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 unaudited interim condensed consolidated financial statements as of 30 June 2006 and for the six months ended 30 June 2006 and 2005 and the audited consolidated financial statements as of 31 December 2005 and 2004 and for the years then ended, the notes thereto. 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 as a result of various factors, including those described under "Risk Factors" and "Cautionary Note Regarding Forward Looking Statements."

Overview

Evraz is one of the largest vertically integrated steel and mining businesses with operations based in the Russian Federation, Czech Republic and Italy. Evraz produced 8.0 million tonnes and 7.0 million tonnes of crude steel in the first half 2006 and 2005, respectively, and 13.9 million tonnes and 13.7 million tonnes of crude steel in 2005 and 2004, respectively, ranking the Company as the largest producer of steel and steel products in Russia, the largest producer of long products in Russia and among the 15 largest steel producers in the world. Evraz also produces significant quantities of iron ore and is currently expanding into the coal sector. Most of Evraz's iron ore production is used in its steel making operations.

The Company listed global depositary receipts ("**GDRs**"), representing approximately 8.3% of its issued share capital, on the Official List of the London Stock Exchange (the "**LSE**") on 2 June 2005, thereby raising U.S.$422 million from new investors. Each GDR represents an interest in one-third of one share. In January 2006, Crosland Global Ltd, a major shareholder in Evraz, placed further GDRs, equivalent to approximately 6% of Evraz's issued share capital, on the LSE. The total number of GDRs listed on the LSE therefore represented approximately 14.3% of the Company's issued share capital as of 30 June 2006.

Evraz's principal assets comprise four integrated steel plants: NTMK, ZapSib, NKMK and Vitkovice Steel (acquired in November 2005); a steel rolling mill: Palini e Bertoli (acquired in August 2005); three iron ore mining and processing facilities: KGOK, VGOK and Evrazruda (acquired in March 2005); coal mining assets: Mine 12 (acquired in March 2005) and Neryungriugol, a greenfield coking coal mine; together with various trading and logistical assets. Evraz also owns significant equity interests in two coking coal producers: Raspadskaya and Yuzhkuzbassugol (acquired in December 2005). Evraz's consolidated revenues amounted to U.S.$3,825 million for the six months ended 30 June 2006, while the net profit attributable to equity holders of the parent entity totalled U.S.$571 million. Evraz's consolidated revenues amounted to U.S.$6,508 million for the year ended 31 December 2005, while the net profit attributable to equity holders of the parent entity totalled U.S.$905 million.

Reorganisation and Formation of the Company

Evraz Group S.A. was incorporated, under the laws of the Grand Duchy of Luxembourg, on 31 December 2004 as the holding company for Evraz's assets. On 5 April 2005, during the course of a subsequent reorganisation, 95.83% of the shares of Mastercroft (a limited liability company registered under the laws of Cyprus) which acted as Evraz's holding company prior to the establishment of the Company, were transferred to the Company in exchange for newly issued shares in the Company. This exchange of shares was accounted for in the Annual Financial Statements as of 31 December 2004. The Company acquired the remaining 4.17% interest in Mastercroft on 1 June 2005 for a cash consideration of U.S.$124 million. Accordingly, Evraz Group S.A.'s effective ownership interest in its businesses as of 31 December 2004 was less than Mastercroft's historic interest but increased to the historic level following the completion of this acquisition. Mastercroft was therefore a wholly owned subsidiary of the Company as of 30 June 2006.

The Company's interests in the majority of its subsidiaries are held indirectly through its ownership of Mastercroft, an exception being Vitkovice Steel, in which another of the Company's wholly owned subsidiaries obtained Mastercroft's former interest in January 2006.

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

Business Structure

Segments

Evraz's business is divided into two principal segments:

- the steel production segment, comprising the production and sale of semi-finished and finished steel products; vanadium slag; coke and coking products; and refractory products; and
- the mining segment, comprising the production, enrichment and sale of iron ore and the development of coking coal fields at Neryungriugol and, following the acquisition of Mine 12, the production of 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 the Company's plans for the further development of Evraz's 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 2005, Evraz's mining segment supplied approximately 76% of the steel segment's total iron ore requirements, while in the first half of 2006 Evraz's mining segment supplied approximately 71% of the steel segment's total requirements of iron ore. The steel segment supplies grinding balls and mining uprights to the mining segment for use in day-to-day 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 this data.

Summary of Acquisitions

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

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

Acquisitions / Start-ups prior to 2004

- *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 1997-2003, Evraz acquired a 74.35% interest in NTMK for a total consideration of U.S.$94.5 million. Evraz acquired a further 6.09% interest for a consideration of U.S.$48.0 million and 11.94 % interest for a consideration of U.S.$236 million in 2004 and 2005, respectively. The Company's effective interest in NTMK as of 30 June 2006 amounted to 92.41%.

- *West Siberian Iron and Steel Plant*. ZapSib is an integrated steel plant that primarily produces construction long products and semi-finished products. During 2001-2003, Evraz acquired a 93.36% interest in ZapSib for a total consideration of U.S.$88.5 million. Evraz acquired a further 1.23% interest in ZapSib's equity for a consideration of U.S.$9.3 million and 2.08% interest for U.S.$41.2 million in 2004 and 2005, respectively. The Company's effective interest in ZapSib as of 30 June 2006 amounted to 96.68%.

- *Novokuznetsk Iron and Steel Plant*. NKMK is an integrated steel plant that specialises in the production of rolled long metal products for the railway sector as well as semi-finished products. NKMK, formed in May 2003, commenced steel operations in October 2003 having acquired certain property, plant and equipment from OAO Kuznetsk Iron and Steel Plant ("**KMK**") for a consideration of U.S.$44.7 million subsequent to the dissolution of the latter in bankruptcy proceedings in June 2003. The Company's effective interest in NKMK as of 30 June 2006 amounted to 97.27%.

- *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 1998-2003 Evraz acquired an effective interest in VGOK of approximately 80%. Evraz acquired a further 0.01% interest in

VGOK for a consideration of U.S.$0.01 million in 2005. The Company's effective interest in VGOK as of 30 June 2006 amounted to 85.00%.

- *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 2003, Evraz had acquired an ownership interest of 91.51% in Nakhodka Sea Port for a total consideration of U.S.$16.6 million. Evraz acquired further interests in Nakhodka Sea Port totalling 2.10% during 2005 for total consideration of U.S.$ 0.24 million. The Company's effective interest in Nakhodka Sea Port as of 30 June 2006 amounted to 91.05%.

- *Ferrotrade Limited*. Ferrotrade Limited ("**Ferrotrade**") is an export trader that sells Evraz's steel products overseas. Ferrotrade's principal markets are Taiwan, Thailand, Vietnam, the Philippines and China. Ferrotrade, the successor to an entity under common control with Evraz, commenced operations in October 2003. The Company's effective interest in Ferrotrade as of 30 June 2006 amounted to 100.00%.

Acquisitions in 2004

- *Raspadskaya*. Raspadskaya, which produces coking coal, is one of the largest coal mines in Russia. On 10 March 2004, as part of a joint venture agreement, Evraz acquired a 50% interest in Corber Enterprises Limited ("**Corber**"), a joint venture created for the purpose of exercising joint control over the business activities of Raspadskaya, in which Corber owned 72.03% of the ordinary shares, and other subsidiaries of Corber. Evraz acquired its interest for a total consideration of U.S.$139.7 million, including U.S.$61.8 million in cash, the issuance of 6% interest bearing promissory notes with a nominal value of U.S.$19.2 million due after 10 March 2006 and a transfer of 19.15% of the ordinary shares in Raspadskaya. Corber acquired a further 4.20% interest in Raspadskaya during 2004 for a consideration of U.S.$5.5 million, and a further 0.70% interest in Raspadskaya during 2005 for U.S.$1.3 million. On 31 May 2006, Corber acquired a 100% ownership interest in Mezhdurechenskaya Ugolnaya Company - 96 ("**MUK-96**") from Adroliv, one of Corber's shareholders, in exchange for its own newly issued 7,200 ordinary shares and 4,800 preferred shares with par value of 1 U.S. Dollar each. As part of the transaction, Corber paid to Adroliv preferred dividends of U.S.$319 million. The total cost of the business combination, including cash consideration and fair value of equity instruments exchanged, amounted to U.S.$771 million. On 31 May 2006, Evraz acquired 3,600 newly issued ordinary shares of Corber for cash consideration of $225 million and retained 50% ownership interest in Corber. The Company's effective interest in Raspadskaya as of 30 June 2006 amounted to 48.4 %.

- *Neryungriugol*. Neryungriugol is a coking coal mine under development by Evraz. In April 2004, Evraz acquired 100% of Neryungriugol for a consideration of RUR100,000 (approximately U.S.$4,000). In April 2005, Neryungriugol obtained a licence for the Denisovskoye coal field. The Company's effective interest in Neryungriugol amounted to 100.00% as of 31 December 2005. In September 2005, Evraz concluded a joint venture agreement with Mitsui & Co. ("**Mitsui**"), under which Mitsui will pay U.S.$42.8 million to Evraz in exchange for a 30% ownership interest in Neryungriugol.

This transaction is expected to be completed in 2006 after the fulfilment of certain conditions and the receipt of various anti-monopoly approvals. Further investments in the development of Neryungriugol's Denisovskoye field will be shared by Evraz and Mitsui on a pro-rata basis in relation to their respective shareholdings.

- *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 date of transaction), the nominal value being RUR1,283.0 million (approximately U.S.$44.3 million at the date of transaction). Evraz acquired further interests in KGOK amounting to 14.04% and 0.08% of the ordinary shares during 2004 and 2005 for total considerations of U.S.$31.3 million and U.S.$0.8 million respectively. The Company's effective interest in KGOK as of 30 June 2006 amounted to 92.00%.

Acquisitions in 2005

- *Evrazruda*. Evrazruda is an iron ore mining and processing complex that produces iron ore concentrate and sinter. In March 2005, Evraz acquired a 99.90% interest in Evrazruda for a consideration of U.S.$32 million from entities under common control with Evraz and a 0.10% interest from third parties for an additional U.S.$32,000. As noted above, this has resulted in Evrazruda being consolidated with Evraz with effect from 31 December 2001 as it existed at such date, with acquisitions by Evrazruda subsequent to 31 December 2001 being accounted for by Evraz under the purchase method. The Company's effective interest in Evrazruda as of 30 June 2006 amounted to 100.00%.

- *Mine 12*. Mine 12 is located in the Kemerovo region in the proximity of ZapSib and NKMK. In April 2005, Evraz acquired a 100% interest in Mine 12. There is significant demand on the Russian coal market for the grade of coal mined at the Kiselevsko-Prokopyevsky field due to the fact that such coal is used in the production process of a certain class of coke coal, currently in short supply. Such demand serves to underline the importance of production at Mine 12.

- *Palini e Bertoli*. Palini produces customized, 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, for a total consideration, including transaction costs, of €93 million (U.S.$119 million as of the date of transaction) in cash. The remaining 25% less one share is held by certain former shareholders in Palini, including members of the company's senior management, and is subject to a call option, pre-emptive rights and lock-up arrangements in favour of Evraz together with a put option in favour of the current shareholders.

- *Vitkovice Steel*. Vitkovice Steel is the largest producer of steel plates in the Czech Republic. In July 2005, Evraz was selected by the government of the Czech Republic to acquire Vitkovice Steel via a privatisation sale. In November 2005, Evraz acquired

98.96% of the shares in Vitkovice Steel for a cash consideration of CZK7,428 million (approximately U.S.$298.1 million as of the date of the transaction).

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

Acquisitions in 2006

- During the six months ended 30 June 2006, Evraz acquired further interests in ZapSib of 0.0086% for consideration of U.S.$0.2 million, in NTMK of 0.026% for consideration of U.S.$0.7 million and in KGOK of 0.01% for consideration of U.S.$0.1 million.

- *Strategic Minerals Corporation ("Stratcor")*. Stratcor is one of the world's leading producers of vanadium alloys and chemicals for steel and chemical industries. Stratcor has two wholly-owned subsidiaries – Stratcor, Inc. with a mill in Hot Springs, Arkansas, USA, and Vametco Minerals Corporation with a mine and a mill in Brits, South Africa. On 23 August 2006, Evraz acquired 72.84% of ordinary shares of Stratcor, including 69.00% of voting shares, for an approximate cash consideration of U.S.$99 million.

- *Highveld Steel and Vanadium Corporation Limited ("Highveld")*. Highveld is one of the largest steel producers in South Africa and a leading producer of vanadium products. On 13 July 2006, Evraz entered into a number of agreements for potential acquisition of a 79% ownership interest in Highveld. As of the date of issue of this document, Evraz acquired a 24.9% ownership interest in Highveld for cash consideration of U.S.$206 million. Evraz has also options to increase this stake to 79% within the next 24 months should such a decision be made and subject to receipt of all necessary regulatory approvals.

The acquisitions of 72.84% ownership interest in Stratcor and 24.9% ownership interest in Highveld have not been accounted for in the interim condensed consolidated financial statements of Evraz for the six-month period ended June 30, 2006, because these acquisitions occurred after the balance sheet date.

Results of Operations for the six months ended 30 June 2006 and 2005 (unaudited amounts)

Income statement data	2006 Amount	2006 Percentage of revenues	2005 Amount	2005 Percentage of revenues	2006 v 2005 Change	2006 v 2005 % change
	(millions of U.S. Dollars, except percentages)					
Revenues[1]	3,825	100.0%	3,632	100.0%	193	5.3%
Cost of revenues	(2,520)	(65.9)%	(2,251)	(62.0)%	(269)	12.0%
Gross profit	1,305	34.1%	1,381	38.0%	(76)	(5.5)%
Selling and distribution costs	(105)	(2.7)%	(107)	(2.9)%	2	(1.9)%
General and administrative expenses	(234)	(6.1)%	(227)	(6.3)%	(7)	3.1%
Other operating income and expenses, net	(28)	(0.7)%	(42)	(1.2)%	14	(33.3)%
Profit from operations	938	24.5%	1,005	27.7%	(67)	(6.7)%
Non-operating income and expenses, net	(86)	(2.2)%	(20)	(0.6%)	(66)	330.0%
Profit before tax	852	22.3%	985	27.1%	(133)	(13.5)%
Income tax expense	(241)	(6.3)%	(256)	(7.0)%	15	(5.9)%
Net profit	611	16.0%	729	20.1%	(118)	(16.2)%
Net profit attributable to equity holders of the parent entity	571	14.9%	612	16.9%	(41)	(6.7)%
Net profit attributable to minority interests	40	1.0%	117	3.2%	(77)	(65.8)%

Six months ended 30 June

Note:

(1) Includes service revenues of U.S.$59 million and U.S.$61 million for the six months ended 30 June 2006 and 2005, respectively. Sales of services consist primarily of heat and electricity supply, port, transportation and accounting services.

In the six months ended 30 June 2006 and 2005, approximately 7% and 6%, respectively, of Evraz's revenues were generated in transactions with related parties. In addition, Evraz made significant purchases from related parties. See "Related Party Transactions" and Note 10 to the Interim Financial Statements.

