Evraz Group S.A.

Consolidated Financial Statements

Year Ended December 31, 2006

Evraz Group S.A.

Consolidated Financial Statements

Year ended December 31, 2006

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Independent Auditors' Report

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

We have audited the accompanying consolidated financial statements of Evraz Group S.A. (the "Group"), which comprise the consolidated balance sheet as at December 31, 2006, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2006, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 1 to the consolidated financial statements. A significant part of the Group's transactions were made with related parties including, but not limited to, associates and a joint venture.

Ernst & Young LLC

April 25, 2007

Evraz Group S.A.

Consolidated Income Statement

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

	Notes	2006	2005*	2004
		Year ended December 31,		
Revenue				
Sale of goods		**$ 8,166**	$ 6,387	$ 5,795
Rendering of services		**126**	121	138
		8,292	6,508	5,933
Cost of revenue	**5**	**(5,159)**	(4,172)	(3,514)
Amortisation of negative goodwill	**4**	**–**	–	28
Gross profit		**3,133**	2,336	2,447
Selling and distribution costs	**5**	**(243)**	(181)	(193)
General and administrative expenses	**5**	**(489)**	(467)	(347)
Social and social infrastructure maintenance expenses		**(86)**	(76)	(47)
Loss on disposal of property, plant and equipment		**(21)**	(24)	(11)
Impairment of assets		**(29)**	(8)	(1)
Foreign exchange gains/(losses), net		**48**	(5)	1
Other operating income/(expenses), net		**(15)**	7	(12)
Profit from operations		**2,298**	1,582	1,837
Interest income		**27**	15	10
Interest expense		**(228)**	(142)	(105)
Share of profits/(losses) of joint ventures and associates	**8**	**45**	57	43
Gain/(loss) on extinguishment of debts, net	**14, 22**	**13**	8	(140)
Gain/(loss) on financial assets and liabilities, net	**4, 5**	**13**	–	57
Loss on sale of minority interest	**16**	**–**	–	(35)
Loss on assets held for sale	**9**	**(72)**	–	–
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**4**	**1**	15	54
Other non-operating gains/(losses), net	**5**	**–**	(7)	1
Profit before tax		**2,097**	1,528	1,722
Income tax expense	**6**	**(638)**	(475)	(377)
Net profit		**$ 1,459**	$ 1,053	$ 1,345
Attributable to:				
Equity holders of the parent entity		**$ 1,385**	$ 918	$ 1,180
Minority interests		**74**	135	165
		$ 1,459	$ 1,053	$ 1,345
Earnings per share:				
basic, for profit attributable to equity holders of the parent entity, US dollars	**16**	**$ 11.83**	$ 8.14	$ 11.00
diluted, for profit attributable to equity holders of the parent entity, US dollars	**16**	**$ 11.74**	$ 8.13	$ 11.00

* The amounts shown here do not correspond to the 2005 financial statements and reflect adjustments made in connection with the completion of initial accounting as detailed in Notes 4 and 8.

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

Evraz Group S.A.

Consolidated Balance Sheet

(In millions of US dollars)

	Notes	2006	December 31, 2005*	2004
ASSETS				
Non-current assets				
Property, plant and equipment	**7**	**$ 3,712**	$ 3,071	$ 2,399
Goodwill/(negative goodwill)	**4**	**104**	67	(363)
Investments in joint ventures and associates	**8**	**1,499**	906	197
Restricted deposits at banks	**10**	**12**	8	9
Other non-current assets	**11**	**273**	58	16
		5,600	4,110	2,258
Current assets				
Inventories	**12**	**855**	964	808
Trade and other receivables	**13**	**637**	429	366
Loans receivable		**19**	–	8
Receivables from related parties	**14**	**54**	90	89
Income tax receivable		**51**	16	12
Other taxes recoverable	**15**	**334**	461	386
Short-term investments and notes receivable		**25**	19	22
Restricted deposits at banks	**10**	**–**	24	11
Cash and cash equivalents	**10**	**842**	641	293
		2,817	2,644	1,995
Assets classified as held for sale	**9**	**105**	–	–
		2,922	2,644	1,995
Total assets		**$ 8,522**	$ 6,754	$ 4,253
EQUITY AND LIABILITIES				
Equity				
Parent shareholders' equity				
Issued capital	**16**	**$ 318**	$ 316	$ –
Additional paid-in capital	**16**	**531**	547	319
Legal reserve	**16**	**28**	22	–
Accumulated profits		**2,758**	1,751	1,126
Translation difference		**439**	72	164
		4,074	2,708	1,609
Minority interests		**176**	179	358
		4,250	2,887	1,967
Non-current liabilities				
Long-term loans	**17**	**1,855**	1,515	788
Deferred income tax liabilities	**6**	**295**	265	214
Finance lease liabilities	**18**	**42**	30	27
Post-employment benefits	**19**	**111**	79	53
Provisions	**21**	**38**	14	21
Amounts payable under put options for shares of subsidiaries	**4**	**–**	67	–
Other long-term liabilities	**22**	**45**	2	48
		2,386	1,972	1,151
Current liabilities				
Trade and other payables	**23**	**528**	447	297
Short-term loans and current portion of long-term loans	**17**	**741**	835	530
Payables to related parties	**14**	**176**	315	118
Income tax payable		**66**	70	55
Other taxes payable	**24**	**96**	189	130
Current portion of finance lease liabilities	**18**	**11**	7	3
Provisions	**21**	**8**	15	–
Amounts payable under put options for shares of subsidiaries	**4**	**175**	–	–
Dividends payable by the parent entity to its shareholders		**38**	3	–
Dividends payable by the Group's subsidiaries to minority shareholders		**24**	14	2
		1,863	1,895	1,135
Liabilities directly associated with assets classified as held for sale	**9**	**23**	–	–
		1,886	1,895	1,135
Total equity and liabilities		**$ 8,522**	$ 6,754	$ 4,253

* The amounts shown here do not correspond to the 2005 financial statements and reflect adjustments made in connection with the completion of initial accounting as detailed in Notes 4 and 8.

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

Evraz Group S.A.

Consolidated Cash Flow Statement

(In millions of US dollars)

	Year ended December 31, 2006	2005*	2004
Cash flows from operating activities			
Net profit	**$ 1,459**	$ 1,053	$ 1,345
Adjustments to reconcile net profit to net cash flows from operating activities:			
Amortisation of negative goodwill *(Note 4)*	**–**	–	(28)
Depreciation, depletion and amortisation *(Note 5)*	**304**	245	196
Deferred income tax (benefit)/expense *(Note 6)*	**(25)**	2	(67)
Loss on disposal of property, plant and equipment	**21**	24	11
Impairment of assets	**29**	8	1
(Gain)/loss on extinguishment of debts *(Notes 14, 22)*	**(13)**	(8)	140
Loss on sale of minority interest *(Note 16)*	**–**	–	35
Foreign exchange (gains)/losses, net	**(48)**	5	(1)
Share of (profits)/losses from associates and joint ventures	**(45)**	(57)	(43)
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**(1)**	(15)	(54)
(Gain)/loss on financial assets and liabilities, net *(Notes 4 and 5)*	**(13)**	–	(57)
Loss on assets held for sale *(Note 9)*	**72**	–	–
Other non-operating (gains)/losses *(Note 5)*	–	6	(2)
Interest income	**(27)**	(15)	(10)
Interest expense	**228**	142	105
Bad debt expense	**4**	8	25
Share-based payments *(Note 20)*	**17**	8	–
	1,962	1,406	1,596
Changes in working capital:			
Inventories	**208**	(14)	(277)
Trade and other receivables	**(156)**	54	(253)
Receivables from/payables to related parties	**(17)**	13	(4)
Taxes recoverable	**109**	(101)	(198)
Other assets	**(1)**	(3)	–
Trade and other payables	**108**	70	18
Taxes payable	**(127)**	55	57
Other liabilities	**6**	16	7
Net cash flows from operating activities	**2,092**	1,496	946
Cash flows from investing activities			
Issuance of loans receivable to related parties	**–**	(202)	(6)
Proceeds from repayment of loans issued to related parties, including interest	**6**	206	15
Issuance of loans receivable	**(20)**	(38)	(4)
Proceeds from repayment of loans receivable, including interest	**3**	45	5
Purchases of subsidiaries, net of cash acquired	**(113)**	(312)	(225)
Purchases of minority interests	**(96)**	(415)	(48)
Purchase of interest in associates/joint venture	**(736)**	(400)	(62)
Restricted deposits at banks in respect of investing activities	**(207)**	–	–
Short-term deposits at banks	**18**	16	7
Purchases of property, plant and equipment	**(660)**	(695)	(534)
Proceeds from disposal of property, plant and equipment	**10**	8	4
Dividends and advances in respect of future dividends received	**212**	30	–
Other investing activities, net	**6**	4	26
Net cash flows used in investing activities	**(1,577)**	(1,753)	(822)

* The amounts shown here do not correspond to the 2005 financial statements and reflect adjustments made in connection with the completion of initial accounting as detailed in Notes 4 and 8.

Continued on the next page

Consolidated Cash Flow Statement (continued)

(In millions of US dollars)

	Year ended December 31, 2006	2005*	2004
Cash flows from financing activities			
Proceeds from issuance of share capital, net of transaction costs of $0, $22 and $0, respectively *(Note 16)*	**$ –**	$ 399	$ 30
Proceeds from exercise of share options *(Note 20)*	**26**	–	–
Contributions from Crosland Limited *(Note 16)*	**–**	131	–
Payments to entities under common control for the transfer of ownership interest in subsidiaries	**–**	(33)	(61)
Proceeds from loans provided by related parties	**8**	9	418
Repayment of loans provided by related parties, including interest	**–**	(62)	(647)
Net (repayment)/proceeds from bank overdraft credit lines, including interest	**(1)**	(136)	203
Proceeds from loans and promissory notes	**708**	1,305	2,560
Repayment of loans and promissory notes, including interest	**(684)**	(418)	(2,230)
Restricted deposits at banks in respect of financing activities	**23**	(11)	5
Dividends paid by the parent entity to its shareholders	**(352)**	(524)	(56)
Dividends paid by the Group's subsidiaries to minority shareholders	**(40)**	(11)	–
Payments under finance leases, including interest	**(19)**	(12)	(10)
Proceeds from sale-leaseback	**–**	–	22
Payments under Settlement Agreements, including interest, and purchases of debts in subsidiaries	**(2)**	(8)	(243)
Payments of restructured taxes, including interest	**(8)**	(22)	(22)
Net cash flows from/(used in) financing activities	**(341)**	607	(31)
Effect of foreign exchange rate changes on cash and cash equivalents	**27**	(2)	4
Net increase in cash and cash equivalents	**201**	348	97
Cash and cash equivalents at beginning of year	**641**	293	196
Cash and cash equivalents at end of year	**$ 842**	$ 641	$ 293
Supplementary cash flow information:			
Cash flows during the year:			
Interest paid	**$ 211**	$ 122	$ 86
Income taxes paid	**656**	477	442

* The amounts shown here do not correspond to the 2005 financial statements and reflect adjustments made in connection with the completion of initial accounting as detailed in Notes 4 and 8.

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

Evraz Group S.A.

Consolidated Statement of Changes in Equity

(In millions of US dollars)

	Attributable to equity holders of the parent entity							
	Issued capital	Additional paid-in capital	Legal reserve	Accumulated profits	Translation difference	Total	Minority interests	Total equity
At December 31, 2005 (as previously reported)	**$ 316**	**$ 547**	**$ 22**	**$ 1,738**	**$ 72**	**$ 2,695**	**$ 190**	**$ 2,885**
Adjustments to provisional values *(Notes 4 and 8)*	**–**	**–**	**–**	**13**	**–**	**13**	**(11)**	**2**
At December 31, 2005 (as adjusted)	**316**	**547**	**22**	**1,751**	**72**	**2,708**	**179**	**2,887**
Effect of exchange rate changes	**–**	**–**	**–**	**–**	**367**	**367**	**23**	**390**
Total income and expense for the year recognised directly in equity	**–**	**–**	**–**	**–**	**367**	**367**	**23**	**390**
Net profit	**–**	**–**	**–**	**1,385**	**–**	**1,385**	**74**	**1,459**
Total income and expense for the year	**–**	**–**	**–**	**1,385**	**367**	**1,752**	**97**	**1,849**
Exercise of share options (*Notes 16 and 20*)	**2**	**24**	**–**	**–**	**–**	**26**	**–**	**26**
Acquisition of minority interests in existing subsidiaries *(Notes 4)*	**–**	**1**	**–**	**(42)**	**–**	**(41)**	**(56)**	**(97)**
Minority interests arising on acquisition of subsidiaries *(Note 4)*	**–**	**–**	**–**	**–**	**–**	**–**	**48**	**48**
Derecognition of minority interests in subsidiaries *(Note 4)*	**–**	**–**	**–**	**(64)**	**–**	**(64)**	**(42)**	**(106)**
Acquisition of minority interests by an associate *(Note 16)*	**–**	**1**	**–**	**–**	**–**	**1**	**–**	**1**
Sale of shares in a joint venture's subsidiary *(Notes 16)*		**58**	**–**	**–**	**–**	**58**	**–**	**58**
Reorganisation of ownership structure within a joint venture	**–**	**–**	**–**	**(1)**	**–**	**(1)**	**–**	**(1)**
Allocation of losses of prior periods to minority shareholders *(Note 16)*	**–**	**–**	**–**	**5**	**–**	**5**	**–**	**5**
Share-based payments *(Note 20)*	**–**	**17**	**–**	**–**	**–**	**17**	**–**	**17**
Appropriation of net profit to legal reserve	**–**	**–**	**6**	**(6)**	**–**	**–**	**–**	**–**
Dividends declared by the parent entity to its shareholders *(Note 16)*	**–**	**(117)**	**–**	**(270)**	**–**	**(387)**	**–**	**(387)**
Dividends declared by the Group's subsidiaries to minority shareholders *(Note 16)*	**–**	**–**	**–**	**–**	**–**	**–**	**(50)**	**(50)**
At December 31, 2006	**$ 318**	**$ 531**	**$ 28**	**$ 2,758**	**$ 439**	**$ 4,074**	**$ 176**	**$ 4,250**

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

Evraz Group S.A.

Consolidated Statement of Changes in Equity (continued)

(In millions of US dollars)

	Attributable to equity holders of the parent entity							
	Issued capital	Additional paid-in capital	Legal reserve	Accumulated profits	Translation difference	Total	Minority interests	Total equity
At December 31, 2004	$ –	$ 319	$ –	$ 1,126	$ 164	$ 1,609	$ 358	$ 1,967
Change in accounting policies: derecognition of negative goodwill *(Note 2)*	–	–	–	378	–	378	12	390
At January 1, 2005	–	319	–	1,504	164	1,987	370	2,357
Effect of exchange rate changes	–	–	–	–	(92)	(92)	(13)	(105)
Total income and expense for the year recognised directly in equity	–	–	–	–	(92)	(92)	(13)	(105)
Net profit	–	–	–	918	–	918	135	1,053
Total income and expense for the year	–	–	–	918	(92)	826	122	948
Issue of share capital, net of transaction costs (*Note 16*)	24	376	–	–	–	400	–	400
Issue of share capital in exchange for shares in Mastercroft *(Note 16)*	292	(292)	–	–	–	–	–	–
Acquisition of minority interests in existing subsidiaries *(Notes 4)*	–	2	–	(131)	–	(129)	(287)	(416)
Acquisition of minority interests by a joint venture *(Note 16)*	–	3	–	–	–	3	–	3
Minority interests arising on acquisition of subsidiaries *(Note 4)*	–	–	–	–	–	–	3	3
Contributions from Crosland Limited (*Note 16*)	–	131	–	–	–	131	–	131
Share-based payments *(Note 20)*	–	8	–	–	–	8	–	8
Appropriation of net profit to legal reserve	–	–	22	(22)	–	–	–	–
Dividends declared by the parent entity to its shareholders *(Note 16)*	–	–	–	(518)	–	(518)	(6)	(524)
Dividends declared by the Group's subsidiaries to minority shareholders *(Note 16)*	–	–	–	–	–	–	(23)	(23)
At December 31, 2005	$ 316	$ 547	$ 22	$ 1,751	$ 72	$ 2,708	$ 179	$ 2,887

The amounts shown here do not correspond to the 2005 financial statements and reflect adjustments made in connection with the completion of initial accounting as detailed in Notes 4 and 8.

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

Evraz Group S.A.

Consolidated Statement of Changes in Equity (continued)

(In millions of US dollars)

	Attributable to equity holders of the parent entity							
	Issued capital	**Additional paid-in capital**	**Legal reserve**	**Accumulated profits (losses)**	**Translation difference**	**Total**	**Minority interests**	**Total equity**
At December 31, 2003	$ 139	$ 1	$ –	$ 157	$ 70	$ 367	$ 192	$ 559
Effect of exchange rate changes	–	–	–	–	94	94	20	114
Total income and expense for the year recognised directly in equity	–	–	–	–	94	94	20	114
Net gains on available-for-sale financial assets removed from equity recognised in net profit	–	–	–	(1)	–	(1)	–	(1)
Net profit	–	–	–	1,180	–	1,180	165	1,345
Total income and expense for the year	–	–	–	1,179	94	1,273	185	1,458
Issue of share capital (*Note 16*)	30	–	–	–	–	30	–	30
Decrease in share capital due to the Group's reorganisation (*Note 16*)	(169)	292	–	(123)	–	–	–	–
Acquisition of minority interests in existing subsidiaries *(Note 16)*	–	20	–	(12)	–	8	(103)	(95)
Acquisition of minority interests by a joint venture (*Note 8*)	–	6	–	–	–	6	–	6
Minority interest arising on acquisition of a subsidiary	–	–	–	–	–	–	36	36
Sale of minority interest (*Note 16*)	–	–	–	(13)	–	(13)	48	35
Distributions to entities under common control (*Note 16*)	–	–	–	(4)	–	(4)	–	(4)
Dividends declared by the parent entity to its shareholders *(Note 16)*	–	–	–	(58)	–	(58)	–	(58)
At December 31, 2004	$ –	$ 319	$ –	$ 1,126	$ 164	$ 1,609	$ 358	$ 1,967

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

1. Corporate Information

These consolidated financial statements were authorised for issue in accordance with a resolution of the directors on April 25, 2007.

