Evraz Group S.A.

Unaudited Condensed Consolidated
Financial Statements

Six-month period ended June 30, 2005
with Independent Accountants' Review Report

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Six-month period ended June 30, 2005

Contents

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Independent Accountants' Review Report

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

We have reviewed the accompanying condensed consolidated balance sheet of Evraz Group S.A. (the "Group") as of June 30, 2005, and the related condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to issue a report on these financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance as to whether the financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated financial statements referred to above are not properly prepared, in all material respects, in accordance with International Accounting Standard 34, Interim Financial Reporting.

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements. A significant part of the Group's transactions were made with related parties.

Ernst & Young LLC

October 12, 2005

Evraz Group S.A.

Unaudited Condensed Consolidated Income Statement

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

	Notes	Six-month periods ended June 30, 2005	2004
Revenue			
Sale of goods		**$ 3,571,195**	$ 2,783,117
Rendering of services		**60,617**	73,198
		3,631,812	2,856,315
Cost of revenue		**(2,251,213)**	(1,723,529)
Amortisation of negative goodwill		**–**	15,347
Gross profit		**1,380,599**	1,148,133
Selling and distribution costs		**(107,283)**	(102,393)
General and administrative expenses		**(227,203)**	(136,890)
Social and social infrastructure maintenance expenses		**(35,822)**	(16,381)
Loss on disposal of property, plant and equipment		**(7,836)**	(4,060)
Impairment of assets		**(1,456)**	(2,185)
Foreign exchange (losses)/gains, net		**(276)**	3,592
Other operating income/(expenses), net		**4,658**	(3,155)
Profit from operations		**1,005,381**	886,661
Interest income		**4,335**	6,777
Interest expense		**(65,884)**	(45,070)
Share of profits of associates and a joint venture		**41,013**	17,236
Gain/(loss) on extinguishment of debts	**5**	**1,314**	(101,276)
Gain on financial assets		**–**	57,189
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**4**	**9,761**	5,541
Other non-operating (losses)/gains, net	**5**	**(10,607)**	1,218
Profit before tax		**985,313**	828,276
Income tax expense		**(256,437)**	(167,606)
Net profit		**$ 728,876**	$ 660,670
Attributable to:			
Equity holders of the parent entity		**$ 612,339**	$ 582,585
Minority interests		**116,537**	78,085
		$ 728,876	$ 660,670
Earnings per share attributable to equity holders of the parent entity, basic and diluted, US dollars	**13**	**$ 5.65**	$ 5.43

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

Evraz Group S.A.

Condensed Consolidated Balance Sheet

(In thousands of US dollars)

	Notes	June 30, 2005	December 31, 2004
		(Unaudited)	
ASSETS			
Non-current assets			
Property, plant and equipment	**6**	**$ 2,533,910**	$ 2,398,929
Negative goodwill		**–**	(362,612)
Investment in a joint venture		**244,135**	194,712
Other long-term investments		**8,521**	8,644
Restricted deposits at banks	**7**	**7,668**	8,570
Other non-current assets	**8**	**156,795**	9,651
		2,951,029	2,257,894
Current assets			
Inventories	**9**	**848,851**	807,819
Trade and other receivables	**10**	**302,630**	293,706
Prepayments		**72,856**	79,801
Receivables from related parties	**11**	**85,599**	89,316
Taxes recoverable		**521,790**	397,533
Short-term investments and notes receivable	**12**	**17,153**	21,804
Restricted deposits at banks	**7**	**30,837**	12,441
Cash and cash equivalents	**7**	**673,085**	292,947
		2,552,801	1,995,367
Total assets		**$ 5,503,830**	$ 4,253,261
EQUITY AND LIABILITIES			
Equity			
Parent shareholders' equity			
Issued capital	**13**	**$ 315,879**	$ 42
Additional paid-in capital	**13**	**537,501**	319,177
Legal reserve	**13**	**9,586**	–
Accumulated profits		**1,916,277**	1,126,070
Translation difference		**77,469**	163,755
		2,856,712	1,609,044
Minority interests		**298,850**	357,579
		3,155,562	1,966,623
Non-current liabilities			
Long-term loans	**14**	**914,382**	788,093
Liabilities under the Settlement Agreement	**5**	–	4,224
Restructured taxes payable		**12,220**	23,259
Deferred income tax liabilities		**201,804**	214,481
Finance lease liabilities		**27,071**	25,661
Post-employment benefits		**52,864**	53,381
Provisions		**19,792**	20,582
Other long-term liabilities		**2,292**	21,207
		1,230,425	1,150,888
Current liabilities			
Trade and other payables	**16**	**303,871**	227,935
Advances from customers		**46,835**	55,189
Short-term loans and current portion of long-term loans	**14**	**494,780**	529,951
Payables to related parties	**11**	**37,339**	117,806
Taxes payable		**220,838**	197,721
Current portion of finance lease liabilities		**10,677**	4,688
Provisions and other liabilities		**3,503**	2,460
		1,117,843	1,135,750
Total equity and liabilities		**$ 5,503,830**	$ 4,253,261

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

Evraz Group S.A.

Unaudited Condensed Consolidated Cash Flow Statement

(In thousands of US dollars)

	Six-month periods ended June 30, 2005	2004
Cash flows from operating activities		
Net profit	**$ 728,876**	$ 660,670
Adjustments to reconcile net profit to net cash provided by operating activities:		
Amortisation of negative goodwill	–	(15,347)
Depreciation, depletion and amortisation	**103,938**	90,676
Deferred income tax benefit	**(11,062)**	(20,656)
Loss on disposal of property, plant and equipment	**7,836**	4,060
Impairment of assets	**1,456**	2,185
(Gain)/loss on extinguishment of debts	**(1,314)**	101,276
Foreign exchange losses/(gains)	**276**	(3,592)
Share of profits from associates and a joint venture	**(41,013)**	(17,236)
Gain on financial assets	–	(57,189)
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**(9,761)**	(5,541)
Other non-operating losses/(gains)	**10,607**	(1,218)
Interest income	**(4,335)**	(6,777)
Interest expense	**65,884**	45,070
Bad debt expense	**1,951**	8,416
	853,339	784,797
Changes in operating assets and liabilities:		
Inventories	**(49,416)**	(96,409)
Trade and other receivables	**(28,291)**	(180,714)
Prepayments	**8,595**	(23,143)
Receivables from/payables to related parties	**(8,690)**	(362,519)
Taxes recoverable	**(134,434)**	(63,599)
Other assets	**325**	(1,499)
Trade and other payables	**68,816**	67,164
Advances from customers	**(11,848)**	247
Taxes payable	**30,338**	56,491
Other liabilities	**(1,332)**	6,357
Net cash flows from operating activities	**727,402**	187,173
Cash flows from investing activities		
Issuance of short-term loans receivable to related parties	**(3,043)**	(1,181)
Issuance of loans receivable	**(1,437)**	–
Proceeds from repayment of short-term loans receivable	**12,231**	1,539
Purchases of subsidiaries, net of cash acquired	**(12,866)**	(216,950)
Prepayments for purchases of subsidiaries	**(80,870)**	–
Purchases of minority interests	**(307,822)**	–
Purchase of interest in a joint venture	–	(61,800)
Restricted deposits at banks	**(16,765)**	(3,620)
Short-term deposits at banks	**7,276**	–
Purchases of property, plant and equipment	**(279,818)**	(238,912)
Proceeds from disposal of property, plant and equipment	**2,675**	1,835
Payments to acquire equity of other companies	**(508)**	–
Proceeds from sales of equity of other companies	**3,068**	2,045
Payments to acquire debt instruments of other companies	**(603)**	(36,677)
Proceeds from sale/redemption of debt instruments of other companies	**11,227**	26,871
Dividends received	**10,134**	–
Net cash flows used in investing activities	**$ (657,121)**	$ (526,850)

Continued on the next page.