Revenues

Evraz's consolidated revenues in the six months ended 30 June 2006 amounted to U.S.$3,825 million, a 5.3% increase compared to revenues of U.S.$3,632 million in the six months ended 2005. The steel segment sales accounted for the majority of the increase in revenues largely due to the growth in non-Russian sales volumes of steel products.

The following table shows the average price trends of Evraz's principal products from 2005 through 30 June 2006 (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:

	2006	2005		% change 1st half 2006 v 2nd half 2005	% change 1st half 2006 v 1st half 2005
	1st half	2nd half	1st half		
	(**U.S. Dollars per tonne, except percentages**)				
	Average Russian and rest of CIS prices for Evraz's products[(1)]				
Construction products					
Rebars	380	357	404	6.4%	(5.9)%
H-beams...............................	707	656	679	7.8%	4.1%
Sections (channels, angles) .	465	450	450	3.3%	3.3%
Wire rod and rounds	384	379	439	1.3%	(12.5)%
Railway products					
Rails	485	460	457	5.4%	6.1%
Wheels	1,191	1,122	1,076	6.1%	10.7%
Mining products					
Grinding balls	445	428	464	4.0%	(4.1)%
Semi-finished products					
Slabs	305	290	347	5.2%	(12.1)%
Pig Iron	211	200	296	5.5%	(28.7)%
Pipe blanks	370	378	445	(2.1)%	(16.9)%
Other steel products					
Plates	446	469	555	(4.9)%	(19.6)%
	Average non-CIS export prices for Evraz's Russian operations products[(2)]				
Construction products					
Rebars	366	366	408	(0.0)%	(10.3)%
Sections (channels, angles) .	405	396	383	2.3%	5.7%
Wire rod and rounds	384	379	429	1.3%	(10.5)%
Semi-finished products					
Billets	350	348	384	0.6%	(8.9)%
Slabs	334	342	490	(2.3)%	(31.8)%
Pig Iron	266	264	329	0.8%	(19.1)%
Other steel products					
Plates	416	410	525	1.5%	(20.8)%
	Average non-CIS export prices for Evraz's foreign operations products[(3)]				
Plates of Vitkovice Steel	731	755		(3.2)%	
Plates of Palini	622	585		6.3%	

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 simple average of the monthly weighted average sales prices in the relevant semi-annual period.

(2) Average price data for the six months ended 30 June 2006 and for the year ended 31 December 2005 relates to sales by Ferrotrade Limited.

(3) Prices for sales denominated in Euros and Czech Korunas 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 the six months ended 30 June 2006 and 2005:

Revenues by segment	6 months ended June			
			2006 v 2005	
	2006	2005	Change	% Change
	(millions of U.S. Dollars)			
Steel segment				
To third parties	3,727	3,566	161	4.5%
To mining segment	35	90	(55)	(61.1)%
To other operations	2	5	(3)	(60.0)%
Total	3,764	3,661	103	2.8%
Mining segment				
To third parties	53	29	24	82.8%
To steel segment	426	562	(136)	(24.2)%
To other operations	1	3	(2)	(66.7)%
Total	480	594	(114)	(19.2)%
Other operations				
To third parties	45	37	8	21.6%
To steel segment	201	187	14	7.5%
To mining segment	60	54	6	11.1%
Total	306	278	28	10.1%
Eliminations	(725)	(901)	176	
Consolidated revenues	**3,825**	**3,632**	**193**	**5.3%**
% from steel segment	97.4%	98.2%		
% from mining segment	1.4%	0.8%		
% from other operations	1.2%	1.0%		

The following table presents the geographic breakdown of Evraz's consolidated revenues for the six months ended 30 June 2006 and 2005.

	Six months ended June			
			2006 v 2005	
	2006	2005	Change	% Change
	(millions of U.S. Dollars)			
Russia	1,900	2,074	(174)	(8.4)%
Asia	1,083	1,314	(231)	(17.6)%
Europe	596	87	509	585.1%
Americas	118	55	63	114.5%
CIS	117	82	35	42.7%
Rest of the World	11	20	(9)	(45.0)%
Total	**3,825**	**3,632**	**193**	**5.3%**

Revenues from non-Russian sales increased due to a substantial growth of non-Russian sales volumes in the six months ended 30 June 2006 compared to six months ended 30 June 2005 (acquisitions of Palini and Vitkovice contributed substantially to the increase). Revenues from sales in Russia slightly decreased due to lower other sales (from non-steel products) of the steel segment in the six months ended 30 June 2006.

Steel segment

Steel segment revenues increased by 2.8% to U.S.$3,764 million in the six months ended 30 June 2006 compared to U.S.$3,661 million in the six months ended 30 June 2005.

Steel segment revenues were affected by the increased sales volumes of steel products provided by the Russian plants, by the price dynamics for steel products noted in the price trends table above and by the acquisitions of Vitkovice Steel in November 2005 and partially of Palini in August 2005, which mainly re-rolls Evraz's slab and adds its mark-up to the revenue of the steel segment. Revenues of Palini and Vitkovice Steel in the six months ended June 2006 amounted to U.S.$133 million (3.5% of steel segment revenues) and U.S.$322 million (8.5% of steel segment revenues), respectively. Revenues of Palini and Vitkovice Steel were not included in the interim consolidated financial statements of Evraz for the six-month period ended June 30, 2005.

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

	Six months ended 30 June					
	2006		2005		2006 v 2005	
	Millions of U.S. Dollars	Percentage of total	Millions of U.S. Dollars	Percentage of total	Change	% Change
Construction products[1]	994	26.4%	915	25.0%	79	8.6%
of which Vitkovice Steel	*46*	*1.2%*	-	-	*46*	-
Railway products[2]	456	12.1%	462	12.6%	(6)	(1.3)%
Mining products[3]	66	1.8%	62	1.7%	4	6.5%
Semi-finished products[4]	1,370	36.4%	1,401	38.3%	(31)	(2.2)%
Other steel products[5]	581	15.4%	175	4.8%	406	232.0%
of which Palini	*128*	*3.4%*	-	-	*128*	-
of which Vitkovice Steel	*275*	*7.3%*	-	-	*275*	-
Other products[6]	297	7.9%	646	17.6%	(349)	(54.0)%

Notes:

(1) Includes rebars, wire rods, wire, H-beams, channels and angles.
(2) Includes rails and wheels.
(3) Includes grinding balls and mine uprights.
(4) Includes billets, slabs, pig iron, pipe blanks and blooms.
(5) Includes rounds and plates.
(6) Includes coke and coking products, refractory products, vanadium slag and resale of coking coal

Revenues from sales of construction, mining sector and other steel products (predominantly plates) increased as a proportion of steel segment sales, while revenues from sales of semi-finished and railway products and from other sales declined as a proportion of steel segment sales in the six months ended 30 June 2006 compared to the six months ended 30 June 2005.

The increase in the proportion of revenues attributable to construction and mining sector resulted from increases in sales volume in spite of lower average prices for these products in the six months ended 30 June 2006 compared to the six months ended 30 June 2005.

The increase in the proportion of revenues attributable to other steel products resulted from both higher average prices and higher sales volume as a percentage of total steel segment sales volume following the acquisitions of Vitkovice Steel in November 2005 and Palini in August 2005, both of which produce mainly high value added flat products. If considered net of the effect of Vitkovice Steel and Palini, the share of revenues attributable to sales of other steel products would have slightly declined as a proportion of steel segment sales.

The decline in the proportion of revenues attributable to sales of semi-finished products resulted from both lower average prices and slightly lower sales volume as a percentage of total steel segment sales volume, in spite of the fact that absolute sales volume of semi-finished products increased in the six months ended 30 June 2006 compared to the six months ended 30 June 2005. The decrease in the sales volume of semi-finished products as a percentage of total steel segment sales volume is mainly attributable to the volume of slab from the Russian plants re-rolled at Palini into plate and thus classified in other steel products in the first six months of 2006.

The proportion of revenues attributable to sales of railway products declined due to a lower sales volume as a percentage of total steel segment sales volume.

The share of revenues attributable to sales of other products significantly declined due to several reasons. There were no re-sales of coking coals through the steel segment in the first half of 2006, while in the same period of 2005 such sales amounted to approximately U.S.$128 million. There were also substantial decreases in prices of vanadium slag, coke and refractory products sold to third parties in the six months ended 30 June 2006 compared to the six months ended 30 June 2005. Revenue from sales of vanadium slag amounted to approximately 28% and 21% of total revenues from sales of other non-steel products in the first six months of 2006 and 2005, respectively.

For the six months ended 30 June 2006 and 2005, steel segment sales to the mining segment amounted to U.S.$35 million and U.S.$90 million, respectively.

Non-Russian sales amounted to approximately 53% of steel segment revenues in the six months ended 30 June 2006, compared to 42% in the six months ended 30 June 2005. The increased share of non-Russian revenues in the six months ended 30 June 2006 was attributable to the substantial growth in export sales volumes, provided by both Evraz's Russian operations and its new foreign subsidiaries Palini and Vitkovice Steel.

Mining segment

Mining segment revenues decreased by 19.2% to U.S.$480 million in the six months ended 30 June 2006 compared to U.S.$594 million in the six months ended 30 June 2005. This decrease largely reflected the decline in the average prices of iron ore.

Substantially all of Evraz's mining segment sales consist of iron ore. Consolidated coal assets comprise Neryungriugol, which has yet to commence production, and Mine 12 (acquired in March 2005). Revenues attributable to Mine 12 in the six months ended 30 June 2006 amounted to U.S.$13 million compared to U.S.$9 million in the six months ended 30 June 2005 following its acquisition. Evraz also holds 48.4% and 50% equity method accounted interests, respectively, in Raspadskaya and Yuzhkuzbassugol ("**YuKU**") (acquired on 31 December 2005) coking coal mines. Revenue attributable to Raspadskaya and YuKU is therefore not consolidated in Evraz's financial statements and the Company's share of their net profits is accounted for as "Share of profits (losses) of joint ventures and associates" (see "Non-operating income and expense").

For the six months ended 30 June 2006 and 2005, mining segment sales to the steel segment amounted to U.S.$426 million (88.8% of mining segment sales) and U.S.$562 million (94.7% of mining segment sales), respectively. In the first six months of 2005, most of the sales of iron ore to third parties were made through the trading companies of the steel segment. Therefore, a small part of iron ore supplied to the steel segment was resold to third parties. In the first six months of 2006, all such sales to third parties in Russia and CIS were made directly from the entities in the mining segment to third parties, thus nominally decreasing the share of supplies to the steel segment.

Approximately 71% of Evraz's iron ore requirements were met by the mining segment in the six months ended 30 June 2006, compared to 76% in the six months ended 30 June 2005, though in absolute terms supplies of iron ore from the mining segment to the steel segment slightly increased. The decrease in the proportion of iron ore sourced internally largely resulted from the substantial increase in the production of pig iron and steel products by the Russian steel plants in order to capitalize on the favourable market conditions in the six months ended 30 June 2006. Mining assets utilize full capacity to produce iron ore, therefore Evraz was forced to seek additional external supply to meet the increased demand of the steel plants in iron ore, particularly from Korshunovsky GOK and Mikhailovsky GOK to the Siberian plants. Evraz's capital expenditure programme foresees the increase of production capacity of its mining assets.

The majority of third party sales in the mining segment were to customers in Russia.

Other operations

Evraz's revenues in respect of the Company's other operations segment increased by 10.1% to U.S.$306 million in the six months ended 30 June 2006 compared to U.S.$278 million in the six months ended 30 June 2005. Revenues were largely derived from the following operations (sales figures shown below include sales made within the same segment):

- Nakhodka Sea Port. Sales at Nakhodka Sea Port, which provides seaport services, amounted to U.S.$28 million in the six months ended 30 June 2006 and U.S.$23 million in the six months ended 30 June 2005. Inter-segment sales accounted for 50.6% and 40.2% of such revenues in the six-month periods ended 30 June 2006 and 2005, respectively.

- Evraztrans acts as a railway forwarder for Evraz's steel segment. Sales at Evraztrans amounted to U.S.$28 million in the six months ended 30 June 2006 and U.S.$69 million in the six months ended 30 June 2005. The substantial decline in revenues (and cost of revenues) was attributable to the transfer of low margin railway transportation of export products to the ports to Trading House EvrazHolding. Evraztrans derives the majority of its revenues from inter-segment sales. Inter-segment sales accounted for 95.6% and 99.6% of Evraztrans' revenues in the six-month periods ended 30 June 2006 and 2005, respectively.

- Metallenergofinance ("**MEF**") supplies electricity and heat to Evraz's steel and mining segments and to third parties. MEF's sales amounted to U.S.$152 million in the six months ended 30 June 2006, compared to U.S.$150 million in the six months ended 30 June 2005. Intersegment sales accounted for 92.9% and 84.8% of MEF's revenues in the six-month periods ended June 30 2006 and 2005, respectively.

- Sinano Shipmanagement ("**Sinano**") provides sea freight services to Evraz's steel segment. Sinano's sales totalled U.S.$63 million in the six months ended 30 June 2006 and U.S.$21 million in the six months ended 30 June 2005. Sinano derives substantially all of its revenues from intersegment sales, and a substantial growth in revenues of

Sinano in the six months ended 30 June 2006 related to the volume of freight services provided to the steel segment.

- OOO EvrazHolding ("**EvrazHolding**") provides management, accounting and other services to NTMK, ZapSib, NKMK KGOK, Evrazruda, VGOK and other Russian subsidiaries of the Company. EvrazHolding generated revenues of U.S.$19 million and U.S.$17 million in the six months ended 30 June 2006 and 2005, respectively, from the provision of management, accounting and other services to the Company's subsidiaries and to related parties; 99.0% and 96.2% of these revenues were derived from the Company's subsidiaries in these periods, respectively.

- Trading House EvrazHolding ("**TH EvrazHolding**") is engaged in the resale of steel products/vanadium slag and iron ore from the steel and mining segments respectively to the domestic market, while also supplying materials and equipment to both segments. In the six months ended 30 June 2006, TH EvrazHolding's revenues attributable to the resale of ferroalloys, purchased from third parties and resold to third parties, partially for further processing and partially representing excess amounts in relation to bulk discount purchases, amounted to U.S.$19 million. These revenues were allocated to the other operations segment. Revenues from supplies to the steel and mining segments and the resale of products from these segments were allocated to the steel and mining segments, respectively. In the six months ended 30 June 2005 resale operations were not material.

External sales in respect of the other operations segment, consisting primarily of sales of energy by MEF, the provision of port services by Nakhodka Sea Port and the revenues of TH EvrazHolding from resale transactions, increased from U.S.$38 million in the six months ended 30 June 2005 to U.S.$45 million in the six months ended 30 June 2006. The increase is primarily attributable to the revenues of TH EvrazHolding.

Cost of revenues and gross profit

Evraz's consolidated cost of revenues amounted to U.S.$2,520 million and U.S.$2,251 million in the six months ended 30 June 2006 and 2005, respectively. Cost of revenues as a share of consolidated revenues increased from 62.0% to 65.9% of consolidated revenues in the six months ended 30 June 2005 and 2006, respectively. This increase is primarily attributable to the higher share of iron ore purchased from third parties to meet the increased production volumes of the steel segment.