Evraz Group S.A. ("Evraz Group" or "the Company") is a limited liability company registered under the laws of Luxembourg on December 31, 2004. The registered address of Evraz Group is 1, Allee Scheffer L-2520, Luxembourg.

Evraz Group, together with its subsidiaries (the "Group"), is involved in production and distribution of steel and related products. In addition, the Group owns and operates certain mining assets. The Group's steel production and mining facilities are mainly located in the Russian Federation. The Group is one of the largest steel producers in the Russian Federation.

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

The Group was formed through a reorganisation in which 95.83% of the shares in Mastercroft Limited ("Mastercroft"), a limited liability company registered in Cyprus, directly owned by Crosland Limited ("Crosland"), the parent of CGL, were contributed into Evraz Group in April 2005. As the Group has been formed through a reorganisation of entities under common control, these consolidated financial statements have been prepared using the pooling of interests method and, as such, the financial statements have been presented as if the transfers of the Group's interest in Mastercroft had occurred from January 1, 2002.

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

Subsidiary	Actual ownership interest, %	Effective ownership interest, %			Business activity	Location
	2006	2006	2005	2004		
OAO Nizhny Tagil Iron & Steel Plant	95.00	95.00	92.38	77.09	Steel production	Russia
OAO West-Siberian Iron & Steel Plant	96.68	100.00	96.67	90.65	Steel production	Russia
OAO Novokuznetsk Iron & Steel Plant	100.00	98.75	97.26	89.97	Steel production	Russia
Vitkovice Steel a.s.	100.00	100.00	98.96	–	Steel production	Czech Republic
OAO Kachkanarsky Mining-and-Processing Integrated Works	97.72	97.11	91.98	80.68	Ore mining and processing	Russia
OAO Evrazruda	100.00	100.00	100.00	99.90	Ore mining	Russia
Ferrotrade Limited	100.00	100.00	100.00	95.83	Trading	Gibraltar
OOO Trade House EvrazHolding	100.00	100.00	100.00	95.83	Trading	Russia

1. Corporate Information (continued)

Actual ownership interest in subsidiaries differs from the effective ownership interest due to the existence of minority interests in subsidiaries that hold ownership interests in other subsidiaries as well as due to the derecognition of minority interests for which minority shareholders hold put options (Note 4).

The Group consolidates certain subsidiaries in which it has no ownership interest.

The Group has currently exercisable potential voting rights in OOO EvrazHolding ("EvrazHolding"), a limited liability company registered in Russia, Caplink Limited ("Caplink") and Velcast Limited ("Velcast"), limited liability companies registered in Cyprus, and OOO Slab Continuous Casting Machine, a subsidiary of Caplink registered in Russia, which require consolidation under IAS 27 "Consolidated and Separate Financial Statements".

In addition, the Group consolidates EvrazSecurities S.A. ("EvrazSecurities"), a special purpose entity registered in Luxembourg, under the provisions of Interpretation SIC-12 "Consolidation – Special Purpose Entities". In 2003 and 2004, EvrazSecurities issued $175 million and $300 million guaranteed notes due on September 25, 2006 and August 3, 2009, respectively, listed on the Luxembourg stock exchange. Mastercroft and certain of its subsidiaries guaranteed EvrazSecurities' liabilities under the notes.

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

In 2004, the Group acquired controlling interests in Pamplune S.A., OOO Metallenergofinance, OAO Large-Diameter Pipe Plant and OOO Evraztrans from entities under common control with the Group. Controlling interest in OAO Evrazruda was transferred to the Group by an entity under common control with the Group in the year ended December 31, 2005. The Group applied the pooling of interests method with respect to these acquisitions and presented its consolidated financial statements as if the transfers of controlling interests in the subsidiaries had occurred from the beginning of the earliest period presented or, if later, the date of acquisition of the subsidiary by the transferring entity.

In the years ended December 31, 2006, 2005 and 2004, approximately 8%, 7% and 9% of the Group's revenues, respectively, were generated in transactions with related parties. In addition, a certain part of the Group's purchases was made in transactions with related parties including, but not limited to, Corber, a joint venture, and ZAO Yuzhkuzbassugol, an associate, which are the Group's major coal suppliers. For detailed information related to such activities refer to Note 14.

At December 31, 2006, the Group employed approximately 110,000 employees, excluding joint venture's and associates' employees.

2. Significant Accounting Policies

Basis of Preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Group companies maintain their accounting records and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the country in which the particular subsidiary is resident. The financial statements are based on the statutory accounting records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS. The principal adjustments relate to (1) expense and revenue recognition, (2) valuation of unrecoverable assets, (3) depreciation and valuation of property, plant and equipment, (4) accounting for income taxes, (5) use of fair values and (6) business combinations.

The consolidated financial statements have been prepared under historical cost convention, except as disclosed in the accounting policies below. Exceptions include, but are not limited to, property, plant and equipment at the date of transition to IFRS accounted for at deemed cost, available for sale investments and assets classified as held for sale measured at fair value and post-employment benefits measured at present value.

Certain reclassifications have been made to the prior years financial statements to conform to the current year presentation.

First-time Adoption of International Financial Reporting Standards (IFRS 1)

The Group early adopted and applied IFRS 1 in the preparation of its first consolidated financial statements in accordance with IFRS for the year ended December 31, 2003. The Group's transition date to IFRS is January 1, 2002. Prior to this date, in past business combinations, the Group acquired certain subsidiaries, which were not previously consolidated. For such subsidiaries the Group adjusted the carrying amounts of the subsidiaries' assets and liabilities to the amounts that IFRS would require in the separate subsidiaries' balance sheets. The deemed cost of goodwill/negative goodwill was determined as the difference at the date of transition to IFRS between: (i) the parent's interest in those adjusted carrying amounts; and (ii) the cost in the parent's separate financial statements of its investment in the subsidiary. In addition, the Group elected under IFRS 1 to account for property, plant and equipment in its subsidiaries at deemed cost being the fair value of property, plant and equipment at the date of transition to IFRS and to recognise all cumulative actuarial gains and losses at the date of transition to IFRS.

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

Changes in Accounting Policies

The accounting policies applied are consistent with those of the previous financial year except that the Group has adopted those new/revised standards mandatory for financial years beginning on or after January 1, 2006. The changes in accounting policies result from adoption of the following new or revised standards:

- IAS 19 (amended) "Employee benefits";
- IAS 21 (amended) "The Effects of Changes in Foreign Exchange Rates";
- IAS 39 (amended) "Financial Instruments: Recognition and Measurement";
- IFRIC 4 "Determining whether an Arrangement contains a Lease";
- IFRIC 5 "Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds".

The adoption of the amendments to the International Financial Reporting Standards, mandatory for annual periods beginning on or after January 1, 2006, did not significantly affect the Group's results or financial position. The principal effects of these changes in policies are discussed below.

IAS 19 "Employee Benefits"

As of January 1, 2006, the Group adopted the amendments to IAS 19. As a result, additional disclosures have been made providing information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. This change has not had a recognition or measurement impact, as the Group chose not to apply the new option offered to recognise actuarial gains and losses outside of the income statement.

IAS 21 "The Effects of Changes in Foreign Exchange Rates"

As of January 1, 2006, the Group adopted the amendments to IAS 21. As a result, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements regardless of the currency in which the monetary item is denominated. This change did not have an effect on the financial statements.

IAS 39 "Financial Instruments: Recognition and Measurement"

Amendment for financial guarantee contracts changed the scope of IAS 39 to require financial guarantee contracts that are not considered to be insurance contracts to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 "Revenue". This amendment resulted in a recognition of additional liabilities of $2 million in respect of guarantees issued by Evraz Group S.A. in favour of OAO Raspadskaya (Notes 8 and 25).

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

Changes in Accounting Policies (continued)

IFRIC 4 "Determining Whether an Arrangement contains a Lease"

The Group adopted IFRIC Interpretation 4 as of January 1, 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This change in accounting policy has not had an impact on the Group's financial statements.

IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds"

IFRIC 5 explains how to treat expected reimbursements from funds set up to meet the costs of decommissioning assets or in undertaking environmental restoration or rehabilitation. This change in accounting policy has not had a significant impact on the Group's financial statements.

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

- IFRS 7 "Financial Instruments: Disclosures";
- IFRS 8 "Operating Segments";
- IAS 1 (amended) "Presentation of Financial Statements";
- IFRIC 8 "Scope of IFRS 2";
- IFRIC 10 "Interim Financial Reporting and Impairment";
- IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions".

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's results of operations and financial position in the period of initial application. The adoption of IFRS 7 will significantly affect the disclosures relating to financial instruments as presented in the notes to the financial statements.

Significant Accounting Judgements and Estimates

Accounting Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

- The Group determined that the substance of the relationship between the Group and EvrazSecurities S.A., a special purpose entity (Note 1), indicates that EvrazSecurities S.A. is controlled by the Group.
- The Group determined that options to acquire ownership interests in OOO EvrazHoling, Caplink and Velcast (Note 1) represent potential voting rights which provide the Group with the power to exercise control over these subsidiaries.

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Accounting Judgements (continued)

- The Group determined that purchases of production complexes of OOO Kuznetsky Mining-and-Processing Integrated Works, OAO Sheregeshskoye Rudoupravlenie, OAO Irbinskoye Rudoupravlenie and OOO Nizhnesaldinsky Metallurgical Plant are, in substance, business combinations (Note 4).
- The Group determined that the forthcoming sale of Nerungriugol does not constitute a discontinued operation (Note 9).
- At July 1, 2006, following the changes in the Russian legislation, minority interests in West-Siberian Iron and Steel Plant and Kachkanarsky Mining-and-Processing Integrated Works were derecognised (Note 4).

Estimation Uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment of Property, Plant and Equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. In 2006, the Group recognised an impairment loss of $20 million (2005 and 2004: $7 million and $2 million, respectively). More details are provided in Note 7.

The determination of impairments of property, plant and equipment involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists. The determination of the recoverable amount of a cash-generating unit involves the use of estimates by management. Methods used to determine the value in use include discounted cash flow-based methods, which require the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. These estimates, including the methodologies used, may have a material impact on the fair value and, ultimately, the amount of any impairment.

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty (continued)

Useful Lives of Items of Property, Plant and Equipment

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

In 2005, the change in estimates of useful lives of property, plant and equipment resulted in an additional depreciation expense of approximately $33 million. No such changes took place in the year ended December 31, 2006

Fair Values of Assets and Liabilities Acquired in Business Combinations

The Group is required to recognise separately, at the acquisition date, the identifiable assets, liabilities and contingent liabilities acquired or assumed in a business combination at their fair values, which involves estimates. Such estimates are based on valuation techniques which require considerable judgement in forecasting future cash flows and developing other assumptions.

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at December 31, 2006, 2005 and 2004 was $104 million, $67 million and $0, respectively. More details are provided in Note 4.

Site Restoration Provisions

The Group reviews site restoration provisions at each balance sheet date and adjusts them to reflect the current best estimate in accordance with IFRIC 1 “Changes in Existing Decommissioning, Restoration and Similar Liabilities”. The amount recognised as a provision is the best estimate of the expenditures required to settle the present obligation at the balance sheet date based on the requirements of the current legislation of the country where the respective operating assets are located. The risks and uncertainties that inevitably surround many events and circumstances are taken into account in reaching the best estimate of a provision. Considerable judgement is required in forecasting future site restoration costs. Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision when there is sufficient objective evidence that they will occur.

In 2006, as a result of a change in the discount rate used to calculate the present value of restoration provision, the related provision was increased by $16 million (Notes 7 and 21).

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty (continued)

Post-Employment Benefits

The Group uses actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.) as well as financial assumptions (discount rate, future salary and benefit levels, expected rate of return on plan assets, etc.).

In addition, post-employment benefit obligations were calculated taking into consideration that certain of the Group's subsidiaries plan to discontinue to pay lump-sum amounts at retirement date after 2008-2009 (Note 19).

Allowances

The Group makes allowances for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As of December 31, 2006, 2005 and 2004, allowances for doubtful accounts have been made in the amount of $63 million, $60 million and $35 million, respectively (Notes 13 and 14).

The Group makes an allowance for obsolete and slow-moving raw materials and spare parts. As of December 31, 2006, 2005 and 2004, the allowance for the obsolete and slow-moving items was $13 million, $21 million and $8 million, respectively (Note 12). In addition, certain finished goods of the Group are carried at net realisable value. Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of the period.

Litigations

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

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty (continued)

Current Taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. In Russia the periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. More details are provided in Note 25.

Deferred Income Tax Assets

Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgments based on the expected performance. Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from that estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be negatively affected. In the event that the assessment of future utilisation of deferred tax assets must be reduced, this reduction will be recognised in the income statement.

Foreign Currency Transactions

The presentation currency of the Group is the US dollar because the presentation in US dollars is convenient for the major current and potential users of the consolidated financial statements.

The functional currency of the Group's subsidiaries located in the Russian Federation is the Russian rouble (the "rouble"). The functional currency of the subsidiaries located in other countries is the US dollar, euro, Czech koruna and South African rand. As at the reporting date, the assets and liabilities of the subsidiaries with the functional currency other than the US dollar, are translated into the presentation currency at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year. The exchange differences arising on the translation are taken directly to a separate component of equity. On disposal of a subsidiary with the functional currency other than the US dollar, the deferred cumulative amount recognised in equity relating to that particular subsidiary is recognised in the income statement.

2. Significant Accounting Policies (continued)

Foreign Currency Transactions (continued)

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

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

Basis of Consolidation

Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than 50% of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Acquisition of Subsidiaries

The purchase method of accounting was used to account for the acquisition of subsidiaries by the Group except for acquisitions made prior to the date of transition to IFRS, which were accounted for in accordance with IFRS 1, as described above.

Prior to March 31, 2004, in accordance with IAS 22 “Business Combinations”, identifiable assets and liabilities acquired in a business combination were measured initially at the aggregate of:

(a) the fair value of the identifiable assets and liabilities acquired as at the date of acquisition to the extent of the acquirer’s interest obtained in the acquisition; and

(b) the minority’s proportion of the pre-acquisition carrying amounts of the identifiable assets and liabilities of the subsidiary.

Beginning March 31, 2004, in accordance with IFRS 3 “Business Combinations”, identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest.

2. Significant Accounting Policies (continued)

Basis of Consolidation (continued)

Acquisition of Subsidiaries (continued)

The initial accounting for a business combination involves identifying and determining the fair values to be assigned to the acquiree's identifiable assets, liabilities and contingent liabilities and the cost of the combination. If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Group accounts for the combination using those provisional values. The Group recognises any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date.

Minority interest is that portion of the profit or loss and net assets of subsidiaries attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent. Minority interests at the balance sheet date represents the minority shareholders' portion of the pre-acquisition carrying amounts (for business combinations for which the agreement date is before March 31, 2004) or the fair values (for business combinations for which agreement date is on or after March 31, 2004) of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination. Minority interests are presented in the consolidated balance sheet within equity, separately from the parent's shareholders' equity.

Losses allocated to minority interest do not exceed the minority interest in the equity of the subsidiary. Any additional losses are allocated to the Group unless there is a binding obligation of the minority to fund the losses.

For the identifiable assets, liabilities and contingent liabilities initially accounted for at provisional values, the carrying amount of identifiable asset, liability or contingent liability that is recognised or adjusted as a result of completing the initial accounting is calculated as if its fair value or adjusted fair value at the acquisition date had been recognised from that date. Goodwill or any gain recognised when the acquired interest in net fair values of the identifiable assets, liabilities and contingent liabilities exceeds the cost of their acquisition is adjusted from the acquisition date by an amount equal to adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognised or adjusted.

Comparative information presented for the periods before the completion of initial accounting for the acquisition is presented as if the initial accounting had been completed from the acquisition date.

2. Significant Accounting Policies (continued)

Basis of Consolidation (continued)

Increases in Ownership Interests in Subsidiaries

Increases in ownership interests in subsidiaries prior to January 1, 2004 were accounted for using the purchase method.

Effective January 1, 2004, the differences between the carrying values of net assets attributable to interests in subsidiaries acquired and the consideration given for such increases is either added to additional paid-in capital, if positive, or charged to accumulated profits, if negative, in the accompanying consolidated financial statements.

Purchases of Controlling Interests in Subsidiaries from Entities under Common Control

Purchases of controlling interests in subsidiaries from entities under common control are accounted for using the pooling of interests method.

The assets and liabilities of the subsidiary transferred under common control are recorded in these financial statements at the historical cost of the controlling entity (the “Predecessor”). Related goodwill inherent in the Predecessor's original acquisition is also recorded in the financial statements. Any difference between the total book value of net assets, including the Predecessor's goodwill, and the consideration paid is accounted for in the consolidated financial statements as an adjustment to the shareholders' equity.

These financial statements, including corresponding figures, are presented as if a subsidiary had been acquired by the Group on the date it was originally acquired by the Predecessor.

Investments in Associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control. Investments in associates are accounted for under the equity method of accounting and are initially recognised at cost including goodwill. Subsequent changes in the carrying value reflect the post acquisition changes in the Group’s share of net assets of the associate and goodwill impairment charges, if any. The Group’s share of its associates’ profits or losses is recognised in the income statement and its share of movements in reserves is recognised in equity. However, when the Group’s share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obligated to make further payments to, or on behalf of, the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2. Significant Accounting Policies (continued)

Interest in a Joint Venture

The Group's interest in its joint venture is accounted for under the equity method of accounting whereby an interest in jointly controlled entities is initially recorded at cost and adjusted thereafter for post-acquisition changes in the Group's share of net assets of the joint venture. The income statement reflects the Group's share of the results of operations of the joint venture.

Property, Plant and Equipment

The Group's property, plant and equipment, except for the items acquired prior to December 31, 2001, are stated at purchase or construction cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing part of plant and equipment when that cost is incurred and recognition criteria are met. As described under Basis of Preparation above, the items of property, plant and equipment acquired prior to January 1, 2002 were accounted for at deemed cost being their fair value at January 1, 2002.