Evraz Group S.A.

Unaudited Condensed Consolidated Cash Flow Statement (continued)

(In thousands of US dollars)

	Six-month periods ended June 30, 2005	Six-month periods ended June 30, 2004
Cash flows from financing activities		
Proceeds from issuance of share capital, net of issuance costs (Note 13)	**$ 399,747**	$ –
Contributions from Crosland Limited	**131,020**	30,000
Payments to entities under common control for the transfer of ownership interest in subsidiaries	**(32,246)**	(32,769)
Proceeds from long-term loans provided by related parties	**2,836**	65,374
Repayment of long-term loans provided by related parties	**–**	(11,714)
Proceeds from short-term loans provided by related parties	**6,091**	225,377
Repayment of short-term loans provided by related parties	**(62,354)**	(54,012)
Proceeds from short-term loans	**217,680**	547,711
Repayment of short-term loans, including interest	**(291,366)**	(340,385)
Proceeds from long-term loans and promissory notes	**194,308**	98,486
Repayment of long-term loans and promissory notes, including interest	**(89,651)**	(153,759)
Dividends paid	**(133,416)**	–
Dividends of consolidated subsidiary paid to minority shareholders	**(3,482)**	–
Payments under finance leases, including interest	**(5,755)**	(1,551)
Payments under Settlement Agreements, including interest, and purchases of debts in subsidiaries	**(7,609)**	(29,274)
Payments of restructured taxes, including interest	**(9,711)**	(10,976)
Net cash flows from financing activities	**316,092**	332,508
Effect of foreign exchange rate changes on cash and cash equivalents	**(6,235)**	2,216
Net increase in cash and cash equivalents	**380,138**	(4,953)
Cash and cash equivalents at beginning of year	**292,947**	195,737
Cash and cash equivalents at end of year	**$ 673,085**	$ 190,784
Supplementary cash flow information:		
Cash flows during the year:		
Interest paid	**$ 56,182**	$ 38,655
Income taxes paid	**292,653**	154,579

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

Unaudited Condensed Consolidated Statement of Changes in Equity

Six-month periods ended June 30, 2005 and 2004

(In thousands of US dollars)

	Issued capital	Additional paid-in capital	Legal reserve	Unrealised gain on financial assets	Accumulated profits (losses)	Translation difference	Parent shareholders' equity	Minority interests	Total
At December 31, 2004	$ 42	$ 319,177	$ –	$ –	$ 1,126,070	$ 163,755	$ 1,609,044	$ 357,579	$ 1,966,623
Change in accounting policies: derecognition of negative goodwill *(Note 2)*	–	–	–	–	378,394	–	378,394	11,549	389,943
At January 1, 2005	42	319,177	–	–	1,504,464	163,755	1,987,438	369,128	2,356,566
Effect of exchange rate changes	–	–	–	–	–	(86,286)	(86,286)	(13,752)	(100,038)
Total income and expense for the period recognised directly in equity	–	–	–	–	–	(86,286)	(86,286)	(13,752)	(100,038)
Net profit	–	–	–	–	612,339	–	612,339	116,537	728,876
Total income and expense for the period	–	–	–	–	612,339	(86,286)	526,053	102,785	628,838
Issue of share capital, net of transaction costs (*Note 13*)	23,833	375,914	–	–	–	–	399,747	–	399,747
Cancellation of own shares	(42)	–	–	–	–	–	(42)	–	(42)
Issue of share capital in exchange for shares in Mastercroft (*Note 13*)	292,046	(292,046)	–	–	–	–	–	–	–
Acquisition of minority interests in subsidiaries (*Notes 4*)	–	1,509	–	–	(65,398)	–	(63,889)	(167,338)	(231,227)
Acquisition of minority interest by a joint venture (*Note 13*)	–	1,307	–	–	–	–	1,307	–	1,307
Contributions from Crosland Limited (*Note 13*)	–	131,020	–	–		–	131,020	–	131,020
Share-based payments *(Note 15)*	–	620	–	–	–	–	620	–	620
Appropriation of net profit to legal reserve	–	–	9,586	–	(9,586)	–	–	–	–
Dividends *(Note 13)*	–	–	–	–	(125,542)	–	(125,542)	(5,725)	(131,267)
At June 30, 2005	$ 315,879	$ 537,501	$ 9,586	$ –	$ 1,916,277	$ 77,469	$ 2,856,712	$ 298,850	$ 3,155,562

Continued on the next page.

Evraz Group S.A.

Unaudited Condensed Consolidated Statement of Changes in Equity (continued)

(In thousands of US dollars)

	Issued capital	Additional paid-in capital	Legal reserve	Unrealised gain on financial assets	Accumulated profits (losses)	Translation difference	Parent shareholders' equity	Minority interests	Total
At December 31, 2003	$ 138,935	$ 1,003	$ –	$ 948	$ 156,042	$ 69,661	$ 366,589	$ 192,540	$ 559,129
Effect of exchange rate changes	–	–	–	–	–	12,012	12,012	13,754	25,766
Total income and expense for the period recognised directly in equity	–	–	–	–	–	12,012	12,012	13,754	25,766
Net profit	–	–	–	–	582,585	–	582,585	78,085	660,670
Total income and expense for the period	–	–	–	–	582,585	12,012	594,597	91,839	686,436
Issue of share capital	30,000	–	–	–	–	–	30,000	–	30,000
Decrease in share capital due to the Group's reorganisation	–	–	–	–	–	–	–	–	–
Net gains on available-for-sale financial assets removed from equity recognised in net profit	–	–	–	450	–	–	450	–	450
Acquisition of minority interests in subsidiaries	–	2,372	–	–	(4,638)	–	(2,266)	(41,266)	(43,532)
Minority interest arising on acquisition of a subsidiary	–	–	–	–	–	–	–	35,600	35,600
At June 30, 2004	$ 168,935	$ 3,375	$ –	$ 1,398	$ 733,989	$ 81,673	$ 989,370	$ 278,713	$1,268,083

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

1. Corporate Information

These consolidated financial statements were authorised for issue in accordance with a resolution of the Board of directors on October 12, 2005.

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's parent is Crosland Global Limited ("Crosland" or the "Parent") which is ultimately controlled by Mr. Abramov.