The table below sets forth cost of revenues and gross profit by segment for the six months ended 30 June 2006 and 2005, including percentage of segment revenues.

	Six months ended 30 June					
	2006		2005		2006 v 2005	
	Amount	Percentage of segment revenues	Amount	Percentage of segment revenues	Change	% Change
	(millions of U.S. Dollars, except percentages)					
Steel segment						
Cost of revenues	(2,596)	(69.0)%	(2,566)	(70.1)%	(30)	1.2%
Raw materials	(1,573)		(1,715)		142	(8.3)%
Transportation	(265)		(214)		(51)	23.8%
Staff costs	(224)		(189)		(35)	18.5%
Depreciation	(100)		(68)		(32)	47.1%
Energy	(207)		(165)		(42)	25.5%
Other(1)	(227)		(215)		(12)	5.6%
Gross profit	1,168	31.0%	1,095	29.9%	73	6.7%
Mining segment						
Cost of revenues	(329)	(68.5)%	(325)	(54.7)%	(4)	1.2%
Raw materials	(75)		(113)		38	(33.6)%
Staff costs	(75)		(59)		(16)	27.1%
Depreciation	(25)		(26)		1	(3.8)%
Energy(2)	(89)		(88)		(1)	1.1%
Other(3)	(65)		(39)		(26)	66.7%
Gross profit	151	31.5%	269	45.3%	(118)	(43.9)%
Other operations						
Cost of revenues	(182)	(59.5)%	(206)	(74.1)%	24	(117)%
Gross profit	124	40.5%	72	25.9%	52	72.2%
Eliminations-cost of revenues	587		846			
Eliminations -gross profit	(138)		(55)			
Consolidated cost of revenues	(2,520)		(2,251)		(269)	12.0%
Consolidated gross profit	1,305		1,381		(76)	(5.5)%

Notes:

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

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

(3) Includes auxiliary materials and repairs and maintenance.

Steel segment

Steel segment cost of revenues increased by 1.2% from U.S.$2,566 million to U.S.$2,596 million in the six months ended 30 June 2005 and 2006, respectively. Cost of revenues amounted to 69.0% and 70.1% of steel segment revenues for the first six months of 2006 and 2005, respectively.

A significant growth in volumes of steel products sold contributed to the increase in the steel segment cost of revenues in the first six months of 2006 as compared to the first six months of 2005, while lower average prices for iron ore and coking coal offset to a significant extent the effect of higher volumes. The growth in the steel sales volumes was attributable to an organic growth in sales of the Russian operations and to a lesser degree to the acquisition of Vitkovice Steel in late 2005. After its acquisition in 2005, Palini mainly re-rolles slab purchased from within Evraz and hence does not directly contribute to the increase in group volumes. (See – Summary of acquisitions – Acquisitions in 2005).

Apart from the steel sales volumes, certain items of the steel segment cost of revenues were also influenced by the acquisition of Vitkovice Steel and to a less degree of Palini as indicated below. The cost of revenues in respect of Vitkovice Steel, including intra-group profits, amounted to U.S$209 million (8.0% of steel segment cost of revenues), while the cost of revenues in respect of Palini, including intra-group profits, amounted to U.S$44 million (1.7% of steel segment cost of revenues) in the six months ended 30 June 2006. Most of the cost of revenues of Palini relates to the slab purchased from within Evraz.

The primary factors affecting the growth of steel segment cost of revenues in the six months ended 30 June 2006 as compared to the six months ended 30 June 2005 were as follows:

- Raw material costs decreased by 8.3% despite a significant growth in total sales volume of steel products. This decrease primarily reflected substantially lower prices for raw materials such as iron ore, coal and ferroalloys in the first six months 2006 compared to the same period in 2005.

- Transportation costs increased by 23.8%. 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 remained at the same level in the periods under review. The increase is mainly attributable to the growth in export sales volumes of steel products and related transportation costs.

- Depreciation costs increased by 47.1%. The increase was largely due to completion of several investment projects. Another factor that served to increase depreciation costs was the capitalisation of expenditures relating to the replacement of property, plant and equipment components in accordance with IAS 16 (revised), which was not accounted for in the Interim financial statements for the six months ended 30 June 2005. The acquisitions of Vitkovice Steel and Palini contributed approximately 13% to the total increase in depreciation in the period.

- Energy costs increased by 25.5%. The acquisitions of Vitkovice Steel and Palini contributed substantially to the increase in energy costs (+19.5%) together with the increases in electricity, natural gas and heat tariffs for the Russian steel mills.

- Staff costs increased by 18.5%. The acquisitions of Palini and Vitkovice Steel contributed approximately 7% to the increase. Consolidation in the six months ended 30 June 2006 of minor subsidiaries of Zapsib and NTMK, which were not consolidated in the same period in 2005 due to immateriality, contributed approximately 9% to the increase. Wages and salaries of production staff rose in line with inflation.

- Other costs increased by 5.6%. These costs consisted primarily of contractor services and materials for maintenance and repairs.

Steel segment gross profit increased by 6.7% to U.S.$1,168 million for the six months ended 30 June 2006 compared to the six months ended 30 June 2005, while gross profit margin amounted to 31.0% and 29.9% of steel segment revenues in the six month ended 30 June 2006 and 2005, respectively. Gross profit margin increased over the period primarily due to increased sales volume of steel products.

Mining segment

The mining segment cost of revenues increased by 1.2% from U.S.$325 million to U.S.$329 million in the six months ended 30 June 2005 and 2006, respectively, representing 68.5% and 54.7% of the mining segment revenues in the six months ended 30 June 2006 and 30 June 2005, respectively.

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

- Raw materials costs decreased by 33.6%. Decreased costs resulted mainly from a reduction in volumes of iron ore purchased by Evrazruda from third parties as a result of acquisition of certain counterparties, from which the materials were purchased before. The 15% reduction of sinter production at VGOK further contributed to the decrease in purchases of iron ore from third parties.

- Staff costs increased by 27.1%. Evrazruda contributed about 20% to the increase. Partially, it was a result of the abovementioned acquisition of certain suppliers of raw material, hence matching the decrease in raw materials costs with the increase in staff costs. Wages and salaries of production staff rose in line with inflation.

- Energy costs marginally increased by 1.1%.

- Depreciation costs decreased by 1.0% mainly due to decreased depletion of mining assets at Evrazruda.

- Other costs increased by 66.7%. Outsourcing of all maintenance and repairs costs at KGOK contributed about 37% to the increase in the first six months of 2006. Previously such costs were included into materials and staff costs lines. Allocation of transportation costs, which were previously accounted in selling and distribution costs, to this line contributed about 18% to the increase, hence matching the decrease in transportation costs in selling and distribution costs and increase in other costs in cost of revenues. Additional maintenance and repair services at Evrazruda also contributed to the increase in other costs.

Mining segment gross profit decreased by 43.9% to U.S.$151 million in the six months ended 30 June 2006 from U.S.$269 million in the six months ended 30 June 2005, resulting in gross profit margin of 31.5% of mining segment revenues in the six months ended 30 June 2006 as compared to 45.3% in the six months ended 30 June 2005. Gross profit margin decreased significantly, largely reflecting substantial price decreases for iron ore and coking coal.

Other operations

The other operations segment's cost of revenues decreased by 11.6% to U.S.$182 million in the six months ended 30 June 2006, representing 59.5% of other operations revenues, compared to U.S.$206 million, representing 74.1% of other operations revenues, in the six months ended 30 June 2005. The decrease in other operations cost of revenues is primarily attributable to the transfer of low margin railway transportation of export products to the ports from Evraztrans to TH EvrazHolding, which was allocated to the steel segment.

The major components of cost of revenues at Nakhodka Sea Port are staff costs and maintenance costs; the major component of Evraztrans' cost of revenues is rent of railway cars; the major component of MEF's cost of revenues is the purchase of electricity from power generating companies; while the major component of Sinano's cost of revenues are ship hire fees. Staff costs account for the majority of EvrazHolding's costs.

The gross profit of the other operations segment increased by 72.2% to U.S.$124 million in the six months ended 30 June 2006 compared to U.S.$72 million in the six months ended 30 June 2005. Gross profit margin amounted to 40.5% and 25.9% of other operations revenues in the six-month periods ended 30 June 2006 and 2005, respectively. The majority of the growth in gross profit of the other operations segment was provided by Sinano, which substantially increased volume of freight services provided to the steel segment.

Selling and distribution costs

Selling and distribution costs decreased by 1.9% to U.S.$105 million, amounting to 2.7% of consolidated revenues, in the six months ended 30 June 2006 compared to U.S$107 million, amounting to 3.0% of consolidated revenues, in the six months ended 30 June 2005. Selling and distribution costs consist largely of transportation expenses related to Evraz's selling activities.

The following table presents selling and distribution costs by segment for the six months ended 30 June 2006 and 2005, including as a percentage of segment revenues.

	Six months ended 30 June					
	2006		2005		2006 v 2005	
Selling and distribution costs by segment	Amount	Percentage of segment revenues	Amount	Percentage of segment revenues	Change	% Change
	(millions of U.S. Dollars, except percentages)					
Steel segment	(142)	(3.8)%	(130)	(3.6)%	(12)	9.2%
Transportation costs	(64)		(62)		(2)	3.2%
Staff costs	(10)		(10)		0	0%
Bad debt provision	(10)		(5)		(5)	n/m
Other(1)	(58)		(53)		(5)	9.4%
Mining segment	(2)	(0.4)%	(6)	(1.0)%	4	n/m
Other operations	(45)	(14.7)%	(13)	(4.7)%	(32)	n/m
Eliminations	84		42			
Total	(105)		(107)		2	(1.9)%

Notes:

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

Steel segment

Selling and distribution costs amounted to 3.8% and 3.6% of steel segment revenues in the six months ended 30 June 2006 and 2005, respectively. The primary factors affecting the steel segment selling and distribution costs were:

- Transportation costs increased by 3.2%. The increase related to the growth in freight services provided by third parties due to the increase in the volume of export sales.
- Staff costs remained constant.
- The bad debt provision expense in the first six months of 2005 related principally to obligations in respect of Tagil Energo, which purchases heat from NTMK while in the first six months of 2006 it related to obligations of Tagil Energo and to impairment of certain debtors of Nikomogneupor, a subsidiary of NTMK.

Mining segment

Selling and distribution costs amounted to 0.4% and 1.0% of mining segment revenues in the six months ended 30 June 2006 and 2005, respectively.

Other operations

Selling and distribution costs amounted to 14.7% and 4.7% of other operations' revenues in the six months ended 30 June 2006 and 2005, respectively. The increase in selling and distribution costs was largely attributable to the expansion of Sinano's business activities. Sinano's selling and distribution costs consist primarily of freight expenses, ship management services and ship hire fees.

General and administrative expenses

General and administrative expenses increased by 3.1% to U.S.$234 million in the first half of 2006 compared to U.S.$227 million in the first half of 2005. As a percentage of consolidated revenues, general and administrative expenses amounted to 6.1% and 6.3% in the six months ended 30 June 2006 and 2005, respectively.

The following table presents general and administrative expenses by segment for the six months ended 30 June 2006 and 2005 including as a percentage of segment revenues.

	Six months ended 30 June					
	2006		2005		2006 v 2005	
General and administrative expenses by segment	Amount	Percentage of segment revenues	Amount	Percentage of segment revenues	Change	% Change
	(millions of U.S. Dollars, except percentages)					
Steel segment	(150)	(4.0)%	(154)	(4.2)%	4	(2.6)%
Staff costs	(51)		(44)		(7)	15.9%
Taxes, other than on income	(32)		(33)		1	(3.0)%
Management fees	(10)		(10)		0	0%
Other[1]	(57)		(67)		10	(14.9)%
Mining segment	(38)	(7.9)%	(37)	(6.3)%	(1)	2.7%
Staff costs	(11)		(15)		4	(26.7)%
Taxes, other than on income	(11)		(5)		(6)	n/m
Management fees	(6)		(0)		(6)	n/m
Other[2]	(10)		(17)		7	(41.2)%
Other operations	(54)	(17.6)%	(44)	(15.8)%	(10)	22.7%
Unallocated[3]	(8)		(6)			
Eliminations	16		14			
Total	(234)		(227)		(7)	3.1%

Notes:
(1) Includes depreciation, insurance and bank and other service costs.
(2) Includes rent, insurance, bank and other service costs and, with effect from April 2005, management fees paid to EvrazHolding.
(3) Relates principally to accounting and consulting fees.

Steel segment

General and administrative expenses amounted to 4.0% and 4.2% of the steel segment revenues in the six months ended 30 June 2006 and 2005, respectively. The primary factors affecting the changes in the steel segment general and administrative expenses were:

- Staff costs increased by 15.9%. Acquisitions of Vitkovice Steel and Palini contributed approximately 13% to the increase.
- Taxes, other than on income, including property, land and local taxes, decreased by 3.0%. The decrease primarily reflects a reduction in prior year's provision for tax litigations.
- Management fees charged by EvrazHolding remained constant.

Palini and Vitkovice Steel accounted for U.S.$2 million and U.S.$9 million, respectively, of the general and administrative expenses of the steel segment in the six months ended 30 June 2006.

Mining segment

General and administrative expenses amounted to 7.9% and 6.3% of mining segment revenues for the six months ended 30 June 2006 and 2005, respectively. Taxes, other than on income, increased by U.S.$6 million due to a provision made at Evrazruda, and other costs decreased by 38.9%. With effect from 1 April 2005, the general and administrative expenses of the mining segment include management fees paid by KGOK, Mine 12, Evrazruda and VGOK to EvrazHolding.

Other operations

General and administrative expenses amounted to 17.6% and 15.8% of other operations segment revenues in the six months ended 30 June 2006 and 2005, respectively. EvrazHolding accounted for U.S.$40 million (73.5%) and U.S.$ 37 million (84.3%) of other operations' general and administrative expenses in the period in 2006 and 2005, respectively. Most of EvrazHolding's general and administrative costs relate to wages and salaries in respect of its employees, including Evraz's senior management.

Other operating income and expenses

Other operating expenses, net of other operating income, decreased by 33.3% to U.S.$28 million in the six months ended 30 June 2006, representing 0.7% of consolidated revenues, compared to U.S.$42 million in the six months ended 30 June 2005, representing 1.2% of consolidated revenues. Other operating income and expenses consist primarily of social and social infrastructure expenses, gain (loss) on the disposal of property, plant and equipment, impairment of assets and gain (loss) in respect of foreign exchange rates changes. Social and social infrastructure expenses include such items as maintenance of medical centres, recreational centres, employee holiday allowances, sponsorship of sports teams and events, charitable donations and cash assistance to retired and former employees and veterans.

The following table presents other operating income and expenses by segment for the six months ended 30 June 2006 and 2005, including as a percentage of segment revenues.

