Evraz Group S.A.

Consolidated Financial Statements

Year Ended December 31, 2007

Evraz Group S.A.

Consolidated Financial Statements

Year ended December 31, 2007

Contents

Independent Auditors' Report 5

Consolidated Financial Statements

Consolidated Income Statement 7
Consolidated Balance Sheet 8
Consolidated Cash Flow Statement 9
Consolidated Statement of Changes in Equity 11
Notes to the Consolidated Financial Statements 14

Evraz Group S.A.

Consolidated Financial Statements

Year ended December 31, 2007

Index to the Notes to the Consolidated Financial Statements

1. Corporate Information 14
2. Significant Accounting Policies 15
   Basis of Preparation 15
   Significant Accounting Judgements and Estimates 18
   Foreign Currency Transactions 22
   Basis of Consolidation 23
   Investments in Associates 25
   Interest in a Joint Venture 25
   Property, Plant and Equipment 26
   Leases 27
   Goodwill 27
   Intangible Assets Other Than Goodwill 28
   Financial Assets 29
   Inventories 31
   Accounts Receivable 31
   Value Added Tax 31
   Cash and Cash Equivalents 31
   Borrowings 32
   Financial Guarantee Liabilities 32
   Equity 32
   Provisions 32
   Employee Benefits 33
   Share-based Payments 34
   Revenue 35
   Current Income Tax 36
   Deferred Income Tax 36
3. Segment Information 37
4. Business Combinations 41
   Palini & Bertoli 41
   Vitkovice Steel 42
   Strategic Minerals Corporation 44
   Oregon Steel Mills 45
   Highveld Steel and Vanadium Corporation 47
   ZapSib TETs 50
   Yuzhkuzbassugol 52
   Other Acquisitions 53
   Disclosure of Other Information in Respect of Business Combinations 54
5. Goodwill 55
6. Acquisitions of Minority Interests in Subsidiaries 57
7. Income and Expenses 60
8. Income Taxes 61

Index to the Notes to the Consolidated Financial Statements (continued)

9. Property, Plant and Equipment 64
10. Intangible Assets Other Than Goodwill 66
11. Investments in Joint Ventures and Associates 69
Corber Enterprises Limited *70*
Yuzhkuzbassugol *72*
Kazankovskaya *74*
Highveld Steel and Vanadium Corporation *75*
12. Disposal Groups Held for Sale 78
13. Cash and Cash Equivalents and Restricted Deposits at Banks 80
14. Other Non-Current Assets 80
15. Inventories 81
16. Trade and Other Receivables 82
17. Related Party Disclosures 82
18. Other Taxes Recoverable 85
19. Equity 86
Share Capital *86*
Earnings Per Share *87*
Dividends *88*
Legal Reserve *89*
Other Movements in Equity *89*
20. Loans and Borrowings 90
21. Finance Lease Liabilities 92
22. Employee Benefits 93
23. Share-Based Payments 99
24. Provisions 101
25. Other Long-Term Liabilities 102
26. Trade and Other Payables 103
27. Other Taxes Payable 104
28. Financial Risk Management Objectives and Policies 104
Credit Risk *104*
Liquidity Risk *106*
Market Risk *110*
Capital Management *113*
29. Non-Cash Transactions 114
30. Commitments and Contingencies 114
31. Subsequent Events 116

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Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Evraz Group S.A. and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as at December 31, 2007, 2006 and 2005, and the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2007, 2006 and 2005, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

Ernst & Young LLC

April 1, 2008

Evraz Group S.A.

Consolidated Income Statement

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

	Notes	2007	2006*	2005*
		Year ended December 31,		
Revenue				
Sale of goods	**3**	**$ 12,579**	$ 8,166	$ 6,387
Rendering of services	**3**	**229**	126	121
		12,808	8,292	6,508
Cost of revenue	**7**	**(7,875)**	(5,163)	(4,172)
Gross profit		**4,933**	3,129	2,336
Selling and distribution costs	**7**	**(539)**	(243)	(181)
General and administrative expenses	**7**	**(681)**	(494)	(467)
Social and social infrastructure maintenance expenses		**(78)**	(86)	(76)
Loss on disposal of property, plant and equipment		**(26)**	(21)	(24)
Impairment of assets		**(7)**	(20)	(8)
Foreign exchange gains/(losses), net		**(55)**	48	(5)
Other operating income/(expenses), net		**(24)**	(15)	7
Profit from operations		**3,523**	2,298	1,582
Interest income	**7**	**41**	27	15
Interest expense	**7**	**(409)**	(229)	(142)
Share of profits/(losses) of joint ventures and associates	**11**	**88**	40	57
Gain/(loss) on financial assets and liabilities, net	**4, 6, 7**	**(71)**	26	8
Gain/(loss) on disposal groups classified as held for sale	**12**	**6**	(77)	–
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**4**	**19**	1	15
Other non-operating gains/(losses), net	**7**	**4**	1	(7)
Profit before tax		**3,201**	2,087	1,528
Income tax expense	**8**	**(984)**	(637)	(475)
Net profit		**$ 2,217**	$ 1,450	$ 1,053
Attributable to:				
Equity holders of the parent entity		**$ 2,144**	$ 1,377	$ 918
Minority interests		**73**	73	135
		$ 2,217	$ 1,450	$ 1,053
Earnings per share:				
basic, for profit attributable to equity holders of the parent entity, US dollars	**19**	**$ 18.16**	$ 11.76	$ 8.14
diluted, for profit attributable to equity holders of the parent entity, US dollars	**19**	**$ 18.02**	$ 11.68	$ 8.13

* The amounts shown here do not correspond to the 2006 and 2005 financial statements and reflect adjustments made in connection with the completion of initial accounting (Notes 4 and 11).

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

Evraz Group S.A.
Consolidated Balance Sheet
(In millions of US dollars)

	Notes	2007	December 31, 2006*	2005*
ASSETS				
Non-current assets				
Property, plant and equipment	**9**	**$ 8,161**	$ 3,655	$ 3,062
Intangible assets other than goodwill	**10**	**806**	37	19
Goodwill	**5**	**1,271**	112	67
Investments in joint ventures and associates	**11**	**787**	1,494	906
Restricted deposits at banks	**13**	**5**	12	8
Other non-current assets	**14**	**1,317**	271	48
		12,347	5,581	4,110
Current assets				
Inventories	**15**	**1,575**	864	964
Trade and other receivables	**16**	**1,117**	556	375
Prepayments		**175**	82	54
Loans receivable		**48**	19	–
Receivables from related parties	**17**	**60**	54	90
Income tax receivable		**87**	51	16
Other taxes recoverable	**18**	**343**	331	461
Short-term investments and notes receivable		**25**	25	19
Restricted deposits at banks	**13**	**–**	–	24
Cash and cash equivalents	**13**	**327**	842	641
		3,757	2,824	2,644
Assets of disposal groups classified as held for sale	**12**	**276**	105	–
		4,033	2,929	2,644
Total assets		**$ 16,380**	$ 8,510	$ 6,754
EQUITY AND LIABILITIES				
Equity				
Equity attributable to equity holders of the parent entity				
Issued capital	**19**	**$ 320**	$ 318	$ 316
Treasury shares	**19**	**–**	–	–
Additional paid-in capital	**19**	**286**	531	547
Revaluation surplus	**4**	**233**	–	–
Legal reserve	**19**	**29**	28	22
Accumulated profits		**4,124**	2,750	1,751
Translation difference		**994**	439	72
		5,986	4,066	2,708
Minority interests		**371**	169	179
		6,357	4,235	2,887
Non-current liabilities				
Long-term loans	**20**	**4,653**	1,855	1,515
Deferred income tax liabilities	**8**	**1,277**	277	265
Finance lease liabilities	**21**	**54**	42	30
Employee benefits	**22**	**291**	117	79
Provisions	**24**	**126**	39	14
Amounts payable under put options for shares of subsidiaries	**4**	**–**	–	67
Other long-term liabilities	**25**	**56**	47	2
		6,457	2,377	1,972
Current liabilities				
Trade and other payables	**26**	**933**	462	404
Advances from customers		**111**	67	43
Short-term loans and current portion of long-term loans	**20**	**1,958**	741	835
Payables to related parties	**17**	**136**	176	315
Income tax payable		**74**	77	70
Other taxes payable	**27**	**138**	96	189
Current portion of finance lease liabilities	**21**	**15**	11	7
Provisions	**24**	**53**	8	15
Amounts payable under put options for shares of subsidiaries	**4**	**6**	175	–
Dividends payable by the parent entity to its shareholders		**80**	38	3
Dividends payable by the Group's subsidiaries to minority shareholders		**16**	24	14
		3,520	1,875	1,895
Liabilities directly associated with disposal groups classified as held for sale	**12**	**46**	23	–
		3,566	1,898	1,895
Total equity and liabilities		**$ 16,380**	$ 8,510	$ 6,754

* The amounts shown here do not correspond to the 2006 and 2005 financial statements and reflect adjustments made in connection with the completion of initial accounting (Notes 4 and 11) and certain reclassifications (Note 2).

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

Evraz Group S.A.

Consolidated Cash Flow Statement

(In millions of US dollars)

	Year ended December 31,		
	2007	**2006***	**2005***
Cash flows from operating activities			
Net profit	**$ 2,217**	$ 1,450	$ 1,053
Adjustments to reconcile net profit to net cash flows from operating activities:			
Depreciation, depletion and amortisation *(Note 7)*	**698**	303	245
Deferred income tax (benefit)/expense *(Note 8)*	**(69)**	(41)	2
Loss on disposal of property, plant and equipment	**26**	21	24
Impairment of assets	**7**	20	8
Foreign exchange (gains)/losses, net	**55**	(48)	5
Share of (profits)/losses of associates and joint ventures, net	**(88)**	(40)	(57)
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**(19)**	(1)	(15)
(Gain)/loss on financial assets and liabilities, net *(Notes 4 and 7)*	**71**	(26)	(8)
Loss on disposal groups classified as held for sale *(Note 12)*	**(6)**	77	–
Other non-operating (gains)/losses, net *(Note 7)*	**(4)**	(1)	7
Interest income	**(41)**	(27)	(15)
Interest expense	**409**	229	142
Bad debt expense	**9**	5	8
Movements in provisions, pensions and other long-term liabilities	**(6)**	5	15
Share-based payments *(Note 23)*	**5**	17	8
	3,264	1,943	1,422
Changes in working capital:			
Inventories	**(77)**	208	(14)
Trade and other receivables	**(224)**	(140)	32
Prepayments	**(44)**	(16)	22
Receivables from/payables to related parties	**(3)**	(25)	13
Taxes recoverable	**50**	113	(101)
Other assets	**3**	(1)	(3)
Trade and other payables	**46**	96	85
Taxes payable	**(78)**	(113)	55
Advances from customers	**20**	19	(15)
Net cash flows from operating activities	**2,957**	2,084	1,496
Cash flows from investing activities			
Issuance of loans receivable to related parties	**(31)**	–	(202)
Proceeds from repayment of loans issued to related parties, including interest	**1**	6	206
Issuance of loans receivable	**(94)**	(20)	(38)
Proceeds from repayment of loans receivable, including interest	**58**	3	45
Purchases of subsidiaries, net of cash acquired *(Notes 4 and 14)*	**(4,752)**	(113)	(312)
Purchases of minority interests	**(423)**	(96)	(415)
Purchase of interest in associates/joint venture	–	(736)	(400)
Restricted deposits at banks in respect of investing activities	**(1)**	(207)	–
Short-term deposits at banks, including interest	**24**	18	16
Purchases of property, plant and equipment and intangible assets	**(740)**	(651)	(695)
Proceeds from disposal of property, plant and equipment	**34**	10	8
Proceeds from sale of disposal groups classified as held for sale, net of transaction costs	**223**	–	–
Dividends and advances in respect of future dividends received	**57**	212	30
Other investing activities, net	**8**	5	4
Net cash flows used in investing activities	**(5,636)**	(1,569)	(1,753)

* The amounts shown here do not correspond to the 2006 and 2005 financial statements and reflect adjustments made in connection with the completion of initial accounting (Notes 4 and 11).

Continued on the next page

Consolidated Cash Flow Statement (continued)

(In millions of US dollars)

	Year ended December 31,		
	2007	**2006***	**2005***
Cash flows from financing activities			
Proceeds from issuance of share capital, net of transaction costs of $0, $0 and $22, respectively *(Note 19)*	**$ –**	$ –	$ 400
Proceeds from exercise of share options *(Note 19, 23)*	**35**	26	–
Purchase of treasury shares *(Note 19)*	**(41)**	–	–
Sale of treasury shares *(Note 19)*	**14**	–	–
Contributions from Crosland Limited *(Note 19)*	–	–	131
Payments to entities under common control for the transfer of ownership interest in subsidiaries	–	–	(33)
Proceeds from loans provided by related parties	**3**	8	9
Repayment of loans provided by related parties, including interest	**(1)**	–	(62)
Net (repayment)/proceeds from bank overdrafts and credit lines, including interest	**222**	(1)	(136)
Proceeds from loans and promissory notes	**4,515**	708	1,305
Repayment of loans and promissory notes, including interest	**(1,635)**	(684)	(418)
Restricted deposits at banks in respect of financing activities	**9**	23	(11)
Dividends paid by the parent entity to its shareholders	**(916)**	(352)	(524)
Dividends paid by the Group's subsidiaries to minority shareholders	**(48)**	(40)	(11)
Payments under finance leases, including interest	**(22)**	(19)	(12)
Payments under Settlement Agreements, including interest, and purchases of debts of subsidiaries	–	(2)	(9)
Payments of restructured taxes, including interest	–	(8)	(22)
Net cash flows from/(used in) financing activities	**2,135**	(341)	607
Effect of foreign exchange rate changes on cash and cash equivalents	**29**	27	(2)
Net increase/(decrease) in cash and cash equivalents	**(515)**	201	348
Cash and cash equivalents at beginning of year	**842**	641	293
Cash and cash equivalents at end of year	**$ 327**	$ 842	$ 641
Supplementary cash flow information:			
Cash flows during the year:			
Interest paid	**$ (351)**	$ (211)	$ (122)
Interest received	**42**	23	13
Income taxes paid	**(994)**	(656)	(477)

* The amounts shown here do not correspond to the 2006 and 2005 financial statements and reflect adjustments made in connection with the completion of initial accounting (Notes 4 and 11).

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

Evraz Group S.A.

Consolidated Statement of Changes in Equity

(In millions of US dollars)

	Attributable to equity holders of the parent entity									
	Issued capital	Treasury shares	Additional paid-in capital	Revaluation surplus	Legal reserve	Accumulated profits	Translation difference	Total	Minority interests	Total equity
At December 31, 2006 (as previously reported)	**$ 318**	**$ –**	**$ 531**	**$ –**	**$ 28**	**$ 2,758**	**$ 439**	**$ 4,074**	**$ 176**	**$ 4,250**
Adjustments to provisional values *(Notes 4 and 11)*	**–**	**–**	**–**	**–**	**–**	**(8)**	**–**	**(8)**	**(7)**	**(15)**
At December 31, 2006 (as restated)	**$ 318**	**$ –**	**$ 531**	**$ –**	**$ 28**	**$ 2,750**	**$ 439**	**$ 4,066**	**$ 169**	**$ 4,235**
Effect of exchange rate changes							**555**	**555**	**11**	**566**
Revaluation surplus on acquisition of a controlling interest in associates *(Note 4)*	**–**	**–**	**–**	**233**	**–**	**–**	**–**	**233**	**–**	**233**
Total income and expense for the year recognised directly in equity	**–**	**–**	**–**	**233**	**–**	**–**	**555**	**788**	**11**	**799**
Net profit	**–**	**–**	**–**	**–**	**–**	**2,144**	**–**	**2,144**	**73**	**2,217**
Total income and expense for the year	**–**	**–**	**–**	**233**	**–**	**2,144**	**555**	**2,932**	**84**	**3,016**
Acquisition of minority interests in existing subsidiaries *(Note 6)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(10)**	**(10)**
Minority interests arising on acquisition of subsidiaries *(Note 4)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**266**	**266**
Minority interests arising on acquisition of a single asset entity *(Note 10)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**44**	**44**
Decrease in minority interests arising due to change in ownership within the Group	**–**	**–**	**–**	**–**	**–**	**5**	**–**	**5**	**(5)**	**–**
Derecognition of minority interests in subsidiaries *(Notes 4 and 6)*	**–**	**–**	**–**	**–**	**–**	**(145)**	**–**	**(145)**	**(311)**	**(456)**
Recognition of minority interests in respect of the expired put options *(Note 4)*	**–**	**–**	**–**	**–**	**–**	**73**	**–**	**73**	**174**	**247**
Share-based payments *(Note 23)*	**–**	**–**	**5**	**–**	**–**	**–**	**–**	**5**	**–**	**5**
Purchase of treasury shares *(Note 19)*	**–**	**(41)**	**–**	**–**	**–**	**–**	**–**	**(41)**	**–**	**(41)**
Exercise of share options (*Notes 19 and 23*)	**2**	**41**	**33**	**–**	**–**	**(27)**	**–**	**49**	**–**	**49**
Appropriation of net profit to legal reserve *(Note 19)*	**–**	**–**	**–**	**–**	**1**	**(1)**	**–**	**–**	**–**	**–**
Dividends declared by the parent entity to its shareholders *(Note 19)*	**–**	**–**	**(283)**	**–**	**–**	**(675)**	**–**	**(958)**	**–**	**(958)**
Dividends declared by the Group's subsidiaries to minority shareholders *(Note 19)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(40)**	**(40)**
At December 31, 2007	**$ 320**	**$ –**	**$ 286**	**$ 233**	**$ 29**	**$ 4,124**	**$ 994**	**$ 5,986**	**$ 371**	**$ 6,357**

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

Evraz Group S.A.

Consolidated Statement of Changes in Equity (continued)

(In millions of US dollars)

	Attributable to equity holders of the parent entity									
	Issued capital	**Treasury shares**	**Additional paid-in capital**	**Revaluation surplus**	**Legal reserve**	**Accumulated profits**	**Translation difference**	**Total**	**Minority interests**	**Total equity**
At December 31, 2005 (as previously reported)	$ 316	$ –	$ 547	$ –	$ 22	$ 1,738	$ 72	$ 2,695	$ 190	$ 2,885
Adjustments to provisional values *(Notes 4 and 11)*	–	–	–	–	–	13	–	13	(11)	2
At December 31, 2005 (as restated)	316	–	547	–	22	1,751	72	2,708	179	2,887
Effect of exchange rate changes	–	–	–	–	–	–	367	367	23	390
Total income and expense for the year recognised directly in equity	–	–	–	–	–	–	367	367	23	390
Net profit*	–	–	–	–	–	1,377	–	1,377	73	1,450
Total income and expense for the year*	–	–	–	–	–	1,377	367	1,744	96	1,840
Exercise of share options (*Notes 19 and 23*)	2	–	24	–	–	–	–	26	–	26
Acquisition of minority interests in existing subsidiaries *(Notes 6)*	–	–	1	–	–	(42)	–	(41)	(56)	(97)
Minority interests arising on acquisition of subsidiaries *(Note 4)* *	–	–	–	–	–	–	–	–	42	42
Derecognition of minority interests in subsidiaries *(Note 4 and 6)*	–	–	–	–	–	(64)	–	(64)	(42)	(106)
Acquisition of minority interests by an associate *(Note 19)*	–	–	1	–	–	–	–	1	–	1
Sale of shares in a joint venture's subsidiary *(Notes 19)*	–	–	58	–	–	–	–	58	–	58
Reorganisation of ownership structure within a joint venture	–	–	–	–	–	(1)	–	(1)	–	(1)
Allocation of losses of prior periods to minority shareholders *(Note 19)*	–	–	–	–	–	5	–	5	–	5
Share-based payments *(Notes 23)*	–	–	17	–	–	–	–	17	–	17
Appropriation of net profit to legal reserve	–	–	–	–	6	(6)	–	–	–	–
Dividends declared by the parent entity to its shareholders *(Note 19)*	–	–	(117)	–	–	(270)	–	(387)	–	(387)
Dividends declared by the Group's subsidiaries to minority shareholders *(Note 19)*	–	–	–	–	–	–	–	–	(50)	(50)
At December 31, 2006*	$ 318	$ –	$ 531	$ –	$ 28	$ 2,750	$ 439	$ 4,066	$ 169	$ 4,235

* The amounts shown here do not correspond to the 2006 financial statements and reflect adjustments made in connection with the completion of initial accounting (Notes 4 and 11).