The Group's property, plant and equipment include mining assets, which consist of mineral reserves, mine development and construction costs and capitalised site restoration costs. Mineral reserves represent tangible assets acquired in business combinations. Mine development and construction costs represent expenditures incurred in developing access to mineral reserves and preparations for commercial production, including sinking shafts and underground drifts, roads, infrastructure, buildings, machinery and equipment.

At each balance sheet date management makes an assessment to determine whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is the higher of an asset's fair value less cost to sell and its value in use. The carrying amount is reduced to the recoverable amount, and the difference is recognised as an expense (impairment loss) in the income statement. An impairment loss recognised for an asset in previous years is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

Land is not depreciated. Depreciation of property, plant and equipment, except for mining assets, is calculated on a straight-line basis over the estimated useful lives of the assets. The useful lives of items of property, plant and equipment and methods of their depreciation are reviewed, and adjusted as appropriate, at each fiscal year-end. The table below presents the useful lives of items of property, plant and equipment.

	Useful lives (years)	Weighted average useful life (years)
Buildings and constructions	15-60	43
Machinery and equipment	4-45	16
Transport and motor vehicles	7-20	13
Other assets	3-15	5

2. Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

The Group determines the depreciation charge separately for each significant part of an item of property, plant and equipment.

Depletion of mining assets including capitalised site restoration costs is calculated using the units-of-production method based upon proved developed mineral reserves.

Maintenance costs relating to items of property, plant and equipment are expensed as incurred. Major renewals and improvements are capitalised, and the replaced assets are derecognised.

The Group has the title to certain non-production and social assets, primarily buildings and facilities of social infrastructure, which are carried at their recoverable amount of zero. The costs to maintain such assets are expensed as incurred.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised from the commencement of the lease term at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to interest expense.

The depreciation policy for depreciable leased assets is consistent with that for depreciable assets, which are owned. If there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is fully depreciated over the shorter of the lease term or its useful life.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Emission Rights

One of the Group’s subsidiaries participates in the programme for emission reduction established by Kyoto protocol. Emission rights (allowances) for each compliance period (one year) are issued at the beginning of year, actual emissions are verified after the end of year.

2. Significant Accounting Policies (continued)

Emission Rights (continued)

Allowances, whether issued by government or purchased, are accounted for as intangible assets in accordance with IAS 38 "Intangible Assets". Allowances that are issued for less than fair value are measured initially at their fair value.

When allowances are issued for less than fair value, the difference between the amount paid and fair value is recognised as a government grant. Initially the grant is recognised as deferred income in the balance sheet and subsequently recognised as income on a systematic basis over the compliance period for which the allowances were issued, regardless of whether the allowances are held or sold.

As emissions are made, a liability is recognised for the obligation to deliver allowances equal to emissions that have been made. This liability is a provision that is within the scope of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and it is measured at the best estimate of the expenditure required to settle the present obligation at the balance sheet date being the present market price of the number of allowances required to cover emissions made up to the balance sheet date.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on an acquisition of a subsidiary is included in intangible assets. Goodwill on an acquisition of an associate is included in the carrying amount of the investments in associates. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised but is reviewed for impairment annually or more frequently, if events or changes in circumstances indicate that the carrying amount may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit or the group of cash generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit and part of the operations within that unit are disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition. As described in Changes in Accounting Policies above, in accordance with the transitional provisions of IFRS 3, on January 1, 2005 the Group ceased to recognise negative goodwill in the consolidated balance sheet.

2. Significant Accounting Policies (continued)

Goodwill (continued)

Negative goodwill which arose from business combinations where the agreement date was prior to March 31, 2004 was presented in the same balance sheet classification as goodwill. To the extent that negative goodwill related to expectations of future losses and expenses that were identified in the Group's plan for the acquisition and could be measured reliably, but which did not represent identifiable liabilities, that portion of negative goodwill was recognised in the income statement when the future losses and expenses were recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, was recognised in the income statement over the remaining weighted average useful life of depreciable and amortisable assets acquired; negative goodwill in excess of the fair values of those assets was recognised in the income statement immediately.

Negative goodwill relating to business combinations where the agreement date is on or after March 31, 2004 is recognised in the income statement.

Investments

The Group classified its investments into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity and available-for-sale. When investments are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its investments after initial recognition.

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as held for trading and included in the category "financial assets at fair value through profit or loss". Investments which are included in this category are subsequently carried at fair value; gains or losses on such investments are recognised in income.

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

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

2. Significant Accounting Policies (continued)

Investments (continued)

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

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

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

Inventories

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis and includes expenditure incurred in acquiring inventories and bringing them to their existing location and condition. The cost of finished goods and work in progress includes an appropriate share of production overheads based on normal operating capacity, but excluding borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

Accounts Receivable

Accounts receivable, which generally are short term, are recognised and carried at the original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

2. Significant Accounting Policies (continued)

Value Added Tax

The tax authorities permit the settlement of sales and purchases value added tax ("VAT") on a net basis.

Prior to 2006, most of the Group subsidiaries located in Russia followed cash method for the recognition of VAT payable. Under the cash method, VAT was payable to tax authorities upon collection of receivables from customers. VAT on purchases, which have been settled at the balance sheet date, was deducted from the amount payable. In addition, VAT related to sales which had not been settled at the balance sheet date (VAT deferred) was also included in VAT payable.

Starting from 2006, all the Group's subsidiaries located in Russia apply accrual method for VAT recognition, under which VAT becomes payable upon invoicing and delivery of goods or rendering services as well upon receipt of prepayments from customers. VAT on purchases, even not settled at the balance sheet date, is deducted from the amount of VAT payable.

Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

Borrowings

Borrowings are initially recognised at the fair value of consideration received, net of directly attributable transaction costs. After initial recognition borrowings are measured at amortised cost using the effective interest rate method; any difference between the amount initially recognised and the redemption amount is recognised as interest expense over the period of the borrowings. Borrowing costs are expensed as incurred.

Equity

Share Capital

Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction in equity from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is recognised as additional paid-in capital.

Dividends

Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

2. Significant Accounting Policies (continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

Provisions for site restoration costs are capitalised in mining assets within property, plant and equipment.

Employee Benefits

Social and Pension Contributions

Defined contributions are made by the Group to the Russian Federation state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force (approximately 24%), based on gross salary payments. The Group has no legal or constructive obligation to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due. These contributions are expensed as incurred.

Post-Employment Benefits

The Group companies provide pensions and other post-employment benefits to their employees in accordance with collective bargaining agreements. The entitlement to these benefits is usually conditional on both the employee remaining in service up to retirement age and the completion of a minimum service period. Other post-employment benefits consist of various compensations and non-monetary benefits. The amount of the benefits is stipulated in the collective bargaining agreements and/or in the plan documents.

The liability recognised in the balance sheet in respect of post-employment benefits is the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the benefits is determined by discounting the estimated future cash outflows using interest rates of high-quality government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related obligations.

2. Significant Accounting Policies (continued)

Employee Benefits (continued)

Post-Employment Benefits (continued)

Actuarial gains and losses are recognised as income or expense when the cumulative unrecognised actuarial gains or losses for each individual plan exceed 10% of the higher of defined benefit obligation and the fair value of plan assets. The excess of cumulative actuarial gains or losses over the 10% of the higher of defined benefit obligation and the fair value of plan assets are recognised over the expected average remaining working lives of the employees participating in the plan.

The past service cost is recognised as an expense on a straight line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognised immediately. The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service cost not yet recognised and less the fair value of plan assets out of which the obligations are to be settled directly.

Other Costs

The Group incurs employee costs related to the provision of benefits such as health services, kindergartens and other services. These amounts principally represent an implicit cost of employment and, accordingly, have been charged to cost of sales.

Share-based Payments

In 2005 and 2006, the Group adopted share option plans, under which certain directors, senior executives and employees of the Group receive remuneration in the form of share-based payment transactions, whereby they render services as consideration for equity instruments ('equity-settled transactions').

The cost of equity-settled transactions with non-executive directors and employees is measured by reference to the fair value of options at the date on which they are granted. The fair value is determined using the Black-Scholes-Merton model, further details of which are given in Note 20. In valuing equity-settled transactions, no account is taken of any conditions, other than conditions of remaining in service up to the vesting date.

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

2. Significant Accounting Policies (continued)

Share-based Payments (continued)

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

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

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (Note 16).

Revenue

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

When goods are sold or services are rendered in exchange for dissimilar goods or services, the revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred. The following specific recognition criteria must also be met before revenue is recognised:

Sale of Goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Rendering of Services

Revenue is recognised when services are rendered.

2. Significant Accounting Policies (continued)

Revenue (continued)

Interest

Interest is recognised using the effective interest method.

Dividends

Revenue is recognised when the shareholders' right to receive the payment is established.

Rental Income

Rental income is accounted for on a straight-line basis over the lease term on ongoing leases.

Current Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

Deferred Income Tax

Deferred tax assets and liabilities are calculated in respect of temporary differences using the liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes, except where the deferred income tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

3. Segment Information

The Group's primary reporting format is business segments and its secondary format is geographical segments. The Group's major business segments are steel production and mining. Steel production segment includes production of steel and related products at five iron and steel mills. Mining segment includes ore and coal mining and enrichment. The mining segment does not meet the criteria of a reportable segment under IFRS, because the majority of revenues of the mining segment are earned in inter-segment transactions. Despite this fact, management has designated the mining segment as a reportable segment based on the future plans to develop this business segment.

In 2004 – 2006, inter-segment operations were made at prevailing market prices at the dates of transactions.

The following tables present revenue and profit information and certain asset and liability information regarding business segments for the years ended December 31, 2006, 2005 and 2004:

Year ended December 31, 2006

US$ million	Steel production	Mining	Other operations	Eliminations	Total
Revenue					
Sales to external customers	$ 8,085	$ 121	$ 86	$ –	$ 8,292
Inter-segment sales	76	1,026	518	(1,620)	–
Total revenue	8,161	1,147	604	(1,620)	8,292
Result					
Segment result	$ 1,966	$ 351	$ 26	$ (42)	$ 2,301
Unallocated expenses					(3)
Profit from operations					$ 2,298
Share of profits/(losses) of joint ventures and associates	22	23	–		45
Other income/(expenses), net					(246)
Income tax expense					(638)
Net profit					$ 1,459
Assets and liabilities					
Segment assets	$ 4,860	$ 1,043	$ 273		$ 6,176
Investments in joint ventures and associates	238	1,261	–		1,499
Unallocated assets					847
Total assets					$ 8,522
Segment liabilities	$ 1,623	$ 183	$ 125		$ 1,931
Unallocated liabilities					2,341
Total liabilities					$ 4,272
Other segment information					
Additions to property, plant and equipment	$ 517	$ 133	$ 34		$ 684
Property, plant and equipment acquired in business combinations	123	3	40		166
Depreciation, depletion and amortisation	(229)	(63)	(16)		(308)
Impairment of assets	(23)	(1)	–		(24)

3. Segment Information (continued)

Year ended December 31, 2005

US$ million	Steel production	Mining	Other operations	Eliminations	Total
Revenue					
Sales to external customers	$ 6,133	$ 147	$ 228	$ –	$ 6,508
Inter-segment sales	88	842	417	(1,347)	–
Total revenue	6,221	989	645	(1,347)	6,508
Result					
Segment result	$ 1,308	$ 259	$ 34	$ –	$ 1,601
Unallocated expenses					(19)
Profit from operations					$ 1,582
Share of profits/(losses) of joint ventures and associates	1	56	–		57
Other income/(expenses), net					(111)
Income tax expense					(475)
Net profit					$ 1,053
Assets and liabilities					
Segment assets	$ 4,270	$ 949	$ 204		$ 5,423
Investments in joint ventures and associates	2	904	–		906
Unallocated assets					425
Total assets					$ 6,754
Segment liabilities	$ 1,518	$ 181	$ 128		$ 1,827
Unallocated liabilities					2,040
Total liabilities					$ 3,867
Other segment information					
Additions to property, plant and equipment	$ 611	$ 125	$ 37		$ 773
Property, plant and equipment acquired in business combinations	308	10	–		318
Depreciation, depletion and amortisation	(191)	(54)	(13)		(258)
Impairment of assets	–	(1)	–		(1)

3. Segment Information (continued)

Year ended December 31, 2004

US$ million	Steel production	Mining	Other operations	Eliminations	Total
Revenue					
Sales to external customers	$ 5,726	$ 116	$ 91	$ –	$ 5,933
Inter-segment sales	83	495	254	(832)	–
Total revenue	5,809	611	345	(832)	5,933
Result					
Segment result	$ 1,742	$ 92	$ 6	$ –	$ 1,840
Unallocated expenses					(3)
Profit from operations					$ 1,837
Share of profits/(losses) of joint ventures and associates	–	43	–		43
Other income/(expenses), net					(158)
Income tax expense					(377)
Net profit					$ 1,345
Assets and liabilities					
Segment assets	$ 3,028	$ 780	$ 163		$ 3,971
Investments in joint ventures and associates	1	195	1		197
Unallocated assets					85
Total assets					$ 4,253
Segment liabilities	$ 1,112	$ 213	$ 108		$ 1,433
Unallocated liabilities					853
Total liabilities					$ 2,286
Other segment information					
Additions to property, plant and equipment	$ 488	$ 48	$ 97		$ 633
Property, plant and equipment acquired in business combinations	–	532	–		532
Depreciation, depletion and amortisation	(164)	(31)	(6)		(201)
Impairment of assets	–	–	(1)		(1)

Substantially all the additions to the Group's property, plant and equipment related to the Russian operations of the Group.

3. Segment Information (continued)

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

US$ million	2006	2005	2004
Russia	**$ 4,217**	$ 3,905	$ 3,288
Taiwan	**572**	522	807
Thailand	**465**	477	458
Italy	**379**	113	24
Iran	**292**	203	195
USA	**289**	87	8
Czech Republic	**263**	24	–
Kazakhstan	**259**	80	37
Philippines	**194**	198	215
Turkey	**188**	40	20
Germany	**184**	34	–
Korea	**149**	166	213
China	**98**	176	339
Vietnam	**89**	211	213
Other countries	**654**	272	116
	$ 8,292	$ 6,508	$ 5,933

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

US$ million	2006	2005	2004
Russia	**$ 5,674**	$ 4,997	$ 3,418
Luxembourg	**720**	310	–
Czech Republic	**451**	444	–
Gibraltar	**445**	488	627
Italy	**368**	334	–
USA	**267**	–	–
Cyprus	**252**	80	79
South Africa	**236**	–	–
Switzerland	**51**	43	70
Malta	**34**	37	39
Belgium	**16**	12	10
Panama	**8**	9	10
	$ 8,522	$ 6,754	$ 4,253

4. Acquisitions and Increases of Ownership Interests in Subsidiaries

Nizhny Tagil Iron and Steel Plant

In the years ended December 31, 2006, 2005 and 2004, the Group acquired minority interests in Nizhny Tagil Iron and Steel Plant (2.62%, 11.94% and 6.09% ownership interest, respectively) for cash consideration of $79 million, $236 million and $48 million, respectively. The excess of the amounts of consideration over the carrying value of minority interest acquired amounting to $37 million, $75 million and $8 million, respectively, was charged to accumulated profits.

West-Siberian Iron and Steel Plant

In the years ended December 31, 2005 and 2004, the Group acquired minority interests in West-Siberian Iron and Steel Plant ("ZapSib") (2.08% and 1.23% ownership interest, respectively) for cash consideration of $41 million and $9 million, respectively. In the years ended December 31, 2005 and 2004, the excess of the amounts of consideration over the carrying values of minority interests acquired amounting to $23 million and $4 million, respectively, was charged to accumulated profits, and the excess of the carrying values of minority interests acquired over consideration amounting to $0 and $0.6 million, respectively, was included in additional paid-in capital. Purchases of minority interests in 2006 had no significant impact on the Group's financial statements.

In 2006, the new regulations were introduced in the Russian Federation in respect of the companies in which a controlling shareholder owns not less than 95% of the share capital as of July 1, 2006. These amendments obliged a controlling shareholder to acquire the company's shares in case when the minority shareholders are willing to sell their stakes. On the other hand, a controlling shareholder can initiate a forced disposal of the shares held by minority shareholders.

At July 1, 2006, the Group had a 96.68% ownership interest in ZapSib. At this date, the Group derecognised minority interests of $26 million and accrued a liability to minority shareholders in the amount of $64 million. The liability was measured based on the highest price for the shares during the period of six months up to the date of its recognition as required by the regulations. The excess of the amount of the liability over the carrying value of the derecognised minority interests amounting to $38 million was charged to accumulated profits.

Vysokogorsky Mining-and-Processing Integrated Works

In 2006, the Group acquired a 7.61% minority interest in Vysokogorsky Mining-and-Processing Integrated Works for cash consideration of $14 million. The excess of the amount of consideration over the carrying value of minority interest acquired amounting to $5 million was charged to accumulated profits.

Nakhodka Trade Sea Port

In 2006 and 2005, the Group acquired minority interests in Nakhodka Trade Sea Port (0.6% and 2.1%, respectively). These transactions had no significant impact on the Group's financial statements.

4. Acquisitions and Increases of Ownership Interests in Subsidiaries (continued)

Kachkanarsky Mining-and-Processing Integrated Works

On May 21, 2004, the Group acquired 83.59% of the ordinary shares in Kachkanarsky Mining-and-Processing Integrated Works ("KGOK") for $190 million. In addition, as part of the acquisition cost, the Group purchased restructured debts of KGOK with a fair value of $21 million for $44 million. As a result, the financial position and the results of operations of KGOK were included in the Group's consolidated financial statements beginning May 21, 2004.

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

US$ million		**May 21, 2004**
Property, plant and equipment	$	337
Other non-current assets		5
Inventories		17
Accounts and notes receivable		66
Cash		2
Total assets		**427**
Non-current liabilities		36
Deferred income tax liabilities		68
Current liabilities		67
Total liabilities		**171**
Net assets	**$**	**256**
Fair value of net assets attributable to 83.59% ownership interest		**214**
Purchase consideration	**$**	**214**

Cash flow on acquisition was as follows:

Net cash acquired with the subsidiary	$	2
Cash paid		(213)
Net cash outflow	**$**	**(211)**

KGOK's net profit for the period from May 21, 2004 to December 31, 2004 amounted to $58 million.