Other operating income and expenses by segment	Six months ended 30 June 2006 Amount	Percentage of segment revenues	2005 Amount	Percentage of segment revenues	2006 v 2005 Change	% Change
	(millions of U.S. Dollars, except percentages)					
Steel segment						
Social and social infrastructure maintenance expenses	(33)	(0.9)%	(29)	(0.8)%	(4)	13.8%
Loss on disposal of property, plant and equipment	(10)	(0.3)%	(8)	(0.2)%	(2)	
Impairment of assets	(5)	(0.1)%	(0)	0.0%	(5)	
Foreign exchange gain	19	0.5%	1	0.0%	18	
Other income, net	(6)	(0.2)%	1	0.0%	(7)	
Total	**(35)**	**(0.9)%**	**(35)**	**(1.0)%**	**0**	**0%**
Mining segment						
Social and social infrastructure maintenance expenses	(5)	(1.0)%	(5)	(0.8)%	0	
Other income, net	(0)	0.0%	3	0.5%	(3)	
Total	**(5)**	**(1.0)%**	**(2)**	**(0.3)%**	**(3)**	**150.0%**
Other operations						
Social and social infrastructure maintenance expenses	(1)	(0.3)%	(2)	(0.7)%	1	
Other income, net	0	0.0%	(2)	(0.7)%	2	
Total	**(1)**	**(0.3)%**	**(4)**	**(1.4)%**	**3**	**(75.0)%**
Unallocated						
Other operating income (expense)	13		(1)		14	
Total	**13**		**(1)**		**14**	
Eliminations	(0)					
Total other operating income and expenses, net	**(28)**		**(42)**		**14**	**(33.3)%**

There was a moderate increase in social and social infrastructure expenses in the steel segment primarily due to the general inflation in Russia and strengthening of the Rouble against U.S. Dollar.

Profit from operations

Profit from operations decreased by 6.7% to U.S.$938 million for the six months ended 30 June 2006, amounting to 24.5% of consolidated revenues, compared to U.S.$1,005 million, amounting to 27.7% of consolidated revenues, for the six months ended 30 June 2005. The decline in the share of profit from operations as a percentage of consolidated revenues is attributable to a decrease in consolidated gross profit margin in the six months ended 30 June 2006.

The following table presents profit from operations by segment for the six months ended 30 June 2006 and 2005, including as a percentage of segment revenues.

Profit from operations by segment	Six months ended 30 June					
	2006		2005		2006 v 2005	
	Amount	Percentage of segment revenues	Amount	Percentage of segment revenues	Change	% Change
	(millions of U.S. Dollars, except percentages)					
Steel segment	841	22.3%	776	21.2%	65	8.4%
Mining segment	106	22.1%	224	37.7%	(118)	(52.7)%
Other operations	24	7.8%	11	4.0%	13	118.2%
Unallocated	5		(6)			
Eliminations	(38)		-			
Total	**938**		**1,005**		**(67)**	**(6.7)%**

Steel segment

Steel segment profit from operations increased by 8.4% to U.S.$841 million in the six months ended 30 June 2006 from U.S.$776 million in the six months ended 30 June 2005. Profit from operations as a percentage of steel segment revenues amounted to 22.3% and 21.2% in the six months ended 30 June 2005 and 2006.

Mining segment

Mining segment profit from operations decreased by 52.7% to U.S.$106 million in the six months ended 30 June 2006 from U.S.$224 million in the six months ended 30 June 2005. Profit from operations as a percentage of mining segment revenues decreased from 37.7% to 22.1% in the six months ended 30 June 2005 and 2006, respectively. The decrease in the operating profit margin resulted from lower iron ore on the markets in 2006.

Other operations

Other operations segment profit from operations increased by 118.2% to U.S.$24 million in the six months ended 30 June 2006 compared to U.S.$11 million in the six months ended 30 June 2005. Profit from operations as a percentage of other operations segment revenues increased from 4.0% to 7.8% in the six months ended 30 June 2005 and 2006, respectively. The increase in profit from operations largely reflected additional profits earned by Sinano and MEF in the six months ended 30 June 2006.

Non-operating income and expense

Non-operating income and expense includes interest income, interest expense, share of profits of associates and joint ventures and excesses of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition of such. The table below presents these items for the six months ended 30 June 2006 and 2005, including as a percentage of consolidated revenues.

	Six months ended 30 June					
	2006		2005		2006 v 2005	
	Amount	Percentage of revenues	Amount	Percentage of revenues	Change	% Change
	(millions of U.S. Dollars, except percentages)					
Interest income	8	0.2%	4	0.1%	4	100.0%
Interest expense	(107)	(2.8)%	(66)	(1.8)%	(41)	62.1%
Share of profits (losses) of associates and joint ventures, net	10	0.3%	41	1.1%	(31)	(75.6)%
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	0	0.0%	10	0.3%	(10)	
Other non-operating gain (loss)	3	0.1%	(9)	(0.2)%	12	
Total	**(86)**	**(2.2)%**	**(20)**	**(0.6)%**	**(66)**	**330.0%**

Interest income increased by 100.0% to U.S.$8 million in the six months ended 30 June 2006 from U.S.$4 million in the six months ended 30 June 2005, largely due to placing free cash on short-term deposit.

Interest expense increased by 62.1% to U.S.$107 million in the six months ended 30 June 2006 compared to U.S.$66 million in the six months ended 30 June 2005. The increase resulted from the issuance of Eurobonds in November 2005 (see "—Liquidity and Capital Resources—Capital Resources") as well as bank borrowings related to capital expenditures and new acquisitions.

Share of profits of associates and joint ventures in the first half of 2005 relates to income attributable to Evraz's interest in Raspadskaya, while in the first half of 2006 it relates to the income attributable to Evraz's interest in Raspadskaya, YuKU and Greyridge, a coal trader. The decrease in share of profits from Raspadskaya by U.S.$28 million to about U.S.$13 million is attributable to lower prices for coal in the first six months of 2006 than in the same period in 2005. Evraz's share in losses of YuKU of about U.S.$13 millions further reduced total share of profits from associates and joint ventures due to low coal prices and volumes in the six months ended 30 June 2006. The remaining amount of U.S.$10 million is Evraz's interest in Greyridge.

Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition in the six months ended 30 June 2005 primarily related to the acquisitions of Mine 12 and of the assets and the business of OOO Nizhnesaldinsky Metallurgical Plant.

Other non-operating loss for the six-month period ended 30 June 2005 includes U.S.$10 million paid to the government of Georgia as a non-refundable prepayment for the acquisition of an ownership interest in JSC Chiaturmanganum and JSC Vartsikhe GES. The Group planned to acquire a 63.08% interest in these entities, but abandoned the project prior to completion of the acquisitions.

Income tax expense

Income tax expense decreased by 5.9% to U.S.$241 million in the six months ended 30 June 2006 from U.S.$256 million in the six months ended 30 June 2005. Evraz's effective tax rate, defined as income tax expense as a percentage of profit before tax, increased from 26.0% in the six months ended 30 June 2005 to 28.3% in the six months ended 30 June 2006. The increase in the effective tax rate primarily reflects the effect of higher dividend payouts from profits of consolidated subsidiaries of Evraz resulting in additional withholding tax on dividends added to the income tax on profits of those subsidiaries in the six months ended 30 June 2006 compared to the six months ended 30 June 2005.

Net profit attributable to equity holders of the parent entity

As a result of the factors set forth above, Evraz's net profit attributable to equity holders of the parent entity decreased from U.S.$612 million in the six months ended 30 June 2005 to U.S.$571 million in the six months ended 30 June 2006.

Net profit attributable to minority interests

Net profit attributable to minority interests amounted to U.S.$40 million and U.S.$117 million in the six months ended 30 June 2006 and 2005, respectively. The decrease in net profit attributable to minority interests largely reflected the decrease in minority shareholders' interests. Evraz's strategy is to reduce the level of minority interests in its subsidiaries.

The following table presents the Company's effective ownership interests in its major subsidiaries as of 30 June 2006 and 2005:

	As of 30 June			
Subsidiary	**2006**	**2005**	**Business activity**	**Location**
Mastercroft	100.000	100.00	Holding Company	Cyprus
NTMK	92.40	84.42	Steel production	Russia
ZapSib	96.68	95.38	Steel production	Russia
NKMK	97.27	94.95	Steel production	Russia
Palini	75.00	-	Steel production	Italy
Vitkovice Steel	98.96	-	Steel production	Czech Republic
KGOK	92.00	86.80	Iron ore mining and processing	Russia
Evrazruda	100.00	100.00	Iron ore mining and processing	Russia
VGOK	85.00	82.97	Iron ore mining and processing	Russia
Neryungriugol	100.00	100.00	Coal mining	Russia
Ferrotrade Limited	100.00	100.00	Trading	Gibraltar
Trade House EvrazHolding	100.00	100.00	Trading	Russia
Trade House EvrazResource	100.00	100.00	Trading	Russia
Nakhodka Sea Port	91.05	88.30	Seaport services	Russia
Evraztrans	76.00	76.00	Freight-forwarding	Russia
Metallenergofinance	100.00	100.00	Utilities supply	Russia

Results of Operations for the years ended 31 December 2005 and 2004

The following table sets out the Company's consolidated income statement data for the years ended 31 December 2005 and 31 December 2004 in absolute terms and as a percentage of revenues.

	Year ended 31 December					
	2005		2004		2005 v 2004	
Income statement data	**Amount**	**Percentage of revenues**	**Amount**	**Percentage of revenues**	**Change**	**% Change**
	(millions of U.S. Dollars, except percentages)					
Revenues[(1)]	6,508	100.0%	5,933	100.0%	575	9.7%
Cost of revenues	(4,160)	(63.9)%	(3,514))	(59.2)%	(646)	18.4%
Amortisation of negative goodwill	-	-	28	0.5%	(28)	-
Gross profit	**2,348**	**36.1%**	**2,447**	**41.2%**	**(99)**	**(4.0)%**
Selling and distribution costs	(181)	(2.8)%	(193)	(3.3)%	12	(6.2)%
General and administrative expenses	(477)	(7.3)%	(347)	(5.8)%	(130)	37.5%
Other operating income and expenses, net	(105)	(1.6)%	(70)	(1.2)%	(35)	50.0%
Profit from operations	**1,585**	**24.3%**	**1,837**	**31.0%**	**(252)**	**(13.7)%**
Non-operating income and expenses, net	(66)	(1.0)%	(115)	(1.9)%	49	(42.6)%
Profit before tax	**1,519**	**23.3%**	**1,722**	**29.0%**	**(203)**	**(11.8)%**
Income tax expense	(476)	(7.3)%	(377)	(6.4)%	(99)	26.3%
Net profit	**1,043**	**16.0%**	**1,345**	**22.7%**	**(302)**	**(22.5)%**
Net profit attributable to equity holders of the parent entity	905	13.9%	1,180	19.9%	(275)	(23.3)%
Net profit attributable to minority interests	138	2.1%	165	2.8%	(27)	(16.4)%

Note:

(1) Includes service revenues of U.S.$121 million and U.S.$138 for the years ended 31 December 2005 and 31 December 2004 respectively. Sales of services consist primarily of heat and electricity supply and port, transportation and accounting services.

In the years ended 31 December 2005 and 31 December 2004, approximately 6,1% and 9.1% respectively of Evraz's revenues were generated in transactions with related parties. In addition, Evraz made significant purchases from related parties.

Revenues

Evraz's consolidated revenues in 2005 amounted to U.S.$6,508 million, a 9.7% increase compared to revenues of U.S.$5,933 million in 2004. The steel segment accounted for the majority of the increase in revenues largely due to higher average prices for steel products in Russia and non-Russian markets together with higher sales prices for vanadium slag, coke and coking products. Total sales volumes of steel products showed no significant change in 2005 compared to 2004.

The following table shows the average price trends of Evraz's principal products in 2005 and 2004 (encompassing semi-annual breakdowns of both the Russian and non-CIS export markets) which illustrates an uneven distribution of revenues during the periods under consideration:

	Year ended 31 December				% change	
	2005		2004		1st half 2005 v 1st half 2004	2nd half 2005v 2nd half 2004
	2nd half	1st half	2nd half	1st half		
	(U.S. Dollars per tonne, except percentages)					
	Average Russian and CIS prices for Evraz's Russian operations products[1]					
Construction products						
Rebars	357	404	437	413	(2.2)%	(18.3)%
Sections	521	536	510	443	21.0%	2.2%
Wire rod and rounds	379	439	425	373	17.7%	(10.8)%
Railway products						
Rails	460	457	375	316	44.6%	22.7%
Wheels	1122	1076	940	715	50.5%	19.4%
Mining products						
Grinding balls	428	464	406	336	38.1%	5.4%
Semi-finished products						
Billets	520	567	421	365	55.3%	23.5%
Slabs	290	347	308	233	48.9%	(5.8)%
Pig Iron	200	296	261	246	20.3%	(23.4)%
Pipe blanks	378	445	406	318	39.9%	(6.9)%
Other steel products						
Plates	469	555	484	422	31.5%	(3.1)%
	Average non-CIS export prices for Evraz's Russian operations products[2]					
Construction products						
Rebars	366	408	416	373	9.4%	(12.0)%
Sections	396	383	416	407	(5.9)%	(4.8)%
Wire rod and rounds	379	429	407	400	7.3%	(6.9)%
Semi-finished products						
Billets	348	384	366	364	5.5%	(4.9)%
Slabs	342	490	502	410	19.5%	(31.9)%
Pig Iron	264	329	306	278	18.3%	(13.7)%
Other steel products						
Plates	410	525	485	413	27.1%	(15.9)%

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 simple average of the monthly weighted average sales prices in the relevant semi-annual period.

(2) Average price data for the year ended 31 December 2005 and 31 December 2004 relates to sales by Ferrotrade Limited.

The following table presents Evraz's consolidated revenues by segment for 2005 and 2004.

	Year ended 31 December			
			2005 v 2004	
Revenues by segment	**2005**	**2004**	**Change**	**% Change**
	(millions of U.S. Dollars)			
Steel segment				
To third parties	6,133	5,726	407	7.1%
To mining segment	77	75	2	2.7%
To other operations	11	8	3	37.5%
Total	6,221	5,809	412	7.1%
Mining segment				
To third parties	147	116	31	26.7%
To steel segment	836	494	342	69.2%
To other operations	6	1	5	500.0%
Total	989	611	378	61.9%
Other operations				
To third parties	228	91	137	150.5%
To steel segment	312	235	77	32.8%
To mining segment	105	19	86	452.6%
Total	645	345	300	87.0%
Eliminations	(1,347)	(832)		
Consolidated revenues	**6,508**	**5,933**	**575**	**9.7%**
% from steel segment	94.3%	96.5%		
% from mining segment	2.3%	2.0%		
% from other operations	3.5%	1.5%		

The following table presents the geographic breakdown of Evraz's consolidated revenues for 2005 and 2004.