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

Evraz Group S.A.

Consolidated Statement of Changes in Equity (continued)

(In millions of US dollars)

	Attributable to equity holders of the parent entity									
	Issued capital	**Treasury shares**	**Additional paid-in capital**	**Revaluation surplus**	**Legal reserve**	**Accumulated profits**	**Translation difference**	**Total**	**Minority interests**	**Total equity**
At December 31, 2004	$ –	$ –	$ 319	$ –	$ –	$ 1,126	$ 164	$ 1,609	$ 358	$ 1,967
Change in accounting policies: derecognition of negative goodwill *(Notes 2 and 5)*	–	–	–	–	–	378	–	378	12	390
At January 1, 2005	–	–	319	–	–	1,504	164	1,987	370	2,357
Effect of exchange rate changes	–	–	–	–	–	–	(92)	(92)	(13)	(105)
Total income and expense for the year recognised directly in equity	–	–	–	–	–	–	(92)	(92)	(13)	(105)
Net profit*	–	–	–	–	–	918	–	918	135	1,053
Total income and expense for the year*	–	–	–	–	–	918	(92)	826	122	948
Issue of share capital, net of transaction costs (*Note 19*)	24	–	376	–	–	–	–	400	–	400
Issue of share capital in exchange for shares in Mastercroft *(Note 19)*	292	–	(292)	–	–	–	–	–	–	–
Acquisition of minority interests in existing subsidiaries *(Note 6)*	–	–	2	–	–	(131)	–	(129)	(287)	(416)
Acquisition of minority interests by a joint venture *(Note 19)*	–	–	3	–	–	–	–	3	–	3
Minority interests arising on acquisition of subsidiaries *(Note 4)* *	–	–	–	–	–	–	–	–	3	3
Contributions from Crosland Limited (*Note 19*)	–	–	131	–	–	–	–	131	–	131
Share-based payments *(Note 23)*	–	–	8	–	–	–	–	8	–	8
Appropriation of net profit to legal reserve	–	–	–	–	22	(22)	–	–	–	–
Dividends declared by the parent entity to its shareholders *(Note 19)*	–	–	–	–	–	(518)	–	(518)	(6)	(524)
Dividends declared by the Group's subsidiaries to minority shareholders *(Note 19)*	–	–	–	–	–	–	–	–	(23)	(23)
At December 31, 2005*	$ 316	$ –	$ 547	$ –	$ 22	$ 1,751	$ 72	$ 2,708	$ 179	$ 2,887

* The amounts shown here do not correspond to the 2005 financial statements and reflect adjustments made in connection with the completion of initial accounting (Notes 4 and 11).

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

1. Corporate Information

These consolidated financial statements were authorised for issue in accordance with a resolution of the directors of Evraz Group S.A. on April 1, 2008.

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

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

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

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

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

Subsidiary	Actual ownership interest, %	Effective ownership interest, % (2)			Business activity	Location
	2007	2007	2006	2005		
OAO Nizhny Tagil Iron & Steel Plant	100.00	100.00	95.00	92.38	Steel production	Russia
OAO West-Siberian Iron & Steel Plant	100.00	100.00	100.00	96.67	Steel production	Russia
OAO Novokuznetsk Iron & Steel Plant	100.00	100.00	98.75	97.26	Steel production	Russia
Vitkovice Steel a.s.	100.00	100.00	100.00	98.96	Steel production	Czech Republic
Evraz Oregon Steel Mills	100.00	100.00	–	–	Steel production	USA
Highveld Steel and Vanadium Corporation (1)	80.92	80.92	24.90	–	Steel production	South Africa
ZAO Yuzhkuzbassugol (1)	100.00	100.00	50.00	50.00	Coal mining	Russia
OAO Kachkanarsky Mining-and-Processing Integrated Works	100.00	100.00	97.11	91.98	Ore mining and processing	Russia
OAO Evrazruda	100.00	100.00	100.00	100.00	Ore mining	Russia
Ferrotrade Limited	100.00	100.00	100.00	100.00	Trading	Gibraltar
OOO Trade House EvrazHolding	100.00	100.00	100.00	100.00	Trading	Russia

1. Corporate Information (continued)

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

(2) Actual ownership interest in subsidiaries differs from the effective ownership interest due to the existence of minority interests in subsidiaries that hold ownership interests in other subsidiaries as well as due to the derecognition of minority interests for which minority shareholders hold put options (Notes 4 and 6).

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

In 2005, the Group acquired a controlling interest in OAO Evrazruda from an entity under common control with the Group. The Group applied the pooling of interests method with respect to this acquisition and presented its consolidated financial statements as if the transfer of the controlling interest in the subsidiary had occurred from the beginning of the earliest period presented.

In the years ended December 31, 2007, 2006 and 2005, approximately 5%, 8% and 7%, respectively, of the Group’s revenues were generated in transactions with related parties. In addition, a certain part of the Group’s purchases was made in transactions with related parties, including, but not limited to, associates and a joint venture. For detailed information related to such activities refer to Note 17.

At December 31, 2007, the Group employed approximately 127,000 employees, excluding joint venture’s and associates’ employees.

2. Significant Accounting Policies

Basis of Preparation

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

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

In 2007, the Group finalised its purchase price allocation for the acquisition of ownership interest in Strategic Minerals Corporation (Note 4) and adjusted the consolidated financial statements as of December 31, 2006 and for the year then ended. In addition, adjustments to provisional values have been made in respect of Highveld Steel and Vanadium Corporation (Note 11) resulting in a change in the amount of investments in associates at December 31, 2006.

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

Certain reclassifications have been made to the prior years financial statements to conform to the current year presentation, in particular, the intangible assets have been separately presented on the face of the balance sheet.

Changes in Accounting Policies

The accounting policies applied are consistent with those of the previous financial year except that the Group has adopted those new/revised standards mandatory for financial years beginning on or after January 1, 2007. The changes in accounting policies result from adoption of the following new or revised standards:

- IFRS 7 “Financial Instruments: Disclosures”;
- IAS 1 (amended) “Presentation of Financial Statements”;
- IFRIC 8 “Scope of IFRS 2”;
- IFRIC 10 “Interim Financial Reporting and Impairment”.

The Group has also early adopted IFRIC 11 “IFRS 2 – Group and Treasury Share Transactions”.

The principal effects of these changes in policies are discussed below.

IFRS 7 “Financial Instruments: Disclosures”

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included in the financial statements (Notes 7 and 28).

IAS 1 “Presentation of Financial Statements”

This amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in Note 28.

IFRIC 8 “Scope of IFRS 2”

This interpretation requires IFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value. As equity instruments are only issued to the grantees in accordance with the Incentive Plans (Note 23), the interpretation had no impact on the financial position or performance of the Group.

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

Changes in Accounting Policies (continued)

IFRIC 10 "Interim Financial Reporting and Impairment"

This interpretation requires that an entity must not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. The interpretation had no impact on the financial position or performance of the Group during 2007.

IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions"

This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme, even if the entity buys the instruments from another party, or the shareholders provide the equity instruments needed.

In 2007, the Group ceased to issue new shares to meet its obligations under the share options plans (Note 23). Instead, the Group started to acquire its own shares on the open market for this purpose. The Group has elected to adopt IFRIC Interpretation 11 as of January 1, 2007.

Standards Issued But Not Yet Effective

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

- IFRS 8 "Operating Segments" (effective from January 1, 2009);
- IAS 23 (revised) "Borrowing Costs" (effective from January 1, 2009);
- IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction" (effective from January 1, 2008);
- IFRS 3 (revised) "Business Combinations" (effective from July 1, 2009)
- IAS 27 (revised) "Consolidated Financial Statements" (effective from July 1, 2009)
- Amendments to IFRS 2 "Share-based Payments" – Vesting Conditions and Cancellation (effective from January 1, 2009);
- IAS 1 (revised) "Presentation of Financial Statements" (effective from January 1, 2009);
- Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 (revised) "Presentation of Financial Statements" – Puttable instruments and obligations arising on liquidation (effective from January 1, 2009).

The Group expects that the adoption of the pronouncements listed above will not have a significant impact on the Group's results of operations and financial position in the period of initial application.

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates

Accounting Judgements

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

- The Group determined that options to acquire ownership interests in Caplink and Velcast represent potential voting rights which provide the Group with the power to exercise control over these subsidiaries.
- The Group determined that the sale of Nerungriugol does not constitute a discontinued operation (Note 12).
- The Group determined that the purchase of production complex of OOO Nizhnesaldinsky Metallurgical Plant is, in substance, business combination (Note 4).
- The Group determined that it obtained an access to the economic benefits associated with potential voting rights in respect of 54.1% shares of Highveld Steel and Vanadium Corporation on February 26, 2007 (Note 11).

Estimation Uncertainty

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

Impairment of Property, Plant and Equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the assets. In 2007, 2006 and 2005, the Group recognised an impairment loss of $7 million, $20 million and $7 million, respectively (Note 9).

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Impairment of Property, Plant and Equipment (continued)

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

Useful Lives of Items of Property, Plant and Equipment

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

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

Fair Values of Assets and Liabilities Acquired in Business Combinations

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

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at December 31, 2007, 2006 and 2005 was $1,271 million, $112 million and $67 million, respectively. More details are provided in Note 5.

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty (continued)

Mineral Reserves

Mineral reserves are a material factor in the Group's computation of depreciation, depletion and amortisation charge. The Group estimates its mineral reserves in accordance with the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves ("JORC Code"). Estimation of reserves in accordance with JORC Code involves some degree of uncertainty. The uncertainty depends mainly on the amount of reliable geological and engineering data available at the time of the estimate and the interpretation of this data, which also requires use of subjective judgement and development of assumptions.

Site Restoration Provisions

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

Post-Employment Benefits

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

In addition, post-employment benefit obligations were calculated taking into consideration that certain of the Group's subsidiaries plan to discontinue to pay lump-sum amounts at retirement date after 2008-2009 (Note 22).

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty (continued)

Allowances

The Group makes allowances for doubtful receivables to account for estimated losses resulting from the inability of customers to make required payments. When evaluating the adequacy of an allowance for doubtful accounts, management bases its estimates on the current overall economic conditions, the ageing of accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As of December 31, 2007, 2006 and 2005, allowances for doubtful accounts in respect of trade and other receivables have been made in the amount of $79 million, $59 million and $54 million, respectively (Notes 16 and 17).

The Group makes an allowance for obsolete and slow-moving raw materials and spare parts. As of December 31, 2007, 2006 and 2005, the allowance for the obsolete and slow-moving items was $12 million, $13 million and $21 million, respectively (Note 15). In addition, certain finished goods of the Group are carried at net realisable value. Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of the period.

Litigations

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

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty (continued)

Current Taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. In Russia the periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. More details are provided in Note 30.

Deferred Income Tax Assets

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

Foreign Currency Transactions

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

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

2. Significant Accounting Policies (continued)

Foreign Currency Transactions (continued)

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

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

Basis of Consolidation

Subsidiaries

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

Acquisition of Subsidiaries

The purchase method of accounting was used to account for the acquisition of subsidiaries by the Group.

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

Minority interest is that portion of the profit or loss and net assets of subsidiaries attributable to equity interests that are not owned, directly or indirectly through subsidiaries, by the parent.

2. Significant Accounting Policies (continued)

Basis of Consolidation (continued)

Acquisition of Subsidiaries (continued)

Minority interests at the balance sheet date represents the minority shareholders' portion of the pre-acquisition carrying amounts (for business combinations for which the agreement date was before March 31, 2004) or the fair values (for business combinations for which agreement date was on or after March 31, 2004) of the identifiable assets and liabilities of the subsidiary at the acquisition date and the minorities' portion of movements in equity since the date of the combination. Minority interests are presented in the consolidated balance sheet within equity, separately from the parent's shareholders' equity.

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

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

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

Increases in Ownership Interests in Subsidiaries

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

Purchases of Controlling Interests in Subsidiaries from Entities under Common Control

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

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

2. Significant Accounting Policies (continued)

Basis of Consolidation (continued)

Purchases of Controlling Interests in Subsidiaries from Entities under Common Control (continued)

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

Put Options Over Minority Interests

The Group derecognises minority interests if minority shareholders have a put option over their holdings. The difference between the amount of the liability recognised in the balance sheet over the carrying value of the derecognised minority interests is charged to accumulated profits.

Investments in Associates

Associates are entities in which the Group generally has between 20% and 50% of the voting rights, or is otherwise able to exercise significant influence, but which it does not control or jointly control.

Investments in associates are accounted for under the equity method of accounting and are initially recognised at cost including goodwill. Subsequent changes in the carrying value reflect the post acquisition changes in the Group's share of net assets of the associate and goodwill impairment charges, if any. The Group's share of its associates' profits or losses is recognised in the income statement and its share of movements in reserves is recognised in equity. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless the Group is obligated to make further payments to, or on behalf of, the associate.

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

Interest in a Joint Venture

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

2. Significant Accounting Policies (continued)

Property, Plant and Equipment

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

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

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

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

	Useful lives (years)	Weighted average useful life (years)
Buildings and constructions	15-60	21
Machinery and equipment	4-45	11
Transport and motor vehicles	7-20	10
Other assets	3-15	6

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

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

2. Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

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

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

Leases

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

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

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

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

Goodwill

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

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

2. Significant Accounting Policies (continued)

Goodwill (continued)

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

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of acquisition.

In accordance with the transitional provisions of IFRS 3, on January 1, 2005, the Group ceased to recognise negative goodwill in the consolidated balance sheet. Negative goodwill is recognised in the income statement.

Intangible Assets Other Than Goodwill

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Expenditures on internally generated intangible assets, excluding capitalised development costs, are expensed as incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite life are reviewed at least at each year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortised, they are tested for impairment annually either individually or at the cash generating unit level.

The table below presents the useful lives of intangible assets.

	Useful lives (years)	Weighted average useful life (years)
Customer relationships	1-15	11
Trade names and trademarks	5	5
Water rights and environmental permits with definite lives	5	5
Patented and unpatented technology	5	5
Contract terms	49	49
Other	5-10	9

2. Significant Accounting Policies (continued)

Intangible Assets Other Than Goodwill (continued)

Certain water rights and environmental permits are considered to have indefinite lives as the management believes that these rights will continue indefinitely.

The most part of the Group's intangible assets represents customer relationships arising on business combinations (Note 10).

Emission Rights

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

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

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

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

Financial Assets

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

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

2. Significant Accounting Policies (continued)

Financial Assets (continued)

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

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

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

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

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

2. Significant Accounting Policies (continued)

Inventories

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

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

Accounts Receivable

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

The Group establishes an allowance for impairment of accounts receivable that represents its estimate of incurred losses. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar receivables in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Value Added Tax

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

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

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

Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Cash and Cash Equivalents

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

2. Significant Accounting Policies (continued)

Borrowings

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

Financial Guarantee Liabilities

Financial guarantee liabilities issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issue of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the balance sheet date and the amount initially recognised.

Equity

Share Capital

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

Treasury Shares

Own equity instruments which are acquired by the Group (treasury shares) are deducted from equity. No gain or loss is recognised in income statement on the purchase, sale, issue or cancellation of the treasury shares.

Dividends

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

Provisions

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

2. Significant Accounting Policies (continued)

Provisions (continued)

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

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

Employee Benefits

Social and Pension Contributions

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

Post-Employment Benefits

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

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

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

2. Significant Accounting Policies (continued)

Employee Benefits (continued)

Post-Employment Benefits (continued)

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

The Group includes expected return on plan assets in interest expense caption of the consolidated income statement.

Other Costs

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

Share-based Payments

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

The cost of equity-settled transactions with non-executive directors and employees is measured by reference to the fair value of options at the date on which they are granted. The fair value is determined using the Black-Scholes-Merton model, further details of which are given in Note 23. In valuing equity-settled transactions, no account is taken of any conditions, other than market conditions.

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

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

2. Significant Accounting Policies (continued)

Share-based Payments (continued)

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

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (Note 19).

Revenue

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

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

Sale of Goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably. The moment of transfer of the risks and rewards of ownership is determined by the contract terms.

Rendering of Services

The Group's revenues from rendering of services include electricity, transportation, port and other services. Revenue is recognised when services are rendered.

Interest

Interest is recognised using the effective interest method.

2. Significant Accounting Policies (continued)

Revenue (continued)

Dividends

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

Rental Income

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

Current Income Tax

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

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

Deferred Income Tax

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

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

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

3. Segment Information

The Group's primary reporting format is business segments and its secondary format is geographical segments. The Group's major business segments are steel production and mining. Steel production segment includes production of steel and related products at six steel mills. Mining segment includes ore and coal mining and enrichment.

In 2005 – 2007, inter-segment operations were made at prevailing market prices at the dates of transactions.