Subsequent to the acquisition date, in 2004, the Group acquired an additional 14.04% ownership interest in KGOK for $31 million. The excess of the carrying value of minority interest over the amount of consideration amounting to $11 million was recorded in additional paid-in capital.

Subsequent purchases of additional minority interests in KGOK (0.01% and 0.08% in 2006 and 2005, respectively) had no significant impact on the Group's financial statements.

4. Acquisitions and Increases of Ownership Interests in Subsidiaries (continued)

Kachkanarsky Mining-and-Processing Integrated Works (continued)

In 2006, the new regulations were introduced in the Russian Federation in respect of the companies in which a controlling shareholder owns not less than 95% of the share capital as of July 1, 2006.

At July 1, 2006, the Group had a 97.72% nominal ownership interest in KGOK. At this date, the Group derecognised minority interests of $16 million and accrued a liability to minority shareholders in the amount of $42 million. The liability was measured based on the highest price for the shares during the period of six months up to the date of its recognition as required by the regulations. The excess of the amount of the liability over the carrying value of the derecognised minority interests amounting to $26 million was charged to accumulated profits.

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

Kuznetsky Mining-and-Processing Integrated Works

In February 2004, the Group acquired a production complex from OOO Centerprom-MT for $8 million. The production complex consisted of items of property, plant and equipment, which were previously owned by OOO Kuznetsky Mining-and-Processing Integrated Works ("KuzGOK"). The production complex acquired represented a business and was accounted for as a business combination in accordance with IAS 22. Identifiable assets and liabilities of the production complex were measured at fair value on the date of acquisition. In September 2004, the Group acquired a 100% ownership interest in KuzGOK, for $1. KuzGOK had licenses for iron ore reserves being mined using the assets of the production complex acquired.

The financial position and results of operations of the production complex and KuzGOK were included in the Group's consolidated financial statements beginning February 19, 2004 and September 30, 2004, as the Group exercised control over their operations since these dates.

4. Acquisitions and Increases of Ownership Interests in Subsidiaries (continued)

Kuznetsky Mining-and-Processing Integrated Works (continued)

For accounting purposes, the acquisitions of the production complex and ownership interest in KuzGOK were accounted for as a single business combination. The table below sets forth the fair values of identifiable assets and liabilities of the production complex and KuzGOK at the dates of acquisitions:

US$ million	**February 19, 2004**	**September 30, 2004**	**Total**
Property, plant and equipment	$ 88	$ 8	$ 96
Inventories	–	3	3
Accounts and notes receivable	–	20	20
Total assets	**88**	**31**	**119**
Non-current liabilities	2	1	3
Deferred income tax liabilities	19	–	19
Current liabilities	–	52	52
Total liabilities	**21**	**53**	**74**
Net assets/(liabilities)	**67**	**(22)**	**45**
Purchase consideration	8	–	8
Total goodwill/(negative goodwill)	**$ (59)**	**$ 22**	**$ (37)**

Cash flow on acquisition was as follows:

Net cash acquired with the subsidiary	$ –
Cash paid	(8)
Net cash outflow	**$ (8)**

The acquired production complex was vertically integrated into the Group. As a result, it is impracticable for the Group to disclose the acquiree's profit or loss for the period from February 19, 2004 to December 31, 2004.

Through December 31, 2004, the amount of negative goodwill was amortised over the remaining average useful life of identifiable depreciable assets acquired (20 years). On January 1, 2005, the Group ceased recognition of negative goodwill in the balance sheet (Note 2).

Sheregeshskoye and Irbinskoye Ore Deposits

In July 2004, the Group acquired production complexes of OAO Sheregeshskoye Rudoupravlenie ("Sheregeshskoye Ore Deposit") and OAO Irbinskoye Rudoupravlenie ("Irbinskoye Ore Deposit") on open auctions for cash considerations of $3 million and $3 million, respectively. The production complexes acquired represent businesses and therefore their acquisitions were accounted for as business combinations in accordance with IFRS 3. Identifiable assets, liabilities and contingent liabilities of the production complexes were measured at fair value on the dates of acquisitions.

4. Acquisitions and Increases of Ownership Interests in Subsidiaries (continued)

Sheregeshskoye and Irbinskoye Ore Deposits (continued)

The financial position and results of operations of Sheregeshskoye and Irbinskoye Ore Deposits were included in the Group's consolidated financial statements from July 30, 2004, as the Group exercised control over their operations from that date.

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

US$ million	**July 30, 2004**
Property, plant and equipment	$ 38
Inventories	1
Total assets	**39**
Non-current liabilities	1
Deferred income tax liabilities	10
Total liabilities	**11**
Net assets	**28**
Purchase consideration	**3**
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition recognised in the income statement	**$ (25)**

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

US$ million	**July 30, 2004**
Property, plant and equipment	$ 37
Inventories	1
Accounts and notes receivable	3
Total assets	**41**
Non-current liabilities	2
Deferred income tax liabilities	10
Total liabilities	**12**
Net assets	**$ 29**
Purchase consideration	**3**
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition recognised in the income statement	**$ (26)**

Cash flow on acquisition was as follows:

Net cash acquired with the subsidiary	$ –
Cash paid	(6)
Net cash outflow	**$ (6)**

4. Acquisitions and Increases of Ownership Interests in Subsidiaries (continued)

Sheregeshskoye and Irbinskoye Ore Deposits (continued)

The acquired production complexes were vertically integrated into the Group. As a result, it is impracticable for the Group to disclose the acquirees' profit or loss for the period from July 30, 2004 to December 31, 2004.

Mastercroft

On June 1, 2005, the Group acquired a 4.17% ownership interest in Mastercroft for cash consideration of $124 million. The excess of the amount of consideration over the carrying value of that minority interest amounting to $32 million was charged to accumulated profits.

LDPP

On June 30, 2005, the Group acquired an additional minority interest of 30.10% in OAO Large Diameter Pipe Plant ("LDPP") for cash consideration of $13 million. The excess of the amount of the carrying value of minority interest over consideration amounting to $1 million was included in additional paid-in capital.

Palini & Bertoli S.p.A.

On August 11, 2005, the Group acquired a 75% plus one share ownership interest in Clama S.r.l. ("Clama"). Clama owns 100% of the share capital of Palini & Bertoli S.p.A. ("Palini"), an Italian rolling mill. Cash consideration for both companies amounted to $112 million, including transaction costs of $3 million.

At the same date, the Group and Clama's minority shareholders entered into a put and call option agreement under which Clama's minority shareholders have a put option and the Group has a corresponding call option, exercisable in the period from 2007 to 2010, in respect of 25% less one share ownership interest in Clama. The exercise price of the option is dependent upon Clama's future consolidated earnings. As a result, the Group effectively acquired a 100% ownership interest in Clama with deferred consideration of $69 million which is equal to the fair value of a financial liability payable under put option.

The financial position and the results of operations of both Clama and Palini were included in the Group's consolidated financial statements beginning August 11, 2005.

4. Acquisitions and Increases of Ownership Interests in Subsidiaries (continued)

Palini & Bertoli S.p.A. (continued)

At December 31, 2005, the acquisition of Palini was accounted for based on provisional values as at the date of authorisation of issue of financial statements for the year ended December 31, 2005 the subsidiary has not completed valuation of assets in accordance with IFRS 3. In 2006, the Group finalised its purchase price allocation on the acquisition of Palini. As a result, the Group recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities as at August 11, 2005 and recognised a financial liability payable under the put option in the amount of $69 million. Identifiable assets, liabilities and contingent liabilities of the acquiree and the resulting goodwill which as follows:

US$ million	Initial estimation of fair values	Final estimation of fair values
Property, plant and equipment	$ 47	$ 166
Deferred tax asset	4	–
Inventories	52	52
Accounts and notes receivable	64	64
Total assets	**167**	**282**
Non-current liabilities	1	2
Deferred income tax liabilities	9	49
Current liabilities	121	121
Total liabilities	**131**	**172**
Net assets	**$ 36**	**$ 110**
Fair value of net assets attributable to 75% plus one share ownership interest	27	–
Fair value of net assets attributable to 100% ownership interest	–	110
Purchase consideration	119	181
Goodwill as of August 11, 2005	**92**	**71**
Translation difference	(7)	(4)
Goodwill as of December 31, 2005	**$ 85**	**$ 67**

The 2005 comparative information has been restated to reflect these adjustments.

Cash flow on acquisition was as follows:

Net cash acquired with the subsidiary	$ –
Cash paid	(113)
Net cash outflow	**$ (113)**

In 2006, the Group paid $2 million of the purchase consideration outstanding at December 31, 2005.

Clama's consolidated net profit for the period from August 11, 2005 to December 31, 2005 amounted to $7 million.

4. Acquisitions and Increases of Ownership Interests in Subsidiaries (continued)

Palini & Bertoli S.p.A. (continued)

The goodwill of €57 million comprises the fair value of expected synergies arising from the acquisition and a customer list, which is not separately recognised. The customer list is not separable and therefore does not meet the criteria for recognition as an intangible asset under IAS 38 "Intangible assets".

Vitkovice Steel

On November 14, 2005, the Group acquired a 98.96% ownership interest in Vitkovice Steel ("Vitkovice"), a rolling mill, located in the Czech Republic, for cash consideration of $298 million, including transaction costs of $15 million. As a result, the financial position and the results of operations of Vitkovice were included in the Group's consolidated financial statements beginning November 14, 2005.

At December 31, 2005, the acquisition of Vitkovice was accounted for based on provisional values. In 2006, the Group finalised its purchase price allocation on the acquisition of Vitkovice, but no adjustments were required to the amounts initially recognised. The identifiable assets, liabilities and contingent liabilities as at November 14, 2005 were as follows:

US$ million	**November 14, 2005**
Property, plant and equipment	$ 130
Deferred tax asset	3
Other non-current assets	25
Inventories	97
Accounts and notes receivable	110
Other current assets	2
Cash	89
Total assets	**456**
Non-current liabilities	1
Current liabilities	145
Total liabilities	**146**
Net assets	**$ 310**
Fair value of net assets attributable to 98.96% ownership interest	**307**
Purchase consideration	**298**
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition recognised in the income statement	**$ (9)**

Cash flow on acquisition was as follows:

Net cash acquired with the subsidiary	$ 89
Cash paid	(289)
Net cash outflow	**$ (200)**

4. Acquisitions and Increases of Ownership Interests in Subsidiaries (continued)

Vitkovice Steel (continued)

In 2006, the Group paid $9 million of the purchase consideration outstanding at December 31, 2005.

Vitkovice's consolidated net loss for the period from November 14, 2005 to December 31, 2005 amounted to $4 million.

In 2006, the Group acquired the remaining minority interests in Vitkovice (1.04%) for cash consideration of $3 million. The excess of the amount of the carrying value of minority interest over consideration amounting to $1 million was included in additional paid-in capital.

Strategic Minerals Corporation

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

As a result, the financial position and the results of operations of Stratcor were included in the Group's consolidated financial statements beginning August 23, 2006. The acquisition of Stratcor was accounted for based on provisional values as the subsidiary, as of the date of authorisation of issue of these financial statements, has not completed purchase price allocation in accordance with IFRS 3 "Business Combinations". The table below sets forth the fair values of Stratcor's consolidated identifiable assets, liabilities and contingent liabilities at the date of acquisition:

US$ million	**August 23, 2006**
Property, plant and equipment	$ 123
Other non-current assets	3
Inventories	51
Accounts and notes receivable	31
Cash	39
Total assets	**247**
Deferred income tax liabilities	22
Non-current liabilities	41
Current liabilities	50
Total liabilities	**113**
Net assets	**$ 134**
Fair value of net assets attributable to 72.84% ownership interest	**97**
Purchase consideration	**125**
Goodwill	**$ 28**

4. Acquisitions and Increases of Ownership Interests in Subsidiaries (continued)

Strategic Minerals Corporation (continued)

Under the share purchase agreement, the Group will pay earn out and synergy payments during the period from 2007 to 2019. The payments depend on the deviation of the average prices for vanadium pentoxide from certain levels and the amounts payable for each year are limited to maximum amounts. Liabilities under earn out and synergy payments were recognised at fair value which was determined based on expected amounts to be paid, their timing and applicable discount rate.

Cash flow on acquisition was as follows:

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

For the period from August 23, 2006 to December 31, 2006 Stratcor incurred net loss amounting to $1 million.

Under the Black Economic Empowerment Programme, realised by the South-African government in accordance with the Mineral and Petroleum Resources Development Act and the Broad-Based Socio Economic Empowerment Charter for the South African Mining Industry, the Group has a commitment to sell a 11% ownership interest in the South-African subsidiary of Stratcor to historically disadvantaged communities not later than April 2014.

Other Acquisitions

In 2005, the Group purchased a 100% ownership interest in OOO Mine 12 (“Mine 12”) and OAO Zapadno-Sibirskoye Geologicheskoye Upravlenie (“ZSGU”). In addition, the Group acquired the assets and the business of OOO Nizhnesaldinsky Metallurgical Plant. The excess of fair value of identifiable assets, liabilities and contingent liabilities acquired over consideration amounting to $6 million was included in the income statement. Goodwill of $1 million was determined as impaired and included in impairment of assets in the income statement for the year ended December 31, 2005.

In 2006, the Group purchased 100% ownership interest in OOO Evro-Aziatskaya Energy Company, OOO Evrazteknika, OOO Ekont and OOO Cheremshanka, all located in the Russian Federation, from the entities under control of an ultimate principal shareholder. The total cash consideration amounted to $34 million. The excess of fair value of identifiable assets, liabilities and contingent liabilities acquired over consideration amounting to $1 million was included in the income statement. Goodwill of $1 million arising on the acquisition of Evro-Aziatskaya Energy Company was recorded in the consolidated balance sheet as of December 31, 2006.

4. Acquisitions and Increases of Ownership Interests in Subsidiaries (continued)

Disclosure of Other Information in Respect of Business Combinations

It is impracticable to determine revenues and net profit of the combined entity for each year presented on the assumption that all business combinations effected during each year had occurred at the beginning of the respective year.

It is impracticable to determine the carrying amounts of each class of the acquirees' assets, liabilities and contingent liabilities, determined in accordance with IFRS, immediately before the combination, because the acquirees did not prepare financial statements in accordance with IFRS before acquisitions.

Negative Goodwill

The table below presents a reconciliation of the carrying amount of negative goodwill at December 31, 2005 and 2004:

US$ million	Gross book value	Accumulated amortisation	Total
At December 31, 2003	**$ (393)**	**$ 45**	**$ (348)**
Negative goodwill recognised on acquisitions	(37)	–	(37)
Amortisation	–	28	28
Translation difference	(6)	–	(6)
At December 31, 2004	**(436)**	**73**	**(363)**
Change in accounting policies: derecognition of negative goodwill	436	(73)	363
At January 1, 2005	**$ –**	**$ –**	**$ –**

In 2004, the Group applied IFRS 3 "Business Combinations" to the accounting for business combinations, for which the agreement date was on or after March 31, 2004. In accordance with the transitional provisions of IFRS 3, on January 1, 2005, the Group ceased to recognise negative goodwill in the consolidated balance sheet. The carrying amount of negative goodwill at December 31, 2004 that arose from business combinations, for which the agreement date was before March 31, 2004, or interests in a jointly controlled entity obtained before March 31, 2004 and accounted for by applying the equity method was derecognised at January 1, 2005, with a corresponding adjustment of $390 million to the opening balance of accumulated profits and minority interest (Notes 4 and 8).

4. Acquisitions and Increases of Ownership Interests in Subsidiaries (continued)

Goodwill

The table below presents movement in the carrying amount of goodwill during the years ended December 31, 2006 and 2005.

US$ million		Carrying amount
At December 31, 2004	**$**	**–**
Goodwill recognised on acquisitions of subsidiaries (Note 4)		72
Impairment of goodwill (Note 4)		(1)
Translation difference		(4)
At December 31, 2005 (as adjusted)	$	67
Goodwill recognised on acquisitions of subsidiaries (Note 4)		29
Translation difference		8
At December 31, 2006	**$**	**104**

At December 31, 2006, the carrying value of goodwill relates to the acquisition of Clama and Palini in 2005 and Stratcor and Evro-Aziatskaya Energy Company in 2006.

In respect of Palini the recoverable amount of goodwill as of December 31, 2006 was based on value in use determined based on future cash flow analysis covering a ten-year period and a discount rate of 11.6% per annum. For periods beyond this ten year projection a zero terminal value was assumed.

Cash flow projections have been estimated by extrapolating the budget for 2007 using a growth rate of 2% per annum representing the expected inflationary increase. The budget is based on the expected commodity price of steel plates of €530 per ton.

The above mentioned goodwill will not be impaired unless the above noted assumptions substantially change.

5. Revenues and Expenses

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

US$ million		2006		2005		2004
Cost of inventories recognised as expense	**$**	**2,900**	$	2,509	$	2,300
Staff costs, including social security taxes		**909**		769		592
Depreciation, depletion and amortisation		**304**		245		196

Gain on Financial Assets

Gain on financial assets in the year ended December 31, 2004 represents a gain on re-measurement of 19.145% of shares in ZAO Raspadskaya to fair value. This gain was realised when the shares were contributed into a joint venture (Note 8).

5. Revenues and Expenses (continued)

Other Non-Operating Loss

Other non-operating loss for the year ended December 31, 2005 includes $10 million paid to the government of Georgia as a non-refundable prepayment for the acquisition of ownership interest in JSC Chiaturmanganum and JSC Vartsikhe GES. The Group planned to acquire a 63.08% interest in these entities, but abandoned the project.

6. Income Taxes

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

US$ million		**2006**		2005		2004
Current income tax expense	**$**	**(661)**	$	(466)	$	(444)
Adjustment in respect of income tax of previous years		**(2)**		(7)		–
Deferred income tax (expense)/benefit						
Relating to origination and reversal of temporary differences		**25**		(2)		67
Income tax expense reported in the consolidated income statement	**$**	**(638)**	$	(475)	$	(377)

In 2004 – 2006, the Group's income was subject to tax at 24% in the Russian Federation, 10% in Cyprus, and 24% and 11.6% (depending on the type of income) in Switzerland. The income tax rates in the Czech Republic were 24% in 2006 and 26% in 2005. Italian subsidiary was taxed at a 37.25% effective rate. The South African subsidiary and associate were taxed at 29% in 2006. Effective income tax rate in respect of the subsidiary located in the USA was 37%. Ferrotrade Limited (Gibraltar) has a Taxation Exemption Certificate under which it is currently liable to tax at the fixed annual amount of £225. This certificate is valid through 2010.