Evraz 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, were contributed into Evraz Group. Although legally binding agreements for this reorganisation were in place at December 31, 2004, the legal title to the shares in Mastercroft had not been transferred to Evraz Group until April 5, 2005.

As Evraz 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 interests in Mastercroft had occurred from the date of the earliest period presented.

In 2003, Mastercroft was the parent of the group companies contributed to Evraz Group. Mastercroft was established on December 31, 2002 as a holding company to consolidate certain steel production, mining and trading entities under control of Crosland. In 2003, controlling ownership interests in such entities were transferred to Mastercroft in transactions with entities under common control with the Group (formerly Mastercroft). In 2004 and 2005, additional entities were transferred into Mastercroft by entities under common control as described further below. The Group also applied the pooling of interests method in accounting for these business combinations.

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 located in the Russian Federation. The Group operates three steel mills in the Russian Federation: one plant in the Sverdlovsk region and two plants in the Kemerovo region. The Group is one of the biggest steel producers in the Russian Federation.

In the six-month periods ended June 30, 2005 and 2004, approximately 6% and 14%, respectively, of the Group's revenues were generated in transactions with related parties. In addition, a significant part of the Group's purchases was made in transactions with related parties. For detailed information related to such activities refer to Note 11.

1. Corporate Information (continued)

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

The controlling interest in OAO Evrazruda ("Evrazruda") was transferred to the Group by an entity under common control with the Group in the six-month period ended June 30, 2005. The controlling interests in OAO Evraztrans ("Evraztrans") and OAO Large Diameter Pipe Plant ("LDPP") were transferred to the Group by entities under common control with the Group in 2004. The Group applied the pooling of interests method with respect to those transfers and presented its consolidated financial statements as if the transfers of controlling interests in those subsidiaries had occurred from the date of the earliest period presented or, if later, the date of acquisition of the subsidiary by the transferring entity.

As a result, the Group has re-presented its financial position as of December 31, 2004 and results of operations and cash flows for the six-month period ended June 30, 2004.

2. Significant Accounting Policies

Basis of Preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting. Accordingly, they do not include all of the information required by IFRS for a complete set of financial statements. Operating results for the six-month period ended June 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

Evraz Group S.A. and its subsidiaries and associates maintain their accounting records and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the country in which the particular subsidiary/associate is resident. These interim condensed consolidated financial statements are based on those accounting records, as adjusted and reclassified to comply with IAS 34.

The principal adjustments relate to (1) expense and revenue recognition, (2) valuation of unrecoverable assets, (3) depreciation and valuation of property, plant and equipment, (4) accounting for income taxes, (5) use of fair values, and (6) business combinations.

The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts. These estimates are based on information available as of the date of the financial statements. Actual results may differ significantly from such estimates.

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

These interim condensed consolidated financial statements should be read in conjunction with the complete consolidated financial statements for the year ended December 31, 2004. In the preparation of the condensed consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the complete consolidated financial statements for year ended December 31, 2004, except for the effect of adoption of new International Financial Reporting Standards ("IFRS") and revision of existing IAS, none of which had a significant impact on the condensed consolidated financial statements for the six-month period ended June 30, 2005.

IFRS 3 Business Combinations

In 2004, the Group applied IFRS 3 Business Combinations to the accounting for business combinations, for which the agreement date was on or after March 31, 2004. In accordance with the transitional provisions of IFRS 3, on January 1, 2005 the Group ceased to recognise negative goodwill in the consolidated balance sheet. The carrying amount of negative goodwill at December 31, 2004 that arose from business combinations, for which the agreement date was before March 31, 2004, or interests in a jointly controlled entity obtained before March 31, 2004 and accounted for by applying the equity method has been derecognised at January 1, 2005, with a corresponding adjustment of $389,943 to the opening balance of accumulated profits and minority interest.

IFRS 2 Share-based Payment

In the six-month period ended June 30, 2005, the Group adopted an employee share option plan, under which certain directors and senior executives 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 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 15. In valuing equity-settled transactions, no account is taken of any conditions, other than conditions of remaining in service up to the vesting date.

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

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

IFRS 2 Share-based Payment (continued)

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

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

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (Note 13).

3. Segment Information

The Group's major business segments are steel production and mining. Steel production segment includes production of steel and related products at the three iron and steel plants. Mining segment includes ore mining and enrichment. The mining segment does not meet the criteria of a reportable segment under IFRS, because the majority of revenues of the mining segment are earned in inter-segment transactions. Despite this fact, management has designated the mining segment as a reportable segment based on the future plans to develop this business segment. The following table presents revenue and profit information and certain asset and liability information regarding business segments for the six-month periods ended June 30, 2005 and 2004:

(All amounts are in thousands of US dollars, unless specified otherwise)

3. Segment Information (continued)

Six-month period ended June 30, 2005

	Steel production	**Mining**	**Other operations**	**Eliminations**	**Total**
Revenue					
Sales to external customers	**$ 3,565,601**	**$ 28,696**	**$ 37,515**	**$ –**	**$ 3,631,812**
Inter-segment sales	**95,463**	**564,845**	**240,987**	**(901,295)**	**–**
Total revenue	**$ 3,661,064**	**$ 593,541**	**$ 278,502**	**$ (901,295)**	**$ 3,631,812**
Result					
Segment result	**$ 775,540**	**$ 223,881**	**$ 11,746**	**$ –**	**$ 1,011,167**
Unallocated expenses					**(5,786)**
Profit from operations					**$ 1,005,381**

Six-month period ended June 30, 2004

	Steel production	**Mining**	**Other operations**	**Eliminations**	**Total**
Revenue					
Sales to external customers	$ 2,720,099	$ 80,254	$ 55,962	$ –	$ 2,856,315
Inter-segment sales	9,658	162,809	98,004	(270,471)	–
Total revenue	$ 2,729,757	$ 243,063	$ 153,966	$ (270,471)	$ 2,856,315
Result					
Segment result	$ 841,539	$ 32,986	$ 14,348	$ –	$ 888,873
Unallocated expenses					(2,212)
Profit from operations					$ 886,661

Distribution of the Group's revenues by geographical area based on the location of customers was as follows:

	Six-month periods ended June 30,	
	2005	**2004**
Russia	**$ 2,073,705**	$ 1,600,822
Thailand	**378,332**	154,340
Taiwan	**346,172**	374,960
Iran	**123,115**	47,216
Korea	**113,677**	110,865
Vietnam	**110,572**	86,574
Philippines	**109,300**	133,209
Hong Kong	**74,188**	120,033
USA	**54,813**	771
Kazakhstan	**50,124**	1,522
Italy	**43,949**	4,120
China	**29,601**	154,887
Other countries	**124,264**	66,996
	$ 3,631,812	$ 2,856,315

4. Acquisitions and Increases of Ownership Interests in Subsidiaries

Mastercroft

On June 1, 2005, the Group acquired a 4.17% interest in Mastercroft for a cash consideration of $124,000. The excess of the amount of consideration over the carrying value of that minority interest amounting to $25,997 was charged to accumulated profits.