The following tables present revenue and profit information and certain asset and liability information regarding business segments for the years ended December 31, 2007, 2006, and 2005:

Year ended December 31, 2007

US$ million	Steel production	Mining	Other operations	Eliminations	Total
Revenue					
Sales to external customers	$ 12,278	$ 369	$ 161	$ –	$ 12,808
Inter-segment sales	155	1,532	677	(2,364)	–
Total revenue	12,433	1,901	838	(2,364)	12,808
Result					
Segment result	$ 3,069	$ 458	$ 30	$ 2	$ 3,559
Unallocated expenses					(36)
Profit from operations					$ 3,523
Share of profits/(losses) of joint ventures and associates	20	68	–		88
Other income/(expenses), net					(410)
Income tax expense					(984)
Net profit					$ 2,217
Assets and liabilities					
Segment assets	$ 9,832	$ 3,655	$ 708		$ 14,195
Investments in joint ventures and associates	4	783	–		787
Unallocated assets					1,398
Total assets					$ 16,380
Segment liabilities	$ 3,540	$ 1,172	$ 214		$ 4,926
Unallocated liabilities					5,097
Total liabilities					$ 10,023
Other segment information					
Additions to property, plant and equipment and intangible assets	$ 464	$ 197	$ 132		$ 793
Property, plant and equipment and intangible assets acquired in business combinations	2,263	2,272	305		4,840
Depreciation, depletion and amortisation	(501)	(169)	(37)		(707)
Impairment of assets	(4)	(2)	(1)		(7)

3. Segment Information (continued)

Year ended December 31, 2006

US$ million	Steel production	Mining	Other operations	Eliminations	Total
Revenue					
Sales to external customers	$ 8,085	$ 121	$ 86	$ –	$ 8,292
Inter-segment sales	76	1,026	518	(1,620)	–
Total revenue	8,161	1,147	604	(1,620)	8,292
Result					
Segment result	$ 1,962	$ 351	$ 26	$ (42)	$ 2,297
Unallocated expenses					1
Profit from operations					$ 2,298
Share of profits/(losses) of joint ventures and associates	17	23	–		40
Other income/(expenses), net					(251)
Income tax expense					(637)
Net profit					$ 1,450
Assets and liabilities					
Segment assets	$ 4,853	$ 1,043	$ 273		$ 6,169
Investments in joint ventures and associates	233	1,261	–		1,494
Unallocated assets					847
Total assets					$ 8,510
Segment liabilities	$ 1,633	$ 183	$ 125		$ 1,941
Unallocated liabilities					2,334
Total liabilities					$ 4,275
Other segment information					
Additions to property, plant and equipment and intangible assets	$ 509	$ 133	$ 34		$ 676
Property, plant and equipment and intangible assets acquired in business combinations	107	3	40		150
Depreciation, depletion and amortisation	(228)	(63)	(16)		(307)
Impairment of assets	(19)	(1)	–		(20)

3. Segment Information (continued)

Year ended December 31, 2005

US$ million	Steel production	Mining	Other operations	Eliminations	Total
Revenue					
Sales to external customers	$ 6,133	$ 147	$ 228	$ –	$ 6,508
Inter-segment sales	88	842	417	(1,347)	–
Total revenue	6,221	989	645	(1,347)	6,508
Result					
Segment result	$ 1,308	$ 259	$ 34	$ –	$ 1,601
Unallocated expenses					(19)
Profit from operations					$ 1,582
Share of profits/(losses) of joint ventures and associates	1	56	–		57
Other income/(expenses), net					(111)
Income tax expense					(475)
Net profit					$ 1,053
Assets and liabilities					
Segment assets	$ 4,270	$ 949	$ 204		$ 5,423
Investments in joint ventures and associates	2	904	–		906
Unallocated assets					425
Total assets					$ 6,754
Segment liabilities	$ 1,518	$ 181	$ 128		$ 1,827
Unallocated liabilities					2,040
Total liabilities					$ 3,867
Other segment information					
Additions to property, plant and equipment and intangible assets	$ 611	$ 125	$ 37		$ 773
Property, plant and equipment and intangible assets acquired in business combinations	319	10	–		329
Depreciation, depletion and amortisation	(191)	(54)	(13)		(258)
Impairment of assets	–	(1)	–		(1)

The additions to the property, plant and equipment and intangible assets based on the location of the Group's subsidiaries for the years ended December 31 were as follows:

US$ million	**2007**	2006	2005
Russia	**$ 603**	$ 629	$ 746
Ukraine	**65**	–	–
South Africa	**62**	–	–
USA	**39**	2	–
Czech Republic	**13**	31	7
Canada	**5**	–	–
Other	**6**	14	20
	$ 793	$ 676	$ 773

3. Segment Information (continued)

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

US$ million	**2007**	2006	2005
Russia	**$ 5,952**	$ 4,217	$ 3,905
USA	**1,964**	289	87
Iran	**461**	292	203
Korea	**400**	149	166
Kazakhstan	**379**	259	80
Taiwan	**373**	572	522
Italy	**361**	379	113
South Africa	**319**	7	–
Czech Republic	**277**	263	24
Germany	**263**	184	34
Poland	**179**	77	13
Thailand	**175**	465	477
Austria	**173**	24	8
Philippines	**144**	194	198
Ukraine	**143**	33	27
Great Britain	**119**	54	16
Canada	**91**	15	–
Turkey	**86**	188	40
Vietnam	**82**	89	211
Indonesia	**75**	32	24
China	**72**	98	176
Other countries	**720**	412	184
	$ 12,808	$ 8,292	$ 6,508

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

US$ million	**2007**	2006	2005
Russia	**$ 8,791**	$ 5,674	$ 4,997
USA	**3,125**	159	–
South Africa	**1,556**	332	–
Luxembourg	**1,099**	720	310
Czech Republic	**574**	451	444
Switzerland	**475**	51	43
Italy	**414**	368	334
Cyprus	**212**	252	80
Ukraine	**66**	–	–
Malta	**33**	34	37
Gibraltar	**17**	445	488
Belgium	**11**	16	12
Panama	**7**	8	9
	$ 16,380	$ 8,510	$ 6,754

4. Business Combinations

Palini & Bertoli S.p.A.

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

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

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

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

4. Business Combinations (continued)

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

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

In 2005, cash flow on acquisition was as follows:

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

In 2006, the Group paid $2 million of the purchase consideration outstanding at December 31, 2005. The difference between the cash portion of the purchase consideration ($112 million) and amounts paid on acquisition ($115 million) represents translation difference.

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

The goodwill of €57 million comprises the fair value of expected synergies arising from the acquisition.

In October 2007, the Group exercised its call option in respect of 25% less one share ownership interest in Palini for €76 million ($107 million at the exchange rate as of the date of the transaction). The change in the fair value of the liability to minority shareholders amounting to $21 million was recorded as a loss within gain/(loss) on financial assets and liabilities caption of the consolidated income statement for the year ended December 31, 2007.

Vitkovice Steel

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

At December 31, 2005, the acquisition of Vitkovice was accounted for based on provisional values. In 2006, the Group finalised its purchase price allocation on the acquisition of Vitkovice, but no adjustments were required to the amounts initially recognised.

4. Business Combinations (continued)

Vitkovice Steel (continued)

The identifiable assets, liabilities and contingent liabilities as at November 14, 2005 were as follows:

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

In 2005, cash flow on acquisition was as follows:

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

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

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

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

4. Business Combinations (continued)

Strategic Minerals Corporation

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

As a result, the financial position and the results of operations of Stratcor were included in the Group's consolidated financial statements beginning August 23, 2006.

At December 31, 2006, the acquisition of Stratcor was accounted for based on provisional values as at the date of authorisation of issue of the financial statements for the year ended December 31, 2006 the subsidiary has not completed valuation of assets in accordance with IFRS 3 "Business Combinations"

In 2007, the Group finalised its purchase price allocation on the acquisition of Stratcor. As a result, the Group recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities as at August 23, 2006. Identifiable assets, liabilities and contingent liabilities of the acquiree and the resulting goodwill were as follows:

US$ million	Initial estimation of fair values	Final estimation of fair values
Property, plant and equipment	$ 123	$ 81
Intangible assets	–	27
Other non-current assets	3	3
Inventories	51	57
Accounts and notes receivable	31	31
Cash	39	39
Total assets	**247**	**238**
Non-current liabilities	41	46
Deferred income tax liabilities	22	22
Current liabilities	50	39
Total liabilities	**113**	**107**
Minority interests	**–**	**8**
Net assets	**$ 134**	**$ 123**
Fair value of net assets attributable to 72.84% ownership interest	**$ 97**	**$ 89**
Purchase consideration	**$ 125**	**$ 125**
Goodwill	**$ 28**	**$ 36**

4. Business Combinations (continued)

Strategic Minerals Corporation (continued)

In 2006, cash flow on acquisition was as follows:

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

In 2007, the Group repaid the outstanding liability for the purchase of Stratcor.

For the period from August 23, 2006 to December 31, 2006 Stratcor incurred net loss amounting to $5 million.

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

In 2007, the change in the fair value of the contingent consideration amounting to $11 million was recorded as an adjustment to goodwill recognised on acquisition (Note5).

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

Oregon Steel Mills

On January 12, 2007, the Group acquired approximately 90.65% of the outstanding shares of Oregon Steel Mills, Inc. ("OSM") through a tender offer. OSM, located in the United States and Canada, produces plates, pipes, rails and other long steel products.

In accordance with the US legislation, following the acquisition of the controlling interest in OSM, all the untendered shares were converted into the right to receive $63.25 in cash which is the same price per share paid during the tender offer. As a result, the Group effectively acquired a 100% ownership interest in OSM. On January 23, 2007, OSM was merged with the Group's wholly owned subsidiary and the merged entity was named as Evraz Oregon Steel Mills, Inc.

Total cash consideration for the acquisition of a 100% ownership interest in OSM amounted to $2,276 million, including transaction costs of $10 million.

4. Business Combinations (continued)

Oregon Steel Mills (continued)

As a result, the financial position and the results of operations of OSM were included in the Group's consolidated financial statements beginning January 12, 2007.

In the interim consolidated financial statements for the six-month period ended June 30, 2007, the acquisition of OSM was accounted for based on provisional values. In 2007, the Group finalised its purchase price allocation on the acquisition of OSM, but no adjustments were required to the amounts initially recognised.

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

US$ million	**January 12, 2007**
Property, plant and equipment	$ 1,038
Intangible assets	373
Other non-current assets	3
Inventories	442
Accounts and notes receivable	131
Cash	2
Total assets	**1,989**
Deferred income tax liabilities	359
Non-current liabilities	155
Current liabilities	235
Total liabilities	**749**
Minority interests	**46**
Net assets	**$ 1,194**
Purchase consideration	**$ 2,276**
Goodwill	**$ 1,082**

In 2007, cash flow on acquisition was as follows:

US$ million	
Net cash acquired with the subsidiary	$ 2
Cash paid	(2,269)
Net cash outflow	**$ (2,267)**

Certain transaction costs amounting to $4 million were paid in 2006. In 2008, the Group paid $3 million of the transaction costs outstanding at December 31, 2007.

For the period from January 12, 2007 to December 31, 2007, OSM reported net profit amounting to $49 million.

4. Business Combinations (continued)

Highveld Steel and Vanadium Corporation

On July 13, 2006, the Group acquired a 24.9% ownership interest in Highveld Steel and Vanadium Corporation Limited ("Highveld"), one of the largest steel producers in South Africa and a leading producer of vanadium products. Cash consideration amounted to $216 million, including $10 million of transaction costs. In addition, the Group entered into option agreements with Anglo South Africa Capital (Proprietary) Limited ("Anglo") and Credit Suisse International ("Credit Suisse"), the major shareholders of Highveld, to increase this stake to 79% within the next 24 months should such a decision be made by the Board of directors of Evraz Group S.A. and subject to receipt of all necessary regulatory approvals.

On February 20, 2007, the European Commission approved the proposed acquisition of the controlling interest in Highveld, subject to certain conditions, and the directors resolved to proceed with the purchase transaction at the meeting held on February 26, 2007.

These conditions included divestment commitments in respect of certain business of Highveld (Note 12) and a commitment to maintain and strengthen the existing feedstock supply relationships with Vanadium-Tula, Chussovskoy Metallurgical Plant, both located in Russia, and Treibacher (Austria) – the major consumers of the feedstock sold by the Group and Highveld.

On April 26, 2007, the Group obtained the regulatory approvals of the South African competition authorities and the share options became exercisable. As a result, the financial position and results of operations of Highveld were included in the Group's consolidated financial statements beginning April 26, 2007 as the Group effectively exercised control over Highveld's operations since that date. In the period from July 13, 2006 to April 26, 2007, the Group accounted for its investment in Highveld under the equity method (Note 11).

In the interim consolidated financial statements for the six-month period ended June 30, 2007 the acquisition of Highveld was accounted for based on provisional values as the Group, as of that date, has not completed purchase price allocation in accordance with IFRS 3 "Business Combinations".

The acquisition of a controlling interest in Highveld was accounted for based on provisional values as the Group, as of the date of authorisation of issue of these financial statements, has not completed purchase price allocation in accordance with IFRS 3 "Business Combinations". The Group made certain adjustments to the provisional fair values of Highveld's consolidated identifiable assets, liabilities and contingent liabilities at April 26, 2007 as compared with those values recorded in the Group's interim consolidated financial statements for the six-month period ended June 30, 2007.

4. Business Combinations (continued)

Highveld Steel and Vanadium Corporation (continued)

US$ million	**Carrying amounts immediately before the business combination**	**Initial estimation of fair values**	**Adjusted provisional fair values**
Property, plant and equipment	$ 207	$ 382	$ 431
Intangible assets	–	339	419
Other non-current assets	2	2	2
Inventories	70	69	81
Accounts and notes receivable	161	147	168
Cash and cash equivalents	75	75	75
Assets of disposal groups classified as held for sale (Note 12)	170	536	338
Total assets	**685**	**1,550**	**1,514**
Non-current liabilities	42	42	54
Deferred income tax liabilities	36	183	191
Current liabilities	316	325	329
Liabilities directly associated with disposal groups classified as held for sale (Note 12)	24	44	44
Total liabilities	**418**	**594**	**618**
Net assets	**$ 267**	**$ 956**	**$ 896**

On April 26, 2007, the Group recognised revaluation surplus amounting to $34 million in respect of the change in fair values of identifiable assets, liabilities and contingent liabilities of Highveld allocated to the previously acquired stakes.

In 2007, cash flow on acquisition was as follows:

US$ million	
Net cash acquired with the subsidiary	$ 75
Cash paid	(254)
Net cash outflow	**$ (179)**

4. Business Combinations (continued)

Highveld Steel and Vanadium Corporation (continued)

For the period from April 26, 2007 to December 31, 2007, Highveld reported net profit amounting to $105 million.

The acquisition of Highveld was achieved in stages. Cost of the business combination at each stage, the provisional values of Highveld's identifiable consolidated assets, liabilities and contingent liabilities and goodwill are summarised in the table below:

US$ million	**July 13, 2006** *(Note 11)*	**February 26, 2007** *(Note 11)*	**April 26, 2007** *(provisional)*	**Total**
Ownership interest acquired	24.9%	54.1%	0%	79%
Cost of business combination	216	442	–	658
Fair values of Highveld's identifiable consolidated assets, liabilities and contingent liabilities	731	834	896	–
Goodwill/(excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition)	34	(9)	–	–

Goodwill includes $16 million associated with the disposal group which, subsequent to July 13, 2006, was classified as held for sale (Note 12).

On May 4, 2007, the Group exercised its option and acquired a 29% ownership interest in Highveld for cash consideration of $238 million from Anglo. In addition, the Group incurred transaction costs amounting to $2 million.

In accordance with the South African legislation, an acquirer, which purchases 35% of the acquiree's share capital, is obliged to offer to minority shareholders to sell their holdings.

Following this requirement, on June 4, 2007, the Group made an offer to acquire the entire share capital of Highveld, other than those shares already held by the Group, at a price of $11.40 per share.

The Group derecognised minority interests in the amount of $189 million representing 21% ownership interest in Highveld, and accrued a liability to minority shareholders in the amount of $237 million. The liability was measured at a price of $11.40 per share. The excess of the amount of the liability over the carrying value of the derecognised minority interests amounting to $48 million was charged to accumulated profits.

4. Business Combinations (continued)

Highveld Steel and Vanadium Corporation (continued)

On July 16, 2007, the Group increased the offer price from the South African rands equivalent of $11.40 per share to 93 South African rands ($13.03 at the exchange rate as of June 4, 2007).

Upon the increase of the offer price, the Group remeasured the liability to minority shareholders and recorded the increase amounting to $34 million as a loss in gain/(loss) on financial assets and liabilities caption of the consolidated income statement for the year ended December 31, 2007.

As a result of this offer, the Group acquired 1,880,750 shares of Highveld (1.91% of the share capital) for 175 million South African rands ($25 million at the exchange rates as of the dates of the transactions). On August 6, 2007, upon the closing of the offer, the Group recognised minority interests in respect of the shares retained by minority shareholders. The difference between the carrying value of minority interests recognised and the liability to minority shareholders, which was derecognised at that date, amounting to $73 million was credited to accumulated profits.

On September 28, 2007, the Credit Suisse option for the acquisition of 24.9% ownership interest in Highveld was exercised by the Group for $219 million, comprising $207 million offset with the restricted deposit (Note 14) and a cash consideration of $12 million. As the liability under this put option was initially measured at $202 million, the Group recorded the increase amounting to $17 million as a loss in gain/(loss) on financial assets and liabilities caption of the consolidated income statement for the year ended December 31, 2007.

At December 31, 2007, the Group is the owner of 80,223,738 Highveld's shares (80.91% of the Highveld's share capital).

West-Siberian Heat and Power Plant

On May 3, 2007, the Group acquired a 93.35% ownership interest in OAO West-Siberian Heat and Power Plant ("ZapSibTETs"), an energy generating company located in Novokuznetsk, the Russian Federation, for cash consideration of 5,945 million roubles ($231 million at the exchange rate as of the date of the transaction). In addition, the Group incurred transaction costs of $1 million.

As a result, the financial position and the results of operations of ZapSibTETs were included in the Group's consolidated financial statements beginning May 3, 2007.

In the interim consolidated financial statements for the six-month period ended June 30, 2007 the acquisition of ZapSibTETs was accounted for based on provisional values as the Group, as of that date, has not completed purchase price allocation in accordance with IFRS 3 "Business Combinations". In 2007, the Group finalised its purchase price allocation on the acquisition of the controlling interest in ZapSibTETs and recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities as at May 3, 2007, which were as follows:

4. Business Combinations (continued)

West-Siberian Heat and Power Plant (continued)

US$ million	Initial estimation of fair values		Final estimation of fair values	
Property, plant and equipment	$	189	$	306
Other non-current assets		1		1
Inventories		3		3
Accounts and notes receivable		2		2
Cash		13		13
Total assets		**208**		**325**
Deferred income tax liabilities		31		60
Non-current liabilities		–		1
Current liabilities		6		6
Total liabilities		**37**		**67**
Net assets	**$**	**171**	**$**	**258**
Fair value of net assets attributable to 93.35% ownership interest	**$**	**159**	**$**	**242**
Purchase consideration	**$**	**232**	**$**	**232**
Goodwill	**$**	**73**	**$**	**–**
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**$**	**–**	**$**	**(10)**

In 2007, cash flow on acquisition was as follows:

US$ million		
Net cash acquired with the subsidiary	$	13
Cash paid		(228)
Net cash outflow	**$**	**(215)**

The difference between the cash portion of the purchase consideration ($232 million) and amounts paid on acquisition ($228 million) represents translation difference.

For the period from May 3, 2007 to December 31, 2007, ZapSibTETs reported net loss amounting to $9 million.

In accordance with the Russian legislation, an acquirer, which purchases at least 30% of the acquiree's share capital, is obliged to offer to other shareholders to sell their holdings ("obligatory offer"). Following this requirement, on June 4, 2007, the Group made an offer to minority shareholders of ZapSibTETs to sell their stakes to the Group at a price of 10.59 roubles per share ($0.41 at the exchange rate as of June 4, 2007). The total purchase consideration for the ownership interests that could be acquired amounts to 427 million Russian roubles ($17 million at the exchange rate as of June 4, 2007). The Group derecognised all minority interests in ZapSibTETs amounting to $16 million and accrued a liability to the minority shareholders in the amount of $17 million. The excess of the amount of the liability over the carrying value of the derecognised minority interests amounting to $1 million was charged to accumulated profits.

4. Business Combinations (continued)

West-Siberian Heat and Power Plant (continued)

During the offer the Group acquired 4.44% shares of ZapSibTETs and became subject to the provisions of the Russian legislation allowing a shareholder owning more than 95% of a company to increase its stake to 100%. On November 12, 2007, the Group started the buy out of minority shares and completed the transaction in January 2008.

ZAO Yuzhkuzbassugol

On June 8, 2007, the Group acquired an additional 50% ownership interest in ZAO Yuzhkuzbassugol ("Yuzhkuzbassugol"), the Group's associate, for cash consideration of $871 million, including transaction costs of $9 million, increasing the Group's ownership interest in Yuzhkuzbassugol to 100%.

As a result, the financial position and results of operations of Yuzhkuzbassugol were included in the Group's consolidated financial statements beginning June 8, 2007 as the Group effectively exercised control over Yuzhkuzbassugol's operations since that date. In the period from January 1, 2007 to June 8, 2007, the Group accounted for its investment in Yuzhkuzbassugol under the equity method (Note 11).

The acquisition of a controlling interest in Yuzhkuzbassugol was accounted for based on provisional values as the Group, as of the date of authorisation of issue of these financial statements, has not completed purchase price allocation in accordance with IFRS 3 "Business Combinations". The Group made certain adjustments to the provisional fair values of Yuzhkuzbassugol's consolidated identifiable assets, liabilities and contingent liabilities at June 8, 2007 as compared with those values recorded in the Group's interim consolidated financial statements for the six-month period ended June 30, 2007.