	Year ended 31 December			
			2005 v 2004	
	2005	**2004**	**Change**	**% Change**
	(millions of U.S. Dollars)			
Russia	3,889	3,288	601	18.3%
Taiwan	522	807	(285)	(35.3)%
Thailand	477	458	19	4.1%
Vietnam	211	213	(2)	(0.9)%
Iran	203	195	8	4.1%
Philippines	198	215	(17)	(7.9)%
China (inc. Hong Kong)	176	339	(163)	(48.1)%
Korea	166	213	(47)	(22.1)%
Italy	113	24	89	370.8%
USA	87	8	79	987.5%
Kazakhstan	80	37	43	116.2%
Other countries	386	136	250	183.8%
Total	**6,508**	**5,933**	**575**	**9.7%**

Revenues from export sales were relatively flat in U.S. Dollar terms, while domestic sales increased in both volume and monetary terms as discussed below.

Steel segment

Steel segment revenues increased by 7.1% to U.S.$6,221 million in 2005 compared to U.S.$5,809 million in 2004.

Steel segment revenues were affected by the price dynamics for steel products noted above and by the acquisitions of Palini in August 2005 and Vitkovice Steel in November 2005. Post-acquisition revenues of Palini and Vitkovice Steel included in the consolidated financial statements of Evraz for the year ended 31 December 2005 amounted to U.S.$105 million (1.7% of steel segment revenues) and U.S.$80 million (1.3% of steel segment revenues), respectively.

The following table shows the breakdown of Evraz's steel segment sales in 2005 and 2004, noting the contribution made by Palini and Vitkovice Steel.

	Year ended 31 December					
	2005		2004		2005 v 2004	
	Millions of U.S. Dollars	Percentage of total	Millions of U.S. Dollars	Percentage of total	Change	% Change
Construction products[(1)]	1,755	28.2%	1,606	27.6%	149	9.3%
of which Vitkovice Steel	*10*	*0.2%*	*N/a*	*N/a*	*10*	*N/a*
Railway products[(2)]	884	14.2%	658	11.3%	226	34.3%
Mining products[(3)]	121	1.9%	113	1.9%	8	7.1%
Semi-finished products[(4)]	2,203	35.4%	2,351	40.5%	(148)	(6.3)%
Other steel products[(5)]	528	8.5%	378	6.5%	150	39.7%
of which Palini	*105*	*1.7%*	*N/a*	*N/a*	*105*	*N/a*
of which Vitkovice Steel	*70*	*1.1%*	*N/a*	*N/a*	*70*	*N/a*
Other non-steel products[(6)]	730	11.7%	703	12.1%	27	3.8%

Notes:

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

(2) Includes rails and wheels.

(3) Includes grinding balls and mine uprights.

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

(5) Includes rounds and plates.

(6) Includes coke and coking products, refractory products, vanadium slag and resale of coking coal.

Revenues from sales of railway, construction and other steel products increased as a proportion of steel segment sales in 2005 compared to 2004, while revenues from sales of semi-finished products declined as a proportion of steel segment sales.

The increase in the proportion of revenues attributable to railway and construction products resulted from increases in sales volume as a percentage of total steel segment sales volume as well as higher prices for such products which are mainly sold on the domestic market.

The decline in the proportion of revenues attributable to sales of semi-finished products resulted from lower sales volume as a percentage of total steel segment sales volume. This, in turn, reflected negative conditions for steel products in general on world markets in the second half of 2005 with most semi-finished products exported.

The proportion of revenues attributable to sales of steel products for the mining sector remained unchanged. The effect of lower sales volumes was offset by increased prices for these products.

The increase in the proportion of revenues attributable to sales of other steel products reflects both higher sales volumes and increased prices for these products following the acquisitions of Palini in August 2005 and Vitkovice Steel in November 2005, both of which produce mainly high value added flat products. If considered net of the effect of Palini and Vitkovice Steel, the share of revenues attributable to sales of other steel products would have declined as a proportion of steel segment sales due to decreased sales volumes.

The increased sales of other products, such as coke, refractory products, vanadium slag and the resale of coking coal, reflects growth in prices for coke, coal and vanadium slag, although the share of revenues attributable to sales of other products showed a marginal decrease as a percentage of total steel segment sales.

For the years ended 31 December 2005 and 31 December 2004, steel segment sales to the mining segment amounted to U.S.$77 million and U.S.$75 million, respectively.

Non-Russian sales amounted to approximately 40% of steel segment revenues in 2005 compared to 45% in 2004. The reduction in export revenues in respect of the steel segment in 2005 was attributable to a reduced share of exports in terms of total sales volumes, as Evraz took advantage of significantly better domestic market conditions.

Mining segment

Mining segment revenue increased by 61.9% to U.S.$989 million in 2005 compared to U.S.$611 million in 2004. This increase largely reflected the acquisition of KGOK in May 2004, combined with growth in the average prices of iron ore. Revenues attributable to KGOK in 2005 amounted to U.S.$508 million (51.4% of mining segment revenues) compared to U.S.$209 million in 2004 (34.3% of mining segment revenues) post its acquisition in May 2004.

Substantially all of Evraz's mining segment sales consist of iron ore. Consolidated coal assets comprise Neryungriugol, which has yet to commence production, and Mine 12 (acquired in March 2005). Revenues attributable to Mine 12 in 2005 amounted to U.S.$20 million. Evraz also holds 48.4% and 50% equity accounted interests respectively in the Raspadskaya and Yuzhkuzbassugol ("**YuKU**") (acquired on 31 December 2005) coking coal mines. Revenue attributable to Raspadskaya and YuKU is therefore not consolidated in Evraz's financial statements and the Company's share of their net profits is accounted for as "Share of profits (losses) in joint ventures and associates "(see 'Non-operating income and expense').

For the years ended 31 December 2005 and 31 December 2004, mining segment sales to the steel segment amounted to U.S.$836 million (84.5% of mining segment sales) and U.S.$494 million (80.8% of mining segment sales) respectively. Approximately 76% of Evraz's iron ore requirements were met by the mining segment in 2005 compared to 60% in 2004. The increase in the proportion of iron ore sourced internally largely resulted from the acquisition of KGOK. The latter accounted for a further 12% of Evraz's total iron ore requirements in 2004 prior to its acquisition.

The majority of third party sales in the mining segment were to customers in Russia.

Other operations

Evraz's revenues in respect of the Company's other operations segment increased by 87.0% to U.S.$645 million in 2005 compared to U.S.$345 million in 2004. Revenues were largely derived from the following operations:

- Nakhodka Sea Port. Sales at Nakhodka Sea Port, which provides seaport services, amounted to U.S.$43 million in 2005 and U.S.$40 million in 2004. Inter-segment sales accounted for 36.4% and 38.4% of such revenues in 2005 and 2004, respectively.

- Evraztrans acts as a railway forwarder for Evraz's steel segment. Sales at Evraztrans amounted to U.S.$91 million in 2005 and U.S.$76 million in 2004. Evraztrans derives the majority of its revenues from inter-segment sales and benefited in 2005 from the acquisition and operation of additional railway cars (Evraztrans only receives an agency commission when railway cars other than its own are utilised). Inter-segment sales accounted for 98.2% and 85.2% of Evraztrans' revenues in 2005 and 2004, respectively.

- Metallenergofinance ("**MEF**") supplies electricity and heat to Evraz's steel and mining segments and to third parties. MEF's sales amounted to U.S.$287 million in 2005, compared to U.S.$187 million in 2004. MEF's increased revenues are attributable to higher electricity sales in 2005 due to the commencement of electricity supplies to KGOK, Evrazruda and VGOK in the second half of 2004. Inter-segment sales accounted for 85.3% and 67.2% of MEF's revenues in 2005 and 2004, respectively.

- Sinano Shipmanagement ("**Sinano**") acted as a shipping agent in 2004 but, in 2005, also provided sea freight services to Evraz's steel segment. Sinano's sales totalled U.S.$57 million in 2005 and U.S.$9 million in 2004. Sinano derives substantially all of its revenues from inter-segment sales.

- OOO EvrazHolding ("**EvrazHolding**") provides management, accounting and other services to NTMK, ZapSib, NKMK and other Russian subsidiaries of the Company including, as from 1 April 2005, KGOK, Evrazruda and VGOK. EvrazHolding generated management fees of U.S.$36 million and U.S.$37 million in 2005 and 2004, respectively, from the provision of management, accounting and other services to the Company's subsidiaries and to related parties, with 97.9% and 68.5% of these fees derived from the Company's subsidiaries in 2005 and 2004 respectively.

- Trading House EvrazResource ("**TH EvrazResource**") supplies coking coal to the steel segment and resells coal, coke and chemical products to the market. In 2005, TH EvrazResource's revenues attributable to the resale of coal from Raspadskaya, YuKU and other mines to third parties amounted to U.S.$129 million and were included in the other operations segment, while revenues from supplies to the steel and mining segments and the resale of steel and mining products were respectively included to the steel and mining segments.

- Trading House EvrazHolding ("**TH EvrazHolding**") is engaged in the resale of steel products/vanadium slag and iron ore from the steel and mining segments, respectively, to the domestic market, while also supplying materials and equipment to both segments. In 2005, TH EvrazHolding's revenues attributable to the resale of ferroalloys, purchased from third parties and resold to third parties, partially for further processing and partially representing excess amounts in relation to bulk discount purchases, amounted to U.S.$25 million. These revenues were included in the other operations segment. Revenues from supplies to the steel and mining segments and the resale of products from these segments were included in the steel and mining segments respectively. In 2004, resale operations were not material.

External sales in respect of the other operations segment, consisting primarily of sales of energy by MEF, the provision of port services by Nakhodka Sea Port and the revenues of TH EvrazResource and TH EvrazHolding from resale transactions, increased from U.S.$91 million in 2004 to U.S.$228 million in 2005. The increase is primarily attributable to the revenues of TH EvrazResource and TH EvrazHolding.

Cost of revenues and gross profit

Evraz's consolidated cost of revenues amounted to U.S.$4,160 million and U.S.$3,514 million in 2005 and 2004, respectively. Cost of revenues as a percentage of consolidated revenues increased from 59.2% to 63.9% in 2004 and 2005, respectively. While the average prices of raw materials increased significantly, the growth in Evraz's own iron ore production served, to a considerable extent, to shield Evraz's consolidated gross profit from the impact of such increases.

The table below sets forth cost of revenues, amortisation of negative goodwill and gross profit by segment for 2005 and 2004, including percentage of segment revenues.

	Year ended 31 December					
	2005		2004		2005 v 2004	
	Amount	Percentage of segment revenues	Amount	Percentage of segment revenues	Change	% Change
	(millions of U.S. Dollars, except percentages)					
Steel segment						
Cost of revenues	(4,313)	(69.3)%	(3,586)	(61.7)%	(727)	20.3%
Raw materials	(2,667)		(2,191)		(476)	21.7%
Transportation	(440)		(355)		(85)	23.9%
Staff costs	(398)		(325)		(73)	22.5%
Depreciation	(175)		(145)		(30)	20.7%
Energy	(323)		(273)		(50)	18.3%
Other(1)	(310)		(297)		(13)	4.4%
Amortisation of negative goodwill	-		18	0.3%	(18)	
Gross profit	1,908	30.7%	2,241	38.6%	(333)	(14.9)%
Mining segment						
Cost of revenues	(631)	(63.8)%	(448)	(73.3)%	(183)	40.8%
Raw materials	(176)		(234)		58	(24.8)%
Staff costs	(134)		(74)		(61)	81.1%
Depreciation	(47)		(27)		(20)	74.1%
Energy(2)	(151)		(50)		(101)	202.0%
Other(3)	(123)		(63)		(60)	95.2%
Amortisation of negative goodwill	-		8	1.3%	(8)	
Gross profit	358	36.2%	171	28.0%	187	109.4%
Other operations						
Cost of revenues	(462)	(71.6)%	(280)	(81.2)%	(182)	65.0%
Amortisation of negative goodwill	-		2	0.6%	(2)	
Gross profit	183	28.4%	67	19.4%	116	173.1%
Eliminations-cost of revenues	1,246		800			
Eliminations-gross profit	(101)		(32)			
Consolidated cost of revenues	(4,160)		(3,514)		(646)	18.4%
Consolidated amortisation of negative goodwill	-		28		(28)	
Consolidated gross profit	2,348		2,447		(99)	(4.0)%

Notes:

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

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

(3) Includes auxiliary materials and repairs and maintenance.

Steel segment

Steel segment cost of revenues increased by 20.3% from U.S.$3,586 million in 2004 to U.S.$4,313 million in 2005. Cost of revenues amounted to 69.3% and 61.7% of steel segment revenues for 2005 and 2004, respectively.

Certain items in respect of steel segment cost of revenues, such as energy costs and staff costs, were influenced by an expansion of operations at NKMK associated with the transfer of various operations previously conducted by Relsy of KMK, an entity under common control with Evraz, to a subsidiary of NKMK. In 2004, the costs associated with these operations were included in fees paid to Steel of KMK for processing services and, as a result, energy and staff costs were not incurred by Evraz.

Steel segment cost of revenues was influenced by the acquisition of Palini and Vitkovice Steel in 2005 (See – Summary of acquisitions – Acquisitions in 2005). The cost of revenues, including intra-group profits, in respect of Palini (August -- December 2005) and Vitkovice Steel (November –December 2005) amounted to U.S$34 million (0.8% of steel segment cost of revenues) and U.S$80 million (1.8% of steel segment cost of revenues), respectively.

The primary factors affecting the growth of steel segment cost of revenues were as follows:

- Raw material costs increased by 21.7%. This increase primarily reflected price increases for coking coal (+39%) and iron ore (+35%). On a consolidated basis, the impact of price advances for iron ore was mitigated, to an increased extent, by purchases of these products from Evraz's mining segment, as discussed above. The impact of price increases for coking coal was mitigated, to a limited extent, by Evraz's production at Mine 12 and the Company's equity interest in Raspadskaya.

- Transportation costs increased by 23.9%. A large part of these costs relates to railway tariffs in respect of the transportation of Evraz's steel products from the mills to the relevant ports. Such costs showed a marginal decrease due to lower export sales volumes in 2005 compared to 2004. The increase is attributable to transportation costs in relation to supplies of raw materials to the steel segment and reflects changes in the terms of supply contracts, implemented during the first half of 2005, such costs having previously been included in the price of raw materials and reflected in the raw materials costs line.

- Depreciation costs increased by 20.7%. The increase was largely due to completion of the Continuous Casting Machine No.4 investment project in Nizhny Tagil, together with the completion of other investment projects and the capitalisation of expenditures relating to replacement of property plant and equipment components, in accordance with IAS 16 (revised), at NTMK, ZapSib and NKMK with effect from 1 January 2005. Changes in estimates of useful lives of property, plant and equipment, in accordance with IAS 8, resulted in an additional depreciation expense in 2005, while the acquisitions of Palini and Vitkovice also contributed to the increase in depreciation in 2005.

- Energy costs increased by 18.3%, largely due to increases in electricity, natural gas and heat tariffs. The acquisitions of Palini and Vitkovice Steel further contributed to the increase in energy costs.

- Staff costs increased by 22.5%. Wages and salaries rose in line with inflation. The expansion of operations at NKMK, the acquisitions of Palini and Vitkovice Steel and consolidation in 2005 of ZapSib's minor subsidiaries, which were not consolidated in 2004, further contributed to staff costs growth in 2005.