NTMK

In the six-month period ended June 30, 2005, the Group acquired additional minority interests in OAO Nizhny Tagil Iron & Steel Plant ("NTMK") (3.98% ownership interest) for a cash consideration of $79,115. The excess of the amount of consideration over the carrying value of minority interest amounting to $29,653 was charged to accumulated profits.

ZapSib

In the six-month period ended June 30, 2005, the Group acquired additional minority interests in OAO West-Siberian Iron and Steel Plant ("ZapSib") (0.79% ownership interest) for a cash consideration of $15,470. The excess of the amount of consideration over the carrying value of minority interest amounting to $8,797 was charged to accumulated profits.

LDPP

On June 30, 2005, the Group acquired additional minority interest of 30.10% in OAO Large Diameter Pipe Plant ("LDPP") for a cash consideration of 361,198,000 Russian roubles ($12,598 at the exchange rate as of the date of transaction). The excess of the amount of the carrying value of minority interest over consideration amounting to $1,383 was included in additional paid-in capital.

Other Acquisitions

In the six-month period ended June 30, 2005, the Group purchased 100% ownership interest in OOO Mine 12 ("Mine 12") and OAO Zapadno-Sibirskoye Geologorazvedochnoye 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 $9,761 was included in the income statement. The excess of the amount of consideration over fair value of identifiable assets, liabilities and contingent liabilities acquired amounting to $1,189 was included in impairment of assets in the income statement.

These acquisitions were accounted for based on provisional values as these subsidiaries, as of the date of authorisation of issue of these financial statements, have not completed preparation of their financial statements in accordance with IFRS.

(All amounts are in thousands of US dollars, unless specified otherwise)

5. Non-operating Gains and Losses

Gain on Extinguishment of Debts

On May 31, 2005, the tax authorities approved the forgiveness of certain restructured tax-related fines and penalties, which were scheduled for payment in 2005-2008. The gain on the forgiveness of the tax-related fines and penalties of $4,345 was included in gain on extinguishment of debts in the consolidated income statement for the six-month period ended June 30, 2005.

In March 2005, the Board of Directors of OAO Kachkanarsky Mining-and-Processing Integrated Works ("KGOK"), the Group's subsidiary, resolved to repay all of KGOK's liabilities under the Settlement Agreement ahead of schedule. As of December 31, 2004, the nominal amount of the liabilities was 259,881,288 Russian roubles ($9,358 at the exchange rate as of December 31, 2004). In the period ended June 30, 2005, KGOK settled 228,234,726 Russian roubles ($8,205 at the exchange rate as of the dates of transactions) of its liabilities under the Settlement Agreement.

Loss arising from the repayment of liabilities under the Settlement Agreement amounting to $3,031 reduced the amount of gain on extinguishment of debts in the consolidated income statement for the six-month period ended June 30, 2005.

Other Non-Operating Loss

Other non-operating loss for the six-month period ended June 30, 2005 includes the amount of $10,000 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.

(All amounts are in thousands of US dollars, unless specified otherwise)

6. Property, Plant and Equipment

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

	June 30, 2005	**December 31, 2004**
Cost:		
Land	**$ 53,042**	$ 53,250
Buildings and constructions	**660,146**	662,182
Machinery and equipment	**1,296,314**	1,276,433
Transport and motor vehicles	**165,951**	143,970
Mining assets	**288,100**	284,244
Other assets	**50,812**	46,204
Assets under construction	**659,078**	499,430
	3,173,443	2,965,713
Accumulated depreciation, depletion and amortisation:		
Buildings and constructions	**(85,032)**	(70,568)
Machinery and equipment	**(484,038)**	(440,467)
Transport and motor vehicles	**(21,090)**	(13,080)
Mining assets	**(18,098)**	(14,488)
Other assets	**(22,608)**	(18,804)
	(630,866)	(557,407)
Government grants:		
Machinery and equipment, net	**(8,667)**	(9,377)
	$ 2,533,910	$ 2,398,929

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment of $144,184 and $137,489 as of June 30, 2005 and December 31, 2004, respectively.

(All amounts are in thousands of US dollars, unless specified otherwise)

6. Property, Plant and Equipment (continued)

The movement in property, plant and equipment for the six-month period ended June 30, 2005 was as follows:

	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	**$ 53,250**	**$ 591,614**	**$ 826,589**	**$ 130,890**	**$ 269,756**	**$ 27,400**	**$ 499,430**	**$ 2,398,929**
Additions	**666**	–	**3,095**	**12,324**	**6,508**	**817**	**289,923**	**313,333**
Assets acquired in business combination	–	**7,643**	**3,121**	**596**	**9,222**	**370**	**677**	**21,629**
Assets put into operation	**180**	**19,093**	**67,950**	**13,046**	**2,068**	**6,033**	**(108,370)**	–
Disposals	**(212)**	**(5,154)**	**(4,103)**	**(689)**	–	**(303)**	**(1,541)**	**(12,002)**
Depreciation & depletion charge	–	**(17,582)**	**(66,991)**	**(8,269)**	**(8,072)**	**(5,062)**	**–**	**(105,976)**
Amortisation of government grants	–	–	**418**	–	–	–	–	**418**
Impairment loss	–	–	–	–	**(700)**	–	–	**(700)**
Translation difference	**(842)**	**(20,500)**	**(26,470)**	**(3,037)**	**(8,780)**	**(1,051)**	**(21,041)**	**(81,721)**
At June 30, 2005, cost, net of accumulated depreciation and government grants	**$ 53,042**	**$ 575,114**	**$ 803,609**	**$ 144,861**	**$ 270,002**	**$ 28,204**	**$ 659,078**	**$ 2,533,910**

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

	Land	**Buildings and constructions**	**Machinery and equipment**	**Transport and motor vehicles**	**Mining assets**	**Other assets**	**Assets under construction**	**Total**
At December 31, 2003, cost, net of accumulated depreciation and government grants	$ 26,239	$ 233,957	$ 649,409	$ 15,809	$ 163,083	$ 18,380	$ 242,961	$ 1,349,838
Additions	21,214	5,467	5,581	84,612	9,555	3,228	503,327	632,984
Assets acquired in business combination	3,942	322,845	52,539	24,952	95,973	994	31,251	532,496
Assets put into operation	61	32,854	222,459	11,108	–	11,398	(277,880)	–
Disposals	(4)	(2,865)	(3,641)	(650)	–	(899)	(21,967)	(30,026)
Depreciation & depletion charge	–	(29,339)	(146,461)	(8,637)	(10,354)	(7,149)	–	(201,940)
Amortisation of government grants	–	–	811	–	–	–	–	811
Impairment loss	–	–	–	–	(1,701)	–	(127)	(1,828)
Translation difference	1,798	28,695	45,892	3,696	13,200	1,448	21,865	116,594
At December 31, 2004, cost, net of accumulated depreciation and government grants	$ 53,250	$ 591,614	$ 826,589	$ 130,890	$ 269,756	$ 27,400	$ 499,430	$ 2,398,929

(All amounts are in thousands of US dollars, unless specified otherwise)

6. Property, Plant and Equipment (continued)

As of June 30, 2005 and December 31, 2004, certain items of production equipment with an approximate carrying value of $94,580 and $95,802, respectively, were pledged to banks as collateral against loans to the Group (Note 14).