The table below sets forth the provisional fair values of Yuzhkuzbassugol's consolidated identifiable assets, liabilities and contingent liabilities at June 8, 2007:

US$ million	**Carrying amounts immediately before the business combination**	**Initial estimation of fair values**	**Adjusted provisional fair values**
Mineral reserves	$ 1,170	$ 1,578	$ 1,403
Other property, plant and equipment	663	663	856
Investments in associates (Note 11)	154	211	204
Other non-current assets	45	45	45
Inventories	35	38	38
Accounts and notes receivable	97	99	115
Cash	17	17	17
Total assets	2,181	2,651	2,678

4. Business Combinations (continued)

ZAO Yuzhkuzbassugol (continued)

US$ million	Carrying amounts immediately before the business combination	Initial estimation of fair values	Adjusted provisional fair values
Deferred income tax liabilities	298	394	402
Non-current liabilities	180	145	192
Current liabilities	321	361	327
Total liabilities	799	900	921
Minority interests	9	9	15
Net assets	**$ 1,373**	**$ 1,742**	**$ 1,742**
Fair value of net assets attributable to 50% ownership interest		**$ 871**	**$ 871**
Purchase consideration		**$ 871**	**$ 871**

On June 8, 2007, the Group recognised revaluation surplus amounting to $199 million in respect of the change in fair values of identifiable assets, liabilities and contingent liabilities of Yuzhkuzbassugol allocated to the previously acquired stake.

In 2007, cash flow on acquisition was as follows:

US$ million	
Net cash acquired with the subsidiary	$ 17
Cash paid	(871)
Net cash outflow	**$ (854)**

For the period from June 8, 2007 to December 31, 2007, Yuzhkuzbassugol reported net loss amounting to $70 million.

Other Acquisitions

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

4. Business Combinations (continued)

Other Acquisitions (continued)

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

On December 20, 2007, the Group acquired 100% in Nikom, a.s., ("Nikom"), a ferrovanadium producer located in the Czech Republic, for cash consideration of $43 million. The acquisition of Nikom was accounted for based on provisional values as the Group, as of the date of authorisation of issue of these financial statements, has not completed purchase price allocation in accordance with IFRS 3 "Business Combinations". Goodwill of $37 million arising on the acquisition of Nikom was recorded in the consolidated balance sheet as of December 31, 2007.

Disclosure of Other Information in Respect of Business Combinations

As the acquired subsidiaries either did not prepare financial statements in accordance with IFRS before the business combinations or applied accounting policies that are significantly different from the Group's accounting policies, it is impracticable to determine revenues and net profit of the combined entity for each year presented on the assumption that all business combinations effected during each year had occurred at the beginning of the respective year.

Except for the relevant disclosures in respect of Yuzhkuzbassugol and Highveld, it is impracticable to determine the carrying amounts of each class of the acquirees' assets, liabilities and contingent liabilities, determined in accordance with IFRS, immediately before the combination, because the acquirees did not prepare financial statements in accordance with IFRS before acquisitions.

5. Goodwill

Negative Goodwill

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

US$ million	Gross book value	Accumulated amortisation	Total
At December 31, 2004	**(436)**	**73**	**(363)**
Change in accounting policies: derecognition of negative goodwill	436	(73)	363
At January 1, 2005	**$ –**	**$ –**	**$ –**

In accordance with the transitional provisions of IFRS 3, on January 1, 2005, the Group ceased to recognise negative goodwill in the consolidated balance sheet. The carrying amount of negative goodwill at December 31, 2004 that arose from business combinations, for which the agreement date was before March 31, 2004, or interests in a jointly controlled entity obtained before March 31, 2004 and accounted for by applying the equity method, was derecognised at January 1, 2005, with a corresponding adjustment of $390 million to the opening balance of accumulated profits and minority interest (Notes 4 and 11).

Goodwill

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

US$ million	Carrying amount
At December 31, 2004	**$ –**
Goodwill recognised on acquisitions of subsidiaries (Note 4)	72
Impairment of goodwill (Note 4)	(1)
Translation difference	(4)
At December 31, 2005	**67**
Goodwill recognised on acquisitions of subsidiaries (Note 4)	37
Translation difference	8
At December 31, 2006	**112**
Goodwill recognised on acquisitions of subsidiaries (Note 4)	1,119
Goodwill previously recognised in investments under the equity method (Note 11)	34
Goodwill allocated to disposal groups classified as held for sale (Note 11)	(16)
Adjustment to contingent consideration (Note 4)	11
Translation difference	11
At December 31, 2007	**$ 1,271**

5. Goodwill (continued)

Goodwill relates to the assembled workforce and synergy from integration of the acquired subsidiaries into the Group. The carrying amount of goodwill was allocated among cash generating units as follows at December 31:

US$ million	**2007**	2006	2005
Oregon Steel Mills	**$ 1,082**	$ –	$ –
Oregon Steel Portland Mill	*411*	–	–
OSM Tubular – Portland Mill	*103*	–	–
Rocky Mountain Steel Mills	*411*	–	–
OSM Tubular – Camrose Mills	*157*	–	–
Palini e Bertoli	**84**	75	67
Strategic Minerals Corporation	**47**	36	–
Nikom, a.s.	**37**	–	–
Highveld	**20**	–	–
Evro-Aziatskaya Energy Company	**1**	1	–
	$ 1,271	$ 112	$ 67

The cash generating units within Evraz Oregon Steel Mills represent the smallest identifiable groups of assets, primarily individual mills, that generate cash flows that are largely independent from other assets or groups of assets.

Goodwill was tested for impairment at various dates during the second half of 2007.

The recoverable amount of goodwill was based on value in use determined based on future cash flow analysis covering a period as disclosed below. For periods beyond this projection a terminal value was calculated. Cash flow projections have been estimated by extrapolating the budget for 2008 using a zero real growth rate. The budgets were based on the expected commodity prices.

	Period of forecast, years	**Discount rate**	**Commodity**	**Average price of the commodity per ton**
Evraz Oregon Steel Mills	10	10.4%	steel products	$1,019
Palini e Bertoli	10	11.7%	steel plates	€ 628
Strategic Minerals Corporation	13	11.2%	ferrovanadium products	$37,229
Nikom	10	12.1%	ferrovanadium products	$35,640
Highveld	11	12.5%	ferrovanadium products	$34,008
			steel products	$728

The above mentioned goodwill will not be impaired unless the assumptions used for impairment testing substantially change. Management believes that no reasonably possible change in any of the key assumptions would cause the carrying values of cash-generating units to materially exceed their recoverable amounts.

6. Acquisitions of Minority Interests in Subsidiaries

Mastercroft

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

LDPP

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

On December 27, 2007, the Group acquired an additional minority interest of 19.9% in LDPP for cash consideration of $10 million, which approximates the carrying value of the net assets attributable to the acquired shares.

Minority Interests Derecognised in 2006

In 2005, the Group acquired minority interests in West-Siberian Iron and Steel Plant ("ZapSib") (2.08% ownership interest) for cash consideration of $41 million. The excess of the amounts of consideration over the carrying values of minority interests acquired amounting to $23 million was charged to accumulated profits. Purchases of minority interests in 2006 had no significant impact on the Group's financial statements.

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

In 2006, the new regulations were introduced in the Russian Federation in respect of the companies in which a controlling shareholder owns at least 95% of the share capital as of July 1, 2006. These amendments obliged a controlling shareholder to acquire the company's shares in case when the minority shareholders are willing to sell their stakes. On the other hand, a controlling shareholder can initiate a forced disposal of the shares held by minority shareholders. As such, a controlling shareholder obtained a call option and minority shareholders obtained a put option for the minority shares in a subsidiary.

At July 1, 2006, the Group was the owner of 96.68% shares of ZapSib and 97.72% shares of KGOK. At this date, the Group derecognised minority interests of $42 million and accrued a liability to minority shareholders in the amount of $106 million. The liability was measured based on the highest price for the shares during the period of six months up to the date of its recognition as required by the regulations. The excess of the amount of the liability over the carrying value of the derecognised minority interests amounting to $64 million was charged to accumulated profits.

6. Acquisitions of Minority Interests in Subsidiaries (continued)

Minority Interests Derecognised in 2006 (continued)

US$ million	Minority interests derecognised	Fair value of liability at July 1, 2006	Charged to accumulated profits
ZapSib	$ 26	$ 64	$ 38
KGOK	16	42	26
	$ 42	**$ 106**	**$ 64**

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

In 2007, the liability to minority shareholders of ZapSib and KGOK as of December 31, 2006 was measured by independent experts. The excess of the new valuation over the liability to minority shareholders recognised as of December 31, 2006 amounting to $24 million was charged to accumulated profits in the accompanying statement of changes in equity for the year ended December 31, 2007. In addition, the Group derecognised minority interests in the amount of $3 million in respect of ZapSib's subsidiaries.

Minority Interests Derecognised in 2007

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

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

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

In March 2007, the Group made voluntary offers to minority shareholders of its three subsidiaries (Nizhny Tagil Iron and Steel Plant, Vysokogorsky Mining-and-Processing Integrated Works and Nakhodka Trade Sea Port) to sell their stakes to the Group.

6. Acquisitions of Minority Interests in Subsidiaries (continued)

Minority Interests Derecognised in 2007 (continued)

At the dates of voluntary offers, the Group derecognised minority interests in Nizhny Tagil Iron and Steel Plant, Vysokogorsky Mining-and-Processing Integrated Works and Nakhodka Trade Sea Port in the amount of $103 million and accrued a liability to minority shareholders in the amount of $174 million. The liabilities were measured based on the expected amounts to be paid to minority shareholders being the highest price for the shares during the period of six months up to the date of its recognition, as required by the legislation. The excess of the amount of the liability over the carrying value of the derecognised minority interests amounting to $71 million was charged to accumulated profits.

US$ million	**Minority interests derecognised**	**Fair value of liability at the date of derecognition**	**Charged to accumulated profits**
Nizhny Tagil Iron and Steel Plant	$ 92	$ 162	$ 70
Vysokogorsky Mining-and-Processing Integrated Works	9	9	–
Nakhodka Trade Sea Port	2	3	1
	$ 103	**$ 174**	**$ 71**

In the course of the voluntary offer the Group acquired minority interests of 1.09%, 0.83% and 1.54% in Nizhny Tagil Iron and Steel Plant, Vysokogorsky Mining-and-Processing Integrated Works and Nakhodka Trade Sea Port, respectively, for cash consideration of $37 million, $2 million and $1 million, respectively.

As a result, the Group has obtained in each of the above mentioned subsidiaries an ownership interest exceeding 95% of the share capital. As such, the Group became subject to the regulations that require a controlling shareholder to acquire the company’s shares in case when the minority shareholders are willing to sell their stakes. On the other hand, a controlling shareholder can require the minority shareholders to sell their stakes.

Buy Out of Minority Shares in Subsidiaries

In August 2007, in accordance with Russian legislation allowing a shareholder owning more than 95% of a company to increase its stake to 100%, the Group started the buy out of minority shares of its five Russian subsidiaries (Nizhny Tagil Iron and Steel Plant, West-Siberian Iron and Steel Plant, Kachkanarsky Mining-and-Processing Integrated Works, Vysokogorsky Mining-and-Processing Integrated Works and Nakhodka Trade Sea Port). The buy outs have been successfully completed in October 2007.

7. Income and Expenses

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

US$ million		**2007**		2006		2005
Cost of inventories recognised as expense	**$**	**(4,996)**	$	(2,900)	$	(2,509)
Staff costs, including social security taxes		**(1,535)**		(909)		(769)
Depreciation, depletion and amortisation		**(698)**		(303)		(245)

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

US$ million		**2007**		2006		2005
Bank interest	**$**	**(285)**	$	(98)	$	(63)
Interest on guaranteed notes		**(97)**		(108)		(61)
Finance charges payable under finance leases		**(8)**		(6)		(4)
Interest on liabilities relating to employee benefits and expected return on plan assets		**(10)**		(6)		(5)
Discount adjustment on provisions		**(4)**		(2)		(3)
Interest on earn out and synergy payments		**(1)**		(1)		–
Other		**(4)**		(8)		(6)
	$	**(409)**	$	(229)	$	(142)

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

US$ million		**2007**		2006		2005
Interest on bank accounts and deposits	**$**	**24**	$	25	$	13
Interest on loans receivable		**7**		1		2
Interest on accounts receivable		**9**		–		–
Other		**1**		1		–
	$	**41**	**$**	**27**	**$**	**15**

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

US$ million		**2007**		2006		2005
Re-measurement of liabilities to minority shareholders at fair value (Notes 4 and 6)	**$**	**(72)**	$	12	$	–
Gain/(loss) on extinguishment of debts (Notes 17 and 25)		–		13		8
Amortisation of financial guarantee contracts		**1**		1		–
	$	**(71)**	**$**	**26**	**$**	**8**

7. Income and Expenses (continued)

Other Non-Operating Loss

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

8. Income Taxes

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

	2007	**2006**	**2005**
Russia	**24.00%**	24.00%	24.00%
Cyprus	**10.00%**	10.00%	10.00%
Czech Republic	**24.00%**	24.00%	26.00%
Italy	**37.25%**	37.25%	37.25%
South Africa	**29.00%**	29.00%	–
Switzerland	**25.38% and 10.90%**	24% and 11.60%	–
USA	**35.00%**	35.00%	–

Ferrotrade Limited (Gibraltar) has a Taxation Exemption Certificate under which it is currently liable to tax at the fixed annual amount of £225. This certificate is valid through 2010.

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

US$ million	**2007**	**2006**	**2005**
Current income tax expense	**$ (1,064)**	$ (676)	$ (466)
Adjustment in respect of income tax of previous years	**11**	(2)	(7)
Deferred tax benefit relating to changes in tax rates	**5**	–	–
Deferred income tax (expense)/benefit			
Relating to origination and reversal of temporary differences	**64**	41	(2)
Income tax expense reported in the consolidated income statement	**$ (984)**	$ (637)	$ (475)

8. Income Taxes (continued)

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

US$ million	**2007**	2006	2005
Profit before income tax	**$ 3,201**	$ 2,087	$ 1,528
At the Russian statutory income tax rate of 24%	**(768)**	(501)	(367)
Adjustment in respect of income tax of previous years	**11**	(2)	(7)
Effect of non-deductible expenses and other non-temporary differences	**(48)**	(105)	(37)
Effect of the difference in tax rates on dividend income from associates and joint ventures	**31**	10	11
Tax on dividends distributed by the Group's subsidiaries to parent company	**(78)**	(45)	(44)
Effect of the difference in tax rates in countries other than the Russian Federation	**(37)**	7	6
Deferred income tax provided for undistributed earnings of the Group's subsidiaries	**(54)**	(11)	(18)
Share of profits in joint ventures and associates	**(12)**	(1)	3
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**5**	–	4
Gain/(loss) on financial assets and liabilities	**(17)**	3	–
Utilisation of previously unrecognised tax losses	**–**	6	–
Change in allowance for deferred tax asset	**(17)**	2	(26)
Income tax expense reported in the consolidated income statement	**$ (984)**	$ (637)	$ (475)

8. Income Taxes (continued)

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

US$ million	2007	Change recognised in income statement	Change due to business combinations	Translation difference	2006	Reclassification to assets held-for-sale	Change recognised in income statement	Change due to business combinations	Translation difference	2005
Deferred income tax liabilities:										
Valuation and depreciation of property, plant and equipment	$ 1,177	(47)	862	50	$ 312	$ –	$ (17)	$ 25	$ 26	$ 278
Valuation and amortisation of intangible assets	237	(24)	251	3	7	–	–	7	–	–
Undistributed earnings of subsidiaries	54	43	–	–	11	–	(7)	–	–	18
Other	29	(22)	25	4	22	–	(9)	10	3	18
	1,497	(50)	1,138	57	352	–	(33)	42	29	314
Deferred income tax assets:										
Tax losses available for offset	67	23	12	2	30	(2)	3	–	1	28
Accrued liabilities	143	(3)	97	6	43	–	6	9	3	25
Impairment of accounts receivable	24	10	1	1	12	(1)	(3)	–	2	14
Other	56	6	16	2	32	(5)	–	8	4	25
	290	36	126	11	117	(8)	6	17	10	92
Valuation allowance	(48)	(17)	–	–	(31)	–	2	(4)	–	(29)
	242	19	126	11	86	(8)	8	13	10	63
Net deferred income tax asset	22	9	–	2	11	(8)	3	–	2	14
Net deferred income tax liability	$ 1,277	(60)	1,012	48	$ 277	$ –	$ (38)	$ 29	$ 21	$ 265

As of December 31, 2007, 2006 and 2005, deferred income taxes have been provided for in respect of undistributed earnings of the Group's subsidiaries amounting to $1,046 million, $255 million and $465 million, respectively, as management intended to dividend these amounts. Management does not intend to distribute other accumulated earnings in the foreseeable future.

At December 31, 2007, the Group has not recognised a deferred tax liability and deferred tax asset in respect of temporary differences of $3,685 million and $857 million, respectively.

These differences are associated with investments in subsidiaries and were not recognised as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

The current tax rate for dividend income in respect of the Group's subsidiaries varies from 0% to 12.5%.

8. Income Taxes (continued)

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies, except for the companies registered in Cyprus where group relief can be applied. As of December 31, 2007, the unused tax losses carry forward approximated to $369 million (2006: $152 million, 2005: $156 million). The Group recognised deferred tax asset of $22 million (2006: $2 million, 2005: $2 million) in respect of unused tax losses. Deferred tax asset in the amount of $45 million (2006: $28 million, 2005: $26 million) has not been recorded as it is not probable that sufficient taxable profits will be available in the foreseeable future to offset these losses. Tax losses of $283 million (2006: $146 million, 2005: $139 million) for which deferred tax asset was not recognised arose in companies registered in Luxembourg, Cyprus and Russia. Losses in the amount of $270 million (2006: $130 million, 2005: $119 million) are available indefinitely for offset against future taxable profits of the companies in which the losses arose and $13 million (2006: $16 million, 2005: $20 million) will expire during 2012 – 2017.

9. Property, Plant and Equipment

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

US$ million	**2007**	2006	2005
Cost:			
Land	**$ 148**	$ 62	$ 58
Buildings and constructions	**1,950**	1,224	823
Machinery and equipment	**4,427**	2,258	1,689
Transport and motor vehicles	**396**	257	186
Mining assets	**2,266**	350	315
Other assets	**113**	69	52
Assets under construction	**676**	474	670
	9,976	4,694	3,793
Accumulated depreciation and depletion:			
Buildings and constructions	**(320)**	(149)	(99)
Machinery and equipment	**(1,158)**	(753)	(534)
Transport and motor vehicles	**(98)**	(55)	(31)
Mining assets	**(194)**	(36)	(34)
Other assets	**(37)**	(38)	(25)
	(1,807)	(1,031)	(723)
Government grants:			
Machinery and equipment, net	**(8)**	(8)	(8)
	$ 8,161	$ 3,655	$ 3,062

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of $114 million, $117 million and $127 million as of December 31, 2007, 2006 and 2005, respectively.