6. Income Taxes (continued)

The major part of income taxes is paid in the Russian Federation. A reconciliation of income tax expense applicable to profit before income tax using the Russian statutory tax rate of 24% to income tax expense as reported in the Group's consolidated financial statements for the years ended December 31 is as follows:

US$ million		2006		2005		2004
Profit before income tax	**$**	**2,097**	$	1,528	$	1,722
At the Russian statutory income tax rate of 24%		**(503)**		(367)		(413)
Adjustment in respect of income tax of previous years		**(2)**		(7)		–
Effect of non-deductible expenses and other non-temporary differences		**(103)**		(37)		(42)
Effect of the difference in tax rates on dividend income from associates and joint ventures		**10**		11		–
Tax on dividends distributed by the Group's subsidiaries to parent company		**(45)**		(44)		–
Effect of the difference in tax rates in countries other than the Russian Federation		**7**		6		60
Deferred income tax provided for undistributed earnings of the Group's subsidiaries		**(11)**		(18)		(16)
Share of profits in joint ventures and associates		**(1)**		3		10
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition		**–**		4		13
Gain on financial assets		**3**		–		14
Benefit from previously unrecognised tax losses		**6**		–		–
Change in allowance for deferred tax asset		**1**		(26)		(3)
Income tax expense reported in the consolidated income statement	**$**	**(638)**	$	(475)	$	(377)

6. Income Taxes (continued)

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

US$ million	**2006**	**Reclassification to assets held-for-sale**	**Change recognised in income statement**	**Change due to business combinations**	**Translation difference**	**2005**	**Change recognised in income statement**	**Change due to business combinations**	**Translation difference**	**2004**
Deferred income tax liabilities:										
Property, plant and equipment	**$ 316**	$ –	$ (17)	$ 29	$ 26	$ 278	$ 3	$ 56	$ (9)	$ 228
Liabilities under the Settlement Agreements	**–**	–	(1)	–	–	1	(12)	–	(1)	14
Undistributed earnings of subsidiaries	**11**	–	(7)	–	–	18	2	–	–	16
Other	**45**	–	10	14	4	17	–	3	(1)	15
	372	–	(15)	43	30	314	(7)	59	(11)	273
Deferred income tax assets:										
Tax losses available for offset	**36**	(2)	3	6	1	28	26	–	–	2
Accrued liabilities	**40**	–	6	6	3	25	3	1	1	20
Accounts receivable	**12**	(1)	(3)	–	2	14	4	–	(2)	12
Other	**31**	(5)	3	6	2	25	(16)	9	1	31
	119	(8)	9	18	8	92	17	10	–	65
Valuation allowance	**(31)**	–	1	(3)	–	(29)	(26)	–	–	(3)
	88	(8)	10	15	8	63	(9)	10	–	62
Net deferred income tax asset	**11**	(8)	3	–	2	14	8	3	–	3
Net deferred income tax liability	**$ 295**	$ –	$ (22)	$ 28	$ 24	$ 265	$ 10	$ 52	$ (11)	$ 214

As of December 31, 2006, 2005 and 2004, deferred income taxes have been provided for in respect of undistributed earnings of the Group's subsidiaries amounting to $255 million, $465 million and $273 million, respectively, as management intended to dividend these amounts. Management does not intend to distribute other accumulated earnings in the foreseeable future.

At December 31, 2006, the Group has not recognised a deferred tax liability and deferred tax asset in respect of temporary differences of $3,177 million and $353 million, respectively. These differences are associated with investments in subsidiaries and were not recognised as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

The current tax rate for dividend income in respect of the Group's subsidiaries varies from 0% to 10%.

6. Income Taxes (continued)

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies, except for the companies registered in Cyprus where group relief can be applied. As of December 31, 2006, the unused tax losses carry forward approximated to $170 million. The Group recognised deferred tax asset of $8 million in respect of unused tax losses. Deferred tax asset in the amount of $28 million has not been recorded as it is not probable that sufficient taxable profits will be available in the foreseeable future to offset these losses. Tax losses of $146 million for which deferred tax asset was not recognised arose in companies registered in Luxembourg, Cyprus and Russia. Losses in the amount of $130 million are available indefinitely for offset against future taxable profits of the companies in which the losses arose and $16 million will expire during 2012 – 2016.

7. Property, Plant and Equipment

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

US$ million	**2006**	2005	2004
Cost:			
Land	**$ 62**	$ 58	$ 53
Buildings and constructions	**1,239**	823	663
Machinery and equipment	**2,270**	1,689	1,277
Transport and motor vehicles	**259**	186	144
Mining assets	**364**	315	284
Other assets	**83**	64	46
Assets under construction	**482**	670	499
	4,759	3,805	2,966
Accumulated depreciation, depletion and amortisation:			
Buildings and constructions	**(150)**	(99)	(71)
Machinery and equipment	**(754)**	(534)	(440)
Transport and motor vehicles	**(55)**	(31)	(13)
Mining assets	**(37)**	(34)	(14)
Other assets	**(43)**	(28)	(19)
	(1,039)	(726)	(557)
Government grants:			
Machinery and equipment, net	**(8)**	(8)	(10)
	$ 3,712	$ 3,071	$ 2,399

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of $117 million, $127 million and $137 million as of December 31, 2006, 2005 and 2004, respectively.

7. Property, Plant and Equipment (continued)

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

US$ million	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Mining assets	Other assets	Assets under construction	Total
At December 31, 2005, cost, net of accumulated depreciation and government grants	**$ 58**	**$ 724**	**$ 1,147**	**$ 155**	**$ 281**	**$ 36**	**$ 670**	**$ 3,071**
Reclassifications	**–**	**(12)**	**10**	**3**	**8**	**(1)**	**(8)**	**–**
Additions	**–**	**1**	**4**	**25**	**17**	**4**	**633**	**684**
Assets acquired in business combination	**8**	**58**	**67**	**3**	**24**	**1**	**5**	**166**
Assets put into operation	**3**	**289**	**408**	**54**	**–**	**9**	**(763)**	**–**
Disposals	**–**	**(5)**	**(12)**	**(2)**	**–**	**(1)**	**(10)**	**(30)**
Depreciation & depletion charge	**–**	**(46)**	**(204)**	**(25)**	**(21)**	**(12)**	**–**	**(308)**
Impairment loss	**–**	**(1)**	**(2)**	**–**	**–**	**–**	**(17)**	**(20)**
Disposal of assets due to sale of a subsidiary	**–**	**(1)**	**(4)**	**(21)**	**–**	**–**	**(1)**	**(27)**
Assets held for disposal	**(15)**	**–**	**(25)**	**–**	**(21)**	**–**	**(87)**	**(148)**
Change in site restoration provision	**2**	**1**	**–**	**–**	**13**	**–**	**–**	**16**
Translation difference	**6**	**81**	**119**	**12**	**26**	**4**	**60**	**308**
At December 31, 2006, cost, net of accumulated depreciation and government grants	**$ 62**	**$ 1,089**	**$ 1,508**	**$ 204**	**$ 327**	**$ 40**	**$ 482**	**$ 3,712**

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

US$ million	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Mining assets	Other assets	Assets under construction	Total
At December 31, 2004 cost, net of accumulated depreciation and government grants	$ 53	$ 592	$ 827	$ 131	$ 270	$ 27	$ 499	$ 2,399
Reclassifications	–	17	(17)	–	–	–	–	–
Additions	1	–	5	18	17	4	728	773
Assets acquired in business combination	13	80	200	2	9	8	6	318
Assets put into operation	1	107	366	27	19	10	(530)	–
Disposals	(1)	(13)	(18)	(2)	–	(1)	(11)	(46)
Depreciation & depletion charge	–	(35)	(179)	(18)	(15)	(11)	–	(258)
Change in site restoration provision	–	–	–	–	(9)	–	–	(9)
Impairment loss	(7)	–	–	–	–	–	–	(7)
Translation difference	(2)	(24)	(37)	(3)	(10)	(1)	(22)	(99)
At December 31, 2005, cost, net of accumulated depreciation and government grants	$ 58	$ 724	$ 1,147	$ 155	$ 281	$ 36	$ 670	$ 3,071

7. Property, Plant and Equipment (continued)

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

US$ million	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Mining assets	Other assets	Assets under construction	Total
At December 31, 2003, cost, net of accumulated depreciation and government grants	$ 26	$ 235	$ 649	$ 16	$ 163	$ 18	$ 243	$ 1,350
Additions	21	5	6	85	10	3	503	633
Assets acquired in business combination	4	322	53	25	96	1	31	532
Assets put into operation	–	33	222	11	–	12	(278)	–
Disposals	–	(3)	(4)	(1)	–	–	(22)	(30)
Depreciation & depletion charge	–	(29)	(145)	(9)	(10)	(8)	–	(201)
Impairment loss	–	–	–	–	(2)	–	–	(2)
Translation difference	2	29	46	4	13	1	22	117
At December 31, 2004, cost, net of accumulated depreciation and government grants	$ 53	$ 592	$ 827	$ 131	$ 270	$ 27	$ 499	$ 2,399

As of December 31, 2006, 2005 and 2004, certain items of production equipment with an approximate carrying value of $39 million, $156 million and $96 million, respectively, were pledged to banks as collateral against loans to the Group (Note 17).

8. Investments in Joint Ventures and Associates

Investments in joint ventures and associates were as follows as of December 31:

US$ million	Business activity	Percentage holding	2006	2005	2004
Investment in a joint venture:					
Corber Enterprises Limited	Coal mining	50.00%	**$ 577**	$ 229	$ 195
Investments in associates:					
ZAO Yuzhkuzbassugol	Coal mining	50.00%	**679**	675	–
Highveld Steel and Vanadium Corporation Limited	Steel and vanadium products production	24.9%	**236**	–	–
Other associates			**7**	2	2
			$ 1,499	$ 906	$ 197

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

8. Investments in Joint Ventures and Associates (continued)

Corber Enterprises Limited

On March 10, 2004, as part of a joint venture agreement, the Group acquired a 50% ownership interest in Corber Enterprises Limited ("Corber"), a joint venture created for the purpose of exercising joint control over economic activities of Raspadskaya Mining Group and other Corber's subsidiaries. At the date of acquisition, Corber owned 72.03% of ordinary shares in ZAO Raspadskaya, one of the largest coal mines in the Russian Federation. The Group's consideration in exchange for the ownership interest in Corber was $140 million including a cash payment of $62 million, the issuance of 6% interest-bearing promissory notes of Mastercroft Mining Limited, the Group's subsidiary, with total nominal value of $19 million payable not earlier than March 10, 2006 and a contribution of 88,016 (19.15%) ordinary shares in ZAO Raspadskaya with a carrying value of $59 million.

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

US$ million	**March 10, 2004**
Mineral reserves	$ 270
Other property, plant and equipment	177
Other non-current assets	1
Inventories	11
Accounts and notes receivable	33
Other current assets	1
Cash	6
Total assets	**499**
Non-current liabilities	17
Deferred income tax liabilities	82
Current liabilities	27
Total liabilities	**126**
Minority interests	**37**
Net assets	**$ 336**
Fair value of net assets attributable to 50% ownership interest	**168**
Negative goodwill	**(28)**
Purchase consideration	**$ 140**

On May 31, 2006, Corber acquired a 100% ownership interest in Mezhdurechenskaya Ugolnaya Company - 96 ("MUK-96") from Adroliv, one of the Corber's shareholders, in exchange for Corber's newly issued 7,200 ordinary shares and 4,800 preferred shares with par value of $1 each. Under the terms of the acquisition, preferred dividends of $318 million were paid by Corber to Adroliv in respect of Corber's acquisition of MUK-96.

8. Investments in Joint Ventures and Associates (continued)

Corber Enterprises Limited (continued)

MUK-96, an open joint stock company registered in the Russian Federation, is mainly involved in coal mining. MUK-96 holds a 99% ownership interest in ZAO Razrez Raspadsky ("Razrez Raspadsky"). Razrez Raspadsky is involved in rendering mining services, including open pit mine works at Raspadskaya mine in the Kemerovo region, the Russian Federation. Prior to the acquisition of MUK-96, one of the Corber's subsidiaries acquired a 1% ownership interest in Razrez Raspadsky for cash consideration of $2 million.

The total cost of the business combination, including cash consideration and fair value of equity instruments exchanged, amounted to $770 million.

The table below sets forth the fair values of identifiable assets, liabilities and contingent liabilities of MUK-96 and Razrez Raspadsky at the date of acquisition:

US$ million	**May 31, 2006**
Mineral reserves	$ 897
Other property, plant and equipment	77
Inventories	4
Accounts and notes receivable	17
Cash	34
Total assets	**1,029**
Non-current liabilities	18
Deferred income tax liabilities	218
Current liabilities	23
Total liabilities	**259**
Net assets	**$ 770**
Purchase consideration	**$ 770**

In order to retain its 50% ownership interest in Corber, on May 31, 2006, the Group acquired from Adroliv 3,600 newly issued ordinary shares of Corber for cash consideration of $225 million.

8. Investments in Joint Ventures and Associates (continued)

Corber Enterprises Limited (continued)

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

US$ million	2006	2005	2004
Mineral reserves	$ 1,148	$ 246	$ 267
Other property, plant and equipment	474	299	235
Other non-current assets	9	4	1
Inventories	27	18	12
Accounts and notes receivable	365	83	63
Cash	56	42	48
Total assets	**2,079**	**692**	**626**
Non-current liabilities	52	26	43
Deferred income tax liabilities	296	77	80
Current liabilities	363	113	35
Total liabilities	**711**	**216**	158
Minority interests	216	18	24
Net assets	**$ 1,152**	**$ 458**	**$ 444**

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

US$ million	Year ended December 31, 2006	Year ended December 31, 2005	From March 10, to December 31, 2004
Revenue	$ 472	$ 549	$ 364
Cost of revenue	(271)	(330)	(212)
Other expenses, including income taxes	(116)	(103)	(65)
Net profit	**$ 85**	**$ 116**	**$ 87**
Attributable to:			
Equity holders of the parent entity	$ 79	$ 113	$ 84
Minority interests	6	3	3
Net profit	**$ 85**	**$ 116**	**$ 87**
Share of profits attributable to the Group	$ 39	$ 56	$ 42
Amortisation of negative goodwill	–	–	1
Group's share of profits of the joint venture	**$ 39**	**$ 56**	**$ 43**

8. Investments in Joint Ventures and Associates (continued)

Corber Enterprises Limited (continued)

US$ million	**Carrying amount**
Investment at March 10, 2004	**$ 140**
Share of profit	43
Translation difference	6
Additional paid-in capital in respect of acquisition of minority interests (Note 16)	6
Investment at December 31, 2004	**195**
Change in accounting policies: derecognition of negative goodwill (Note 2)	27
Investment at January 1, 2005	**222**
Share of profit	56
Dividends paid	(44)
Translation difference	(8)
Additional paid-in capital in respect of acquisition of minority interests (Note 16)	3
Investment at December 31, 2005	**229**
Additional investments	225
Share of profit	39
Reorganisation of ownership structure within a joint venture	(1)
Sale of shares in a subsidiary to minority shareholders (Note 16)	58
Cost of guarantee issued to a joint venture	2
Translation difference	25
Investment at December 31, 2006	**$ 577**

ZAO Yuzhkuzbassugol

On December 30, 2005, the Group acquired a 50% ownership interest in ZAO Coal Company Yuzhkuzbassugol (“Yuzhkuzbassugol”) for cash consideration of $675 million payable to Crondale Overseas Limited (“Crondale”), an entity under common control with the Group (Note 14). Yuzhkuzbassugol, a closed joint stock company, is a vertically integrated group being one of the largest coal producers in Russia. The Group determined that its ownership interest in Yuzhkuzbassugol represents the purchase of an associate and accounted for the investment under the equity method.

8. Investments in Joint Ventures and Associates (continued)

ZAO Yuzhkuzbassugol (continued)

At December 31, 2005, the acquisition of Yuzhkuzbassugol was accounted for based on provisional values as at the date of authorisation of issue of financial statements for the year ended December 31, 2005 the associate has not completed preparation of IFRS financial statements. In 2006, the Group finalised its purchase price allocation on the acquisition of an ownership interest in Yuzhkuzbassugol. As a result, the Group recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities as at December 30, 2005, which were as follows:

US$ million	**Initial estimation of fair values**	**Final estimation of fair values**
Mineral reserves	$ 1,225	$ 1,106
Other property, plant and equipment	615	615
Investment in an associate	7	146
Other non-current assets	14	14
Inventories	42	42
Accounts and notes receivable	81	81
Other current assets	1	1
Cash	12	12
Total assets	**1,997**	**2,017**
Non-current liabilities	106	120
Deferred income tax liabilities	313	295
Current liabilities	238	238
Total liabilities	**657**	**653**
Minority interests	**15**	**14**
Net assets	**$ 1,325**	**$ 1,350**
Fair value of net assets attributable to 50% ownership interest	663	675
Goodwill	12	–
Purchase consideration	**$ 675**	**$ 675**

The 2005 comparative information has been restated to reflect these adjustments.