- Other costs increased by 4.4%. These costs consisted primarily of contractor services and materials for maintenance and repairs.

Steel segment gross profit decreased by 14.9% to U.S.$1,908 million in 2005 compared to 2004, while gross profit margin amounted to 30.7% and 38.6% of steel segment revenues in 2005 and 2004, respectively. Gross profit margin declined over the period primarily due to greater increases in the prices of raw materials than in average sales prices although, as noted above, such price increases found reflection in increased margins in the mining segment as a result of increased internal supplies of iron ore.

Mining segment

Mining segment cost of revenues increased by 40.8% to U.S.$631 million, representing 63.8% of mining segment revenues, in 2005 compared to U.S.$448 million, representing 73.3% of mining segment revenues, in 2004.

Mining segment cost of revenues was significantly influenced by the acquisition of KGOK in May 2004. The cost of revenues in respect of KGOK amounted to U.S.$110 million (24.6% of mining segment cost of revenues) in 2004 and U.S.$216 million (34.2% of mining segment cost of revenues) in 2005.

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

- Raw materials costs decreased by 24.8%. Increased costs resulting from the acquisition of KGOK, which mainly processes raw iron ore from its own mines, were more than offset by reductions in volumes of iron ore purchased by Evrazruda from third parties as a result of the acquisitions by Evrazruda of Sheregeshskoe Ore Deposit and Irbinskoe Ore Deposit in the second half of 2004.

- Staff costs increased by 81.1%. Although wages and salaries increased in line with inflation, the key contributors to the rise in staff costs in 2005 were the acquisitions of KGOK and Mine 12, together with the acquisitions of the Sheregeshskoe Ore Deposit and the Irbinskoe Ore Deposit (now part of Evrazruda).

- Energy costs increased by 202.0% largely due to the acquisition of KGOK, Evrazruda's acquisitions of the Sheregeshskoe Ore Deposit and the Irbinskoe Ore Deposit, together with increases in electricity and natural gas tariffs.

- Depreciation costs increased by 74.1% in 2005, primarily due to the acquisition of KGOK and Evrazruda's acquisitions of the Sheregeshskoe Ore Deposit and the Irbinskoe Ore Deposit. Another factor that served to increase depreciation costs was the capitalisation of expenditures relating to the replacement of property, plant and equipment components in accordance with IAS 16 (revised), with effect from 1 January 2005.

- Other costs increased by 95.2%, principally due to additional maintenance and repair contractor services at KGOK and Evrazruda.

Mining segment gross profit increased by 109.4% to U.S.$358 million in 2005, resulting in a gross profit margin amounting to 36.2% of mining segment revenues compared to 28.0% in 2004. Gross profit margin improved significantly, largely reflecting price increases in excess of inflation for iron ore, the addition of KGOK, which engages in relatively more efficient open site extraction of iron ore and increased production at Evrazruda as a result of the acquisitions of the Sheregeshskoe Ore Deposit and the Irbinskoe Ore Deposit. Improvements in working practices, modernisation programmes and increased integration into Evraz's operations also contributed to enhanced margins.

Other operations

The other operations segment's cost of revenues increased by 65.0% to U.S.$462 million in 2005, representing 71.6% of other operations revenues, compared to U.S.$280 million, representing 81.2% of other operations revenues, in 2004. The increase in other operations cost of revenues is primarily attributable to the additional volume of electricity purchased by MEF and supplied to operations in the Sverdlovsk Region (NTMK, KGOK and VGOK) as well as the resale operations of TH EvrazHolding and TH EvrazResource as described above in relation to the revenues of other operations.

The major components of cost of revenues at Nakhodka Sea Port are staff costs and maintenance costs; the major component of Evraztrans' cost of revenues is rent of railway cars; the major component of MEF's cost of revenues is the purchase of electricity from power generating companies; while the major component of Sinano's cost of revenues are ship hire fees.

EvrazHolding's cost of revenues amounted to U.S.$2 million in 2005, a decline from U.S.$6 million in 2004. The proportion of inter-segment sales in relation to EvrazHolding's total sales increased significantly in 2005 compared to 2004. The expenses at EvrazHolding that are classified as cost of revenues relate to services provided to third parties, while expenses that are associated with intra-group sales are included in general and administrative expenses. As a result of the increase in the proportion of inter-segment sales in relation to EvrazHolding's total sales in 2005 compared to 2004, the cost of revenues also declined. Staff costs account for the majority of EvrazHolding's costs.

The gross profit of the other operations segment increased by 173.1% to U.S.$183 million in 2005 compared to 2004. Gross profit margin amounted to 28.4% and 19.4% of other operations' revenues in 2005 and 2004, respectively.

Selling and distribution costs

Selling and distribution costs decreased by 6.2% to U.S.$181 million, amounting to 2.8% of consolidated revenues, in 2005 compared to U.S$193 million, amounting to 3.2% of consolidated revenues, in 2004. 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 2005 and 2004, including percentage of segment revenues.

Selling and distribution costs by segment	Year ended 31 December 2005 Amount	Percentage of segment revenues	2004 Amount	Percentage of segment revenues	2005 v 2004 Change	% Change
	(millions of U.S. Dollars, except percentage)					
Steel segment	(202)	(3.2)%	(182)	(3.1)%	(20)	11.0%
Transportation costs	*(98)*		*(104)*		*6*	*(5.8)%*
Staff costs	*(22)*		*(18)*		*(4)*	*22.2%*
Bad debt provision	*(5)*		*(13)*		*8*	*(61.5)%*
Other[(1)]	*(77)*		*(47)*		*(30)*	*63.8%*
Mining segment	(8)	(0.8)%	(13)	(2.1)%	5	(38.5)%
Other operations	(43)	(6.6)%	(4)	(1.2)%	(39)	975.0%
Eliminations	72		6			
Total	(181)		(193)		12	(6.2)%

Notes:

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

Steel segment

Selling and distribution costs amounted to 3.2% and 3.1% of steel segment revenues in 2005 and 2004, respectively. The primary factors affecting the steel segment selling and distribution costs were:

- Transportation costs decreased by 5.8%. The decrease related to a reduction in freight expenses due to the decline in the volume of export sales in 2005.
- Staff costs increased by 22.2%. The increase is primarily attributable to the development of the distribution network in the Russian market and also reflects increases in wages and salaries in line with inflation.
- The bad debt provision expense in respect of both periods related principally to obligations in respect of Tagil Energo, which purchases heat from NTMK.

Mining segment

Selling and distribution costs amounted to 0.8% and 2.1% of mining segment revenues in 2005 and 2004, respectively.

Other operations

Selling and distribution costs amounted to 6.6% and 1.2% of other operations' revenues in 2005 and 2004, respectively. The increase in selling and distribution costs was largely attributable to the expansion of Sinano's business activities during 2005. Sinano's selling and distribution costs consist primarily of freight expenses, ship management services and ship hire fees.

General and administrative expenses

General and administrative expenses increased by 37.5% to U.S.$477 million in 2005 compared to U.S.$347 million in 2004. As a percentage of consolidated revenues, general and administrative expenses amounted to 7.3% and 5.8% in 2005 and 2004, respectively.

The following table presents general and administrative expenses by segment for 2005 and 2004, including percentage of segment revenues.

General and administrative expenses by segment	2005 Amount	2005 Percentage of segment revenues	2004 Amount	2004 Percentage of segment revenues	2005 v 2004 Change	2005 v 2004 % Change
	(millions of U.S. Dollars, except percentages)					
Steel segment	(319)	(5.1)%	(260)	(4.5)%	(59)	22.7%
Staff costs	*(102)*		*(91)*		*(11)*	*12.1%*
Taxes, other than on income	*(74)*		*(39)*		*(35)*	*89.7%*
Management fees	*(21)*		*(18)*		*(3)*	*16.7%*
Other[(1)]	*(122)*		*(112)*		*(10)*	*8.9%*
Mining segment	(79)	(8.0)%	(49)	(8.0)%	(30)	61.2%
Staff costs	*(28)*		*(20)*		*(8)*	*40.0%*
Taxes, other than on income	*(11)*		*(6)*		*(5)*	*83.3%*
Management fees	*(9)*		*-*		*(9)*	
Other[(2)]	*(31)*		*(23)*		*(8)*	*34.8%*
Other operations	(98)	(15.2)%	(53)	(15.4)%	(45)	84.9%
Unallocated[(3)]	(11)		(10)			
Eliminations	30		25			
Total	(477)		(347)		(130)	37.5%

Notes:

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

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

(3) Relates principally to accounting and consulting fees.

Steel segment

General and administrative expenses amounted to 5.1% and 4.5% of steel segment revenues in 2005 and 2004, respectively. The primary factors affecting the growth of the steel segment's general and administrative expenses were:

- Staff costs increased by 12.1%. The increase is primarily attributable to the expansion of operations at NKMK and increases in wages and salaries in line with inflation. The acquisitions of Palini and Vitkovice Steel further contributed to the increase in staff costs.

- Taxes, other than on income, including property, land and local taxes, increased by 89.79%. The increase primarily reflects increases in land tax and local taxes following the implementation of a new chapter of the tax code in the Russian Federation, together with increases in the tax base in relation to Russian property tax due to the commissioning of new equipment at NTMK, ZapSib and NKMK.

- Management fees of EvrazHolding totalled U.S.$21 million and U.S.$18 million in 2005 and 2004, respectively. The increase in these fees in 2005 is attributable to increased activities at EvrazHolding and higher fee charges to offset expenses.

Palini and Vitkovice Steel accounted for U.S.$2 million and U.S.$4 million, respectively, of the general and administrative expenses of the steel segment in 2005.

Mining segment

General and administrative expenses amounted to 8.0% of mining segment revenues in both 2005 and 2004. The increase in general and administrative expenses in absolute terms resulted primarily from the acquisitions of KGOK in May 2004, Mine 12 in April 2005 and Evrazuda's acquisitions of the Sheregeshskoe Ore Deposit and the Irbinskoe Ore Deposit in the second half of 2004, largely as a result of which staff costs increased by 40.0%; taxes, other than on income, increased by 83.3% and other costs increased by 34.8%. With effect from 1 April 2005, the general and administrative expenses of the mining segment include management fees paid by KGOK, Mine 12, Evrazruda and VGOK to EvrazHolding.

Other operations

General and administrative expenses amounted to 15.2% and 15.4% of other operations segment revenues in 2005 and 2004, respectively. EvrazHolding accounted for U.S.$78 million (79.6%) and U.S.$41 million (77.4%) of other operations' general and administrative expenses in 2005 and 2004, respectively. Amounts classified as general and administrative costs were attributable to EvrazHolding's inter-segment sales. Such sales, as a proportion of total sales, increased in 2005 due to the increased provision of management services to the Company's subsidiaries. EvrazHolding's expenses in respect of services provided to third parties were classified as cost of revenues and almost all of the Company's costs were classified as general and administrative expenses, consistent with the proportion of intra-group sales in relation to total sales. Most of EvrazHolding's general and administrative costs relate to wages and salaries in respect of its employees, including Evraz's senior management.

Other operating income and expenses

Other operating expenses, net of other operating income, increased by U.S.$36 million to U.S.$105 million in 2005, representing 1.6% of consolidated revenues, compared to U.S.$70 million in 2004, representing 1.2% of consolidated revenues. Other operating income and expenses consist primarily of social and social infrastructure expenses, gain (loss) on the disposal of property, plant and equipment, impairment of assets and gain (loss) in respect of foreign exchange rates changes. Social and social infrastructure expenses include such items as maintenance of medical centres, recreational centres, employee holiday allowances, sponsorship of sports teams and events, charitable donations and cash assistance to retired and former employees and veterans.

The following table presents other operating income and expenses by segment for 2005 and 2004, including percentage of segment revenues.

	Year ended 31 December					
	2005		2004		2005 v 2004	
Other operating income and expenses by segment	**Amount**	**Percentage of segment revenues**	**Amount**	**Percentage of segment revenues**	**Change**	**% Change**
	(millions of U.S. Dollars, except percentages)					
Steel segment						
Social and social infrastructure maintenance expenses	(62)	(1.0)%	(38)	(0.7)%	(24)	63.2%
Loss on disposal of property, plant and equipment	(18)	(0.3)%	(11)	(0.2)%	(7)	
Impairment of assets	(0)	(0.0)%	(5)	(0.1)%	5	
Foreign exchange (loss) gain	(1)	(0.0)%	1	0.0%	(2)	
Other income, net	5	0.1%	(4)	(0.1)%	9	
Total	**(76)**	**(1.2)%**	**(57)**	**(1.0)%**	**(19)**	**33.3%**
Mining segment						
Social and social infrastructure maintenance expenses	(11)	(1.1)%	(8)	(1.3)%	(3)	
Other income, net	(1)	(0.3)%	(9)	(1.5)%	8	
Total	**(12)**	**(1.2)%**	**(17)**	**(2.8)%**	**5**	**(29.4)%**
Other operations						
Social and social infrastructure maintenance expenses	(3)	(0.5)%	(1)	(0.3)%	(2)	
Other income, net	(5)	(0.8)%	(3)	(0.9)%	(2)	
Total	**(8)**	**(1.2)%**	**(4)**	**(1.2)%**	**(4)**	**100.0%**
Unallocated						
Other operating income (expense)	(9)		7		(17)	
Total other operating income and expenses, net	**(105)**	**(1.6)%**	**(70)**	**(1.2)%**	**(35)**	**50.0%**

In the steel segment, the increase in social and social infrastructure expenses is primarily attributable to increased sponsorship expenses at NKMK, increased social infrastructure expenses at NTMK and additional social expenses associated with the steel segment's trading operations, largely related to the sponsorship of sporting events. The increase in social and social infrastructure maintenance expenses in relation to the mining segment resulted primarily from the acquisition of KGOK in May 2004, together with increased expenditure at Evrazruda. The increase in social and social infrastructure maintenance expenses in respect of other operations resulted primarily from sponsorship expenses at EvrazHolding.

Profit from operations

Profit from operations decreased by 13.7% to U.S.$1,585 million in 2005, amounting to 24.3% of consolidated revenues, compared to U.S.$1,837 million, amounting to 31.0% of consolidated revenues, in 2004. The decline in profit from operations as a percentage of consolidated revenues is attributable to a slight decrease in consolidated gross profit margin and increased general and administrative expenses in 2005.

The following table presents profit from operations by segment for 2005 and 2004, including as a percentage of segment revenues.

	Year ended 31 December					
	2005		2004		2005 v 2004	
Profit from operations by segment	**Amount**	**Percentage of segment revenues**	**Amount**	**Percentage of segment revenues**	**Change**	**% Change**
	(millions of U.S. Dollars, except percentages)					
Steel segment	1,311	21.1%	1,742	30.0%	(431)	(24.7)%
Mining segment	259	26.2%	92	15.1%	167	181.5%
Other operations	34	5.3%	6	1.7%	28	466.7%
Unallocated	(19)		(3)		(16)	
Total	**1,585**		**1,837**		**(252)**	**(13.7)%**

Steel segment

Steel segment profit from operations decreased by 24.7% to U.S.$1,311 million in 2005 from U.S.$1,742 million in 2004. Profit from operations as a percentage of steel segment revenues decreased from 30.0% in 2004 to 21.1% in 2005. The decline in profit from operations is attributable to proportionately greater increases in the prices of raw materials than in average sales prices (as noted above, these price increases are partially reflected as increased margins in the mining segment resulting from increased internal supplies of iron ore) as well as increased general and administrative expenses.