9. Property, Plant and Equipment (continued)

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

US$ million	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Mining assets	Other assets	Assets under construction	Total
At December 31, 2006, cost, net of accumulated depreciation and government grants	**$ 62**	**$ 1,075**	**$ 1,497**	**$ 202**	**$ 314**	**$ 31**	**$ 474**	**$ 3,655**
Reclassifications	**(2)**	**(3)**	–	–	–	–	**5**	–
Additions	–	**2**	**9**	**12**	**34**	–	**666**	**723**
Assets acquired in business combination	**88**	**403**	**1,634**	**42**	**1,646**	**49**	**185**	**4,047**
Assets put into operation	–	**175**	**391**	**72**	**30**	**16**	**(684)**	–
Disposals	**(6)**	**(13)**	**(20)**	**(7)**	**(3)**	**(2)**	**(10)**	**(61)**
Depreciation & depletion charge	–	**(94)**	**(399)**	**(37)**	**(55)**	**(20)**	–	**(605)**
Impairment loss	–	**(1)**	**(3)**	–	**(1)**	–	**(2)**	**(7)**
Disposal of assets due to sale of a subsidiary	–	**(2)**	–	–	–	–	–	**(2)**
Transfer to assets held for sale	**(1)**	**(12)**	**(8)**	–	–	–	–	**(21)**
Translation difference	**7**	**100**	**160**	**14**	**107**	**2**	**42**	**432**
At December 31, 2007, cost, net of accumulated depreciation and government grants	**$ 148**	**$ 1,630**	**$ 3,261**	**$ 298**	**$ 2,072**	**$ 76**	**$ 676**	**$ 8,161**

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

US$ million	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Mining assets	Other assets	Assets under construction	Total
At December 31, 2005, cost, net of accumulated depreciation and government grants	$ 58	$ 724	$ 1,147	$ 155	$ 281	$ 27	$ 670	$ 3,062
Reclassifications	–	(12)	10	3	8	(1)	(8)	–
Additions	–	1	4	25	17	1	625	673
Assets acquired in business combination	8	43	55	1	10	1	5	123
Assets put into operation	3	289	408	54	–	9	(763)	–
Disposals	–	(5)	(12)	(2)	–	(1)	(10)	(30)
Depreciation & depletion charge	–	(45)	(203)	(25)	(20)	(8)	–	(301)
Impairment loss	–	(1)	(2)	–	–	–	(17)	(20)
Disposal of assets due to sale of a subsidiary	–	(1)	(4)	(21)	–	–	(1)	(27)
Transfer to assets held for sale	(15)	–	(25)	–	(21)	–	(87)	(148)
Change in site restoration provision	2	1	–	–	13	–	–	16
Translation difference	6	81	119	12	26	3	60	307
At December 31, 2006, cost, net of accumulated depreciation and government grants	$ 62	$ 1,075	$ 1,497	$ 202	$ 314	$ 31	$ 474	$ 3,655

9. Property, Plant and Equipment (continued)

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

US$ million	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Mining assets	Other assets	Assets under construction	Total
At December 31, 2004 cost, net of accumulated depreciation and government grants	$ 53	$ 592	$ 827	$ 131	$ 270	$ 20	$ 499	$ 2,392
Reclassifications	–	17	(17)	–	–	–	–	–
Additions	1	–	5	18	17	–	728	769
Assets acquired in business combination	13	80	200	2	9	7	6	317
Assets put into operation	1	107	366	27	19	10	(530)	–
Disposals	(1)	(13)	(18)	(2)	–	(1)	(11)	(46)
Depreciation & depletion charge	–	(35)	(179)	(18)	(15)	(8)	–	(255)
Change in site restoration provision	–	–	–	–	(9)	–	–	(9)
Impairment loss	(7)	–	–	–	–	–	–	(7)
Translation difference	(2)	(24)	(37)	(3)	(10)	(1)	(22)	(99)
At December 31, 2005, cost, net of accumulated depreciation and government grants	$ 58	$ 724	$ 1,147	$ 155	$ 281	$ 27	$ 670	$ 3,062

10. Intangible Assets Other Than Goodwill

Intangible assets consisted of the following as of December 31:

US$ million	**2007**	2006	2005
Cost:			
Customer relationships	**$ 714**	$ 7	$ –
Trade names and trademarks	**31**	3	–
Water rights and environmental permits	**63**	6	–
Patented and unpatented technology	**10**	10	–
Contract terms	**66**	1	–
Other	**46**	17	22
	930	44	22
Accumulated amortisation:			
Customer relationships	**(87)**	(1)	–
Trade names and trademarks	**(6)**	–	–
Water rights and environmental permits	**(2)**	–	–
Patented and unpatented technology	**(3)**	(1)	–
Contract terms	**–**	–	–
Other	**(26)**	(5)	(3)
	(124)	(7)	(3)
	$ 806	$ 37	$ 19

10. Intangible Assets Other Than Goodwill (continued)

As of December 31, 2007, water rights with a carrying value of $42 million had indefinite useful life.

The movement in intangible assets for the year ended December 31, 2007 was as follows:

US$ million	**Customer relation-ships**	**Trade names and trademarks**	**Water rights and environ-mental permits**	**Patented and unpatented technology**	**Contract terms**	**Other**	**Total**
At December 31, 2006, cost, net of accumulated amortisation	**$ 6**	**$ 3**	**$ 6**	**$ 9**	**$ 1**	**$ 12**	**$ 37**
Additions	**–**	**–**	**–**	**–**	**65**	**5**	**70**
Assets acquired in business combination	**697**	**28**	**57**	**–**	**–**	**11**	**793**
Amortisation charge	**(87)**	**(6)**	**(1)**	**(2)**	**–**	**(6)**	**(102)**
Emission allowances granted	**–**	**–**	**–**	**–**	**–**	**1**	**1**
Emission allowances used for the period	**–**	**–**	**–**	**–**	**–**	**(4)**	**(4)**
Impairment loss	**–**	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Translation difference	**11**	**–**	**(1)**	**–**	**–**	**2**	**12**
At December 31, 2007, cost, net of accumulated amortisation	**$ 627**	**$ 25**	**$ 61**	**$ 7**	**$ 66**	**$ 20**	**$ 806**

In 2007, the Group acquired a 51% ownership interest in Frotora Holdings Ltd. (Cyprus). This purchase does not qualify for a business combination as the acquired company does not constitute a business. The company's assets comprise only rights under a long-term lease of land to be used for a construction of a commercial sea port in the Ukraine. These rights were valued at $65 million and included in contract terms category of the intangible assets.

The movement in intangible assets for the year ended December 31, 2006 was as follows:

US$ million	**Customer relation-ships**	**Trade names and trademarks**	**Water rights and environ-mental permits**	**Patented and unpatented technology**	**Contract terms**	**Other**	**Total**
At December 31, 2005, cost, net of accumulated amortisation	$ –	$ –	$ –	$ –	$ –	$ 19	$ 19
Additions	–	–	–	–	–	3	3
Assets acquired in business combination	7	3	6	10	1	–	27
Amortisation charge	(1)	–	–	(1)	–	(4)	(6)
Emission allowances granted	–	–	–	–	–	15	15
Emission allowances used for the period	–	–	–	–	–	(9)	(9)
Sale of emission allowances	–	–	–	–	–	(4)	(4)
Impairment loss	–	–	–	–	–	(9)	(9)
Translation difference	–	–	–	–	–	1	1
At December 31, 2006, cost, net of accumulated amortisation	$ 6	$ 3	$ 6	$ 9	$ 1	$ 12	$ 37

10. Intangible Assets Other Than Goodwill (continued)

The movement in intangible assets for the year ended December 31, 2005 was as follows:

US$ million	Customer relation-ships	Trade names and trademarks	Water rights and environ-mental permits	Patented and unpatented technology	Contract terms	Other	Total
At December 31, 2004, cost, net of accumulated amortisation	$ –	$ –	$ –	$ –	$ –	$ 7	$ 7
Additions	–	–	–	–	–	4	4
Assets acquired in business combination	–	–	–	–	–	12	12
Amortisation charge	–	–	–	–	–	(3)	(3)
Sale of emission allowances	–	–	–	–	–	(2)	(2)
Translation difference	–	–	–	–	–	1	1
At December 31, 2005, cost, net of accumulated amortisation	$ –	$ –	$ –	$ –	$ –	$ 19	$ 19

Amortisation of customer-related intangible assets in the amount of $93 million and $1 million were included in selling and distribution costs in 2007 and 2006, respectively.

11. Investments in Joint Ventures and Associates

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

The movement in investments in joint ventures and associates was as follows:

US$ million	Corber	Yuzhkuz-bassugol	Highveld	Kazankov-skaya	Other associates	Total
Investment at December 31, 2004	$ 195	$ –	$ –	$ –	$ 2	$ 197
Change in accounting policies: derecognition of negative goodwill (Note 2)	27	–	–	–	–	27
Investment at January 1, 2005	222	–	–	–	2	224
Additional investments	–	675	–	–	–	675
Share of profit/(loss)	56	–	–	–	1	57
Dividends paid	(44)	–	–	–	(1)	(45)
Additional paid-in capital in respect of acquisition of minority interests (Note 19)	3	–	–	–	–	3
Translation difference	(8)	–	–	–	–	(8)
Investment at December 31, 2005	**229**	**675**	**–**	–	**2**	**906**
Additional investments	225	–	216	–	1	442
Share of profit/(loss)	39	(28)	17	–	12	40
Dividends paid	–	(32)	(9)	–	(8)	(49)
Reorganisation of ownership structure within a joint venture	(1)	–	–	–	–	(1)
Additional paid-in capital in respect of acquisition of minority interests (Note 19)	–	1	–	–	–	1
Sale of shares in a subsidiary to minority shareholders (Note 19)	58	–	–	–	–	58
Cost of guarantee issued to a joint venture	2	–	–	–	–	2
Translation difference	25	63	7	–	–	95
Investment at December 31, 2006	**577**	**679**	**231**	–	**7**	**1,494**
Additional investments	–	–	442	–	–	442
Share of profit/(loss)	82	(10)	20	(5)	1	88
Dividends paid	(120)	–	(15)	–	(1)	(136)
Assets acquired in business combination (Note 4)	–	–	–	204	2	206
Acquisition of controlling interests (Note 4)	–	(682)	(684)	–	(5)	(1,371)
Translation difference	34	13	6	11	–	64
Investment at December 31, 2007	**$ 573**	**$ –**	**$ –**	**$ 210**	**$ 4**	**$ 787**

11. Investments in Joint Ventures and Associates (continued)

Corber Enterprises Limited

Corber Enterprises Limited ("Corber") is a joint venture established in 2004 for the purpose of exercising joint control over economic activities of Raspadskaya Mining Group.

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

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

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

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

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

11. Investments in Joint Ventures and Associates (continued)

Corber Enterprises Limited (continued)

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

In addition, in 2006, the Group settled its liabilities under the interest-bearing promissory notes of Mastercroft Mining Limited, the Group's subsidiary, in the amount of $20 million payable in connection with the acquistion of a 50% ownership interest in Corber in 2004.

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

US$ million	2007	2006	2005
Mineral reserves	$ 1,163	$ 1,148	$ 246
Other property, plant and equipment	587	474	299
Other non-current assets	10	9	4
Inventories	51	27	18
Accounts and notes receivable	245	365	83
Cash	84	56	42
Total assets	**2,140**	**2,079**	**692**
Non-current liabilities	328	52	26
Deferred income tax liabilities	297	296	77
Current liabilities	107	363	113
Total liabilities	**732**	**711**	**216**
Minority interests	**260**	216	18
Net assets	**$ 1,148**	**$ 1,152**	**$ 458**

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

US$ million	2007	2006	2005
Revenue	$ 784	$ 472	$ 549
Cost of revenue	(374)	(271)	(330)
Other expenses, including income taxes	(194)	(116)	(103)
Net profit	**$ 216**	**$ 85**	**$ 116**
Attributable to:			
Equity holders of the parent entity	$ 170	$ 79	$ 113
Minority interests	46	6	3
Net profit	**$ 216**	**$ 85**	**$ 116**
Unrealised profits on transactions with the joint venture	(7)	–	–
Group's share of profits of the joint venture	**$ 82**	**$ 39**	**$ 56**

11. Investments in Joint Ventures and Associates (continued)

Corber Enterprises Limited (continued)

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

Yuzhkuzbassugol

On December 30, 2005, the Group acquired a 50% ownership interest in ZAO Coal Company Yuzhkuzbassugol ("Yuzhkuzbassugol") for cash consideration of $675 million payable to Crondale Overseas Limited ("Crondale"), an entity under common control with the Group (Note 17). Yuzhkuzbassugol, a closed joint stock company, is a vertically integrated group being one of the largest coking coal producers in Russia. The Group determined that its ownership interest in Yuzhkuzbassugol represents the purchase of an associate and accounted for the investment under the equity method.

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

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

11. Investments in Joint Ventures and Associates (continued)

Yuzhkuzbassugol (continued)

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

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

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

The table below sets forth Yuzhkuzbassugol's income and expenses for the periods from its acquisition till the date when the entity became a subsidiary of the Group:

US$ million		**Period from January 1 to June 8, 2007**		**Year ended December 31, 2006**
Revenue	$	258	$	595
Cost of revenue		(194)		(482)
Other expenses, including income taxes		(84)		(170)
Net loss	**$**	**(20)**	**$**	**(57)**
Attributable to:				
Equity holders of the parent entity	$	(20)	$	(54)
Minority interests		–		(3)
Net loss	**$**	**(20)**	**$**	**(57)**
Group's share of loss of the associate	**$**	**(10)**	**$**	**(28)**

11. Investments in Joint Ventures and Associates (continued)

Kazankovskaya

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

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

US$ million	**December 31, 2007**	**June 8, 2007**
Mineral reserves	$ 584	$ 556
Other property, plant and equipment	59	59
Inventories	1	1
Accounts receivable	8	13
Other current assets	3	2
Total assets	**655**	**631**
Non-current liabilities	91	83
Deferred income tax liabilities	133	130
Current liabilities	11	11
Total liabilities	**235**	**224**
Net assets	**$ 420**	**$ 407**

The table below sets forth Kazankovskaya's income and expenses for the period from acquisition of the controlling interest in Yuzhkuzbassugol:

US$ million	**Period from June 8 to December 31, 2007**
Revenue	$ 7
Cost of revenue	(11)
Other expenses, including income taxes	(5)
Net loss	**$ (9)**
Group's share of loss of the associate	**$ (5)**

11. Investments in Joint Ventures and Associates (continued)

Highveld Steel and Vanadium Corporation

On July 13, 2006, the Group acquired a 24.9% ownership interest in Highveld (Note 4). The Group determined that its ownership interest in Highveld represents an investment in an associate and accounted for it under the equity method.

In 2006, the acquisition of a 24.9% ownership interest in Highveld was accounted for based on provisional values as the associate, as of the date of authorisation of issue of the financial statements for the year ended December 31, 2006, had not completed valuation of assets in accordance with IFRS 3. In 2007, the Group completed purchase price allocation and recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities of Highveld as of July 13, 2006.

The table below sets forth the fair values of Highveld's consolidated identifiable assets, liabilities and contingent liabilities at July 13, 2006:

US$ million	**Initial estimation of fair values**	**Final estimation of fair values**
Mineral reserves	$ 241	$ –
Other property, plant and equipment	306	419
Intangible assets	–	352
Other non-current assets	18	4
Inventories	50	74
Accounts and notes receivable	112	149
Cash and cash equivalents	92	108
Assets of disposal groups classified as held for sale	285	170
Total assets	**1,104**	**1,276**
Non-current liabilities	30	32
Deferred income tax liabilities	172	184
Current liabilities	273	323
Liabilities directly associated with disposal groups classified as held for sale	–	6
Total liabilities	**475**	**545**
Net assets	**$ 629**	**$ 731**
Fair value of net assets attributable to 24.9% ownership interest	**$ 157**	**$ 182**
Purchase consideration	**$ 216**	**$ 216**
Goodwill *(Note 5)*	**$ 59**	**$ 34**
including goodwill associated with disposal groups subsequently classified as held for sale	–	$ 16

11. Investments in Joint Ventures and Associates (continued)

Highveld Steel and Vanadium Corporation (continued)

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

US$ million	**December 31, 2006**
Property, plant and equipment	$ 489
Intangible assets	344
Other non-current assets	2
Inventories	69
Accounts and notes receivable	167
Cash and cash equivalents	74
Assets of disposal groups classified as held for sale	176
Total assets	**1,321**
Non-current liabilities	44
Deferred income tax liabilities	192
Current liabilities	275
Liabilities directly associated with disposal groups classified as held for sale	19
Total liabilities	**530**
Net assets	**$ 791**

On February 26, 2007, when the Board of directors of the Company approved the acquisition transaction, the completion of the acquisition of controlling interest in Highveld became probable and the Group recognised liabilities to Anglo and Credit Suisse under the option agreements (Note 4) in the amount of $442 million.

As a result, taking into account the eventual exercise of potential voting rights under the option agreements concluded by the Group with Anglo and Credit Suisse in 2006 in respect of an additional 54.1% ownership interest in Highveld, under which the exercise price for put and call options was fixed and adjusted for dividends to be distributed by Highveld to Anglo and Credit Suisse, the Group, in substance, obtained access to the economic benefits associated with that additional ownership interest. Consequently, the Group accounted for a 79% ownership interest in the associate under the equity method beginning February 26, 2007.

The table below sets forth the provisional fair values of Highveld's consolidated identifiable assets, liabilities and contingent liabilities at February 26, 2007, when the beneficial interest was increased:

11. Investments in Joint Ventures and Associates (continued)

Highveld Steel and Vanadium Corporation (continued)

US$ million	Initial estimation of fair values	Adjusted provisional fair values
Property, plant and equipment	$ 375	$ 413
Intangible assets	310	385
Other non-current assets	4	2
Inventories	61	71
Accounts and notes receivable	162	184
Cash and cash equivalents	58	58
Assets of disposal groups classified as held for sale	451	330
Total assets	**1,421**	**1,443**
Non-current liabilities	41	55
Deferred income tax liabilities	176	180
Current liabilities	343	335
Liabilities directly associated with disposal groups classified as held for sale	39	39
Total liabilities	**599**	**609**
Net assets	**$ 822**	**$ 834**
Fair value of net assets attributable to 54.1% beneficial ownership interest	**$ 444**	**$ 451**
Purchase consideration consisting of a liability under the option agreements	**$ 442**	**$ 442**
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**$ (2)**	**$ (9)**

The Group classified assets, including goodwill, and liabilities of the businesses to be disposed of in accordance with the resolution of the European Commission as disposal groups held for sale (Note 12).

The table below sets forth Highveld's income and expenses for the periods from its acquisition till the date when the entity became a subsidiary of the Group:

US$ million	Period from January 1 to April 26, 2007	Period from July 13 to December 31, 2006
Revenue	$ 351	$ 481
Cost of revenue	(276)	(376)
Other expenses, including income taxes	(42)	(37)
Net profit	**$ 33**	**$ 68**
Group's share of profits of the associate	**$ 21**	**$ 17**

12. Disposal Groups Held for Sale

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

US$ million	**2007**	2006	2005
Land	**$ 1**	$ 5	$ –
Other property, plant and equipment	**161**	71	–
Goodwill	**58**	–	–
Other non-current assets	**–**	9	–
Current assets	**56**	20	–
Assets classified as held for sale	**276**	105	–
Liabilities directly associated with assets classified as held for sale	**46**	23	–
Net assets classified as held for sale	**$ 230**	$ 82	$ –

At December 31, 2006, assets held for sale were mostly represented by OAO Nerungriugol ("Nerungriugol"), a subsidiary, which the Group intended to dispose of in April 2007. In addition, these assets included a few small subsidiaries involved in non-core activities (construction business, trading activity and recreational services), certain assets located at one of the Group's steel subsidiaries and a parcel of land, which were expected to be sold in 2007.

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

In addition, in 2006, the Group recognised an impairment loss of $5 million for write-down of land to fair value which was included in gain/(loss) on assets held for sale in the consolidated income statement for the year ended December 31, 2006. In 2007, the Group reversed this impairment and recorded the gain on sale of land in the amount of $4 million.