8. Investments in Joint Ventures and Associates (continued)

ZAO Yuzhkuzbassugol (continued)

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

US$ million	**2006**
Mineral reserves	$ 1,161
Other property, plant and equipment	658
Investment in an associate	152
Other non-current assets	40
Inventories	27
Accounts and notes receivable, net	71
Other current assets	6
Cash	18
Total assets	**2,133**
Non-current liabilities	216
Deferred income tax liabilities	294
Current liabilities	255
Total liabilities	**765**
Minority interests	**9**
Net assets	**$ 1,359**

The table below sets forth Yuzhkuzbassugol's income and expenses for the year ended December 31, 2006:

US$ million	**2006**
Revenue	$ 595
Cost of revenue	(482)
Other expenses, including income taxes	(170)
Net loss	**$ (57)**
Attributable to:	
Equity holders of the parent entity	$ (54)
Minority interests	(3)
Net loss	**$ (57)**
Group's share of loss of the associate	**$ (28)**

8. Investments in Joint Ventures and Associates (continued)

ZAO Yuzhkuzbassugol (continued)

The movement in investments in Yuzhkuzbassugol during 2006 was as follows:

US$ million		**Carrying amount**
Investment at December 31, 2005	**$**	**663**
Adjustment to provisional values		12
Investment at January 1, 2006		**675**
Share of loss		(28)
Dividends paid		(32)
Translation difference		63
Additional paid-in capital in respect of acquisition of minority interests (Note 16)		1
Investment at December 31, 2006	**$**	**679**

Highveld Steel and Vanadium Corporation Limited

On July 13, 2006, the Group acquired a 24.9% ownership interest in Highveld Steel and Vanadium Corporation Limited ("Highveld") for cash consideration of $216 million, including $10 million of transaction costs. In addition, the Group has 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. Highveld is one of the largest steel producers in the South Africa and a leading producer of vanadium products. The total consideration for the acquisition of 79% ownership interest in Highveld will approximate $656 million.

The Group determined that its ownership interest in Highveld represents an investment in an associate and accounted for it under the equity method. The acquisition of a 24.9% ownership interest in Highveld was accounted for based on provisional values as the associate, as of the date of authorisation of issue of these financial statements, had not completed valuation of assets in accordance with IFRS 3.

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

US$ million		**July 13, 2006**
Mineral reserves	$	241
Other property, plant and equipment		306
Assets held for sale		285
Other non-current assets		32
Inventories		50
Accounts and notes receivable		112
Cash		78
Total assets	**$**	**1,104**

8. Investments in Joint Ventures and Associates (continued)

Highveld Steel and Vanadium Corporation Limited (continued)

US$ million	July 13, 2006
Non-current liabilities	$ 30
Deferred income tax liabilities	172
Current liabilities	273
Total liabilities	**475**
Net assets	**$ 629**
Fair value of net assets attributable to 24.9% ownership interest	**157**
Purchase consideration	**216**
Goodwill	**$ 59**

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

US$ million	2006
Mineral reserves	$ 254
Other property, plant and equipment	383
Assets held for sale	294
Other non-current assets	16
Inventories	52
Accounts and notes receivable	133
Cash	60
Total assets	1,192
Non-current liabilities	44
Deferred income tax liabilities	185
Current liabilities	260
Total liabilities	489
Net assets	**$ 703**

Assets held for sale represent the businesses which the Group is obliged to divest in order to proceed with the transaction (Note 28).

8. Investments in Joint Ventures and Associates (continued)

Highveld Steel and Vanadium Corporation Limited (continued)

The table below sets forth Highveld's income and expenses for the period from acquisition to December 31, 2006:

US$ million	**From July 13, to December 31, 2006**
Revenue	$ 481
Cost of revenue	(371)
Other expenses, including income taxes	(23)
Net profit	**87**
Group's share of profits of the associate	**$ 22**

The movement in investments in Highveld during 2006 was as follows:

US$ million	**Carrying amount**
Investment at July 13, 2006	**$ 216**
Share of profit	22
Dividends paid	(9)
Translation difference	7
Investment at December 31, 2006	**$ 236**

Other Associates

In 2006, the Group's share of profits of other associates amounted to $7 million.

9. Assets Held for Sale

Assets held for sale are mostly represented by OAO Nerungriugol ("Nerungriugol"), a subsidiary, which the Group intends to dispose of in April 2007. In addition, these assets include a few small subsidiaries involved in non-core activities (construction business, trading activity and recreational services), certain assets located at one of the Group's steel subsidiaries and a parcel of land, which are expected to be sold in 2007.

Nerungiugol was included in the mining segment of the Group's operations. The Group recognised a $66 million impairment loss of Nerungriugol's assets based on intended disposal terms and included it in loss on assets held for sale in the consolidated income statement for the year ended December 31, 2006. Other losses on assets held for sale relate to OOO Nikomogneupor, the Group's subsidiary involved in the production of refractory materials, which was sold in November 2006.

In addition, in 2006, the Group recognised an impairment loss of $5 million for write-down of land to fair value which was included in impairment of assets in the consolidated income statement for the year ended December 31, 2006.

9. Assets Held for Sale (continued)

The major classes of assets and liabilities of the disposal group measured at the lower of carrying amount and fair value less costs to sell at December 31, 2006 were as follows:

US$ million	December 31, 2006
Land	$ 5
Other property, plant and equipment	71
Other non-current assets	9
Current assets	20
Assets classified as held for sale	**105**
Liabilities directly associated with assets classified as held for sale	**23**
Net assets classified as held for sale	**$ 82**

10. Cash and Cash Equivalents and Restricted Deposits at Banks

Cash and cash equivalents were denominated in the following currencies as of December 31:

US$ million	2006	2005	2004
Roubles	**$ 110**	$ 96	$ 65
US dollars	**665**	407	227
Euros	**36**	75	1
Czech koruna	**19**	62	–
South African rands	**9**	–	–
Other	**3**	1	–
	$ 842	$ 641	$ 293

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

Restricted deposits at banks were as follows as of December 31:

US$ million	2006	2005	2004
Deposits to secure bank loans	**$ 8**	$ 25	$ 18
Other	**4**	7	2
	12	32	20
Less: deposits with current maturities	**–**	(24)	(11)
	$ 12	$ 8	$ 9

In 2006, the deposits earned interest at an average rate of 5% per annum. The deposits are mainly denominated in US dollars.

11. Other Non-Current Assets

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

US$ million		**2006**		2005		2004
Deposit to secure call option for the Highveld's shares (Note 8)	**$**	**207**	$	–	$	–
Prepayments for purchases of subsidiaries		**6**		–		–
Deferred income tax assets (Note 6)		**11**		14		3
Long-term input VAT		**19**		16		4
Emission rights		**3**		10		–
Other		**27**		18		9
	$	**273**	$	58	$	16

Deposit to secure call option for the Highveld's shares does not earn interest and matures upon the completion of the transaction.

12. Inventories

Inventories consisted of the following as of December 31:

US$ million		**2006**		2005		2004
Raw materials and spare parts, at cost	**$**	**422**	$	434	$	390
Work-in-progress, at cost		**106**		115		63
Finished goods:						
– at cost		**334**		282		327
– at net realisable value		**6**		154		36
		868		985		816
Allowance for obsolete and slow-moving items		**(13)**		(21)		(8)
	$	**855**	$	964	$	808

As of December 31, 2006, 2005 and 2004, certain items of inventory with an approximate carrying amount of $194 million, $204 million and $336 million, respectively, were pledged to banks as collateral against loans provided to the Group (Note 17).

13. Trade and Other Receivables

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

US$ million	2006	2005	2004
Trade accounts receivable	**$ 586**	$ 403	$ 275
Prepayments	**86**	60	80
Other receivables	**28**	21	39
	700	484	394
Allowance for doubtful accounts	**(63)**	(55)	(28)
	$ 637	$ 429	$ 366

14. Related Party Disclosures

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

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

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

	Amounts due from related parties			Amounts due to related parties		
US$ million	2006	2005	2004	2006	2005	2004
Corber	**$ –**	$ 14	$ –	**$ 151**	$ –	$ –
Crondale	**–**	–	–	**–**	275	–
EvrazInvest	–	–	–	–	–	46
Evrazmetall-Centre	**1**	6	21	**–**	9	–
Evrazmetall-Sibir	**18**	36	22	**–**	19	–
Evrazmetall-Ural	**11**	5	–	**–**	–	–
Ferrotranstrade	**–**	2	25	**–**	–	4
Goroblagodatskoye Ore Mine	**–**	4	8	**–**	–	2
Marteck Shipping	**–**	–	–	**–**	–	8
Raspadsky Ugol	**–**	–	–	**3**	–	–
Sojitz Noble Alloys Corp.	**–**	–	–	**8**	–	–
Yuzhkuzbassugol	**–**	–	3	**7**	–	–
Other entities	**24**	28	17	**7**	12	26
Liabilities to entities under common control for transfers of ownership interests in subsidiaries	**–**	–	–	**–**	–	32
	54	95	96	**176**	315	118
Less: allowance for doubtful accounts	**–**	(5)	(7)	**–**	–	–
	$ 54	$ 90	$ 89	**$ 176**	$ 315	$ 118

14. Related Party Disclosures (continued)

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

US$ million	Sales to related parties			Purchases from related parties		
	2006	2005	2004	**2006**	2005	2004
Evrazmetall-Centre	**$ 141**	$ 100	$ 106	**$ –**	$ –	$ –
Evrazmetall-Chernozemie	**53**	18	–	**–**	–	–
Evrazmetall-Povolzhie	**62**	22	–	**–**	–	–
Evrazmetall-Severo-Zapad	**45**	20	–	**–**	–	–
Evrazmetall-Sibir	**146**	123	103	**–**	–	–
Evrazmetall-Ural	**150**	67	–	**–**	–	–
Evro-Aziatskaya Energy Company	**23**	14	–	**104**	75	–
Ferrotrade & Co.	**–**	–	124	**–**	–	–
Ferrotranstrade	**–**	–	46	**–**	1	3
KMK- Energo	**–**	–	6	**–**	2	52
Kuznetsk Coal Company	**–**	–	10	**–**	–	–
Marteck Shipping	**–**	–	7	**–**	40	98
PromKhimProduct	**–**	–	84	**–**	–	1
Raspadsky Ugol	**–**	–	–	**80**	147	80
Sojitz Noble Alloys Corp.	**18**	–	–	**1**	–	–
Steel of KMK	**–**	–	22	**–**	–	70
Yuzhkuzbassugol	**12**	26	–	**279**	426	287
Other entities	**14**	10	32	**59**	38	63
	$ 664	$ 400	$ 540	**$ 523**	$ 729	$ 654

Corber is the Group's joint venture (Note 8). At December 31, 2006, amounts due to Corber represented advances received from the entity in respect of dividends to be declared in 2007. At December 31, 2005, amounts due from Corber represented dividends receivable from the entity in respect of 2005.

Crosland Global Limited ("CGL") was the Company's parent up to August 3, 2006 (Note 1). In 2005, the Company provided a $200 million short-term loan to CGL which bore interest of 4.25% per annum. The loan was fully repaid in 2005.

Crondale is an entity under control of an ultimate principal shareholder of the Group. At December 31, 2005, accounts payable to Crondale represented the Group's liabilities for the purchase of 50% share in Yuzhkuzbassugol payable by January 31, 2006 (Note 8). In January 2006, the Group fully repaid its liabilities to Crondale.

OOO EvrazInvest ("EvrazInvest") is an entity under control of an ultimate principal shareholder of the Group. In 2004, amounts due to EvrazInvest represented short-term loans borrowed by the Group at the interest rate ranging from 2.7% to 7.6%.

OOO Evrazmetall-Centre, OOO Evrazmetall-Sibir, OOO Evrazmetall-Ural, OOO Evrazmetall-Povolzhie, OOO Evrazmetall-Severo-Zapad, OOO Evrazmetall-Chernozemie, the entities under control of an ultimate principal shareholder of the Group, purchase steel products from the Group. In 2006, the Group sold approximately 7% of volume of steel products to these entities. The transactions were made on terms equivalent to those that prevail in arm's length transactions.

14. Related Party Disclosures (continued)

OOO Evro-Aziatskaya Energy Company ("EvrazEK"), an energy generating company, was an entity under common control. In 2006, the Group acquired the entity (Note 4). EvrazEK supplies natural gas, steam and electricity to certain subsidiaries of the Group and purchases metal products and materials from the Group companies.

Ferrotrade & Co. is an entity under control of an ultimate principal shareholder of the Group. Prior to 2004, Ferrotrade & Co. exported the Group's products from Russia. At the end of 2003, Ferrotrade & Co. discontinued entering into new sales contracts and sold all of its inventories to Ferrotrade Limited, the Group's newly established wholly owned subsidiary. In 2004, the Group sold to Ferrotrade & Co. 467,479 metric tons of steel products for $124 million.

In addition, in 2004, the Group received from Ferrotrade & Co. loans in the amount of $348 million and repaid $585 million. The loans bore interest at an average rate of 4.25% per annum. In 2004, the Group recognised a loss of $9 million arising from the change in terms of the loan facility amounting $120 million provided by Ferrotrade & Co. This loss was included in loss on extinguishment of debts in the accompanying consolidated income statement for the year ended December 31, 2004.

OAO Ferrotranstrade ("Ferrotranstrade"), an entity under control of an ultimate principal shareholder of the Group, acts as the Group's sales agent. In 2004, the Group also sold its steel products to Ferrotranstrade. In 2007, Ferrotranstrade ceased to be a related party with the Group.

KMK-Energo, an entity under control of an ultimate principal shareholder of the Group, supplied electricity to certain subsidiaries of the Group. In 2006, KMK-Energo was liquidated and ceased to be a related party with the Group.

OOO Kuznetsk Coal Company ("Kuznetsk Coal Company"), an entity under common control with the Group, purchased metal products, inventory and services from the Group and sold coke and coal to the Group. In June 2004, Kuznetsk Coal Company ceased to be a related party with the Group.

Marteck Shipping Limited ("Marteck Shipping"), an entity under control of an ultimate principal shareholder of the Group, provided freight services to the Group. At the end of 2005, Marteck Shipping discontinued entering into new shipping contracts and the business was assumed by the Group. The transactions were made at prevailing market prices at the dates of transactions.

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

OOO Raspadsky Ugol ("Raspadsky Ugol"), a subsidiary of the Group's joint venture, sells coal to the Group. Raspadsky Ugol represents approximately 12% of volume of the Group's coal purchases. In 2006, coal was sold at prevailing market prices at the dates of transactions.

14. Related Party Disclosures (continued)

ZAO SEAR MF ("SEAR MF") is an entity under control of an ultimate principal shareholder of the Group. At December 31, 2003 and 2002, ZapSib owed $2 million and $4 million, respectively, to SEAR MF under the Settlement Agreement. In 2004, the Group repaid these liabilities to SEAR MF. The difference between cost and carrying value of the debts amounting to $11 million was included in loss on extinguishment of debts in the accompanying consolidated income statement for the year ended December 31, 2004.

Sojitz Noble Alloys Corp. ("Sojitz"), a Japanese trade house, is a minority shareholder of Stratcor, the Group's subsidiary. Sojitz exercises a significant influence over Stratcor. In 2006, Sojitz acted as a sales agent of Stratcor. At December 31, 2006, other long-term liabilities (Note 22) include a $14 million financial liability in respect of the fixed cumulative preferred dividends of $1 million per year payable to Sojitz.

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

Yuzhkuzbassugol, the Group's associate, sells coal to the Group. In 2005, the Group sold coal to processing mills of Yuzhkuzbassugol. The entity provides approximately 50% of volume of the Group's coal purchases. In 2006, the transactions were made at prevailing market prices at the dates of transactions.

The balances of amounts due to related parties as of December 31, 2004 include liabilities to entities under common control for transfers of ownership interests in subsidiaries. As described in Note 1, ownership interests in certain subsidiaries were transferred to the Group in transactions with entities under common control with the Group. The Group included its investments in entities under common control made during 2005 in liabilities to entities under common control for transfers of ownership interests in subsidiaries as of December 31, 2004.

Compensation to Key Management Personnel

Key management personnel totalled 46, 33 and 22 persons as at December 31, 2006, 2005 and 2004, respectively. Total compensation to key management personnel were included in general and administrative expenses in the accompanying income statement and consisted of the following:

US$ million	**2006**	**2005**	**2004**
Salary	**$ 18**	$ 11	$ 4
Performance bonuses	**21**	12	5
Social security taxes	**1**	2	1
Share-based payments (Note 20)	**11**	5	–
Other benefits	**3**	11	26
	$ 54	$ 41	$ 36

15. Other Taxes Recoverable

Taxes recoverable were denominated in roubles and consisted of the following as of December 31:

US$ million	2006	2005	2004
Input VAT	**$ 264**	$ 384	$ 325
Other taxes	**70**	77	61
	$ 334	$ 461	$ 386

Input VAT, representing amounts payable or paid to suppliers, is recoverable from the tax authorities via offset against VAT payable to the tax authorities on the Group's revenue or direct cash receipts from the tax authorities. Management periodically reviews the recoverability of the balance of input value added tax and believes it is fully recoverable within one year.

16. Equity

Share Capital

As described in Note 1, Evraz Group was formed through a series of transactions between entities under common control with the Group. Prior to the reorganisation of the Group, in which 95.83% of Mastercroft shares were contributed into Evraz Group, share capital of the Group comprised the share capital of Mastercroft.

Share Capital of Mastercroft

At December 31, 2003, the authorised and issued share capital of Mastercroft comprising 300,019,666 ordinary shares of $1 each was paid up to $139 million.

In the year ended December 31, 2004, Mastercroft called up for payment an additional $30 million and received this amount from Crosland.

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

As Mastercroft is a subsidiary of Evraz Group at December 31, 2006, 2005 and 2004, the share capital of Mastercroft is eliminated on consolidation.

Share Capital of Evraz Group

Number of shares	2006	2005	2004
Authorised			
Ordinary shares of €2 each	**157,204,326**	157,204,326	15,500
Issued and fully paid			
Ordinary shares of €2 each	**117,499,606**	116,904,326	15,500

16. Equity (continued)

Share Capital (continued)

As of December 31, 2004, Evraz Group issued 15,500 ordinary shares with par value of €2 each, which resulted in the share capital of €31,000 ($42 thousand at the exchange rate as of December 31, 2004). As of December 31, 2004, these shares were fully paid. On April 5, 2005, Evraz Group issued additional 107,204,325 ordinary shares with a par value of €2 each in exchange for the contribution of 95.83% of Mastercroft shares. On the same date, the share capital of Evraz Group was reduced by the cancellation of 15,499 ordinary shares with par value of €2 each. As the consideration for these additional shares issued subsequent to year end has been accounted for in the consolidated financial statements as at December 31, 2004, the April 5, 2005 issue of shares resulted in a capitalisation of reserves within equity.

On May 17, 2005, the Group's shareholders resolved to increase authorised share capital to €314,408,652 represented by 157,204,326 shares with par value of €2 each.

