Evraz Group S.A.

Unaudited Interim Condensed
Consolidated Financial Statements

Six-month period ended June 30, 2006
with Report on Review of Interim Condensed Consolidated Financial Statements

Evraz Group S.A.

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Six-month period ended June 30, 2006

Contents

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Report on Review
of Interim Condensed Consolidated Financial Statements

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

Introduction

We have reviewed the accompanying interim condensed consolidated balance sheet of Evraz Group S.A. and its subsidiaries ("the Group") as at June 30, 2006 and the related interim condensed consolidated statements of income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Emphasis of Matter

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

Ernst & Young LLC

October 11, 2006

Evraz Group S.A.

Unaudited Interim Condensed Consolidated Income Statement

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

	Notes	Six-month period ended June 30, 2006		2005	
Revenue					
Sale of goods		$	**3,766**	$	3,571
Rendering of services			**59**		61
			3,825		3,632
Cost of revenue			**(2,520)**		(2,251)
Gross profit			**1,305**		1,381
Selling and distribution costs			**(105)**		(107)
General and administrative expenses			**(234)**		(227)
Social and social infrastructure maintenance expenses			**(40)**		(36)
Loss on disposal of property, plant and equipment			**(11)**		(8)
Impairment of assets			**(10)**		(2)
Foreign exchange gains/(losses), net			**39**		–
Other operating income/(expenses), net			**(6)**		4
Profit from operations			**938**		1,005
Interest income			**8**		4
Interest expense			**(107)**		(66)
Share of profits/(losses) of joint ventures and associates, net			**10**		41
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition			**–**		10
Other non-operating gains/(losses), net			**3**		(9)
Profit before tax			**852**		985
Income tax expense	**5**		**(241)**		(256)
Net profit		**$**	**611**	$	729
Attributable to:					
Equity holders of the parent entity		**$**	**571**	$	612
Minority interests			**40**		117
		$	**611**	$	729
Earnings per share:					
basic, for profit attributable to equity holders of the parent entity, US dollars	**11**	**$**	**4.88**	$	5.65
diluted, for profit attributable to equity holders of the parent entity, US dollars	**11**	**$**	**4.85**	$	5.65

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

Evraz Group S.A.

Unaudited Interim Condensed Consolidated Balance Sheet

(In millions of US dollars)

	Notes		June 30, 2006		December 31, 2005
ASSETS					
Non-current assets					
Property, plant and equipment	**6**	**$**	**3,278**	$	2,960
Goodwill			**91**		84
Investments in joint ventures and associates	**7**		**1,179**		906
Restricted deposits at banks			**9**		8
Other non-current assets			**78**		61
			4,635		4,019
Current assets					
Inventories	**9**		**783**		964
Trade and other receivables			**552**		375
Prepayments			**51**		54
Receivables from related parties	**10**		**91**		90
Income tax receivable			**9**		16
Other taxes recoverable			**411**		461
Short-term investments and notes receivable	**8**		**289**		19
Restricted deposits at banks			**14**		24
Cash and cash equivalents	**8**		**482**		641
			2,682		2,644
Total assets		**$**	**7,317**	$	6,663
EQUITY AND LIABILITIES					
Equity					
Parent shareholders' equity					
Issued capital	**11**	$	**316**	$	316
Additional paid-in capital			**460**		547
Legal reserve	**11**		**28**		22
Accumulated profits			**2,259**		1,750
Translation difference			**310**		72
			3,373		2,707
Minority interests			**217**		190
			3,590		2,897
Non-current liabilities					
Long-term loans	**12**		**1,742**		1,515
Deferred income tax liabilities			**210**		227
Finance lease liabilities			**37**		30
Post-employment benefits			**85**		78
Provisions			**23**		14
Other long-term liabilities			**5**		6
			2,102		1,870
Current liabilities					
Trade and other payables			**422**		398
Advances from customers			**76**		43
Short-term loans and current portion of long-term loans	**12**		**860**		835
Payables to related parties	**10**		**20**		315
Income tax payable			**81**		70
Other taxes payable			**106**		196
Current portion of finance lease liabilities			**9**		7
Provisions			**9**		15
Dividends payable by the parent entity to its shareholders			**27**		3
Dividends payable by the Group's subsidiaries to minority shareholders			**15**		14
			1,625		1,896
Total equity and liabilities		**$**	**7,317**	$	6,663

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

Evraz Group S.A.