On April 25, 2007, the Group completed the sale of Nerungriugol, the Group's subsidiary, which was classified as a disposal group held for sale in 2006. The total disposal consideration amounted to $84 million. Upon completion of the transaction, the Group recognised additional loss representing the difference between the estimated recoverable amount of the disposal group as of December 31, 2006 and actual proceeds. This additional loss amounting to $3 million was included in the consolidated income statement for the year ended December 31, 2007.

12. Disposal Groups Held for Sale (continued)

In 2007, for the purpose of acquisition of Highveld (Note 4), the Group committed to divest Highveld's vanadium extraction, vanadium oxides and vanadium chemicals plants located at the Vanchem site in Witbank, Republic of South Africa (collectively referred to as the Vanchem operations) along with an equity interest or a portion of the Mapoch iron and vanadium ore mine which guarantees supply of ore and slag to Vanchem operations. The divestment package also includes a ferrovanadium smelter located on the site of Highveld steel facility and Highveld's 50% shareholding in SAJV, a joint venture between Highveld and two Japanese partners which own another ferrovanadium smelter at the same site. The assets and liabilities of the above mentioned business units were classified as assets and liabilities of disposal groups held for sale (Notes 4 an 11).

The Group was obliged to enter into a binding agreement for the sale of the divestment package by November 20, 2007. In November 2007, the sale of the divestment package was extended to January 20, 2008 (Note 31). The Highveld divestment package was included in the steel segment of the Group’s operations.

In addition, the assets held for sale at the date of acquisition of ownership interests in Highveld (Notes 4 and 11) included two divisions of Highveld (Transalloys, producing manganese alloys, and Rand Carbide, producing ferrosilicon and various carbonaceous products). Transalloys division was sold in July 2007 for cash consideration of $136 million, which approximated the carrying value of the disposed assets.

The table below demonstrates the carrying values of assets and liabilities of the subsidiaries and other business units disposed of in 2007.

US$ million	**At the dates of disposal**
Property, plant and equipment	$ 74
Other non-current assets	8
Accounts and notes receivable	20
Cash	–
Assets held for sale acquired in business combinations	137
Total assets	**239**
Non-current liabilities	–
Deferred income tax liabilities	–
Current liabilities	7
Total liabilities	**7**
Net assets	**$ 232**

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

US$ million	
Net cash disposed with the subsidiary	$ –
Cash received	223
Net cash inflow	**$ 223**

13. Cash and Cash Equivalents and Restricted Deposits at Banks

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

US$ million	**2007**	2006	2005
Russian rouble	**$ 55**	$ 110	$ 96
US dollar	**72**	632	421
Euro	**83**	36	80
Czech koruna	**10**	19	43
South African rand	**105**	42	–
Other	**2**	3	1
	$ 327	$ 842	$ 641

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

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

US$ million	**2007**	2006	2005
Deposits to secure bank loans	**$ –**	$ 8	$ 25
Other	**5**	4	7
	5	12	32
Less: deposits with current maturities	–	–	(24)
	$ 5	$ 12	$ 8

The deposits were mainly denominated in US dollars.

14. Other Non-Current Assets

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

US$ million	**2007**	2006	2005
Prepayments for acquisition of subsidiaries	**$ 1,060**	$ 6	$ –
Deposit to secure put option for the shares of OAO Vanady	**126**	–	–
Deposit to secure put option for the Highveld's shares (Note 4)	**–**	207	
Deferred income tax assets (Note 8)	**22**	11	14
Long-term input VAT	**2**	19	16
Loans issued to related parties (Note 28)	**46**	1	–
Loans receivable (Note 28)	**12**	7	1
Trade and other receivables (Note 28)	**27**	–	–
Other	**22**	20	17
	$ 1,317	$ 271	$ 48

14. Other Non-Current Assets (continued)

As of December 31, 2007, prepayments for acquisition of subsidiaries represent the amounts paid for the businesses in the Ukraine (Note 31).

Deposit to secure put option for the Highveld's shares did not earn interest and matured upon the completion of the transaction (Note 29).

On December 20, 2007, the Group signed an option agreement with OOO SGMK-Engineering in respect of shares of OAO Vanady, a vanadium refinery located in Russia. Under the agreement, the Group has the right to acquire (and OOO SGMK-Engineering has the right to sell to the Group) 90.84% of shares of OAO Vanady for 3,140 million roubles ($128 million at the exchange rate as of December 31, 2007). The option expires on December 31, 2008. The exercise of the option is conditional upon the receipt of the approval of the regulatory authorities. As of the date of the issuance of these consolidated financial statements, the Group did not apply for this approval and the option was not exercisable. To secure the put option the Group provided the seller with the repayable non-interest bearing deposit in the amount of 3,091 million roubles ($126 million at the exchange rate as of December 31, 2007).

Amounts receivable from related parties represent rouble-denominated loans granted by Yuzhkuzbassugol to Kazankovskaya (Note 11) in 2004 – 2005. The loans bear interest of 10% per annum and mature in 2013.

15. Inventories

Inventories consisted of the following as of December 31:

US$ million	**2007**	2006	2005
Raw materials and spare parts, at cost	**$ 762**	$ 431	$ 434
Work-in-progress, at cost	**202**	106	115
Finished goods:			
– at cost	**623**	334	282
– at net realisable value	–	6	154
	1,587	877	985
Allowance for obsolete and slow-moving items	**(12)**	(13)	(21)
	$ 1,575	$ 864	$ 964

As of December 31, 2007, 2006 and 2005, certain items of inventory with an approximate carrying amount of $415 million, $194 million and $204 million, respectively, were pledged to banks as collateral against loans provided to the Group (Note 20).

16. Trade and Other Receivables

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

US$ million	**2007**	2006	2005
Trade accounts receivable	**$ 1,119**	$ 586	$ 403
Other receivables	**75**	29	21
	1,194	615	424
Allowance for doubtful accounts	**(77)**	(59)	(49)
	$ 1,117	$ 556	$ 375

Ageing analysis and movement in allowance for doubtful accounts are provided in Note 28.

17. Related Party Disclosures

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

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

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

	Amounts due from related parties			**Amounts due to related parties**		
US$ million	**2007**	**2006**	**2005**	**2007**	**2006**	**2005**
Corber	**$ –**	$ –	$ 14	**$ 70**	$ 151	$ –
Crondale	**–**	–	–	**–**	–	275
Evrazmetall-Centre	**–**	1	6	**–**	–	9
Evrazmetall-Sibir	**–**	18	36	**–**	–	19
Evrazmetall-Ural	**–**	11	5	**–**	–	–
Ferrotranstrade	**–**	–	2	**–**	–	–
Marens	**31**	–	–	–	–	–
Raspadsky Ugol	**–**	–	–	**24**	3	–
SEAR-MF	**–**	–	–	**19**	–	–
Sojitz Noble Alloys Corp.	**2**	–	–	**3**	8	–
Yuzhkuzbassugol	**–**	–	–	**–**	7	–
Other entities	**29**	24	32	**20**	7	12
	62	54	95	**136**	176	315
Less: allowance for doubtful accounts	**(2)**	–	(5)	**–**	–	–
	$ 60	$ 54	$ 90	**$ 136**	$ 176	$ 315

17. Related Party Disclosures (continued)

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

US$ million	Sales to related parties			Purchases from related parties		
	2007	**2006**	**2005**	**2007**	**2006**	**2005**
Evrazmetall-Centre	**$ 144**	$ 141	$ 100	**$ –**	$ –	$ –
Evrazmetall-Chernozemie	**65**	53	18	**–**	–	–
Evrazmetall-Povolzhie	**65**	62	22	**–**	–	–
Evrazmetall-Severo-Zapad	**46**	45	20	**–**	–	–
Evrazmetall-Sibir	**137**	146	123	**–**	–	–
Evrazmetall-Ural	**157**	150	67	**–**	–	–
Evro-Aziatskaya Energy Company	**–**	23	14	**–**	104	75
Ferrotranstrade	**–**	–	–	**–**	–	1
KMK- Energo	**–**	–	–	**–**	–	2
Marteck Shipping	**–**	–	–	**–**	–	40
Raspadsky Ugol	**–**	–	–	**192**	80	147
Sojitz Noble Alloys Corp.	**–**	18	–	**1**	1	–
Yuzhkuzbassugol	**1**	12	26	**121**	279	426
Other entities	**17**	14	10	**55**	59	38
	$ 632	$ 664	$ 400	**$ 369**	$ 523	$ 729

In addition to the balances and transactions disclosed in this note, loans due to and receivable from related parties are presented separately in the consolidated balance sheets and in Note 14.

Corber is the Group's joint venture (Note 11). At December 31, 2007 and 2006, amounts due to Corber represented advances received from the entity in respect of dividends to be declared for 2007. At December 31, 2005, amounts due from Corber represented dividends receivable from the entity in respect of 2005.

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

Crondale is an entity under control of an ultimate principal shareholder of the Group. At December 31, 2005, accounts payable to Crondale represented the Group's liabilities for the purchase of 50% share in Yuzhkuzbassugol payable by January 31, 2006 (Note 11). In 2006, the Group fully repaid its liabilities to Crondale.

OOO Evrazmetall-Centre, OOO Evrazmetall-Sibir, OOO Evrazmetall-Ural, OOO Evrazmetall-Povolzhie, OOO Evrazmetall-Severo-Zapad, OOO Evrazmetall-Chernozemie were the entities under control of an ultimate principal shareholder of the Group and purchased steel products from the Group. In 2007, 2006 and 2005, the Group sold approximately 5%, 7% and 6%, respectively, of volume of steel products to these entities. The transactions were made on terms equivalent to those that prevail in arm's length transactions. In December 2007, the ultimate principal shareholder of the Group sold its ownership interests in these companies and they ceased to be the related parties to the Group.

17. Related Party Disclosures (continued)

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

OAO Ferrotranstrade ("Ferrotranstrade"), an entity under control of an ultimate principal shareholder of the Group, acted as the Group's sales agent. In 2007, Ferrotranstrade ceased to be a related party with the Group.

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

Marens is an entity under control of ultimate principal shareholders of the Group. In 2007, the Group granted a short-term interest-bearing loan to Marens for financing the construction of the office building to be rented by one of the Group's subsidiaries.

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

OOO Raspadsky Ugol ("Raspadsky Ugol"), a subsidiary of the Group's joint venture, sells coal to the Group. Raspadsky Ugol represents approximately 16% of volume of the Group's coal purchases. In 2007, coal was sold at prevailing market prices at the dates of transactions.

ZAO SEAR MF ("SEAR MF") is an entity under control of an ultimate principal shareholder of the Group. The accounts payable to SEAR-MF represent zero-interest loans to Yuzhkuzbassugol.

Sojitz Noble Alloys Corp. ("Sojitz"), a Japanese trade house, is a minority shareholder of Stratcor, the Group's subsidiary. Sojitz exercises a significant influence over Stratcor. In 2007 and 2006, Sojitz acted as a sales agent of Stratcor. At December 31, 2007 and 2006, other long-term liabilities (Note 25) include a $14 million financial liability in respect of the fixed cumulative preferred dividends of $1 million per year payable to Sojitz.

Yuzhkuzbassugol, the major coal supplier, was the Group's associate. In 2005, the Group sold coal to processing mills of Yuzhkuzbassugol. The transactions were made at prevailing market prices at the dates of transactions.The entity provides approximately 50% of volume of the Group's coal purchases. In 2007, Yuzhkuzbassugol became the Group's subsidiary (Note 4).

17. Related Party Disclosures (continued)

Compensation to Key Management Personnel

Key management personnel totalled 48, 46 and 33 persons as at December 31, 2007, 2006 and 2005, respectively. Total compensation to key management personnel were included in general and administrative expenses in the accompanying income statement and consisted of the following:

US$ million	**2007**	**2006**	**2005**
Salary	**$ 25**	$ 18	$ 11
Performance bonuses	**20**	21	12
Social security taxes	**10**	1	2
Share-based payments (Note 23)	**3**	11	5
Termination benefits	**10**	–	–
Other benefits	**1**	3	11
	$ 69	$ 54	$ 41

18. Other Taxes Recoverable

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

US$ million	**2007**	**2006**	**2005**
Input VAT	**$ 270**	$ 264	$ 384
Other taxes	**73**	67	77
	$ 343	$ 331	$ 461

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

19. Equity

Share Capital

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

Share Capital of Mastercroft

At December 31, 2004, the authorised and issued share capital of Mastercroft comprising 300,019,666 ordinary shares of $1 each was paid up to $169 million.

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

As Mastercroft is a subsidiary of Evraz Group at December 31, 2007, 2006 and 2005, the share capital of Mastercroft is eliminated on consolidation.

Share Capital of Evraz Group

Number of shares	**2007**	**2006**	**2005**
Authorised			
Ordinary shares of €2 each	**157,204,326**	157,204,326	157,204,326
Issued and fully paid			
Ordinary shares of €2 each	**118,309,653**	117,499,606	116,904,326

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

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

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

19. Equity (continued)

Share Capital (continued)

Share Capital of Evraz Group (continued)

In 2006, some of the share options granted under the Company's Incentive Plan (Note 23) were exercised. The Company issued 595,280 shares with par value of €2 each and received $26 million in cash from the Plan's participants. Share premium of $24 million arising on the transaction was included in additional paid-in capital.

In 2007, the grantees exercised additional share options. The Company issued 810,047 shares with par value of €2 each and received $35 million in cash from the Plan's participants. Share premium of $33 million arising on the transaction was included in additional paid-in capital.

Starting from May 23, 2007, the Group made a decision to cease the issuance of new shares under the share options plans. Since that date the Group acquires its own shares on the open market for the grantees. During 2007, the Group purchased 299,528 treasury shares for $41 million and sold 298,991 shares to participants at exercise prices determined in the Incentive Plans. The excess of the purchase cost of treasury shares over the proceeds from their sale amounting to $27 million was charged to accumulated profits.

As of December 31, 2007, the Group had 535 treasury shares.

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

Earnings per Share

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

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

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

In 2005 – 2007, share options granted to participants of the Group's Incentive Plans (Note 23) had a dilutive effect. The Group has no other potential dilutive ordinary shares.

19. Equity (continued)

Earnings per Share (continued)

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

	2007	2006	2005
Weighted average number of ordinary shares for basic earnings per share	**118,076,909**	117,073,156	112,731,997
Effect of dilution: share options	**890,306**	829,804	132,141
Weighted average number of ordinary shares adjusted for the effect of dilution	**118,967,215**	117,902,960	112,864,138
Profit for the year attributable to equity holders of the parent, US$ million	**$ 2,144**	$ 1,377	$ 918
Basic earnings per share	**$ 18.16**	$ 11.76	$ 8.14
Diluted earnings per share	**$ 18.02**	$ 11.68	$ 8.13

Dividends

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

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

	Date of declaration	To holders registered at	Dividends declared, US$ million	US$ per share
Interim for 2005	27/07/2005	31/05/2005	200	1.87
Interim for 2005	24/11/2005	24/11/2005	193	1.65
Final for 2005	20/06/2006	20/06/2006	158	1.35
Interim for 2006	14/11/2006	14/11/2006	229	1.95
Final for 2006	20/06/ 2007	20/06/2007	390	3.30
Interim for 2007	05/10/2007	19/10/2007	568	4.80

The final dividends for 2006 and 2005 were distributed from accumulated profits to the extent that distributable amounts were available as of December 31, 2006 and 2005, respectively. Distributable profits were determined based on separate financial statements of Evraz Group S.A. prepared in accordance with the statutory requirements. The amount of $283 million and $117 million representing the excess of declared dividends over the Company's distributable accumulated profits as of December 31, 2006 and 2005, respectively, reduced additional paid-in capital in 2007 and 2006, respectively.

In addition, in 2007, 2006 and 2005, certain subsidiaries of the Group declared dividends. The share of minority shareholders in those dividends was $40 million, $50 million and $23 million, respectively.

19. Equity (continued)

Legal Reserve

According to the Luxembourg Law, the Company is required to create a legal reserve of 10% of share capital per the Luxembourg statutory accounts by annual appropriations which should be at least 5% of the annual net profit per statutory financial statements. The legal reserve can be used only in case of a bankruptcy.

Acquisitions of Minority Interests by a Joint Venture

In 2005, Corber, the Group's joint venture, acquired additional 1.43% ownership interest in Raspadskaya, Corber's subsidiary, for cash consideration of $1 million. The 50% of excess of the carrying value of acquired minority interest over the amount of consideration paid by the joint venture amounting to $3 million was recorded in additional paid-in capital (Note 11).

Acquisitions of Minority Interests by an Associate

In 2006, Yuzhkuzbassugol, the Group's associate, acquired an additional 13% ownership interest in OAO Kuznetskpogruztrans, Yuzhkuzbassugol's subsidiary, for cash consideration of $1 million. The 50% of excess of the carrying value of acquired minority interest over the amount of consideration paid by the associate amounting to $1 million was recorded in additional paid-in capital (Note 11).

Sale of Shares in a Joint Venture's Subsidiary

In November 2006, Corber sold 18% shares in Raspadskaya to public investors for cash consideration of $301 million. The 50% of the excess of the amount of consideration over 18% of the net assets of Raspadskaya at the date of the sale amounting to $58 million was included in additional paid-in capital (Note 11).

Acquisitions of Minority Interests in Subsidiaries

In 2006 and 2005, the Group acquired minority interests in certain subsidiaries (Note 6). The excess of acquired minority interests over the consideration amounting to $1 million and $2 million, respectively, was recorded as additional paid-in capital and the excess of consideration over the carrying value of minority interests amounting to $42 million and $131 million, respectively, was charged to accumulated profits.

Allocation of Losses of Prior Periods to Minority Shareholders

Prior to 2006, losses of the minority in Caplink (Note 1) exceeded the minority interest in Caplink's consolidated equity. These losses were allocated to the Group due to the minority had no obligations to cover losses. In 2006, a minority shareholder paid $5 million to the charter capital of Caplink and the Group recovered the accumulated losses.

20. Loans and Borrowings

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

US$ million	**2007**	2006	2005
Bank loans	**$ 5, 604**	$ 1,556	$ 1,132
8.25 per cent notes due 2015	**750**	750	750
10.875 per cent notes due 2009	**300**	300	300
8.875 per cent notes due 2006	–	–	175
Unamortised debt issue costs	**(82)**	(40)	(36)
Interest payable	**39**	30	29
	$ 6, 611	$ 2,596	$ 2,350

As of December 31, 2007, 2006 and 2005, total interest bearing loans and borrowings consisted of short-term loans and borrowings in the amount of $1,116 million, $608 million and $500 million, respectively, and long-term loans and borrowings in the amount of $5,538 million, $1,998 million and $1,857 million, respectively, including the current portion of long-term liabilities of $804 million, $104 million and $310 million, respectively.

In the years ended December 31, 2007, average effective annual interest rates were as follows:

	Long-term borrowings			**Short-term borrowings**		
	2007	**2006**	**2005**	**2007**	**2006**	**2005**
Russian rouble	**9.1%**	8.6%	12.5%	**8.0%**	7.1%	8.2%
US dollar	**7.9%**	8.3%	8.7%	**6.2%**	6.6%	6.1%
Euro	**5.9%**	5.6%	5.9%	**5.5%**	3.8%	4.1%
South African rand	**–**	–	–	**12.5%**	–	–
Canadian dollar	**7.3%**	–	–	**–**	–	–
Czech koruna	**–**	–	–	**–**	–	2.8%

The liabilities are denominated in the following currencies:

US$ million	**2007**	2006	2005
Russian rouble	**$ 182**	$ 24	$ 18
US dollar	**6,195**	2,308	1,987
Euro	**311**	304	354
Canadian dollar	**5**	–	–
Czech koruna	–	–	27
Unamortised debt issue costs	**(82)**	(40)	(36)
	$ 6,611	$ 2,596	$ 2,350

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

20. Loans and Borrowings (continued)

At December 31, 2007, the Group's borrowings included the loan from ZAO Raiffeisen Bank with the carrying amount of $19 million. In Setember 2007, one of the loan covenants related to the level of the sales proceeds passing through the lender's account was breached. In October 2007, the Group obtained a waiver letter from the lender in respect of this covenant violation.