Mining segment

Mining segment profit from operations increased by 181.5% to U.S.$259 million in 2005 compared to U.S.$92 million in 2004. Profit from operations as a percentage of mining segment revenues increased from 15.1% in 2004 to 26.2% in 2005. The increase in gross profit margin resulted from iron ore price increases in excess of inflation and improved overall efficiency attributable to the acquisition of KGOK, which engages in open site extraction of iron ore, a methodology that is relatively more efficient than the technique employed at VGOK and Evrazruda.

Other operations

Other operations segment profit from operations increased by 466.7% to U.S.$34 million in 2005 compared to U.S.$6 million in 2004. Profit from operations as a percentage of other operations segment revenues increased from 1.7% in 2004 to 5.3% in 2005. The increase in profit from operations is attributable to additional profits on resale operations made by TH EvrazResource in 2005.

Non-operating income and expense

Non-operating income and expense includes interest income, interest expense, share of profits of associates and joint ventures, gain (loss) on extinguishment of debts, gain on financial assets and excesses of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition of such. The table below presents these items for 2005 and 2004, including percentage of consolidated revenues.

	Year ended 31 December					
	2005		2004		2005 v 2004	
	Amount	Percentage of revenues	Amount	Percentage of revenues	Change	% Change
	(millions of U.S. Dollars, except percentages)					
Interest income	15	0.2%	10	0.2%	5	50.0%
Interest expense	(142)	(2.2)%	(105)	(1.8)%	(37)	35.2%
Share of profits (losses) of associates and joint ventures, net	45	0.7%	43	0.7%	2	4.7%
Gain (loss) on extinguishments of debts	8	0.1%	(140)	(2.4)%	148	
Gain on financial assets	-	0.0%	57	1.0%	(57)	
Loss on sale of minority interest	-	-	(35)	(0.6)%	35	
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	15	0.2%	54	0.9%	(39)	
Other non-operating gain (loss)	(5)	(0.1)%	1	0.0%	(6)	
Total	**(66)**	**(1.0)%**	**(115)**	**(1.9)%**	**49**	**(43.0)%**

Interest income increased by 50.0% to U.S.$15 million in 2005 compared to U.S.$10 million in 2004, largely due to placing free cash on short-term deposit.

Interest expense increased by 35.2% to U.S.$142 million in 2005 compared to U.S.$105 million in 2004. The increase resulted from the issuance of Eurobonds in August and September 2004 and in November 2005 (see "—Liquidity and Capital Resources—Capital Resources") as well as bank borrowings related to capital expenditure.

Share of profits of associates and joint ventures primarily relates to income attributable to Evraz's interest in Raspadskaya. Raspadskaya also benefited from higher coking coal prices in 2005.

Gain on extinguishment of debts in 2005 amounted to U.S.$8 million and primarily related to forgiven restructured taxes at NTMK. Loss on extinguishment of debts in 2004 amounted to U.S.$140 million and included the following:

- a U.S.$127 million loss due to the early settlement in 2004 by Evraz of debts of NTMK and ZapSib that had been rescheduled under settlement agreements entered into in connection with the resolution of the bankruptcies of those companies;
- a U.S.$9 million loss due to a reversal of the gain that had arisen in a prior period when Evraz obtained a long-term loan from a related party with a below-market interest rate; the reversal was due to the early settlement of these liabilities in 2004; and
- a U.S.$4 million loss resulting from the extinguishment of other debts.

Gain on financial assets in 2004 represents a gain revaluation of 19.145% of shares in Raspadkaya to fair value which was realised when this shareholding was transferred to Corber, the joint venture through which Evraz holds its interest in Raspadskaya.

Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition in 2005 primarily related to the acquisitions of Mine 12, Vitkovice Steel and the assets and business of OOO Nizhnesaldinsky Metallurgical

Plant. Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition in 2004 primarily related to the acquisitions of Sheregeshskoe and Irbinskoe Ore Deposits by Evrazruda.

Other non-operating losses for 2005 include U.S.$10 million paid to the government of Georgia as a non-refundable prepayment for the acquisition of an ownership interest in JSC Chiaturmanganum and JSC Vartsikhe GES. The Group planned to acquire a 63.08% interest in these entities but abandoned the project prior to completion.

Income tax expense

Income tax expense increased by 26.3% to U.S.$476 million in 2005 from U.S.$377 million in 2004. Evraz's effective tax rate, defined as income tax expense as a percentage of profit before tax, increased from 21.9% in 2004 to 31.3% in 2005. The increase in the effective tax rate reflects the fact that a larger portion of profit was earned by the Russian subsidiaries of Evraz. The tax effect of the payment of dividends, and the creation of an allowance against deferred tax assets resulting from unused tax losses in the amount of U.S.$26 million in 2005 contributed to the increase in effective tax rate in 2005.

Current income tax charge amounted to U.S.$474 million (including adjustment in respect of income tax of previous years of U.S.$7 million) in 2005 and U.S.$444 million in 2004. Deferred income tax benefits and expenses related to the origination and reversal of temporary differences amounting to U.S.$2.5 million of expenses and U.S.$67 million of benefits in 2005 and 2004, respectively.

Net profit attributable to equity holders of the parent entity

As a result of the factors set forth above, Evraz's net profit attributable to equity holders of the parent entity decreased from U.S.$1,180 million in 2004 to U.S.$905 million in 2005.

Net profit attributable to minority interests

Net profit attributable to minority interests amounted to U.S.$138 million and U.S.$165 million in 2005 and 2004, respectively. The decrease in net profit attributable to minority interests largely reflected the decrease in minority shareholders' interests. Evraz's strategy is to reduce the level of minority interests in its subsidiaries.

The following table presents the Company's effective ownership interests in its major subsidiaries as of 31 December 2005 and 31 December 2004:

Subsidiary	As of 31 December 2005	2004	Business activity	Location
Mastercroft	100.00	95.83	Holding Company	Cyprus
NTMK	92.38	77.09	Steel production	Russia
ZapSib	96.67	90.65	Steel production	Russia
NKMK	97.26	89.97	Steel production	Russia
Palini	75.00	-	Steel production	Italy
Vitkovice Steel	98.96	-	Steel production	Czech Republic
KGOK	91.98	80.68	Iron ore mining and processing	Russia
Evrazruda	100.00	99.90	Iron ore mining and processing	Russia
VGOK	85.00	78.50	Iron ore mining and processing	Russia
Neryungriugol	100.00	95.83	Coal mining	Russia
Ferrotrade Limited	100.00	95.83	Trading	Gibraltar
Trade House EvrazHolding	100.00	95.83	Trading	Russia
Trade House EvrazResource	100.00	95.83	Trading	Russia
Nakhodka Sea Port	91.04	82.21	Seaport services	Russia
Evraztrans	76.00	72.83	Freight forwarding	Russia
Metallenergofinance	100.00	95.83	Utilities supply	Russia

The Company's effective ownership interest in Evrazruda for periods consolidated on a pooling of interests basis, is stated as the effective ownership for the periods presented, of the entity from which it was acquired.

Evraz acquired a 4.17% minority interest in Mastercroft for a consideration of U.S.$124 million on 1 June 2005. See "—Reorganisation and Formation of the Company". As a result of this transaction, Evraz's effective ownership interest in its other subsidiaries increased to the levels shown above as of 31 December 2005, due to the fact that such interests are all held through Mastercroft.

Liquidity and Capital Resources

Capital requirements

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

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

In 2006, Evraz intends to make capital expenditures of approximately U.S.$601 million, including U.S.$488 million in respect of its steel segment and U.S.$106 million in respect of its mining segment. Evraz's capital expenditure plans are subject to change depending, among other things, on the evolution of market conditions and the cost and availability of funds.

Capital resources

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

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

Net cash provided by operating activities amounted to U.S.$904 million and U.S.$727 million in the six months ended 30 June 2006 and 2005, respectively. The increase in net cash provided by operating activities in the six months ended 30 June 2006 was primarily due to a substantial decrease in cash used in working capital. In particular, in the six-month period ended 30 June 2006, Evraz had increases in operating cash flows due to reductions in balances of inventories and taxes recoverable. In the similar period of 2005, increases in the balances of these items had a negative impact on operating cash flows. Cash provided by operating activities before working capital adjustments decreased from U.S.$854 million in the six months ended 30 June 2005 to U.S.$801 million in the six months ended 30 June 2006.

Net cash provided by operating activities amounted to U.S.$1,496 million and U.S.$947 million in 2005 and 2004, respectively. The increase in net cash provided by operating activities in 2005 was primarily due to a substantial decrease in cash used in working capital. In particular, changes in inventories, trade receivables, taxes recoverable causing reductions in cash flows from operating activities declined significantly in comparison with 2004. An increase in trade payables balances had a positive impact on Evraz's operating cash flows for 2005, as compared to a negative impact on operating cash flows from a decrease in this item in 2004. Cash provided by operating activities before working capital adjustments decreased from U.S.$1,596 million in 2004 to U.S.$1,406 million in 2005.

Net cash used in investing activities totalled U.S.$1,036 million and U.S.$657 million in the six months ended 30 June 2006 and 2005, respectively, and U.S.$1,764 million and U.S.$817 million in 2005 and 2004, respectively. Substantially all the cash used in investing activities related to purchases of property, plant and equipment, shares in subsidiaries and an interest in a joint venture.

Net cash from (used in) financing activities amounted to U.S.$(45) million and U.S.$316 million in the six months ended 30 June 2006 and 2005, respectively, and U.S.$618 million and U.S.$(36) million in 2005 and 2004, respectively.

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

In 2004 and 2005, Evraz issued U.S. Dollar denominated notes, the proceeds of which were used to finance capital expenditures and repay short-term borrowings, as follows:

- In August and September 2004, EvrazSecurities S.A. issued notes in the aggregate principal amount of U.S.$300 million. The notes bear interest of 10.875% per annum payable semi-annually and mature on 3 August 2009. Mastercroft, Ferrotrade Limited, ZapSib, NTMK, NKMK and KGOK jointly and severally guaranteed all amounts in respect of the notes, other than that the liability of ZapSib and NTMK is subject in each case to a limit of U.S.$300 million. The covenants contained in the conditions of these notes impose restrictions on Mastercroft and its subsidiaries in respect of certain transactions and financial ratios and generally permit the payment of dividends by Mastercroft provided that the latter maintains a specified minimum consolidated net worth.

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

In 2004, 2005 and the first six months of 2006, the most significant syndicated loan facilities obtained by Evraz from international banks to finance its capital requirements included:

- In December 2004, Evraz received a U.S.$150 million syndicated loan from a group of international banks. The loan was divided into two parts: a U.S.$50 million six-year tranche ("**Tranche A**") and a U.S.$100 million five-year tranche ("**Tranche B**"). The borrowers have the option to request an extension of the Tranche B repayment period to match Tranche A's repayment profile. The loan is structured as three separate facilities in favour of NTMK ($60 million), ZapSib ($60 million) and NKMK ($30 million). Tranche A was drawn in December 2004 and Tranche B in January 2005. In May 2005, Evraz entered into an agreement to increase the amount of this loan by U.S.$50 million, structured as additional borrowings of U.S.$20 million by NTMK, U.S.$20 million by ZapSib and U.S.$10 million by NKMK. Of the additional borrowings, U.S.$28.3 million has the same maturity as Tranche A and bears interest at LIBOR plus a margin of 3.25% per annum, and U.S.$22 million has the same maturity as Tranche B and bears interest at LIBOR plus a margin of 2.75% per annum.

On 22 September 2005, NTMK concluded a credit facility agreement with KfW, guaranteed by Mastercroft, which provides for up to €100 million for general corporate purposes with a five-year term. The commercial facility bears interest at EURIBOR plus a margin of 1.95%. A total of €60 million has been drawn under these facilities.

On 18 November 2005, Evraz incurred additional debt to finance its acquisition of Vitkovice Steel. Mastercroft received a U.S.$200 million loan from Commerzbank (Prague) with a term of one year that bears interest at LIBOR plus a margin of 1.75%.

On 1 June 2006, Evraz entered into a U.S.$225 million credit facility agreement 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.

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

Liquidity

Evraz has sufficient liquidity to support its current operations and meet its current debt obligations. As the table below illustrates, Evraz had estimated liquidity, defined as cash and cash equivalents, amounts available under unrestricted credit facilities and short-term bank deposits with original maturity of more than three months, of approximately U.S.$1,513 million as of 30 June 2006 and approximately U.S.$1,332 million as of 31 December 2005. In the unlikely event that Evraz was not able to refinance any of the debt falling due in the twelve months ended 30 June 2007, this liquidity position would be sufficient to make all principal debt repayments for this year.

Estimated Liquidity	**As of 30 June 2006 (unaudited)**	**As of 31 December 2005**
	(millions of U.S. Dollars)	
Cash and cash equivalents[(1)]	482	641
Amount available under credit facilities[(2)]	744	675
Short-term bank deposits	287	16
Total estimated liquidity	**1,513**	**1,332**

Notes:

(1) Since 30 June 2006, Evraz has used or agreed to use cash in several ways other than in the ordinary course of its business. In July 2006, Evraz made a stage payment of U.S.$83m for the acquisition of a 73% interest in Stratcor and a payment of U.S.$207 million for the acquisition of a 24.9% interest in Highveld (See Summary of acquisitions – Acquisitions in 2006).

(2) Total amounts available under borrowing facilities amounted to approximately U.S.$756.5 million as of 30 June 2006 and U.S.$716.1 million as of 31 December 2005. Amounts in excess of the total stated in this table consisted of facilities associated with specific capital expenditures or specific other uses.

In December 2004, NTMK and ZapSib repaid most of the remaining portion of debt due to third parties in respect of settlement agreements entered into in prior periods in connection with the bankruptcies of those entities, and KGOK made a similar repayment in April 2005. Management believes that the early retirement of this debt will improve Evraz's ability to attract external financing.

Evraz's current ratio, defined as current assets divided by current liabilities, decreased from 1.76 as of 31 December 2004 to 1.39 as of 31 December 2005 and increased to 1.64 as of 30 June 2006. Evraz's corporate treasury monitors the financial requirements of Evraz's various subsidiaries and has a variety of instruments at its disposal to ensure that each subsidiary has sufficient liquidity to meet its obligations and capital requirements.

Contractual obligations and commercial commitments

The following table sets forth the amount of Evraz's obligations in respect of loans and borrowings as of 30 June 2006 and 31 December 2005 by period:

	As of 30 June 2006 (unaudited)					As of 31 December 2005				
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)	862	862	-	-	-	839	839	-	-	-
Long term loans and borrowings	1,778	-	171	778	829	1,547	-	117	612	818
Unamortised debt issue costs[1]..	(38)	-	-	-	-	(36)	-	-	-	-
	2,602					2,350				

Note:

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

As of 30 June 2006 and 31 December 2005, Evraz had equipment with a carrying value of U.S.$153 million and U.S.$156 million, respectively, pledged as collateral under loans to the Company. In addition, Evraz had pledged finished goods with a carrying value of U.S.$217 million and U.S.$204 million as of 30 June 2006 and 31 December 2005, respectively.