7. Cash and Cash Equivalents and Restricted Deposits at Banks

Cash and cash equivalents were denominated in the following currencies:

	June 30, 2005	December 31, 2004
Russian roubles	**$ 240,100**	$ 64,632
US dollars	**396,798**	227,194
Euros	**35,879**	1,121
Other	**308**	–
	$ 673,085	$ 292,947

The above cash and cash equivalents mainly consist of cash at banks.

Restricted deposits at banks were as follows:

	June 30, 2005	December 31, 2004
Deposits to secure bank loans	**$ 27,397**	$ 17,570
Deposits for repayment of Settlement Agreements (Notes 5, 16)	**4,133**	3,441
Deposits for participation in licence tender	**6,975**	–
	38,505	21,011
Less: deposits with current maturities	**(30,837)**	(12,441)
	$ 7,668	$ 8,570

The deposits earned interest in the range from 1.69% to 6.90% per annum. The deposits to secure bank loans are denominated in US dollars, euros and Russian roubles.

(All amounts are in thousands of US dollars, unless specified otherwise)

8. Other Non-Current Assets

Other non-current assets were as follows:

	June 30, 2005	December 31, 2004
Prepayments for acquisitions of ownership interests in subsidiaries and other companies	**$ 147,422**	$ –
Long-term VAT relating to Settlement Agreements	**–**	197
Long-term input VAT	**4**	3,980
Deferred income tax assets	**6,840**	3,390
Other	**2,529**	2,084
	$ 156,795	$ 9,651

As of June 30, 2005, other non-current assets included prepayments in relation to the acquisitions of ownership interests in Palini & Bertoli S.p.A. in the amount of €38,500,000 ($50,416 at the exchange rate as of the date of transaction) (Note 19), Vitkovice Steel in the amount of 500,500,000 Czech Koruna ($20,454 at the exchange rate as of the date of transaction) (Note 19) and a prepayment for acquisition of minority interest in Nizhny Tagil Iron and Steel Plant ("NTMK") and West-Siberian Iron and Steel Plant ("ZSMK") amounting to $75,500 and $1,022, respectively.

9. Inventories

Inventories consisted of the following:

	June 30, 2005	December 31, 2004
Raw materials and spare parts	**$ 431,941**	$ 390,367
Work-in-progress	**106,298**	63,229
Finished goods:		
– at cost	**290,156**	327,099
– at net realisable value	**43,407**	35,510
	871,802	816,205
Allowance for obsolete and slow-moving items	**(22,951)**	(8,386)
	$ 848,851	$ 807,819

As of June 30, 2005 and December 31, 2004, certain items of inventory with a carrying amount of $307,281 and $339,238, respectively, were pledged to banks as collateral against loans provided to the Group (Note 14).

(All amounts are in thousands of US dollars, unless specified otherwise)

10. Trade and Other Receivables

Trade and other receivables consisted of the following:

	June 30, 2005	December 31, 2004
Trade accounts receivable	**$ 301,902**	$ 275,189
Loans receivable	**203**	7,979
Other receivables	**37,114**	38,341
	339,219	321,509
Allowance for doubtful accounts	**(36,589)**	(27,803)
	$ 302,630	$ 293,706

11. 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 were as follows:

	Amounts due from related parties		Amounts due to related parties	
	June 30, 2005	December 31, 2004	June 30, 2005	December 31, 2004
Evrazmetall-Centre	**$ 17,853**	$ 20,930	**$ 93**	$ –
Evrazmetall-Sibir	**31,829**	21,721	**466**	349
Evrazmetall-Ural	**11,135**	–	**–**	–
Ferrotranstrade	**6,005**	25,453	**1,955**	4,005
Goroblagodatskoye Ore Mine	**3,115**	7,778	**1**	2,456
Marteck Shipping	**2,741**	–	**10,111**	7,708
Other entities	**15,928**	15,810	**24,705**	22,988
Loans receivable/payable from/to related parties	**177**	4,206	**8**	47,997
Liabilities to entities under common control for transfers of ownership interests in subsidiaries	**–**	–	**–**	32,303
	88,783	95,898	**37,339**	117,806
Less: allowance for doubtful accounts	**(3,184)**	(6,582)	**–**	–
	$ 85,599	$ 89,316	**$ 37,339**	$ 117,806

(All amounts are in thousands of US dollars, unless specified otherwise)

11. Related Party Disclosures (continued)

Transactions with related parties were as follows in the six-month periods ended June 30:

	Sales to related parties		**Purchases from related parties**	
	2005	**2004**	**2005**	**2004**
Evrazmetall-Centre	**$ 44,087**	$ 58,521	**$ 100**	$ –
Evrazmetall-Sibir	**56,378**	53,572	**180**	–
Evrazmetall-Ural	**28,876**	–	**98**	–
Evro-Aziatskaya Energy Company	**4,446**	–	**25,879**	35
Ferrotrade & Co.	**–**	124,258	**–**	–
Ferrotranstrade	**54,460**	45,034	**808**	1,358
KMK- Energo	**274**	2,589	**1,569**	27,628
Marteck Shipping	**–**	–	**40,297**	51,009
PromKhimProduct	**–**	83,989	**–**	532
Raspadsky Ugol	**–**	–	**102,897**	23,910
Steel of KMK	**–**	16,974	**–**	68,576
UK Yuzhkuzbassugol	**17,061**	–	**–**	29,582
ZAO Yuzhkuzbassugol	**–**	13	**269,243**	85,786
Other entities	**18,122**	7,000	**23,440**	32,331
	$ 223,704	$ 391,950	**$ 464,511**	$ 320,747

During the six-month periods ended June 30, 2005 and 2004, transactions with related parties were as follows:

OOO Evrazmetall-Centre, OOO Evrazmetall-Sibir, and OOO Evrazmetall-Ural, entities under common control with the Group, purchase steel products from the Group.

Evro-Aziatskaya Energy Company, an entity under common control, supplies natural gas and electricity to certain subsidiaries of the Group and purchases metal products and materials from the Group.

Ferrotrade & Co. is an entity under common control with the Group. Prior to 2004, Ferrotrade & Co. exported the Group's products from Russia. In accordance with the Company's restructuring, Ferrotrade & Co. transferred its trading activities to Ferrotrade Limited in October 2003. During the six-month period ended June 30, 2004, Ferrotrade Limited sold to Ferrotrade & Co. 467,479 metric tons of steel products for $124,258.