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

At December 31, 2007, 2006 and 2005, the Group had equipment with a carrying value of $121 million, $39 million and $156 million, respectively, pledged as collateral under the loan agreements. In addition, the Group pledged finished goods with a carrying value of $415 million, $194 million and $204 million as of December 31, 2007, 2006 and 2005, respectively.

Guaranteed Notes

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

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

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

Bearer Coupon Debt Securities

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

20. Loans and Borrowings (continued)

Unamortised Debt Issue Costs

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

Unutilised Borrowing Facilities

The Group had the following unutilised borrowing facilities as of December 31:

US$ million	**2007**	2006	2005
Unutilised borrowing facilities	**$ 863**	$ 2,428	$ 716

21. Finance Lease Liabilities

The Group has several lease agreements under which it has an option to acquire the leased assets at the end of lease term ranging from 2 to 14 years. The estimated remaining useful life of leased assets varies from 3 to 21 years.

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

US$ million	**2007**	2006	2005
Machinery and equipment	**$ 17**	$ 10	$ 3
Transport and motor vehicles	**93**	75	52
	$ 110	$ 85	$ 55

The leased assets are included in property, plant and equipment in the consolidated balance sheet (Note 9).

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

US$ million	**2007**		2006		2005	
	Minimum lease payments	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
Not later than one year	**$ 22**	**$ 15**	$ 16	$ 11	$ 11	$ 7
Later than one year and not later than five years	**57**	**46**	47	39	33	25
Later than five years	**9**	**8**	3	3	6	5
	88	**69**	66	53	50	37
Less: amounts representing finance charges	**(19)**	**–**	(13)	–	(13)	–
	$ 69	**$ 69**	$ 53	$ 53	$ 37	$ 37

In the years ended December 31, 2007, 2006 and 2005, the average interest rates under the finance lease liabilities were 9.6%, 10.4% and 12.5%.

22. Employee Benefits

Russian Plans

In 2007, the Russian subsidiaries of the Group continued to provide regular lifetime pension payments and lump-sum amounts payable at the retirement date. These benefits generally depend on years of service, level of compensation and amount of pension payment under the collective bargaining agreements. Other post-employment benefits consist of different compensations and certain non-cash benefits. The Group funds the benefits when the amounts of benefits fall due for payment.

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

USA and Canadian Plans

The Group's subsidiaries in the USA and Canada have non-contributory defined benefit pension plans, post-retirement healthcare and life insurance benefit plans and supplemental retirement plans that cover all eligible employees. Certain employees that were hired after September 1, 2005 are no longer eligible to participate in the defined benefit plans. Those employees are instead enrolled in a defined contribution plan and receive a contribution funded by the Group's subsidiaries equal to 3% of annual wages.

The new defined contribution plan is funded annually, and participants' benefits vest after three years of service. The subsidiaries also offer qualified Thrift (401(k)) plans to all of their eligible employees.

Other Plans

Defined benefit pension plans and a defined contribution plan are maintained by the subsidiaries located in South Africa, Italy and the Czech Republic.

Defined Contribution Plans

The Group's expenses under defined contribution plans were as follows:

US$ million	**2007**	**2006**	**2005**
Expense under defined contribution plans	**$ 220**	$ 181	$ 143

Defined Benefit Plans

The Russian and the Other defined benefit plans are mostly unfunded and the USA and Canada plans are partially funded.

22. Employee Benefits (continued)

The components of net benefit expense recognised in the consolidated income statement for the years ended December 31, 2007, 2006 and 2005 and amounts recognised in the consolidated balance sheet as of December 31, 2007, 2006 and 2005 for the defined benefit plans were as follows:

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

Year ended December 31, 2007

US$ million	**Russian plans**	**USA & Canadian plans**	**Other plans**	**Total**
Current service cost	**$ (5)**	**$ (8)**	**$ (1)**	**$ (14)**
Interest cost on benefit obligation	**(9)**	**(15)**	**(1)**	**(25)**
Expected return on plan assets	**–**	**15**	**–**	**15**
Net actuarial (gains)/losses recognised in the year	**(1)**	**–**	**–**	**(1)**
Past service cost	**1**	**–**	**–**	**1**
Net benefit expense	**$ (14)**	**$ (8)**	**$ (2)**	**$ (24)**

Year ended December 31, 2006

US$ million	**Russian plans**	**USA & Canadian plans**	**Other plans**	**Total**
Current service cost	$ (4)	$ –	$ –	$ (4)
Interest cost on benefit obligation	(6)	(1)	–	(7)
Expected return on plan assets	–	1	–	1
Net actuarial (gains)/losses recognised in the year	1	2	–	3
Past service cost	(9)	–	(1)	(10)
Net benefit expense	$ (18)	$ 2	$ (1)	$ (17)

Year ended December 31, 2005

US$ million	**Russian plans**	**USA & Canadian plans**	**Other plans**	**Total**
Current service cost	$ (2)	$ –	$ –	$ (2)
Interest cost on benefit obligation	(5)	–	–	(5)
Expected return on plan assets	–	–	–	–
Net actuarial (gains)/losses recognised in the year	–	–	–	–
Past service cost	(22)	–	–	(22)
Net benefit expense	$ (29)	$ –	$ –	$ (29)

22. Employee Benefits (continued)

Actual return on plan assets was as follows:

US$ million	**2007**	2006	2005
Actual return on plan assets	**$ 19**	$ 2	$ –
including:			
USA & Canadian plans	**18**	2	–
Russian plans	**1**	–	–

Benefit liability

December 31, 2007

US$ million	**Russian plans**	**USA & Canadian plans**	**Other plans**	**Total**
Benefit obligation	**$ 183**	**$ 275**	**$ 21**	**$ 479**
Plan assets	**(2)**	**(199)**	**–**	**(201)**
	181	**76**	**21**	**278**
Unrecognised net actuarial gains/ (losses)	**(24)**	**18**	**(3)**	**(9)**
Unrecognised past service cost	**22**	**–**	**–**	**22**
Benefit liability	**$ 179**	**$ 94**	**$ 18**	**$ 291**

December 31, 2006

US$ million	**Russian plans**	**USA & Canadian plans**	**Other plans**	**Total**
Benefit obligation	$ 89	$ 36	$ 6	$ 131
Plan assets	(1)	(23)	–	(24)
	88	13	6	107
Unrecognised net actuarial gains/ (losses)	(13)	1	–	(12)
Unrecognised past service cost	22	–	–	22
Benefit liability	$ 97	$ 14	$ 6	$ 117

December 31, 2005

US$ million	**Russian plans**	**USA & Canadian plans**	**Other plans**	**Total**
Benefit obligation	$ 79	$ –	$ 2	$ 81
Plan assets	–	–	–	–
	79	–	2	81
Unrecognised net actuarial gains/ (losses)	(2)	–	–	(2)
Benefit liability	$ 77	$ –	$ 2	$ 79

22. Employee Benefits (continued)

Movements in benefit obligation

US$ million	Russian plans	USA & Canadian plans	Other plans	Total
At January 1, 2005	$ 52	$ –	$	$ 52
Interest cost on benefit obligation	5	–	–	5
Current service cost	2	–	–	2
Past service cost	22	–	–	22
Change in liability due to business combinations	4	–	2	6
Benefits paid	(8)	–	–	(8)
Actuarial (gains)/losses on benefit obligation	5	–	–	5
Translation difference	(3)	–	–	(3)
At December 31, 2005	**$ 79**	**$ –**	**$ 2**	**$ 81**
Interest cost on benefit obligation	6	1	–	7
Current service cost	4	–	–	4
Past service cost	(13)	–	1	(12)
Change in liability due to business combinations	1	38	3	42
Benefits paid	(6)	(1)	–	(7)
Actuarial (gains)/losses on benefit obligation	10	(2)	–	8
Translation difference	8	–	–	8
At December 31, 2006	**$ 89**	**$ 36**	**$ 6**	**$ 131**
Interest cost on benefit obligation	9	15	1	25
Current service cost	5	8	1	14
Past service cost	–	–	–	–
Change in liability due to business combinations	70	235	14	319
Benefits paid	(12)	(13)	(1)	(26)
Actuarial (gains)/losses on benefit obligation	11	(13)	3	1
Curtailment gain	1	–	–	1
Translation difference	9	7	(2)	14
At December 31, 2007	**$ 182**	**$ 275**	**$ 22**	**$ 479**

The amount of contributions expected to be paid to the defined benefit plans during 2008 approximates to $28 million.

22. Employee Benefits (continued)

Changes in the fair value of plan assets

US$ million	Russian plans	USA & Canadian plans	Other plans	Total
At January 1, 2006	$ –	$ –	$ –	$ –
Change in plan assets due to business combinations	1	20	–	21
Expected return on plan assets	–	1	–	1
Contributions by employer	6	2	–	8
Benefits paid	(6)	(1)	–	(7)
Actuarial gains/(losses) on plan assets	–	1	–	1
Translation difference	–	–	–	–
At December 31, 2006	1	23	–	24
Change in plan assets due to business combinations	–	153	–	153
Expected return on plan assets	–	15	–	15
Contributions by employer	13	13	1	27
Benefits paid	(12)	(13)	(1)	(26)
Actuarial gains/(losses) on plan assets	–	4	–	4
Translation difference	–	4	–	4
At December 31, 2007	$ 2	$ 199	$ –	$ 201

At December 31, 2007, the major categories of plan assets as a percentage of total plan assets were as follows:

	2007	**2006**	**2005**
USA & Canadian plans:			
Equity funds and investment trusts	**58%**	6%	–
Corporate bonds and notes	**22%**	25%	–
Shares	**8%**	67%	–
Property	**9%**	2%	–
Cash	**3%**	–	–

22. Employee Benefits (continued)

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

US$ million	**2007**	2006	2005	2004	2003
Defined benefit obligation	**$ 479**	$ 131	$ 81	$ 52	$ 29
Plan assets	**201**	24	–	–	–
(Deficit)/surplus	**(278)**	(107)	(81)	(52)	(29)
Experience adjustments on plan liabilities	**(18)**	11	–	–	–
Experience adjustments on plan assets	**5**	–	–	–	–

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

	2007			**2006**			**2005**		
	Russian plans	**USA & Canadian plans**	**Other plans**	**Russian plans**	**USA & Canadian plans**	**Other plans**	**Russian plans**	**USA & Canadian plans**	**Other plans**
Discount rate	6.8%	5.0-6.4%	4.7-8.3%	6.8%	5.8%	3.9-4.0%	8%	–	4.0%
Expected rate of return on assets	12%	7.8- 8.5%	–	12%	7.8%	–	–	–	–
Future benefits increases	5%	0%	0-3%	5%	0%	0-3%	5%	–	0-3%
Future salary increase	5%	3 - 4%	3-5%	5%	4%	3-4%	5%	–	3-4%
Healthcare costs increase rate	–	7 - 10%	–	–	–	–	–	–	–

The expected long-term rate of return on defined benefit pension plan assets represents the weighted-average asset return for each forecasted asset class return over several market cycles.

A one percentage point change in the assumed rate of increase in healthcare costs would have insignificant effects on the Group's current service cost and the defined benefit obligation.

23. Share-based Payments

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

The options become exercisable from eight months to three years from the grant date. The vesting dates under Plan 2005 are determined by the reference to the grant date, which is June 15, 2005, and become vested on the first, second and third anniversary of the grant date. Under Plan 2006, the vesting date for each tranche is the date falling 15 days after the date when the Board of directors decides to announce annual results. The actual and expected vesting dates are as follows:

	Incentive Plan 2006	**Incentive Plan 2005**
December 15, 2005	–	63,685
June 15, 2006	–	555,170
May 11, 2007	99,282	–
June 15, 2007	–	750,000
April 16, 2008	148,904	–
June 15, 2008	–	1,250,000
April 16, 2009	248,183	–
	496,369	**2,618,855**

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

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

	Incentive Plan 2006	**Incentive Plan 2005**
Dividend yield (%)	4 – 6	6 – 8
Expected volatility (%)	45.37	55.00
Risk-free interest rates (%)	5.42 – 5.47	4.36 – 4.59
Expected life of options (years)	0.7 – 2.7	0.5 – 3
Market prices of the shares at the grant dates	$66.06	$42.90

23. Share-based Payments (continued)

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

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

	2007 No.	2007 WAEP	2006 No.	2006 WAEP	2005 No.	2005 WAEP
Outstanding at January 1	**2,266,580**	**$ 48.29**	**2,567,131**	**$ 43.10**	**–**	**$ –**
Granted during the year	–	–	496,369	65.37	2,618,855	43.10
Forfeited during the year	(224,258)	65.37	(137,955)	43.50	(51,724)	43.50
Exercised during the year:						
by issue of shares	(810,047)	43.50	(595,280)	43.50	–	–
by sale of shares by the Company's parent	–	–	(63,685)	27.75	–	–
by purchase of shares on the open market	(298,991)	47.12	–	–	–	–
Outstanding at December 31	**933,284**	**$ 48.72**	**2,266,580**	**$ 48.29**	**2,567,131**	**$ 43.10**
Vested at December 31	176,842	$ 45.00	813,915	$ 43.50	63,685	$ 27.75
Exercisable at December 31	42,619	44.02	537,703	43.50	63,685	27.75

The weighted average share price at the dates of exercise was $111.33 and $69.92 in 2007 and 2006, respectively.

In 2006, the vesting date of the share options held by certain participants resigned from the Group was accelerated. There have been no other modifications or cancellations to the plans during 2005 – 2007.

The revised expected time schedule of exercise of the share options outstanding at December 31, 2007 is presented below:

Number of shares	Incentive Plan 2006	Incentive Plan 2005
Immediately exercisable	1,009	41,610
April 16, 2008	90,061	–
June 15, 2008	–	669,059
April 16, 2009	131,545	–
	222,615	**710,669**

23. Share-based Payments (continued)

The weighted average remaining contractual life of the share options outstanding as at December 31, 2007, 2006 and 2005 was 0.54, 0.82 and 1.68 years, respectively.

In the years ended December 31, 2007, 2006 and 2005, compensation expense arising from the share option plans amounted to $5 million, $17 million and $8 million, respectively.

24. Provisions

In the years ended December 31, 2007, 2006 and 2005, the movement in provisions was as follows:

US$ million	Site restoration costs	Legal claims	Other provisions	Total
At December 31, 2004	**$ 20**	**$ 1**	**$ –**	**$ 21**
Additional provisions	–	4	2	6
Increase from passage of time	3	–	–	3
Effect of change in estimated costs and timing	(9)	–	–	(9)
Change in provisions due to business combinations	–	–	9	9
Translation difference	(1)	–	–	(1)
At December 31, 2005	**$ 13**	**$ 5**	**$ 11**	**$ 29**
Additional provisions	2	4	4	10
Increase from passage of time	2	–	–	2
Effect of change in the discount rate	16	–	–	16
Change in provisions due to business combinations	4	–	–	4
Utilised in the year	–	(6)	(10)	(16)
Translation difference	1	–	1	2
At December 31, 2006	**38**	**3**	**6**	**47**
Additional provisions	7	10	14	31
Increase from passage of time	4	–	–	4
Change in provisions due to business combinations	77	9	52	138
Utilised in the year	(2)	(2)	(24)	(28)
Unused amounts reversed	–	(9)	(8)	(17)
Translation difference	4	–	–	4
At December 31, 2007	**$ 128**	**$ 11**	**$ 40**	**$ 179**

24. Provisions (continued)

Site Restoration Costs

Under the legislation, mining companies and steel mills have obligations to restore mining and certain other sites. As of December 31, 2007, 2006 and 2005, the Group accrued a provision for site restoration costs in the amount of $128 million, $38 million and $13 million, respectively. The liabilities were measured based on estimates of restoration costs which are expected to be incurred in the future discounted at the annual rate ranging from 6.85% to 8.5% in 2007 and 2006. In 2005, the discount rates varied from 17.6% to 20.9%.

25. Other Long-Term Liabilities

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

US$ million	**2007**	2006	2005
Earn out and synergy payments (Note 4)	**$ 34**	$ 22	$ –
Dividends payable under cumulative preference shares of a subsidiary to a related party (Note 17)	**14**	15	–
Employee income participation plans and compensations	**15**	9	–
Tax liabilities	**13**	1	7
Other liabilities	**7**	1	2
	83	48	9
Less: current portion (Note 26)	**(27)**	(1)	(7)
	$ 56	$ 47	$ 2

Restructured taxes

Restructured taxes payable, that are included in tax liabilities in 2005, represent tax liabilities restructured in accordance with State restructuring programme. In 2001 – 2003, certain of the Group's subsidiaries agreed with the tax authorities to restructure their liabilities under social insurance taxes, road users' tax, other taxes and related fines and penalties.

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

25. Other Long-Term Liabilities (continued)

Restructured taxes (continued)

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

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

26. Trade and Other Payables

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

US$ million	**2007**	2006	2005
Trade accounts payable	**$ 590**	$ 308	$ 249
Long-term promissory notes with current maturities	–	–	21
Accrued payroll	**193**	102	78
Termination benefits	–	13	–
Other long-term obligations with current maturities (Note 25)	**27**	1	7
Other payables	**123**	38	49
	$ 933	$ 462	$ 404

Maturity profile of the accounts payable is shown in Note 28.

27. Other Taxes Payable

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

US$ million	2007	2006	2005
Social insurance taxes	**$ 36**	$ 27	$ 22
VAT and related fines and penalties	**47**	27	138
Property tax	**15**	12	6
Land tax	**10**	10	–
Personal income tax	**12**	8	6
Other taxes, fines and penalties	**18**	12	17
	$ 138	$ 96	$ 189

28. Financial Risk Management Objectives and Policies

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Financial instruments that potentially expose the Group to concentrations of credit risk consist primarily of cash and trade accounts receivable.

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

The Group's trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. The most part of the Group's sales are made on terms of letter of credit. In addition, the Group requires prepayments from certain customers.

The Group does not require collateral in respect of trade and other receivables, except when a customer asks for a payment period which is longer than normal terms. In this case, the Group requires bank guarantees or other liquid collateral.

The Group developed standard payment terms and constantly monitors the status of accounts receivable collection and the creditworthiness of the customers.

28. Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

Certain of the Group's long-standing Russian customers for auxiliary products, such as heat and electricity, represent municipal enterprises and governmental organisations that experience financial difficulties. The most part of doubtful debts allowance consists of receivables from such customers. The Group has no practical ability to terminate the supply to these customers and negotiates with regional and municipal authorities the terms of recovery of these receivables.

There are no significant concentrations of credit risk within the Group. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 5% of gross monetary assets at any time during the year.

The maximum exposure to credit risk is equal to the carrying amount of financial assets, which is disclosed below.

US$ million	**2007**	2006	2005
Restricted deposits at banks	**$ 5**	$ 219	$ 32
Financial instruments included in other non-current assets	**3**	–	5
Trade and other receivables	**1,144**	556	375
Loans receivable	**60**	26	1
Receivables from related parties	**106**	55	90
Short-term investments and notes receivable	**25**	25	19
Cash and cash equivalents	**327**	842	641
	$ 1,670	$ 1,723	$ 1,163

The ageing analysis of trade and other receivables, loans receivable and receivables from related parties is presented in the table below.