On June 7, 2005, 29,100,000 global depositary receipts, representing additionally issued 9,700,000 shares with par value of €2 each (totalling $24 million at the exchange rate as of June 7, 2005) were placed on the London Stock Exchange for $422 million. Share premium arising on the share issue amounted to $376 million, net of transaction costs of $22 million.

In the year ended December 31, 2006, some of the share options granted under the Company's Incentive Plan were exercised. The Company issued 595,280 shares with par value of €2 each and received $26 million in cash from the Plan's participants. Share premium of $24 million arising on the transaction was included in additional paid-in capital.

Shareholders of Evraz Group are entitled to standard rights provided under the laws of Luxembourg to shareholders of stock companies ("société anonyme"). These rights comprise the right to vote at the shareholders meetings and the right to receive dividends.

Earnings per Share

Earnings per share are calculated by dividing the net income attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share amounts are calculated by dividing the net profit attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the period plus the weighted average number of ordinary shares that would be issued on the conversion of all the potential dilutive ordinary shares into ordinary shares.

As the number of shares has increased as a result of the reorganisation of the Group in transactions between entities under common control, the earnings per share for the years ended December 31, 2005 and 2004 have been calculated based on the assumption that the number of shares issued on April 5, 2005 was outstanding from the beginning of the earliest period presented.

In 2005 and 2006, share options granted to participants of the Group's Incentive Plans (Note 20) had a dilutive effect. The Group has no other potential dilutive ordinary shares.

16. Equity (continued)

Earnings per Share (continued)

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2006	2005	2004
Weighted average number of ordinary shares for basic earnings per share	**117,073,156**	112,731,997	107,204,326
Effect of dilution: share options	**829,804**	132,141	–
Weighted average number of ordinary shares adjusted for the effect of dilution	**117,902,960**	112,864,138	107,204,326
Profit for the year attributable to equity holders of the parent, US$ million	**$ 1,385**	$ 918	$ 1,180
Basic earnings per share	**$ 11.83**	$ 8.14	$ 11.00
Diluted earnings per share	**$ 11.74**	$ 8.13	$ 11.00

Legal Reserve

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

Acquisitions of Minority Interests by a Joint Venture

In 2005 and 2004, Corber, the Group's joint venture, acquired additional 1.43% and 4.20% ownership interests, respectively, in Raspadskaya, Corber's subsidiary, for cash consideration of $1 million and $6 million, respectively. The 50% of excess of the carrying value of acquired minority interest over the amount of consideration paid by the joint venture amounting to $3 million and $6 million, respectively, was recorded in additional paid-in capital (Note 8).

Acquisitions of Minority Interests by an Associate

In 2006, Yuzhkuzbassugol, the Group's associate, acquired an additional 13% ownership interest in OAO Kuznetskpogriztrans, Yuzhkuzbassugol's subsidiary, for cash consideration of $1 million. The 50% of excess of the carrying value of acquired minority interest over the amount of consideration paid by the associate amounting to $1 million was recorded in additional paid-in capital (Note 8).

16. Equity (continued)

Sale of Shares in a Joint Venture's Subsidiary

In November 2006, Corber sold 18% shares in Raspadskaya to public investors for cash consideration of $273 million. The 50% of the excess of the amount of consideration over 18% of the net assets of Raspadskaya at the date of the sale amounting to $58 million was included in additional paid-in capital (Note 8).

Sale of Minority Interest

On August 6, 2004, Crosland sold 12,500,000 shares (4.17%) of Mastercroft to a minority shareholder for $13 million. The Group charged the amount received by Crosland, Mastercroft's parent prior to reorganisation, to accumulated profits as a distribution to shareholders. Difference between the carrying value of that minority interest and the amount of consideration amounting to $35 million was recognised by the Group as a loss on sale of minority interest in the accompanying income statement for the year ended December 31, 2004.

Acquisitions of Minority Interests in Subsidiaries

In 2006, 2005 and 2004, the Group acquired minority interests in certain subsidiaries (Note 4). The excess of acquired minority interests over the consideration amounting to $1 million, $2 million and $20 million, respectively, was recorded as additional paid-in capital and the excess of consideration over the carrying value of minority interests amounting to $42 million, $131 million and $12 million, respectively, was charged to accumulated profits.

Allocation of Losses of Prior Periods to Minority Shareholders

Prior to 2006, losses of the minority in Caplink (Note 1) exceeded the minority interest in Caplink's consolidated equity. These losses were allocated to the Group due to the minority had no any obligations to cover losses. In 2006, Caplink reported profits and the Group recovered losses in the amount of $5 million.

Distributions to Entities under Common Control

In 2004, the Group's distributions to entities under common control were $4 million, representing dividends payable to an entity under common control, which were declared prior to the transfer of ownership interest in a subsidiary to the Group.

Dividends

On November 19, 2004, directors of Mastercroft approved distribution of dividends in the amount of $58 million, which represents $0.19 of dividends per share.

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

16. Equity (continued)

Dividends (continued)

Dividends declared by Evraz Group S.A. were as follows:

	Date of declaration	**To holders registered at**	**Dividends declared, US$ million**	**US$ per share**
Interim for 2005	27/07/2005	31/05/2005	200	1.87
Interim for 2005	24/11/2005	24/11/2005	193	1.65
Final for 2005	20/06/2006	20/06/2006	158	1.35
Interim for 2006	14/11/2006	14/11/2006	229	1.95

The Luxembourg Corporate Law of August 10, 1915 prohibits distribution of interim dividends during six months after the close of the preceding financial year or before the shareholders' approval of the annual statutory accounts relating to that financial year.

The final dividends for 2005 were distributed from accumulated profits to the extent that distributable amounts were available as of December 31, 2005. Distributable profits were determined based on separate financial statements of Evraz Group S.A. prepared in accordance with the statutory requirements. The amount of $117 million representing the excess of declared dividends over the Company's distributable accumulated profits as of December 31, 2005 reduced additional paid-in capital.

In addition, in 2006 and 2005, certain subsidiaries of the Group declared dividends. The share of minority shareholders in those dividends was $50 million and $23 million, respectively. In 2004, no dividends were declared by the Group's subsidiaries to their minority shareholders.

17. Loans and Borrowings

Short-term and long-term loans and borrowings were as follows as of December 31:

US$ million	**2006**	2005	2004
Bank loans	**$ 1,556**	$ 1,132	$ 799
8.25 per cent notes due 2015	**750**	750	–
10.875 per cent notes due 2009	**300**	300	300
8.875 per cent notes due 2006	–	175	175
Bearer coupon debt securities	–	–	36
Unamortised debt issue costs	**(40)**	(36)	(11)
Interest payable	**30**	29	19
	$ 2,596	$ 2,350	$ 1,318

17. Loans and Borrowings (continued)

As of December 31, 2006, 2005 and 2004, total interest bearing loans and borrowings consisted of short-term loans and borrowings in the amount of $608 million, $500 million and $379 million, respectively, and long-term loans and borrowings in the amount of $1,998 million, $1,857 million, $931 million, respectively, including the current portion of long-term liabilities of $104 million, $310 million and $132 million, respectively.

In 2006, average annual interest rates were 7.12% and 6.64% for short-term loans denominated in roubles and US dollars, respectively, and 8.55%, 8.28% and 5.64% for long-term loans denominated in roubles, US dollars and euros, respectively.

In 2005, average annual interest rates were 8.2%, 6.1%, 4.1% and 2.8% for short-term loans denominated in roubles, US dollars, euros and Czech koruna, respectively, and 12.5%, 8.7%, 5.9% for long-term loans denominated in roubles, US dollars and euros, respectively.

In 2004, average annual interest rates were 11.1%, 5.0% and 5.0% for short-term loans denominated in roubles, US dollars and euros, respectively, and 14.8%, 8.8%, 5.9% for long-term loans denominated in roubles, US dollars and euros, respectively.

The liabilities are denominated in the following currencies:

US$ million	**2006**	2005	2004
Roubles	**$ 24**	$ 18	$ 78
US dollars	**2,308**	1,987	1,094
Euros	**304**	354	157
Czech koruna	**–**	27	–
Unamortised debt issue costs	**(40)**	(36)	(11)
	$ 2,596	$ 2,350	$ 1,318

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

US$ million	**2006**	2005	2004
Less than one year	**$ 742**	$ 839	$ 530
Between one year and two years	**382**	117	290
Between two years and five years	**707**	613	467
After five years	**805**	817	42
Unamortised debt issue costs	**(40)**	(36)	(11)
	$ 2,596	$ 2,350	$ 1,318

Some of the loan agreements and terms and conditions of guaranteed notes provide for certain covenants in respect of Evraz Group S.A. and its subsidiaries. The covenants impose restrictions in respect of certain transactions and financial ratios, including restrictions in respect of indebtedness and profitability.

17. Loans and Borrowings (continued)

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

At December 31, 2006, 2005 and 2004, the Group had equipment with a carrying value of \$39 million, \$156 million and \$96 million, respectively, pledged as collateral under the loan agreements. In addition, the Group pledged finished goods with a carrying value of \$194 million, \$204 million, \$336 million as of December 31, 2006, 2005 and 2004, respectively.

In addition, as of December 31, 2006, 98.96% shares of Vitkovice Steel, representing 5.3% of the consolidated assets and 8.1% of the consolidated revenues of the Group, were pledged as collateral under the bank loan.

Guaranteed Notes

In September and December 2003, EvrazSecurities issued notes amounting to \$175 million. The notes bore interest of 8.875% per annum payable semi-annually and matured on September 25, 2006. Mastercroft Limited, Ferrotrade Limited, ZapSib, NTMK, NKMK and KGOK, the Group's subsidiaries, jointly and severally, guaranteed the due and punctual payments of all amounts in respect of the notes except that NKMK's and KGOK's liabilities were limited to \$138 million and \$202 million, respectively. On September 25, 2006, EvrazSecurities repaid all its liabilities under the guaranteed notes.

In August and September 2004, EvrazSecurities issued notes amounting to \$300 million. The notes bear interest of 10.875% per annum payable semi-annually and mature on August 3, 2009. Mastercroft Limited, Ferrotrade Limited, ZapSib, NTMK, NKMK and KGOK jointly and severally, guaranteed the due and punctual payments of all amounts in respect of the notes except that the liability of ZapSib and NTMK, each, is subject to a limit of \$300 million and KGOK's liabilities are limited to \$202 million.

In November 2005, Evraz Group S.A. issued notes amounting to \$750 million. The notes bear interest of 8.25% per annum payable semi-annually and mature on November 10, 2015. Mastercroft Limited unconditionally and irrevocably guaranteed the due and punctual payments of all amounts in respect of the notes.

Bearer Coupon Debt Securities

On December 6, 2002, Financial Company EvrazHolding, the Group's subsidiary, issued 1,000,000 of bearer coupon bonds with a par value of 1,000 roubles each. These securities were issued at par value and matured on December 5, 2005. Interest payments on the coupons were due semi-annually from the date of issuance. First coupon bore interest of 17.70% per annum; second coupon bore 16.50% per annum; third and fourth coupons bore 15.00% per annum; fifth and sixth coupons bore 12.50% per annum. The liabilities under the bonds were accounted for at amortised cost in the accompanying consolidated financial statements. In December 2005, the Group repaid its liabilities under the debt securities.

17. Loans and Borrowings (continued)

Unamortised Debt Issue Costs

Unamortised debt issue costs represent agent commission and arrangement costs paid by the Group in relation to the arrangement of loans and issue of notes.

Unutilised Borrowing Facilities

As of December 31, 2006, the Group had unutilised borrowing facilities in the amount of $2,428 million.

18. Finance Lease Liabilities

The Group has several lease agreements under which it has an option to acquire the leased assets at the end of lease term ranging from 2 to 7 years. The estimated remaining useful life of leased assets varies from 4 to 22 years.

The leases were accounted for as finance leases in the consolidated financial statements. The carrying value of the leased assets was as follows as at December 31:

US$ million	**2006**	2005	2004
Machinery and equipment	**$ 10**	$ 3	$ 5
Transport and motor vehicles	**75**	52	29
	$ 85	$ 55	$ 34

The leased assets are included in property, plant and equipment in the consolidated balance sheet (Note 7).

Future minimum lease payments were as follows at December 31, 2006:

US$ million	**Principal**	**Interest**	**Total**
2007	**$ 11**	**$ 5**	**$ 16**
2008 – 2011	**39**	**8**	**47**
2012 – 2013	**3**	**–**	**3**
	53	**13**	**66**
Less: current portion	**(11)**	**(5)**	**(16)**
	$ 42	**$ 8**	**$ 50**

In the years ended December 31, 2006, 2005 and 2004, the average interest rates under the finance lease liabilities were 10.4%, 12.5% and 9.3%.

18. Finance Lease Liabilities (continued)

The finance lease liabilities are denominated in the following currencies at December 31:

US$ million		2006		2005		2004
Roubles	**$**	**1**	$	–	$	17
US dollars		**31**		37		13
Euros		**21**		–		–
	$	**53**	$	37	$	30

19. Post-Employment Benefits

In 2006, the Russian subsidiaries of the Group continued to provide regular lifetime pension payments and lump-sum amounts payable at the retirement date. These benefits generally depend on years of service, level of compensation and amount of pension payment under the collective bargaining agreements. Other post-employment benefits consist of different compensations and certain non-cash benefits. The Group pays the benefits when they fall due for payment.

In 2006, the Group started the process of changing the system of post-employment benefits at its certain Russian subsidiaries and it is planned that lifetime pension payments will be cancelled for employees retiring after January 1, 2008 and lump-sum amounts payable at the retirement date will be stopped during 2009 – 2010. These benefits are planned to be replaced by new defined benefit plans under which the contributions have to be made to a separately administred non-state pension fund. Under the new plan, the Group matches 100% of the employees' contributions to the fund up to 4% of their monthly salary. The Group's contributions become payable at the participants' retirement dates.

In addition, defined benefit pension plans and a defined contribution plan are maintained by the subsidiaries located in the USA, Italy and the Czech Republic.

The components of net benefit expense recognised in the consolidated income statement for the years ended December 31, 2006, 2005 and 2004 and amounts recognised in the consolidated balance sheet as of December 31, 2006, 2005 and 2004 for the post-employment benefits are as follows:

Net benefit expense (recognised in cost of sales and general and administrative expenses)

US$ million		2006		2005		2004
Current service cost	**$**	**(4)**	$	(2)	$	(5)
Interest cost on benefit obligation		**(7)**		(5)		(3)
Expected return on plan assets		**1**		–		–
Net actuarial (gains)/losses recognised in the year		**3**		–		–
Past service cost		**(10)**		(22)		(4)
Net benefit expense	**$**	**(17)**	$	(29)	$	(12)

US$ million		2006		2005		2004
Actual return on plan assets	**$**	**2**	$	–	$	–

19. Post-Employment Benefits (continued)

Benefit liability

US$ million	2006	2005	2004
Benefit obligation	**$ 125**	$ 81	$ 52
Plan assets	**(24)**	–	–
	101	81	52
Unrecognised net actuarial gains/ (losses)	**(12)**	(2)	3
Unrecognised past service cost	**22**	–	(2)
Benefit liability	**$ 111**	$ 79	$ 53

Movements in benefit obligation

US$ million	2006	2005	2004
At January 1	**$ 81**	$ 52	$ 29
Interest cost on benefit obligation	**7**	5	3
Current service cost	**4**	2	5
Past service cost	**(12)**	22	6
Change in liability due to business combinations	**36**	6	11
Benefits paid	**(7)**	(8)	(3)
Actuarial (gains)/losses on benefit obligation	**8**	5	(1)
Translation difference	**8**	(3)	2
At December 31	**$ 125**	$ 81	$ 52

Changes in the fair value of plan assets

US$ million	2006	2005	2004
At January 1	**$ –**	$ –	$ –
Change in plan assets due to business combinations	**21**	–	–
Expected return on plan assets	**1**	–	–
Contributions by employer	**8**	–	–
Benefits paid	**(7)**	–	–
Actuarial gains/(losses) on plan assets	**1**	–	–
Translation difference	**–**	–	–
At December 31	**$ 24**	$ –	$ –

19. Post-Employment Benefits (continued)

The following table is a summary of the present value of the benefit obligation, fair value of the plan assets and experience adjustments for the current year and previous four annual periods.

US$ million	**2006**	2005	2004	2003	2002
Defined benefit obligation	**$ 125**	$ 81	$ 52	$ 29	$ 19
Plan assets	**24**	–	–	–	–
(Deficit)/surplus	**(101)**	(81)	(52)	(29)	(19)
Experience adjustments on plan liabilities	**11**	–	–	–	–
Experience adjustments on plan assets	–	–	–	–	–

The principal assumptions used in determining pension obligations for the Group's plans are shown below:

	2006	**2005**	**2004**
Discount rate	5.75% – 6.75%	8.0%	8.0%
Future benefits increases	5.00% –7.75%	5.0%	4.2%

20. Share-based Payments

On April 25, 2005 and September 5, 2006, the Group adopted Incentive Plans under which certain members of the Board of Directors, senior executives and employees ("participants") may acquire shares of the Company. The exercise price of the options granted on June 15, 2005 under the Incentive Plan 2005 is fixed at $27.75 and $43.5 per share. Share options granted on September 5, 2006 under the Incentive Plan 2006 can be exercised for $65.37 per share.

The options become exercisable from eight months to three years from the grant date as follows:

	Incentive Plan 2006	**Incentive Plan 2005**
December 15, 2005	–	63,685
June 15, 2006	–	555,170
May 11, 2007	99,282	–
June 15, 2007	–	750,000
May 11, 2008	148,904	–
June 15, 2008	–	1,250,000
May 11, 2009	248,183	–
	496,369	**2,618,855**

The plans are administrated by the Board of Directors of the Company. The Board of Directors has the right to accelerate vesting of the grant. In the event of a participant's employment termination, all options granted to that participant, whether vested or not, expire on termination date. All options granted to the participants, whether vested or not, become immediately exercisable in the event of a change in the controlling shareholder.