In June 2003, Ferrotrade & Co. granted to the Group a $120,000 loan facility. The loan bore no interest and was repayable on June 1, 2006. The long-term loan due to Ferrotrade & Co. was measured at amortised cost based on a contractual maturity and a discount rate of 3.96%. In 2004, the loan agreement was revised and the facility became payable not later than December 31, 2004, bearing interest at the rate of 4.25% starting from January 1, 2004. In the six-month period ended June 30, 2004, the Group received additional $11,948 under this loan agreement. A loss of $8,695 arising from the change in terms of the loan agreement was included in loss on extinguishment of debts in the consolidated income statement for the six-month period ended June 30, 2004. In November 2004, the Group repaid the outstanding loan amount along with the interest of $4,091 accrued for the period from January 1, 2004 up to the payment date.

11. Related Party Disclosures (continued)

OAO Ferrotranstrade ("Ferrotranstrade"), an entity under common control with the Group, acts as the Group's sales agent. The Group also sells its products to Ferrotranstrade.

KMK-Energo, an entity under common control with the Group, supplies electricity to certain subsidiaries of the Group.

Marteck International Ltd. ("Marteck") is an entity under common control with the Group. During the six-month period ended June 30, 2004, the Group repaid to Marteck $26,938 under loans provided to the Group in 2002-2003. The loans bore interest in the range from 2% to 3% per annum.

Marteck Shipping Limited ("Marteck Shipping"), an entity under common control with the Group, provides freight services to the Group.

OOO PromKhimProduct ("PromKhimProduct"), an entity under common control with the Group, purchased coke from the Group. In the second half of 2004, PromKhimProduct ceased to be a related party with the Group.

OOO Raspadsky Ugol, a subsidiary of the Group's joint venture, sells coal to the Group.

OOO Steel of Kuznetsk Steel Plant ("Steel of KMK") was an entity under common control with the Group. In 2004, Steel of KMK provided tolling services related to processing of pig iron to the Group and the Group provided services and sold metal products to Steel of KMK. Steel of KMK ceased to be a related party with the Group in July 2004.

OAO OUK Yuzhkuzbassugol and ZAO UK Yuzhkuzbassugol, associates of the entity under common control with the Group, sell coal to the Group. During the six-month period ended June 30, 2005, the Group sold coal to processing mills of OAO OUK Yuzhkuzbassugol in connection with an accident at a coal mine.

Compensation to Key Management Personnel

Key management personnel totalled 34 and 31 as at June 30, 2005 and 2004, respectively. Total compensation to key management personnel included in general and administrative expenses in the income statement amounted to $13,457 and $11,500 for the six-month periods ended June 30, 2005 and 2004, respectively. Compensation to key management personnel consists of contractual salary and performance bonus depending on operating results.

For disclosure of other related party transactions see Notes 1, 5, 15, 17.

(All amounts are in thousands of US dollars, unless specified otherwise)

12. Short-Term Investments and Notes Receivable

Short-term investments and notes receivable were as follows:

	June 30, 2005	December 31, 2004
Deposit accounts	**$ 13,177**	$ 19,573
Promissory notes	**3,611**	170
Other investments	**365**	2,061
	$ 17,153	$ 21,804

In 2004-2005, the Group's subsidiaries had deposit accounts with Alfa-bank and IMB. The deposits earned interest in the range from 6.0% to 9.5% per annum.

Short-term investments and notes receivable are denominated in Russian roubles.

13. 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 to Evraz Group, share capital of the Group comprised of the share capital of Mastercroft.

Share Capital of Mastercroft

On December 31, 2002, Mastercroft issued 1,966 shares with par value of 1 US dollar each. These shares were paid in cash in 2003.

On May 14, 2003 and October 31, 2003, the Central Bank of Cyprus granted permissions for the additional issue to Crosland of 100,017,700 and 200,000,000 ordinary shares of 1 US dollar each, respectively.

In respect to the shares issued on May 14, 2003, Mastercroft received contributions from Crosland of $100,018, of which $14,018 was in cash and $86,000 was in the form of promissory notes of an entity under common control with the Group. The Group offset its liabilities to that entity under common control against these promissory notes.

In respect of the shares issued on October 31, 2003, Mastercroft called up for payment of 0.1949 US dollar per share out of 1 US dollar, being the nominal value of the ordinary share, and received from Crosland cash of $38,980. As of December 31, 2003, the balance of 0.8051 US dollar has not been called for payment.

13. Equity (continued)

Share Capital (continued)

Share Capital of Mastercroft (continued)

In the year ended December 31, 2004, Mastercroft called for payment an additional $30,000 and received this amount from Crosland. As of December 31, 2004, the balance of 0.6551 US dollar has not been called for payment.

In January 2005, prior to the completion of the Group's reorganisation, Mastercroft called up for payment the remaining $131,020 for shares issued in 2003 and received this amount from Crosland.

As Mastercroft is a subsidiary of Evraz Group at December 31, 2004 and June 30, 2005, the share capital of Mastercroft is eliminated on consolidation.

Share Capital of Evraz Group

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 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 on April 5, 2005 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 $23,833 at the exchange rate as of June 7, 2005) were placed on the London Stock Exchange for $421,950. Share premium arising on the share issue amounted to $375,914, net of transaction costs of $22,203.

At June 30, 2005 and December 31, 2004, the Company's authorised shares comprised of 157,204,326 and 15,500 ordinary shares, respectively, and the Company's issued and paid share capital comprised of 116,904,326 and 15,500 shares, respectively.

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.

(All amounts are in thousands of US dollars, unless specified otherwise)

13. Equity (continued)

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.

	Six-month period ended June 30,	
	2005	**2004**
Net profit attributable to equity holders of the parent entity	**$ 612,339**	$ 582,585
Weighted average number of ordinary shares outstanding for basic earnings per share	**108,436,923**	107,204,326
Earnings per share attributable to equity holders of the parent entity, basic and diluted (US dollars)	**$ 5.65**	$ 5.43

During the six-month period ended June 30, 2005, share options granted to participants of the Company's Incentive Plan (Note 15) had no dilutive effect. The Group has no other potential dilutive ordinary shares; therefore, the diluted earnings per share equal basic earnings per share.

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 six-month period ended June 30, 2005 and 2004 have been calculated based on the assumption that the number of shares issued on April 5, 2005 was outstanding from the beginning of the earliest period presented.

Acquisitions of Minority Interests by a Joint Venture

In the six-month period ended June 30, 2005, Corber Enterprises Limited ("Corber"), the Group's joint venture, acquired additional 0.70% ownership interest in Raspadskaya Mining Group for a cash consideration of $1,300. The 50% of excess of the carrying value of acquired minority interest over the amount of consideration paid by the joint venture amounting to $1,307 is recorded in additional paid-in capital.

Legal Reserve

According to the Luxembourg Law, the Company is required to create a legal reserve of 10% of share capital per the Luxembourg statutory accounts by annual appropriations which should be not less than 5% of the annual net profit per statutory financial statements. The legal reserve can be used only in case of a bankruptcy.

(All amounts are in thousands of US dollars, unless specified otherwise)

13. Equity (continued)

Dividends

On January 13, 2005, directors of Mastercroft approved distribution of dividends of $131,000 to Crosland and other shareholders registered as of December 31, 2004, which represents 0.44 US dollars of dividends per share.

In addition, in the six-month period ended June 30, 2005, certain subsidiaries of the Group declared dividends. The share of minority shareholders in those dividends was $267.