US$ million	**2007**		**2006**		**2005**	
	Gross amount	**Impairment**	**Gross amount**	**Impairment**	**Gross amount**	**Impairment**
Not past due	**$ 1,167**	**$ (3)**	$ 519	$ (2)	$ 410	$ (1)
Past due	**222**	**(76)**	177	(57)	110	(53)
less than six months	**133**	**(4)**	101	(3)	59	(9)
between six months and one year	**16**	**(4)**	13	(7)	12	(5)
over one year	**73**	**(68)**	63	(47)	39	(39)
	$ 1,389	**$ (79)**	$ 696	$ (59)	$ 520	$ (54)

28. Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

In the years ended December 31, 2007, 2006 and 2005, the movement in allowance for doubtful accounts was as follows:

US$ million		**2007**		2006		2005
At January 1	**$**	**59**	$	54	$	45
Charge for the year		**15**		7		19
Utilised		**–**		(6)		(7)
Translation difference		**5**		4		(3)
At December 31	**$**	**79**	$	59	$	54

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The Group prepares a financial plan on a monthly basis which ensures that the Group has sufficient cash on demand to meet expected operational expenses, financial obligations and investing activities for a period of 30 days. In addition, the Group maintains credit lines and overdraft facilities that can be drawn down to meet short-term financing needs.

The Group developed standard payment periods in respect of trade accounts payable and monitors the timeliness of payments to its suppliers and contractors.

All of the Group's financial liabilities represent non-derivative financial instruments. The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, incluing interest payments.

28. Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

Year ended December 31, 2007

US$ million	**On demand**	**Less than 3 months**	**3 to 12 months**	**1 to 2 years**	**2 to 5 years**	**After 5 years**	**Total**
Fixed –rate debt							
Loans and borrowings							
Principal	**$ –**	**$ 35**	**$ 131**	**$ 412**	**$ 176**	**$ 792**	**$ 1,546**
Interest	**–**	**23**	**98**	**110**	**202**	**191**	**624**
Finance lease liabilities		**1**	**4**	**4**	**8**	**8**	**25**
Financial instruments included in long-term liabilities	**–**	**–**	**15**	**1**	**13**	**32**	**61**
Total fixed-rate debt	**–**	**59**	**248**	**527**	**399**	**1,023**	**2,256**
Variable-rate debt							
Loans and borrowings							
Principal	**–**	**398**	**1,356**	**947**	**2,393**	**14**	**5,108**
Interest	**–**	**84**	**235**	**190**	**234**	**1**	**744**
Finance lease liabilities	**–**	**4**	**13**	**15**	**30**	**1**	**63**
Total variable-rate debt	**–**	**486**	**1,604**	**1,152**	**2,657**	**16**	**5,915**
Non-interest bearing debt							
Financial instruments included in long-term liabilities	**6**	**–**	**–**	**1**	**–**	**–**	**7**
Trade and other payables	**91**	**580**	**42**	**–**	**–**	**–**	**713**
Payables to related parties	**26**	**38**	**2**	**–**	**–**	**–**	**66**
Amounts payable under put options for shares of subsidiaries	**6**	**–**	**–**	**–**	**–**	**–**	**6**
Dividends payable	**96**	**–**	**–**	**–**	**–**	**–**	**96**
Total non-interest bearing debt	**225**	**618**	**44**	**1**	**–**	**–**	**888**
	$ 225	**$ 1,163**	**$ 1,896**	**$ 1,680**	**$ 3,056**	**$ 1,039**	**$ 9,059**

28. Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

Year ended December 31, 2006

US$ million	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	After 5 years	Total
Fixed –rate debt							
Loans and borrowings							
Principal	$ –	$ 9	$ 48	$ 117	$ 577	$ 780	$ 1,531
Interest	–	23	99	117	243	249	731
Financial instruments included in long-term liabilities	1	–	7	6	9	21	44
Total fixed-rate debt	1	32	154	240	829	1,050	2,306
Variable-rate debt							
Loans and borrowings							
Principal	–	24	631	265	130	25	1,075
Interest	–	18	40	24	16	1	99
Finance lease liabilities	–	4	12	14	33	3	66
Total variable-rate debt	–	46	683	303	179	29	1,240
Non-interest bearing debt							
Trade and other payables	67	250	29	–	–	–	346
Payables to related parties	25	–	–	–	–	–	25
Amounts payable under put options for shares of subsidiaries	–	–	176	–	–	–	176
Dividends payable	62	–	–	–	–	–	62
Total non-interest bearing debt	154	250	205	–	–	–	609
	$ 155	$ 328	$ 1,042	$ 543	$ 1,008	$ 1,079	$ 4,155

28. Financial Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

Year ended December 31, 2005

US$ million	On demand	Less than 3 months	3 to 12 months	1 to 2 years	2 to 5 years	After 5 years	Total
Fixed –rate debt							
Loans and borrowings							
Principal	$ –	$ 16	$ 243	$ 74	$ 488	$ 776	$ 1,597
Interest	–	30	101	111	269	311	822
Payables to related parties							
Principal	–	19	–	–	–	–	19
Interest	–	2	–	–	–	–	2
Total fixed-rate debt	–	67	344	185	757	1,087	2,440
Variable-rate debt							
Loans and borrowings							
Principal	–	131	420	43	125	41	760
Interest	–	11	26	10	16	7	70
Finance lease liabilities	–	3	8	10	23	6	50
Total variable-rate debt	–	145	454	63	164	54	880
Non-interest bearing debt							
Trade and other payables	93	186	19	–	–	–	298
Payables to related parties	40	275	–	–	–	–	315
Financial instruments included in long-term liabilities	–	–	–	–	1	1	2
Amounts payable under put options for shares of subsidiaries	–	–	–	72	–	–	72
Dividends payable	17	–	–	–	–	–	17
Total non-interest bearing debt	150	461	19	72	1	1	704
	$ 150	$ 673	$ 817	$ 320	$ 922	$ 1,142	$ 4,024

28. Financial Risk Management Objectives and Policies (continued)

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures, while optimising the return on risk.

Interest Rate Risk

The Group borrows on both a fixed and variable rate basis and has other interest-bearing liabilities, such as finance lease liabilities and obligations under cumulative preference shares of one of the Group's subsidiary.

The Group incurs interest rate risk on liabilities with variable interest rate. The Group's Treasury function performs analysis of current interest rates and prepares forecasts for the next year. Depending on that, the management makes decisions whether it would be more beneficial to obtain financing on a fixed-rate or variable-rate basis. In case of changes in the current market fixed or variable rates the management may consider refinancing of a particular debt on more favourable terms.

The Group does not have any financial assets with variable interest rate.

Fair Value Sensitivity Analysis for Fixed Rate Instruments

The Group does not account for any fixed rate financial asstes or liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect the Group's profits.

The Group does not account for any fixed rate financial assets as assets available for sale. Therefore, a change in interest rates at the reporting date would not affect the Group's equity.

28. Financial Risk Management Objectives and Policies (continued)

Market Risk (continued)

Interest Rate Risk (continued)

Cash Flow Sensitivity Analysis for Variable Rate Instruments

Based on the analysis of exposure during the years presented, reasonably possible changes in floating interest rates at the reporting date would have changed profit before tax ("PBT") by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	2007		2006		2005	
	Basis points	**Effect on PBT**	**Basis points**	**Effect on PBT**	**Basis points**	**Effect on PBT**
		US$ millions		*US$ millions*		*US$ millions*
Liabilities denominated in US dollars						
Decrease in LIBOR	**(125)**	**$ 24**	**(100)**	**$ 9**	**(50)**	**$ 3**
Increase in LIBOR	**75**	**(14)**	**50**	**(5)**	**100**	**(5)**
Liabilities denominated in euro						
Decrease in EURIBOR	**(150)**	**3**	**(50)**	**1**	**(50)**	**1**
Increase in EURIBOR	**75**	**$ (1)**	**150**	**$ (3)**	**150**	**$ (3)**

Currency Risk

The Group is exposed to currency risk on sales, purchases and borrowings that are denominated in a currency other than the respective functional currencies of the Group's subsidiaries. The currencies in which these transactions primarily are denominated are euro and US dollars.

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

28. Financial Risk Management Objectives and Policies (continued)

Market Risk (continued)

Currency Risk (continued)

The Group's exposure to currency risk determined as the net monetary position in respective currencies was as follows:

US$ million	**2007**	2006	2005
USD/RUR	**$ 25**	$ 147	$ (277)
EUR/USD	**193**	185	150
EUR/RUR	**(313)**	(245)	(149)
EUR/CZK	**71**	56	71
USD/CZK	**(102)**	(180)	–
USD/ZAR	**36**	(88)	–

Sensitivity Analysis

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

	2007		**2006**		**2005**	
	Change in exchange rate	**Effect on PBT**	**Change in exchange rate**	**Effect on PBT**	**Change in exchange rate**	**Effect on PBT**
	%	*US$ millions*	*%*	*US$ millions*	*%*	*US$ millions*
USD/RUR	**(5.80)**	**1**	(6.10)	(8)	(8.35)	23
	4.20	**(1)**	4.50	7	5.00	(14)
EUR/USD	**(7.35)**	**(14)**	(9.25)	(17)	(10.75)	(16)
	7.35	**14**	9.25	17	10.75	16
EUR/RUR	**(5.45)**	**17**	(7.00)	17	(10.00)	15
	3.25	**(10)**	4.70	(11)	5.70	(8)
EUR/CZK	**(4.10)**	**(3)**	(3.50)	(2)	(4.75)	(3)
	4.10	**3**	3.50	2	4.75	3
USD/CZK	**(9.40)**	**10**	(8.40)	15	–	–
	9.40	**(10)**	10.10	(18)	–	–
USD/ZAR	**(17.70)**	**(6)**	(15.00)	13	–	–
	13.00	**5**	15.00	(13)	–	–

28. Financial Risk Management Objectives and Policies (continued)

Fair Value of Financial Instruments

The carrying amounts of financial instruments, such as cash, short-term and long-term investments, short-term accounts receivable and payable, short-term and long-term loans receivable and payable with variable interest rate, promissory notes, and restructured taxes, approximate their fair value.

The following table shows financial instruments which carrying amounts differ from fair values.

US$ million	**2007**		**2006**		**2005**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Long-term fixed-rate bank loans	**$ 436**	**$ 370**	$ 462	$ 406	$ 338	$ 313
8.25 per cent notes due 2015	**742**	**747**	740	776	739	745
10.875 per cent notes due 2009	**314**	**316**	314	330	314	332
8.875 per cent notes due 2006	**–**	**–**	–	–	178	179
	$ 1,492	**$ 1,433**	$ 1,516	$ 1,512	$ 1,569	$ 1,569

The fair value of the notes was determined based on market quotations. The fair value of long-term fixed-rate bank loans was calculated based on the present value of future principal and interest cash flows, discounted at the Group's market rates of interest at the reporting dates. The discount rates ranged from 6.8% to 7.7% fro US dollar and from 5.2% to 6.5% for euro.

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise the return to shareholders. The Board of directors reviews the Group's performance and establishes key performance indicators. In addition, the Group and certain of its subsidiaries are subject to externally imposed capital requirements (loans and bonds covenants) which are used for capital monitoring. There were no changes in the objectives, policies and processes during 2007.

Capital includes equity attributable to the equity holders of the parent entity. Revaluation surplus which is included in capital is not subject to capital management because of its nature (Note 4).

The Group manages its capital structure and makes adjustments to it by issue of new shares, dividend payments to shareholders, purchase of treasury shares. The Group monitors the compliance of the amount of legal reserve with the statutory requirements and makes appropriations of profits to legal reserve. In addition, the Group monitors distributable profits on a regular basis and determines the amounts and timing of dividends payments. The capital requirements imposed by certain loan agreements include the following:

- consolidated equity less goodwill should be at least $2,000 million.

29. Non-cash Transactions

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

US$ million	2007	2006	2005
Liabilities for purchases of property, plant and equipment	**$ 50**	$ 20	$ 28
Liabilities for purchases of shares in subsidiaries and other entities	**38**	6	11
Liabilities for purchase of interest in associates/joint ventures	**–**	–	296
Refinancing of a bridge loan	**1,535**	–	–
Offset of restricted deposit with amounts payable to Credit Suisse for the purchase of 24.9% of Highveld's shares (Notes 4 and 13)	**207**	–	–
Offset of loan receivable with amounts payable for the purchase of non-current assets	**13**	–	–
Loans paid by banks to vendors for property, plant and equipment	**–**	11	37

30. Commitments and Contingencies

Operating Environment of the Group

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

Taxation

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

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on the management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Possible liabilities, which were identified by management at the balance sheet date as those that can be subject to different interpretations of the tax laws and other regulations and are not accrued in the accompanying financial statements could be up to approximately $19 million.

30. Commitments and Contingencies (continued)

Contractual Commitments

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

Social Commitments

The Group is involved in a number of social programmes aimed to support education, health care and social infrastructure development in towns where the Group's assets are located. In 2008, the Group plans to spend approximately $133 million under these programmes.

Environmental Protection

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

The Group has a constructive obligation to reduce environmental polutions and contaminations in the future in accordance with an environmental protection programme. In the period from 2008 to 2012, the Group is obligated to spend approximately $245 million under this programme.

Legal Proceedings

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

The Group is involved in several litigations that may have an impact on the assets of Vitkovice Steel, the Group's subsidiary acquired in 2005 (Note 4). Accounts receivable of Vitkovice Steel include 409 million Czech koruna ($23 million at the exchange rate as of December 31, 2007) due from OSINEK, the former parent company of Vitkovice Steel. This amount is under dispute between OSINEK and VYSOKE PECE Ostrava, a.s. Management believes that this receivable will be recovered.

Stratcor, the Group's subsidiary, together with IBM Corporation, Anglo Americam Plc., Gold Fields Ltd., UBS AG and some other companies, acts as a defendant in an action filed in 2004. Plaintiffs allege that the defendants engaged in conspiracy with the Apartheid era government of South Africa in violation of international law and participated in genocide, expropriation and other wrongful acts. Plaintiffs are seeking unspecified compensatory damages and exemplary damages of $10,000 million. The Group's potential losses under this litigation are limited to the net assets of Stratcor being $78 million as of December 31, 2007. The management believes that the risk of losing this case is very remote.

31. Subsequent Events

Acquisition of Claymont Steel

On January 16, 2008, the Group acquired 16,415,722 shares of Claymont Steel Holdings, Inc. ("Claymont Steel") through a tender offer, representing approximately 93.4% of the outstanding ordinary shares of Claymont Steel. Claymont Steel is a plates producer located in the United States.

Following the acquisition of the controlling interest in Claymont Steel, the company was merged with the Group's wholly owned subsidiary and untendered shares were converted into the right to receive $23.50 in cash which is the same price per share paid during the tender offer. Total cash consideration for the acquisition of a 100% ownership interest in Claymont Steel amounts to approximately $422 million.

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

Acquisition of Steel and Mining Businesses in the Ukraine

On December 12, 2007, Lanebrook, the ultimate parent of the Group, acquired majority shares in selected production assets in the Ukraine which include the following:

- a 99.25% share holding in the Sukhaya Balka iron ore mining and processing complex;
- a 95.57% share holding in the Dnepropetrovsk Iron and Steel Works; and
- three coking plants (Bagleykoks - 93.74%, Dneprkoks – 98.65%, and Dneprodzerzhinsk Coke Chemical Plant – 93.83% of shares outstanding).

Lanebrook has acquired these production assets on the working capital free and debt free basis. The share purchase agreement gives the seller approximately three months (the "Settlement period") to settle the current assets, liabilities and debt that existed at the acquisition date and receive net settlement from Lanebrook.

On December 5, 2007, the Group signed an agreement with Lanebrook to acquire these assets. The transfer of the shares from Lanebrook to the Group is expected to occur upon the completion of the settlement period by the end of April 2008. Total cash consideration for the acquisition of these businesses amounts to approximately $2,031 million, comprising cash in the amount of $1,060 million and 4,195,150 Evraz Group's shares that will be issued for the settlement of this acquisition.

31. Subsequent Events (continued)

Purchase of Shares of Steel and Mining Businesses in China

On February 18, 2008, the Group entered into a Share Purchase Agreement (the "Agreement") to acquire up to approximately 51.05% of the issued share capital of Delong Holdings Limited ("Delong"), a hot-rolled coil manufacturer, headquartered in Beijing (China), over an agreed period of time. This transaction is subject to anti-trust clearance by the regulatory authorities of China.

The Share Purchase Agreement entered into between the Group, Best Decade and the shareholders of Best Decade includes an initial sale to the Group of approximately 10% of the issued share capital of Delong (the "Initial Sale") at 3.9459 Singapore dollar (S$) per share (the "Offer Price") or S$211 million ($150 million at the exchange rate as of the date of the agreement).

Best Decade has also granted the Group a call option to acquire an additional 32.08% of the issued share capital of Delong (the "Call Option") that is conditional upon the satisfaction of certain conditions, including obtaining antitrust approval and clearance from Ministry of Commerse and State Administration of Industry and Commerce of China. The Call Option is exercisable within six months after February 18, 2008. The Group has granted Best Decade a put option with respect to 32.08% of the issued share capital of Delong (the "Put Option"), exercisable during the same period. Both the Call Option and the Put Option have a strike price equal to the Offer Price of S$3.9459 per share. Total consideration under Call and Put option is S$677 million ($480 million at the exchange rate as of the date of the agreement).

In addition, the beneficial shareholders of Best Decade have signed an undertaking to sell approximately 8.97% of the issued share capital of Delong to the Group at the Offer Price when certain restrictions in place due to existing financing arrangements are released. The purchase price of additional shares is fixed at S$3.9459 per share or S$189 million ($134 million at the exchange rate as of the date of the agreement).

Following completion of these transactions, the Group will control approximately 51.05% of the issued share capital of Delong.

In accordance with the Singapore Code on Takeovers and Mergers, the Group will be required to make a mandatory cash offer for the remaining Delong shares at the Offer Price upon acquisition of 30% of shares in the company.

The maximum consideration payable under that mandatory cash offer by the Group will be approximately S$484 million ($343 million at the exchange rate as of the date of the agreement), assuming a full acceptance of the mandatory offer.

31. Subsequent Events (continued)

Agreement to Acquire IPSCO Canada

On March 14, 2008, the Group entered into an agreement to acquire IPSCO's Canadian plate and pipe business ("IPSCO Canada"). IPSCO Canada is a leading North American producer of steel plate, as well as pipe for the oil and gas industry.

Under the structure of the agreed transaction, the Group will acquire the IPSCO Tubulars business from SSAB for $4,025 million. The Group has also entered into definitive back-to-back agreements with OAO TMK and its affiliates ("TMK"), the Russian leading tubular player, to sell certain of the acquired US businesses for $1,200 million. In addition, the Group signed an option agreement to sell the remaining acquired US businesses of IPSCO Tubulars to TMK for approximately $510 million in 2009. All of these transactions are subject to certain closing adjustments and conditions. As a result of these transactions, the net cost of the acquisition for the Group is expected to be approximately $2,314 million.

Extension of Sale of Highveld Divestment Package

On January 20, 2008, the European Commission has further extended the divestiture period during which Highveld is obliged to dispose of certain vanadium assets till April 20, 2008 (Note 12).

Borrowings

Subsequent to December 31, 2007, the Group signed bank loan agreements for $618 million, which include the following:

	Long-term borrowings		**Short-term borrowings**	
	US$ million	*Interest rate*	*US$ million*	*Interest rate*
Russian rouble	$ 82	7.48%	$ 102	9%
US dollar	35	4.57%	399	4.50 – 7.25%
	$ 117		**$ 501**	