBOR	**(150)**	**3**	**(50)**	**1**	**(50)**	**1**
Increase in EURIBOR	**75**	**$ (1)**	**150**	**$ (3)**	**150**	**$ (3)**

Currency Risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's subsidiaries. The currencies in which these transactions primarily are denominated are euro and US dollars.

The Group does not have formal arrangements to mitigate currency risks of the Group's operations. However, management believes that the Group is secured from currency risks as foreign currency denominated sales are used to cover repayment of foreign currency denominated borrowings.

28. Financial Risk Management Objectives and Policies (continued)

Market Risk (continued)

Currency Risk (continued)

The Group's exposure to currency risk determined as the net monetary position in respective currencies was as follows:

US$ million	**2007**	**2006**	**2005**
USD/RUR	**$ 25**	$ 147	$ (277)
EUR/USD	**193**	185	150
EUR/RUR	**(313)**	(245)	(149)
EUR/CZK	**71**	56	71
USD/CZK	**(102)**	(180)	–
USD/ZAR	**36**	(88)	–

Sensitivity Analysis

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

	2007		**2006**		**2005**	
	Change in exchange rate	**Effect on PBT**	**Change in exchange rate**	**Effect on PBT**	**Change in exchange rate**	**Effect on PBT**
	%	*US$ millions*	*%*	*US$ millions*	*%*	*US$ millions*
USD/RUR	**(5.80)**	**1**	(6.10)	(8)	(8.35)	23
	4.20	**(1)**	4.50	7	5.00	(14)
EUR/USD	**(7.35)**	**(14)**	(9.25)	(17)	(10.75)	(16)
	7.35	**14**	9.25	17	10.75	16
EUR/RUR	**(5.45)**	**17**	(7.00)	17	(10.00)	15
	3.25	**(10)**	4.70	(11)	5.70	(8)
EUR/CZK	**(4.10)**	**(3)**	(3.50)	(2)	(4.75)	(3)
	4.10	**3**	3.50	2	4.75	3
USD/CZK	**(9.40)**	**10**	(8.40)	15	–	–
	9.40	**(10)**	10.10	(18)	–	–
USD/ZAR	**(17.70)**	**(6)**	(15.00)	13	–	–
	13.00	**5**	15.00	(13)	–	–

28. Financial Risk Management Objectives and Policies (continued)

Fair Value of Financial Instruments

The carrying amounts of financial instruments, such as cash, short-term and long-term investments, short-term accounts receivable and payable, short-term and long-term loans receivable and payable with variable interest rate, promissory notes, and restructured taxes, approximate their fair value.

The following table shows financial instruments which carrying amounts differ from fair values.

US$ million	**2007**		**2006**		**2005**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Long-term fixed-rate bank loans	**$ 436**	**$ 370**	$ 462	$ 406	$ 338	$ 313
8.25 per cent notes due 2015	**742**	**747**	740	776	739	745
10.875 per cent notes due 2009	**314**	**316**	314	330	314	332
8.875 per cent notes due 2006	**–**	**–**	–	–	178	179
	$ 1,492	**$ 1,433**	$ 1,516	$ 1,512	$ 1,569	$ 1,569

The fair value of the notes was determined based on market quotations. The fair value of long-term fixed-rate bank loans was calculated based on the present value of future principal and interest cash flows, discounted at the Group's market rates of interest at the reporting dates. The discount rates ranged from 6.8% to 7.7% fro US dollar and from 5.2% to 6.5% for euro.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise the return to shareholders. The Board of directors reviews the Group's performance and establishes key performance indicators. In addition, the Group and certain of its subsidiaries are subject to externally imposed capital requirements (loans and bonds covenants) which are used for capital monitoring. There were no changes in the objectives, policies and processes during 2007.

Capital includes equity attributable to the equity holders of the parent entity. Revaluation surplus which is included in capital is not subject to capital management because of its nature (Note 4).

The Group manages its capital structure and makes adjustments to it by issue of new shares, dividend payments to shareholders, purchase of treasury shares. The Group monitors the compliance of the amount of legal reserve with the statutory requirements and makes appropriations of profits to legal reserve. In addition, the Group monitors distributable profits on a regular basis and determines the amounts and timing of dividends payments. The capital requirements imposed by certain loan agreements include the following:

- consolidated equity less goodwill should be at least $2,000 million.