14. Loans and Borrowings

Short-term and long-term loans and borrowings were as follows as of:

	June 30, 2005	**December 31, 2004**
Russian banks	**$ 59,070**	$ 110,061
International banks	**835,205**	688,983
10.875 per cent notes due 2009	**300,000**	300,000
8.875 per cent notes due 2006	**175,000**	175,000
Bearer coupon debt securities	**34,833**	36,038
Loans provided by other companies	**13**	859
Unamortised debt issue costs	**(14,798)**	(11,669)
Interest payable	**19,839**	18,772
	$ 1,409,162	$ 1,318,044

As of June 30, 2005 and December 31, 2004, total interest bearing loans and borrowings consisted of short-term loans and borrowings of $322,303 and $378,583, respectively, and long-term loans and borrowings of $1,081,818 and $932,358, respectively, including the current portion of long-term liabilities of $152,638 and $132,596, respectively.

In the six-month period ended June 30, 2005, average annual interest rates were 9.1%, 5.0% and 5.0% for short-term loans denominated in Russian roubles, US dollars and euros, respectively, and 12.5%, 8.7%, 5.5% for long-term loans denominated in Russian roubles, US dollars and euros, respectively.

In the period ended June 30, 2004, average annual interest rates were 10.3%, 3.6% and 5.7% for short-term loans denominated in Russian roubles, US dollars and euros, respectively, and 15.4%, 7.5% and 5.8% for long-term loans denominated in Russian roubles, US dollars and euros, respectively.

(All amounts are in thousands of US dollars, unless specified otherwise)

14. Loans and Borrowings (continued)

The liabilities are denominated in the following currencies:

	June 30, 2005	December 31, 2004
Russian roubles	**$ 44,830**	$ 78,828
US dollars	**1,200,854**	1,094,087
Euros	**178,276**	156,798
Unamortised debt issue costs	**(14,798)**	(11,669)
	$ 1,409,162	$ 1,318,044

The liabilities are contractually repayable after the balance sheet dates as follows:

	June 30, 2005	December 31, 2004
Less than one year	**$ 494,780**	$ 529,951
Between one year and two years	**301,209**	290,209
Between two years and five years	**593,781**	467,002
After five years	**34,190**	42,551
Unamortised debt issue costs	**(14,798)**	(11,669)
	$ 1,409,162	$ 1,318,044

Some of the loan agreements provide for certain covenants in respect of Mastercroft and its subsidiaries. The covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness and profitability.

The Group pledged its rights under some export contracts as collateral under the loan agreements. All proceeds from sales of steel pursuant to these contracts can be used to satisfy the obligations under the loan agreements in the event of a default.

At June 30, 2005 and December 31, 2004, the Group had equipment with a carrying value of $94,580 and $95,802, respectively, pledged as collateral under the loan agreements. In addition, the Group pledged finished goods with a carrying value of $307,281 and $339,238 as of June 30, 2005 and December 31, 2004, respectively.

Bonds and Notes

In September and December 2003, EvrazSecurities issued notes amounting to $175,000. The notes bear interest of 8.875% per annum payable semi-annually and mature on September 25, 2006. Mastercroft Limited, Ferrotrade Limited, ZapSib, NTMK and NKMK, jointly and severally, guaranteed the due and punctual payments of all amounts in respect of the notes, except that NKMK's liabilities are limited to $137,512.

(All amounts are in thousands of US dollars, unless specified otherwise)

14. Loans and Borrowings (continued)

Bonds and Notes (continued)

On August 3, 2004 and September 30, 2004, EvrazSecurities issued notes amounting to $300,000. The notes bear interest of 10.875% per annum payable semi-annually and mature on August 3, 2009. Mastercroft Limited, Ferrotrade Limited, ZapSib, NTMK and NKMK, 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 $300,000.

On December 6, 2002, FC EvrazHolding issued 1,000,000 of bearer coupon bonds with a par value of 1,000 Russian roubles each. These securities were issued at par value and mature on December 5, 2005. Interest payments on the coupons are due semi-annually from the date of issuance. First coupon bears interest of 17.70% per annum; second coupon bears 16.50% per annum; third and fourth coupons bear 15.00% per annum; fifth and sixth coupons bear 12.50% per annum. NTMK guaranteed all of the liabilities of FC EvrazHolding under the bonds. The liabilities under the bonds were accounted for at amortised cost in the consolidated financial statements.

Unamortised Debt Issue Costs

Unamortised debt issue costs represent agent commission and arrangement costs paid by subsidiaries in relation to the arrangement of long-term loans and issue of notes.

Unutilised Borrowing Facilities

As of June 30, 2005, the Group had unutilised borrowing facilities of $379,358, including $49,658 of long-term loan facilities.

15. Share-based Payments

On April 25, 2005, the Group adopted the Incentive Plan under which certain senior executives and members of the Board of Directors (“participants”) may acquire the shares in the Company. This plan is administrated by the Board of Directors of the Group. The exercise price of the options is fixed at 27.75 US dollars and 43.5 US dollars per share.

The options become exercisable from one to three years from the grant date as follows.

Vesting date	**Number of shares**
December 15, 2005	63,685
June 15, 2006	555,170
June 15, 2007	750,000
June 15, 2008	1,250,000

(All amounts are in thousands of US dollars, unless specified otherwise)

15. Share-based Payments (continued)

The Board of Directors has the right to accelerate vesting of the grant. In 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 change of controlling shareholder.

All of the share options outstanding as at June 30, 2005 were granted on June 15, 2005.

The Group accounted for its share options at fair value pursuant to the requirements of IFRS 2. The weighted average fair value of options granted during the period was 3.63 US dollars. The fair value for these options was estimated at the date of grant using the Black-Scholes-Merton option pricing model with the following assumptions:

Dividend yield (%)	6.00 – 8.00
Expected volatility (%)	55.00
Risk-free interest rates (%)	4.36 – 4.59
Expected life of options (years)	0.5 – 3

The expected volatility reflects the assumption that the industry average volatility is indicative of future trends, which may also not necessarily be the actual outcome.

The number of share options outstanding at June 30, 2005 is 2,618,855.

The weighted average remaining contractual life for the share options outstanding as at June 30, 2005 is 2.23 years.

In the six-month period ended June 30, 2005, compensation expense arising from the share option plan amounted to $620.

16. Trade and Other Payables

Trade and other payables were mainly denominated in Russian roubles and consisted of the following:

	June 30, 2005	**December 31, 2004**
Trade accounts payable	**$ 181,407**	$ 116,279
Long-term promissory notes with current maturities	**20,716**	–
Promissory notes payable on demand	**664**	14,523
Accrued payroll	**65,268**	57,495
Other payables	**35,816**	39,638
	$ 303,871	$ 227,935

As of June 30, 2005, other payables included $17,293 of unpaid current portion of liabilities under the Settlement Agreements of ZapSib, NTMK and KGOK.