As of 30 June 2006 and 31 December 2005, Evraz had incurred liabilities in respect of post-employment benefits that the Company provides to employees of certain of its subsidiaries pursuant to collective bargaining agreements of U.S.$85 million and U.S.$78 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 gains and past service costs, discounted to present value. Of the total liability as at 30 June 2006, approximately U.S.$17 million related to NTMK, U.S.$23 million to ZapSib, U.S.$16 million to NKMK, U.S.$7 million to KGOK, U.S.$14 million to Evrazruda, U.S.$4 million to Mine 12, U.S.$1 million to Palini, U.S.$1 million to Vitkovice Steel and U.S.$2 million to Nakhodka Sea Port.

Evraz also makes defined contributions to Russia's state pension, social insurance and medical insurance at the statutory rates in force (approximately 24% as of 30 June 2006), based on gross salary payments. Evraz is only required to make these contributions as they fall due and the Company does not retain any legal or constructive obligation to pay future benefits. These contributions are expensed as incurred.

Evraz has signed contracts for the purchase of production equipment and construction works. As of 30 June 2006, the amount that remains to be paid under these contracts totalled U.S.$450 million.

Future minimum lease payments were as follows as at 31 December 2005:

	As at 31 December 2005		
	Principal	**Interest**	**Total**
	(millions of U.S. Dollars)		
2006	7	4	11
2007-2010	25	9	34
2011	5	1	6
Total	37	14	51
Less: current portion	(7)	(4)	(11)
Total non-current portion	30	10	40

Evraz is also involved in a number of social programmes designed to support education, healthcare and the development of social infrastructure in certain towns where the Company's assets are located. As of 30 June 2006, Evraz's commitments under these programmes were $47 million which are planned to be incurred in the second half of 2006.

The Group has a constructive obligation to reduce environmental pollution and contamination in accordance with an environmental protection programme. During the period 2006 to 2012, the Group is obligated to spend approximately U.S.$134 million on the replacement of old machinery and equipment which will result in reduced pollution.

Tax contingencies

The Russian government has initiated reforms of the tax system that have brought about some improvement in the tax climate. Many tax laws and related regulations have been introduced, some of which are subject to varying interpretation and inconsistent enforcement due to the fact that they are not clearly defined. Instances of inconsistent opinions between local, regional and federal tax authorities are not unusual. Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, Evraz has accrued tax liabilities based on management's best estimates. Possible liabilities, which were identified by management at the balance sheet date as those that can be subject to different interpretations of the tax laws and regulations and are not accrued in the accompanying financial statements, could total up to approximately U.S.$15 million.

Inflation

While Evraz's revenues depend substantially on international prices for metallurgical products, its costs are closely linked to domestic cost factors. Inflation moderated in Russia during the past five years and reached 10.9% in 2005 compared with 11.7% in 2004. In the first six months of 2006, inflation was 6.2%. In 2004, overall price trends were generally positive, with steel prices growing faster than many relevant cost factors such as railway transportation charges, natural gas prices, electricity costs and the general consumer price index. During 2004, iron ore prices increased at a slower rate than steel prices but coking coal prices increased approximately in line with steel prices. In 2005, both steel prices and prices of raw materials stabilised and showed downward trends during the second half of 2005. In the first half of 2006, steel prices recovered and again grew faster than prices of raw materials.

The table below presents changes in Russia's consumer price index and Rouble to U.S. Dollar exchange rates from 2002 through 2005.

	2002	**2003**	**2004**	**2005**	**2006 (though 30 June)**	**2001 to 2005**	**Source**
Consumer Price Index, change in RUR(1)	15.1%	12.0%	11.7%	10.9%	6.2%	89%	Fedstat
Nominal RUR/U.S.$ exchange rate, change(1)	(5.2%)	7.9%	6.1%	(3.7%)	5.9%	2.2%	CBR

Note:

(1) Represents the change from 31 December of the prior period to 31 December of the indicated period, except that data for 2006 is expressed as the change from 31 December 2005 to 30 June 2006.

Seasonality

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

Quantitative and Qualitative Disclosures in respect of Market Risk

Overview

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

Exchange and Interest Rate Risk

Evraz's presentation currency is the U.S. Dollar. The measurement currency of Evraz's Russian subsidiaries is the Rouble, while the measurement currencies of Evraz's subsidiaries located in other countries are the the Czech Koruna in respect of Vitkovice Steel, the Euro in respect of Palini and the 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 Central Bank of the Russian Federation (the "**CBR**"). Market rates may differ from the official rates but the differences are, generally, within narrow parameters monitored by the CBR. See "Exchange Rate Information".

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

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 13.6% in 2003, by 15.1% in 2004, by 10.8% in 2005 and by 9.1% in the six months ended 30 June 2006, 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.

See "—Results of Operations for the six months ended 30 June 2006 and 2005", "—Results of Operations for years ended 31 December 2005 and 31 December 2004" and " —Inflation". 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 2.2%, 6.5%, 1.8% and by 2.1% in nominal terms in 2003, 2004, 2005 and during the six months ended 30 June 2006,respectively, according to the CBR.

The following table summarises Evraz's outstanding interest bearing debt, including loans and other borrowings, by currency and interest rate method as at 30 June 2006 and 31 December 2005:

	As at 30 June 2006 (unaudited)				**As at 31 December 2005**				
	U.S. Dollar-denominated	**Rouble-denominated**	**Euro-denominated**	**Total**	**U.S. Dollar-denominated**	**Rouble-denominated**	**Euro-denominated**	**Czech Koruna-denominated**	**Total**
	(in millions of U.S. Dollars)								
Total debt, of which	*2,197*	*16*	*397*	*2,610*	*1,958*	*18*	*353*	*28*	*2.357*
Fixed-rate debt	1,594	7	90	1,691	1,464	9	124	-	1.597
Variable-rate debt....	603	9	307	919	494	9	229	28	760

The following table summarizes Evraz's currency exposure and interest rates in respect of the Company's outstanding debt as of 30 June 2006:

	Currency	2007	2008	2009	2010	After 2010	Total	Annual Interest rate[(1)]
	Expected maturity through 30 June (unaudited)							
	(in millions of U.S. Dollars)							
Variable-rate debt:								
International banks - trade finance	USD	225	-	-	-	-	225	7.4%
Commerzbank AG	USD	5	4	4	10	3	26	1.5-6.8%
Commerzbank (Prague)	USD	200	-	-	-	-	200	6.2%
ING Bank N.V.	USD	4	-	-	-	-	4	7.6%
BNP Paribas	USD	2	2	2	-	-	6	7.0%
ABN Amro, Societe Generale, BNP Paribas	USD	19	31	32	22	6	110	6.9%-8.4%
Syndicated loans (Societe Generale, Commerzbank AG, MNB)	USD	31	-	-	-	-	31	6.8-7.1%
Other banks	USD	1	1	-	-	-	2	7.4%-10%
Total U.S. Dollar denominated		487	38	38	32	9	604	
Gazprombank	EUR	2	2	2	2	-	8	7.4%
Transcreditbank	EUR	2	2	2	2	1	9	6.2%-8.3%
Bayerische Landesbank Girozentrale	EUR	14	15	16	15	4	64	3% - 9.3%
Bank Austria Creditanstalt AG	EUR	8	5	1	1	4	19	4.5-10.4%
ABN Amro	EUR	79	2	2	2	-	85	3.8% -4.5%
Commerzbank AG	EUR	3	3	3	3	12	24	3.7%
KfW	EUR	-	7	13	13	33	66	3.7-4.7%
Other banks	EUR	9	8	5	5	5	32	Various
Total Euro-denominated		117	44	44	43	59	307	
Raiffeisenbank Austria	RUR	7	-	-	-	-	7	7.1%
Other banks	RUR	2	-	-	-	-	2	Various
Total Rouble-denominated		9	-	-	-	-	9	
Fixed-rate debt:								
Eurobond	USD	175	-	-	-	-	175	9.7%
Eurobond	USD	-	-	-	300	-	300	10.3%
Eurobond	USD	-	-	-	-	750	750	8.5%
Sberbank	USD	6	4	-	-	-	10	8.8-10.5%
Kazkommerzbank	USD	7	7	7	5	-	26	8.0%
Syndicated loans (ABN AMRO Bank N.V., BNP Paribas S.A. и SG)	USD	15	27	27	17	4	90	6.9-7.2%
Natexis Banques Populaires	USD		38	64	64	59	225	5.7%
Credit Suisse	USD	1	1	1	1	12	16	7.9%
Other banks	USD	1					1	7.4%
Total U.S. Dollar denominated		205	77	99	387	825	1,593	
MDM-Bank	EUR	1	1	1	-	-	3	7.0%
Bank Austria Creditanstalt AG	EUR		4	7	7	25	43	6.8%
Societe Generale	EUR	2	2	2	2	6	14	4.0% -4.6%
KfW	EUR		1	1	1	3	6	3.4% -4.1%
Bayerische Landesbank Girozentrale	EUR	3	3	3	3		12	9.1%
BNP Paribas	EUR	1	1	2	1	7	12	4.1%
Total Euro-denominated		7	12	16	14	41	90	
Transcreditbank	RUR	7	-	-	-	-	7	8%
Total Rouble-denominated..................		7	-	-	-	-	7	
Total debt		**832**	**171**	**197**	**476**	**934**	**2,610**	

Note:
(1) Interest rates on variable-rate debt are calculated as of 30 June 2006.

A hypothetical, instantaneous and simultaneous 10% appreciation of the Rouble, Czech Koruna and the Euro against the U.S. Dollar as of 31 December 2005 would have resulted in an increase of approximately U.S.$49 million on borrowings denominated in Roubles, Czech Korunas and Euros held as of 31 December 2005. A hypothetical, instantaneous and simultaneous 10% appreciation of the Rouble, Czech Koruna and the Euro against the U.S. Dollar as of 30 June 2006 would have resulted in an increase of approximately U.S.$46 million on borrowings denominated in Roubles, Czech Korunas and Euros held as of 30 June 2006.

Commodity Price Risk

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

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

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

Tariff Risk

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

The Russian electricity sector is currently characterised by distinctly limited competition and regulated prices. Pricing policy is determined by the Federal Tariffs Service, a governmental agency authorised to regulate prices in respect of the power generated by regional electricity companies, power transmission, dispatch services and inter-regional trade, and is influenced by regional energy commissions that are authorised to regulate prices within a specific region. Power may also be purchased from the Federal Wholesale Electricity Market ("**FOREM**"). Most sellers of power on the domestic market are regional generation companies and most participants in FOREM are regional generating companies that seek to sell a power surplus to regional generating companies with supply deficits as well as industrial companies granted special access to FOREM. From October 2003, participants in FOREM may also purchase and sell limited volumes of power on the competitive sector of the wholesale market, operating on a test basis, where prices for energy are formed on an "offer demand" basis. Evraz's subsidiary MEF has been granted such access to FOREM.

In 2005, Evraz's Russian operations purchased approximately 8,494 million kWh of electricity, representing approximately 91% of requirements, from local subsidiaries of UES, the government controlled national holding company for the Russian power sector. Evraz's Russian operations purchased approximately 4,486 million kWh of electricity, representing approximately 90% of requirements, from local subsidiaries of UES in the six months ended 30 June 2006. The Government is currently in the early stages of 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 by 2008. Moreover, according to the Russian Energy Strategy approved by the Government in 2003, electricity tariffs for industrial users are to reach 3.2-3.6 U.S. cents per kWh by 2006. Evraz's average cost of electricity in Russia was 2.7 U.S. cents per kWh in 2004, 2.8 U.S. cents per kWh in 2005 and 3.1 U.S. cents per kWh in the six months ended 30 June 2006. Assuming a price of 3.6 U.S. cents per kWh in the year ended 31 December 2005, Evraz's Russian operations would have incurred additional costs of approximately U.S.$67 million during the period. Assuming a price of 3.6 U.S. cents per kWh in the six months ended 30 June 2006, Evraz's Russian operations would have incurred additional costs of approximately U.S.$24 million during the period. Further electricity price increases may occur in the future as the industry is restructured and controlled to a greater extent by the private sector.

Evraz's Russian operations also purchase significant amounts of natural gas, primarily for the production of electricity and heat energy at the Company's facilities, from Gazprom's subsidiaries. Gazprom is a state controlled company and is the dominant producer and monopoly distributor of natural gas within Russia. Domestic natural gas prices are regulated by the government and have been rising during recent years. Evraz's average price for natural gas in Russia of RUR1,020 per thousand cubic metres in the fourth quarter of 2004 increased by a further 22% with effect from 1 January 2005, resulting in an average price of RUR1,167 per thousand cubic metres in the year ended 31 December 2005 and RUR 1,243 per thousand cubic metres in the six months ended 30 June 2006. Despite these recent price increases, natural gas prices in Russia remain significantly below western European levels, a factor that helps to provide Evraz with a cost advantage over its competitors. In May 2004, in connection with an agreement regarding Russia's potential accession to the WTO, Russia and the EU agreed that Russia would raise domestic gas prices to U.S.$49-57 per thousand cubic metres by 2010. Assuming a price of U.S.$57 per thousand cubic metres in the year ended 31 December 2005, Evraz's Russian operations would have incurred additional costs of approximately U.S.$48 million that year. Assuming a price of U.S.$57 per thousand cubic metres in the six months ended 30 June 2006, Evraz's Russian operations would have incurred additional costs of approximately U.S.$28 million in the period.

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

Trend Information

Operational Outlook

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

Evraz's future revenues will primarily be determined by the steel price environment. However, Evraz's investment plans, which are targeted to increase operational efficiency, will facilitate a shift in product mix towards higher margin products and will also result in a moderate increase in output, all of which is likely to have a positive effect on Evraz's operating results. Evraz expects that increases in steel production as a result of the re-commissioning of ZapSib’s third blast furnace in November 2005, enabling the utilisation of excess production capacity, and the acquisition of Vitkovice Steel, will be partially offset by a gradual shut down of inefficient open hearth furnaces at Evraz’s plants.

Inventories were lower at the end of the first half of 2006 than at the end of 2005 by 19%. The management of Evraz will continue to focus on working capital management and ongoing improvements in efficiency.

Most of Evraz’s investment programme is designed to increase the efficiency of the Company’s production facilities and to reduce cost of production per tonne. Evraz’s mining segment currently supplies approximately 71% of the steel segment’s iron ore requirements. Evraz’s requirements for coking coal can be fully covered by purchases from affiliated parties, including Raspadskaya and YuKU, which are accounted for under the equity method. Investment in an expansion of power generation capacity at NTMK is planned in order to significantly reduce the latter’s dependence on external sources of electricity by 2007. These factors are expected to mitigate the impact of increasing costs in respect of raw materials.

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