29. Non-cash Transactions

Investing and financing transactions that did not require the use of cash or cash equivalents were as follows in the years ended December 31:

US$ million	**2007**	**2006**	**2005**
Liabilities for purchases of property, plant and equipment	**$ 50**	$ 20	$ 28
Liabilities for purchases of shares in subsidiaries and other entities	**38**	6	11
Liabilities for purchase of interest in associates/joint ventures	**–**	–	296
Refinancing of a bridge loan	**1,535**	–	–
Offset of restricted deposit with amounts payable to Credit Suisse for the purchase of 24.9% of Highveld's shares (Notes 4 and 13)	**207**	–	–
Offset of loan receivable with amounts payable for the purchase of non-current assets	**13**	–	–
Loans paid by banks to vendors for property, plant and equipment	**–**	11	37

30. Commitments and Contingencies

Operating Environment of the Group

Whilst there have been improvements in the Russian economic situation, such as an increase in gross domestic product and a reduced rate of inflation, Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on the management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Possible liabilities, which were identified by management at the balance sheet date as those that can be subject to different interpretations of the tax laws and other regulations and are not accrued in the accompanying financial statements could be up to approximately $19 million.

30. Commitments and Contingencies (continued)

Contractual Commitments

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

Social Commitments

The Group is involved in a number of social programmes aimed to support education, health care and social infrastructure development in towns where the Group's assets are located. In 2008, the Group plans to spend approximately $133 million under these programmes.

Environmental Protection

In the course of the Group's operations, the Group may be subject to environmental claims and legal proceedings. The quantification of environmental exposures requires an assessment of many factors, including changing laws and regulations, improvements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation, preliminary findings and the length of time involved in remediation or settlement. Management believes that any pending environmental claims or proceedings will not have a material adverse effect on its financial position and results of operations.

The Group has a constructive obligation to reduce environmental polutions and contaminations in the future in accordance with an environmental protection programme. In the period from 2008 to 2012, the Group is obligated to spend approximately $245 million under this programme.

Legal Proceedings

The Group has been and continues to be the subject of legal proceedings, none of which has had, individually or in aggregate, a significant effect on the Group's operations or financial position.

The Group is involved in several litigations that may have an impact on the assets of Vitkovice Steel, the Group's subsidiary acquired in 2005 (Note 4). Accounts receivable of Vitkovice Steel include 409 million Czech koruna ($23 million at the exchange rate as of December 31, 2007) due from OSINEK, the former parent company of Vitkovice Steel. This amount is under dispute between OSINEK and VYSOKE PECE Ostrava, a.s. Management believes that this receivable will be recovered.

Stratcor, the Group's subsidiary, together with IBM Corporation, Anglo Americam Plc., Gold Fields Ltd., UBS AG and some other companies, acts as a defendant in an action filed in 2004. Plaintiffs allege that the defendants engaged in conspiracy with the Apartheid era government of South Africa in violation of international law and participated in genocide, expropriation and other wrongful acts. Plaintiffs are seeking unspecified compensatory damages and exemplary damages of $10,000 million. The Group's potential losses under this litigation are limited to the net assets of Stratcor being $78 million as of December 31, 2007. The management believes that the risk of losing this case is very remote.

31. Subsequent Events

Acquisition of Claymont Steel

On January 16, 2008, the Group acquired 16,415,722 shares of Claymont Steel Holdings, Inc. ("Claymont Steel") through a tender offer, representing approximately 93.4% of the outstanding ordinary shares of Claymont Steel. Claymont Steel is a plates producer located in the United States.

Following the acquisition of the controlling interest in Claymont Steel, the company was merged with the Group's wholly owned subsidiary and untendered shares were converted into the right to receive $23.50 in cash which is the same price per share paid during the tender offer. Total cash consideration for the acquisition of a 100% ownership interest in Claymont Steel amounts to approximately $422 million.

In addition to the information disclosed in respect of this acquisition, IFRS 3 "Business Combinations" requires the Group to disclose the amounts to be recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities. It is impracticable to disclose this information because the Group has not completed purchase price allocation in accordance with IFRS 3 "Business Combinations" and the acquired entity did not prepare IFRS financial statements prior to the date of its acquisition.

Acquisition of Steel and Mining Businesses in the Ukraine

On December 12, 2007, Lanebrook, the ultimate parent of the Group, acquired majority shares in selected production assets in the Ukraine which include the following:

- a 99.25% share holding in the Sukhaya Balka iron ore mining and processing complex;
- a 95.57% share holding in the Dnepropetrovsk Iron and Steel Works; and
- three coking plants (Bagleykoks - 93.74%, Dneprkoks – 98.65%, and Dneprodzerzhinsk Coke Chemical Plant – 93.83% of shares outstanding).