17. Commitments and Contingencies

Operating Environment of the Group

As discussed in Note 1, majority of the Group's operations are carried out in the Russian Federation. The Russian economy while deemed to be of market status continues to display certain characteristics consistent with that of a market in transition. These characteristics include, but are not limited to, relatively high inflation and the existence of currency controls which cause the national currency to be illiquid outside of the Russian Federation. The stability of the Russian economy will be significantly impacted by the government's policies and actions with regards to supervisory, legal, and economic reforms.

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. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on 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 regulations and are not accrued in the consolidated financial statements could be up to approximately $30,000.

Contractual Commitments

The Group signed contracts for the purchase of production equipment and construction works for an approximate amount of $350,000.

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 the second half of 2005, the Group plans to spend $47,500 under these programmes.

17. Commitments and Contingencies (continued)

Environmental Protection

The Group has a constructive obligation to the government of Kemerovo Region to reduce environmental polutions and contiminations in the future in accordance with environmental protection program. In the period from 2005 to 2015, the Group is obligated to spend approximately $50,000 for replacement of old machinery and equipment which will result in reduction of polution.

Guarantees of Debts of Related Parties

As of December 31, 2004, the Group guaranteed to ZAO Raiffeisenbank Austria the repayment of liabilities of OOO EvrazInvest, an entity under common control with the Group, under a loan agreement between OOO EvrazInvest and ZAO Raiffeisenbank Austria. The loan amounting to $9,200 bore interest at a rate of LIBOR plus margin of 2.95% per annum and matured on September 1, 2005. On August 31, 2005, OOO EvrazInvest fully repaid it liabilities under the loan agreement with ZAO Raiffeisenbank Austria.

Legal Proceedings

The Group has been and continues to be the subject of legal proceedings, none of which has had, individually or in aggregate, a significant effect on the Group's operations or financial position.

The Group, together with several other corporations and individuals, acts as a defendant in a civil action related to bankruptcy proceedings at KGOK that occurred between 1999 and 2003, prior to the Group's acquistion of KGOK. This law suit was filed in November 2004 and is now pending before the United States District Court for the District of Delaware. The plaintiffs seek damages in excess of $500,000. On April 26, 2005, the plaintiffs filed another suit with Delaware Chancery Court against the same defendants, including the Group, based on the same factual allegations. The plaintiffs seek for the return of shares in KGOK. Management believes that the risks that the ultimate resolution of the suit case will have a significant impact on the financial position of the Group is remote. Therefore, no provision is recognised in the financial statements in respect of this case.

18. Financial Risks

Foreign Exchange Risk

The Group exports production and attracts substantial amount of long-term borrowings denominated in euros or in US dollars.

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations. However, management believes that the Group is secured from foreign exchange risks as foreign currency denominated sales are used to cover repayment of foreign currency denominated borrowings.

(All amounts are in thousands of US dollars, unless specified otherwise)

18. Financial Risks (continued)

Interest Rate Risk

The Group incurs interest rate risk on loans and borrowings (Note 14) and promissory notes included in trade and other payables (Note 16) and the amounts due to the related parties. The Group borrows on both a fixed and variable rate basis. The table below summarises the Group's outstanding interest-bearing debt as of June 30, 2005:

	June 30, 2005
Fixed-rate debt	$ 616,012
Variable-rate debt	809,538
	$ 1,425,550

The table below summarises the Group's outstanding variable-rate debt by the year of repayment as of June 30, 2005:

July 1, 2005 - June 30, 2006	$ 456,455
July 1, 2006 - June 30, 2007	101,778
July 1, 2007 - June 30, 2008	84,003
July 1, 2008 - June 30, 2009	79,403
July 1, 2009 - June 30, 2010	61,740
July 1, 2010 - June 30, 2011	10,717
July 1, 2011 - June 30, 2012	4,007
July 1, 2012 - June 30, 2013	4,068
July 1, 2013 - June 30, 2014	4,126
July 1, 2014 - June 30, 2015	1,342
July 1, 2014 - June 30, 2016	1,899
	$ 809,538

Credit Risk

Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash, and trade accounts receivable.

To manage this credit risk, the Group maintains its available cash, mainly in US dollars, in international banks, Russian affiliates of international banks and Russian major banks. Management periodically reviews the creditworthiness of the banks in which it deposits cash.

The Group constantly monitors the status of accounts receivable collection and the credit worthiness of the customers. In addition, the Group requires prepayments from certain customers.

18. Financial Risks (continued)

Fair Value of Financial Instruments

The carrying amounts of financial instruments, consisting of cash, short-term and long-term investments, short-term accounts receivable and payable, short-term loans and long-term variable-rate loans receivable and payable, promissory notes approximate their fair value.

The fair value of restructured taxes with a carrying amount of $22,991 is equal to $23,902 as of June 30, 2005. The fair value of long-term obligations under restructured taxes as of June 30, 2005 was determined based on the future payments discounted at the annual rate of 13%.

The fair value of the notes issued by EvrazSecurities with a carrying amount of $490,884 is equal to $514,361. The fair value of the bonds issued by FC EvrazHolding with a carrying amount of $34,833 is equal to $35,805. The fair value of the notes and bonds was determined based on market quotations.

The fair value of the fixed-rate bank loans with a carrying value of $116,676 approximates $95,000. The fair value of the fixed-rate bank loans was determined based on future cash flows discounted at a rate of 11% per annum.

19. Subsequent Events

Business Combinations

On August 11, 2005, the Group acquired 75% stake in Clama S.r.l for a cash consideration of €61,000,000 ($79,123 at the exchange rate as of the date of transaction). Clama S.r.l owns 100% of share capital of Palini & Bertoli S.p.A., an Italian rolling mill. As of June 30, 2005, other non-current assets included a prepayment for the acquisition amounting to €38,500,000 ($50,416 at the exchange rate as of the date of transaction).

On July 13, 2005, the Group won a tender for the sale of 98.96% in Vitkovice Steel, a rolling mill, located in the Czech Republic. The purchase price is fixed at of 7,050,000,000 Czech Koruna ($283,878 at the exchange rate as of June 30, 2005). As of June 30, 2005, other non-current assets included a prepayment for the acquisition of 500,500,000 Czech Koruna ($20,454 at the exchange rate as of the date of transaction).

In addition to the information disclosed in respect of these acquisitions, IFRS 3 Business Combinations requires the Group to disclose the amounts to be recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities. It is impracticable for the Group to disclose this information because the acquired subsidiaries have not prepared their financial statements as of the dates of acquisitions in accordance with IFRS and independent appraisers have not completed their valuations.

19. Subsequent Events (continued)

Joint Venture Agreement

On September 21, 2005, the Group signed a joint venture agreement with Mitsui & Co. (Japan) according to which Mitsui & Co. will pay $42,797 to the Group in exchange for a 30% ownership interest in Nerungriugol, the Group's subsidiary. Further investments in the project will be shared by the Group and Mitsui & Co. on a pro rata basis to their shareholdings.

Dividends

On July 27, 2005, the Company declared interim dividends of $200,000 payable to the holders registered at May 31, 2005, which represents 1.87 US dollars of dividends per share.