20. Share-based Payments (continued)

The Group accounted for its share options at fair value pursuant to the requirements of IFRS 2 "Share-based Payment". The weighted average fair value of options granted during 2006 and 2005 was $14.15 and $10.88 per share, respectively. The fair value of these options was estimated at the date of grant using the Black-Scholes-Merton option pricing model with the following assumptions:

	Incentive Plan 2006	**Incentive Plan 2005**
Dividend yield (%)	4 – 6	6 – 8
Expected volatility (%)	45.37	55.00
Risk-free interest rates (%)	5.42 – 5.47	4.36 – 4.59
Expected life of options (years)	0.7 – 2.7	0.5 – 3

The industry average volatility has been used for valuation of the share options granted in 2005, while for the share options granted in 2006 the historical volatility has been taken. The expected volatility reflects the assumption that it is indicative of future trends which may not necessarily be the actual outcome.

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options during the years.

	2006 No.	**2006 WAEP**	**2005 No.**	**2005 WAEP**
Outstanding at January 1	**2,567,131**	**$ 43.10**	**–**	**$ –**
Granted during the year	496,369	65.37	2,618,855	43.10
Forfeited during the year	(137,955)	43.50	(51,724)	43.50
Exercised during the year:				
by issue of shares	(595,280)	43.50	–	–
by sale of shares by the Company's parent	(63,685)	27.75	–	–
Outstanding at December 31	**2,266,580**	**$ 48.29**	**2,567,131**	**$ 43.10**
Vested at December 31	813,915	$ 43.50	63,685	$ 27.75
Exercisable at December 31	592,876	43.50	63,685	27.75

The weighted average share price at the dates of exercise was $69.92.

In 2006, the vesting date of the share options held by certain participants resigned from the Group was accelerated. There have been no other modifications or cancellations to the plans during 2006 or 2005.

20. Share-based Payments (continued)

The revised time schedule of exercise of the share options outstanding at December 31, 2006 is presented below:

	Incentive Plan 2006	Incentive Plan 2005
Immediately exercisable	–	592,876
May 11, 2007	233,886	–
June 15, 2007	–	579,645
May 11, 2008	98,432	–
June 15, 2008	–	597,690
May 11, 2009	164,051	–
	496,369	**1,770,211**

The weighted average remaining contractual life of the share options outstanding as at December 31, 2006 and 2005 was 0.82 and 1.68 years, respectively.

In the years ended December 31, 2006 and 2005, compensation expense arising from the share option plans amounted to $17 million and $8 million, respectively.

21. Provisions

In the years ended December 31, 2006, 2005 and 2004, the movement in provisions was as follows:

US$ million	Site restoration costs	Legal claims	Other provisions	Total
At December 31, 2003	**$ 14**	**$ –**	**$ –**	**$ 14**
Additional provisions	–	1	–	1
Change in provisions due to business combinations	5	–	–	5
Translation difference	1	–	–	1
At December 31, 2004	**20**	**1**	**–**	**21**
Additional provisions	–	4	2	6
Increase from passage of time	3	–	–	3
Effect of change in estimated costs and timing	(9)	–	–	(9)
Change in provisions due to business combinations	–	–	9	9
Translation difference	(1)	–	–	(1)
At December 31, 2005	**$ 13**	**$ 5**	**$ 11**	**$ 29**

21. Provisions (continued)

US$ million	Site restoration costs	Legal claims	Other provisions	Total
At December 31, 2005	**$ 13**	**$ 5**	**$ 11**	**$ 29**
Additional provisions	1	4	4	9
Increase from passage of time	2	–	–	2
Effect of change in the discount rate	16	–	–	16
Change in provisions due to business combinations	4	–	–	4
Utilised in the year	–	(6)	(10)	(16)
Translation difference	1	–	1	2
At December 31, 2006	**$ 37**	**$ 3**	**$ 6**	**$ 46**

Site Restoration Costs

Under the legislation, mining companies and steel mills have obligations to restore mining and certain other sites. As of December 31, 2006, 2005 and 2004, the Group accrued a provision for site restoration costs in the amount of $37 million, $13 million and $20 million, respectively. The liabilities were measured based on estimates of restoration costs which are expected to be incurred in the future discounted at the annual rate of 8.5% in 2006. In 2005 and 2004, the discount rates varied from 17.6% to 20.9% and from 15.5% to 19.0%, respectively.

22. Other Long-Term Liabilities

Other long-term liabilities consisted of the following as of December 31:

US$ million	2006	2005	2004
Earn out and synergy payments (Note 4)	**$ 21**	$ –	$ –
Dividends payable under cumulative preference shares of a subsidiary to a related party (Note 14)	**14**	–	–
Employee income participation plans and compensations	**9**	–	–
Liabilities under the Settlement Agreements	**–**	–	4
Restructured taxes	**–**	7	36
Promissory notes payable (Note 8)	**–**	–	20
Other liabilities	**2**	2	1
	46	9	61
Less: current portion (Note 23)	**(1)**	(7)	(13)
	$ 45	$ 2	$ 48

22. Other Long-Term Liabilities (continued)

Other long-term liabilities were denominated in the following currencies as of December 31:

US$ million	2006	2005	2004
Roubles	**$ 2**	$ 7	$ 40
US dollars	**44**	–	20
Other	**–**	2	1
	$ 46	$ 9	$ 61

Liabilities under the Settlement Agreements

In 1997 – 2000, certain of the Group's subsidiaries, which were under the bankruptcy proceedings, entered into restructuring agreements with its creditors (the "Settlement Agreements").

In 2004, the subsidiaries repaid most of the liabilities under the Settlement Agreements. Loss arising from the repayment of liabilities under the Settlement Agreements was included in loss extinguishment of debts in the amount of $41 million in the accompanying consolidated income statement for year ended December 31, 2004.

In addition, at the beginning of 2004 the Group had long-term obligations to City Capital, Inc. ("City Capital") and Ocstar Holding, Inc. ("Ocstar Holding") for the purchase of liabilities under the Settlement Agreements. Long-term accounts payable were recognised at amortised cost which was determined as of the dates the amounts became payable based on the expected amounts to be paid, their expected timing and applicable discount rates.

In 2004, the Group repaid all its liabilities to City Capital and Ocstar. The difference between the carrying value of the liabilities as of the date of repayment and the nominal amount repaid to City Capital and Ocstar amounting to $80 million was included in loss on extinguishment of debts in the accompanying consolidated income statement for the year ended December 31, 2004.

Restructured taxes

Restructured taxes payable represent tax liabilities restructured in accordance with State restructuring programme. In 2001 – 2003, certain of the Group's subsidiaries agreed with the tax authorities to restructure their liabilities under social insurance taxes, road users' tax, other taxes and related fines and penalties.

Restructured taxes payable were carried at amortised cost being the present value of liabilities determined based on the future cash payments discounted at the prevailing market rates at the date of each restructuring or a business combination, whichever was later.

22. Other Long-Term Liabilities (continued)

Restructured taxes (continued)

In 2005, the tax authorities approved the forgiveness of certain restructured tax-related fines and penalties. The gain on the forgiveness of the tax-related fines and penalties of $14 million was included in gain on extinguishment of debts in the consolidated income statement for the year ended December 31, 2005. Loss arising from the early repayment of restructured taxes of $2 million was included in loss extinguishment of debts in the consolidated income statement for the year ended December 31, 2005.

In 2006, the Group fully repaid its outstanding liabilities under restructuring agreements.

23. Trade and Other Payables

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

US$ million	**2006**	2005	2004
Trade accounts payable	**$ 308**	$ 249	$ 116
Advances from customers	**67**	43	55
Long-term promissory notes with current maturities	**–**	21	–
Promissory notes payable on demand	–	–	15
Accrued payroll	**93**	78	57
Termination benefits	**13**	–	–
Other long-term obligation with current maturities (Note 22)	**1**	7	13
Other payables	**46**	49	41
	$ 528	$ 447	$ 297

24. Other Taxes Payable

Taxes payable were mainly denominated in roubles and consisted of the following as of December 31:

US$ million	**2006**	2005	2004
Social insurance taxes	**$ 27**	$ 22	$ 20
VAT and related fines and penalties	**27**	138	84
Property tax	**12**	6	5
Land tax	**10**	–	–
Personal income tax	**8**	6	6
Other taxes, fines and penalties	**12**	17	15
	$ 96	$ 189	$ 130

25. Commitments and Contingencies

Operating Environment of the Group

Whilst there have been improvements in the Russian economic situation, such as an increase in gross domestic product and a reduced rate of inflation, Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and, as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on the management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Possible liabilities, which were identified by management at the balance sheet date as those that can be subject to different interpretations of the tax laws and other regulations and are not accrued in the accompanying financial statements could be up to approximately $29 million.

Guarantees

On July 7, 2006, the Group guaranteed the liabilities of OAO Raspadskaya, Corber's subsidiary, under a $300 million loan agreement with Natexis Banques Populaires. The loan bears interest of LIBOR plus 0.85% per annum and matures on June 30, 2007. The Group recognised a fair value of the guarantee as a liability in the amount of $2 million (Note 8).

Contractual Commitments

At December 31, 2006, the Group had contractual commitments for the purchase of production equipment and construction works for an approximate amount of $414 million.

25. Commitments and Contingencies (continued)

Contingent Liability Under Agreements for the Purchase of Shares in Highveld

In the case when the Group decides not to exercise the call option for the shares of Highveld or if regulatory approvals are not obtained for the sale of the shares to the Group (Note 8), the current owners can exercise a put option or sell the shares to third parties at market price. The Group is obliged to pay to the sellers cash settlement amount being the difference between put option amount and proceeds from a third party, net of transaction costs.

Social Commitments

The Group is involved in a number of social programmes aimed to support education, health care and social infrastructure development in towns where the Group's assets are located. In 2007, the Group plans to spend approximately $104 million under these programmes.

Environmental Protection

In the course of the Group's operations, the Group may be subject to environmental claims and legal proceedings. The quantification of environmental exposures requires an assessment of many factors, including changing laws and regulations, improvements in environmental technologies, the quality of information available related to specific sites, the assessment stage of each site investigation, preliminary findings and the length of time involved in remediation or settlement. Management believes that any pending environmental claims or proceedings will not have a material adverse effect on its financial position and results of operations.

The Group has a constructive obligation to reduce environmental polutions and contaminations in the future in accordance with an environmental protection programme. In the period from 2007 to 2012, the Group is obligated to spend approximately $158 million for replacement of old machinery and equipment which will result in reduction of polution.

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

The Group, together with several other corporations and individuals, acts as a defendant in a civil action related to bankruptcy proceedings at KGOK that occurred between 1999 and 2003, prior to the Group's acquisition of KGOK. This law suit was filed in November 2004 in the United States District Court for the District of Delaware (the "District Court"). The plaintiffs seek damages in excess of $500 million.

25. Commitments and Contingencies (continued)

Legal Proceedings (continued)

On April 26, 2005, the plaintiffs filed another suit with the Delaware Chancery Court against the same defendants, including the Group, based on the same factual allegations. However, in October 2005, the Chancery Court granted the defendant's motion to stay the action pending the developments of the litigation between the parties in the District Court. In April 2006, the District Court dismissed the claim based on a decision that the plaintiffs' claim arises from the conduct of business in Russia and, therefore, the Russian jurisdiction is an adequate forum for the plaintiffs' claim. Upon getting such a decision in the District Court, the plaintiffs filed an appeal on that decision.

Despite the attempts of the plaintiffs to continue the proceeding in the Chancery Court, management expects that the Chancery Court will uphold the position of the District Court and dismiss the claim. Consequently, management believes that the ultimate resolution of the lawsuit will not have a significant impact on the financial position of the Group. Therefore, no provision is recognised in the financial statements in respect of this case.

In addition, the Group is involved in several litigations that may have an impact on the assets of Vitkovice Steel, the Group's subsidiary acquired in 2005 (Note 4). Accounts receivable of Vitkovice Steel include 409 million Czech koruna ($19 million at the exchange rate as of December 31, 2006) due from OSINEK, the former parent company of Vitkovice Steel. This amount is under dispute between OSINEK and VYSOKE PECE Ostrava, a.s. Management believes that this receivable will be recovered.

26. Financial Risks

Foreign Exchange Risk

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

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

Interest Rate Risk

The Group borrows on both a fixed and variable rate basis and has other interest-bearing liabilities such as finance lease liabilities, obligations under cumulative preference shares of one of the Group's subsidiary. The table below summarises the Group's outstanding interest-bearing debt as of December 31, 2006:

US$ million	**2006**
Fixed-rate debt	$ 1,598
Variable-rate debt	1,075
	$ 2,673

26. Financial Risks (continued)

The Group incurs interest rate risk on loans. The table below summarises the Group's outstanding variable-rate debt by the year of repayment as of December 31, 2006:

US$ million	**2006**
2007	$ 655
2008	266
2009	65
2010	45
2011	20
2012	15
2013	7
2014	2
	$ 1,075

Credit Risk

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

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

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

Fair Value of Financial Instruments

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

As of December 31, 2006, the fair value of the notes issued by EvrazSecurities with a carrying amount of $314 million was equal to $330 million. The fair value of the notes issued by Evraz Group S.A. with a carrying amount of $740 million was equal to $776 million. The fair value of the notes and bonds was determined based on market quotations.

27. Non-cash Transactions

Investing and financing transactions that did not require the use of cash or cash equivalents were as follows in the years ended December 31:

US$ million	2006	2005	2004
Liabilities for purchases of property, plant and equipment	**$ 20**	$ 28	$ 15
Liabilities for purchases of shares in subsidiaries and other entities	**6**	11	44
Fair value of ordinary shares of ZAO Raspadskaya given in consideration for an acquisition of an interest in a joint venture (Notes 8)	**–**	–	59
Liabilities for purchase of interest in associates/joint ventures	**–**	296	19
Loans paid by banks to suppliers in respect of operating activities	**–**	–	86
Loans paid by banks to vendors for property, plant and equipment	**11**	37	55

28. Subsequent Events

Purchase of Oregon Steel Mills

On January 12, 2007, the Group acquired 32,470,867 shares of Oregon Steel Mills, Inc. ("OSM") through a tender offer, representing approximately 90.65% of the outstanding ordinary shares of OSM. OSM, located in the United States, produces plates, pipes and rails.

Following the acquisition of the controlling interest in OSM, the company was merged with the Group's wholly owned subsidiary and untendered shares were converted into the right to receive $63.25 in cash which is the same price per share paid during the tender offer.

Total cash consideration for the acquisition of a 100% ownership interest in OSM amounts to approximately $2,271 million. In January 2007, the Group utilised a short-term bridge loan facility of $1,800 million to finance the acquisition of OSM. As a result, the Group's current liabilities exceeded its current assets by approximately $960 million at the acquisition date. The Group's management plans to re-finance this short-term loan with long-term debt.

In addition to the information disclosed in respect of this acquisition, IFRS 3 "Business Combinations" requires the Group to disclose the amounts to be recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities. It is impracticable for the Group to disclose this information because the acquired subsidiary has not completed purchase price allocation in accordance with IFRS 3 "Business Combinations".

28. Subsequent Events (continued)

West-Siberian Heat and Power Plant

On March 15, 2007, OOO InvestEnergoProject, which was acting in the interests of the Group, was proclaimed the winner of the auction to acquire a stake in OAO West-Siberian Heat and Power Plant ("ZapSibTETs"). The 93.35% stake was acquired at the price of 5,950 million roubles (approximately $228 million at the exchange rate as of March 15, 2007). ZapSibTETs has a nominal capacity of 1,307.5 Gcal/hour of heat and 600 MW of electricity. As of the date of the issuance of these financial statements the ownership rights for ZapSibTETs have not been transferred to the Group.

Approval of Acquisition of Highveld by the European Commission

On February 20, 2007, the European Commission approved the proposed acquisition of the controlling interest in Highveld (Note 8), subject to certain conditions. The Group is obliged to divest Highveld's vanadium extraction, vanadium oxides and vanadium chemicals plants located at the Vanchem site in Witbank, Republic of South Africa (collectively referred to as the Vanchem operations) along with an equity interest or a portion of the Mapoch iron and vanadium ore mine which guarantees supply of ore and slag to Vanchem operations. The divestment package also includes a ferrovanadium smelter located on the site of Highveld steel facility and Highveld's 50% shareholding in SAJV, a joint venture between Highveld and two Japanese partners which own another ferrovanadium smelter at the same site.

The Group is obliged to complete the divestment process by November 20, 2007. If any of the assets to be disposed of are not sold by that date, the divestiture trustee approved by the European Commission will arrange a sale with no minimum price.

In addition, the Group committed to maintain and strengthen the existing feedstock supply relationships with Vanadium-Tula, Chussovskoy Metallurgical Plant, both located in Russia, and Treibacher (Austria) – the major consumers of the feedstock sold by the Group and Highveld.

At present, the Group is in the process of obtaining the regulatory approvals by the South African competition authorities.

Sale of Nerungriugol

On April 25, 2007, the Group completed the sale transaction of Nerungriugol (Note 9).

Offer to Acquire Minority Interests in the Group's Subsidiaries

In March 2007, the Group made an offer to minority shareholders of its three subsidiaries (Nizhny Tagil Iron and Steel Plant, Vysokogorsky Mining-and-Processing Integrated Works and Nakhodka Trade Sea Port) to sell their stakes to the Group (5.0%, 5.0% and 5.6%, respectively). The total purchase consideration for the ownership interests to be acquired amounts to 4,487 million roubles (approximately $174 million at the exchange rate as of April 25, 2006).

28. Subsequent Events (continued)

Accident at Ulyanovskaya Mine

On March 19, 2007, there was a methane gas explosion at the Ulyanovskaya coal mine which killed 110 miners. Operations at the mine have been stopped since that date.

Ulyanovskaya coal mine is operated by Yuzhkuzbassugol, the Group's associate. The mine represents approximately 13.5% of Yuzhkuzbassugol's total production. Ulyanovskaya produced approximately 2 million mt of coking coal concentrate annually and the Group consumed 54% of its products.

The net book value of production assets related to this mine amounted to $57 million as of December 31, 2006. The total estimated damage, including casualty compensations, costs of mine recovery works and lost profits, approximates $49 million.

Management of Yuzhkuzbassugol plans to resume production at the mine from July 2007. While the mine is closed, the Group will make up for any shortfall by diverting supply from Raspadskaya.

Borrowings

Subsequent to December 31, 2006, the Group signed bank loan agreements for $83 million.