Lanebrook has acquired these production assets on the working capital free and debt free basis. The share purchase agreement gives the seller approximately three months (the "Settlement period") to settle the current assets, liabilities and debt that existed at the acquisition date and receive net settlement from Lanebrook.

On December 5, 2007, the Group signed an agreement with Lanebrook to acquire these assets. The transfer of the shares from Lanebrook to the Group is expected to occur upon the completion of the settlement period by the end of April 2008. Total cash consideration for the acquisition of these businesses amounts to approximately $2,031 million, comprising cash in the amount of $1,060 million and 4,195,150 Evraz Group's shares that will be issued for the settlement of this acquisition.

31. Subsequent Events (continued)

Purchase of Shares of Steel and Mining Businesses in China

On February 18, 2008, the Group entered into a Share Purchase Agreement (the "Agreement") to acquire up to approximately 51.05% of the issued share capital of Delong Holdings Limited ("Delong"), a hot-rolled coil manufacturer, headquartered in Beijing (China), over an agreed period of time. This transaction is subject to anti-trust clearance by the regulatory authorities of China.

The Share Purchase Agreement entered into between the Group, Best Decade and the shareholders of Best Decade includes an initial sale to the Group of approximately 10% of the issued share capital of Delong (the "Initial Sale") at 3.9459 Singapore dollar (S$) per share (the "Offer Price") or S$211 million ($150 million at the exchange rate as of the date of the agreement).

Best Decade has also granted the Group a call option to acquire an additional 32.08% of the issued share capital of Delong (the "Call Option") that is conditional upon the satisfaction of certain conditions, including obtaining antitrust approval and clearance from Ministry of Commerse and State Administration of Industry and Commerce of China. The Call Option is exercisable within six months after February 18, 2008. The Group has granted Best Decade a put option with respect to 32.08% of the issued share capital of Delong (the "Put Option"), exercisable during the same period. Both the Call Option and the Put Option have a strike price equal to the Offer Price of S$3.9459 per share. Total consideration under Call and Put option is S$677 million ($480 million at the exchange rate as of the date of the agreement).

In addition, the beneficial shareholders of Best Decade have signed an undertaking to sell approximately 8.97% of the issued share capital of Delong to the Group at the Offer Price when certain restrictions in place due to existing financing arrangements are released. The purchase price of additional shares is fixed at S$3.9459 per share or S$189 million ($134 million at the exchange rate as of the date of the agreement).

Following completion of these transactions, the Group will control approximately 51.05% of the issued share capital of Delong.

In accordance with the Singapore Code on Takeovers and Mergers, the Group will be required to make a mandatory cash offer for the remaining Delong shares at the Offer Price upon acquisition of 30% of shares in the company.

The maximum consideration payable under that mandatory cash offer by the Group will be approximately S$484 million ($343 million at the exchange rate as of the date of the agreement), assuming a full acceptance of the mandatory offer.

31. Subsequent Events (continued)

Agreement to Acquire IPSCO Canada

On March 14, 2008, the Group entered into an agreement to acquire IPSCO's Canadian plate and pipe business ("IPSCO Canada"). IPSCO Canada is a leading North American producer of steel plate, as well as pipe for the oil and gas industry.

Under the structure of the agreed transaction, the Group will acquire the IPSCO Tubulars business from SSAB for $4,025 million. The Group has also entered into definitive back-to-back agreements with OAO TMK and its affiliates ("TMK"), the Russian leading tubular player, to sell certain of the acquired US businesses for $1,200 million. In addition, the Group signed an option agreement to sell the remaining acquired US businesses of IPSCO Tubulars to TMK for approximately $510 million in 2009. All of these transactions are subject to certain closing adjustments and conditions. As a result of these transactions, the net cost of the acquisition for the Group is expected to be approximately $2,314 million.

Extension of Sale of Highveld Divestment Package

On January 20, 2008, the European Commission has further extended the divestiture period during which Highveld is obliged to dispose of certain vanadium assets till April 20, 2008 (Note 12).

Borrowings

Subsequent to December 31, 2007, the Group signed bank loan agreements for $618 million, which include the following:

	Long-term borrowings			**Short-term borrowings**		
	US$ million		*Interest rate*	*US$ million*		*Interest rate*
Russian rouble	$	82	7.48%	$	102	9%
US dollar		35	4.57%		399	4.50 – 7.25%
	$	**117**		**$**	**501**	

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