Unaudited Interim Condensed Consolidated Cash Flow Statement

(In millions of US dollars)

	Six-month period ended June 30, 2006	2005
Cash flows from operating activities		
Net profit	**$ 611**	$ 729
Adjustments to reconcile net profit to net cash provided by operating activities:		
Depreciation, depletion and amortisation	**137**	103
Deferred income tax benefit	**(31)**	(11)
Loss on disposal of property, plant and equipment	**11**	8
Impairment of assets	**10**	2
Foreign exchange (gains)/losses, net	**(39)**	–
Share of (profits)/losses of joint ventures and associates, net	**(10)**	(41)
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**–**	(10)
Other non-operating (gains)/losses, net	**(3)**	9
Interest income	**(8)**	(4)
Interest expense	**107**	66
Bad debt expense	**10**	2
Share-based payments	**6**	1
	801	854
Changes in operating assets and liabilities:		
Inventories	**217**	(50)
Trade and other receivables	**(151)**	(28)
Prepayments	**8**	9
Receivables from/payables to related parties	**(28)**	(9)
Taxes recoverable	**85**	(134)
Other assets	**1**	–
Trade and other payables	**38**	68
Advances from customers	**30**	(12)
Taxes payable	**(93)**	30
Other liabilities	**(4)**	(1)
Net cash flows from operating activities	**904**	727
Cash flows from investing activities		
Issuance of loans receivable to related parties	**–**	(3)
Issuance of loans receivable	**–**	(1)
Proceeds from repayment of loans receivable	**–**	12
Purchases of subsidiaries, net of cash acquired	**(11)**	(13)
Prepayments for purchases of subsidiaries	**(12)**	(81)
Purchases of minority interests	**(1)**	(308)
Purchase of interest in associates/joint ventures	**(522)**	–
Restricted deposits at banks	**10**	(17)
Short-term deposits at banks	**(264)**	7
Purchases of property, plant and equipment	**(262)**	(280)
Proceeds from disposal of property, plant and equipment	**5**	3
Proceeds from sales of equity of other companies	**–**	3
Proceeds from sale/redemption of debt instruments of other companies	**1**	11
Dividends received	**20**	10
Net cash flows used in investing activities	**(1,036)**	(657)

Continued on the next page

Unaudited Interim Condensed Consolidated Cash Flow Statement (continued)

	Six-month period ended June 30, 2006	2005
Cash flows from financing activities		
Proceeds from issuance of share capital, net of transaction costs	**$ 1**	$ 400
Contributions from Crosland Limited	**–**	131
Payments to entities under common control for the transfer of ownership interest in subsidiaries	**–**	(32)
Proceeds from loans provided by related parties	**–**	9
Repayment of loans provided by related parties, including interest	**–**	(62)
Net proceeds from/(repayment of) bank overdraft credit lines, including interest	**48**	(8)
Proceeds from loans and promissory notes	**277**	412
Repayment of loans and promissory notes, including interest	**(199)**	(374)
Dividends paid by the parent entity to its shareholders	**(134)**	(133)
Dividends paid by the Group's subsidiaries to minority shareholders	**(24)**	(4)
Payments under finance leases, including interest	**(10)**	(6)
Payments under Settlement Agreements, including interest	**–**	(8)
Payments of restructured taxes, including interest	**(4)**	(9)
Net cash flows from/(used in) financing activities	**(45)**	316
Effect of foreign exchange rate changes on cash and cash equivalents	**18**	(6)
Net increase/(decrease) in cash and cash equivalents	**(159)**	380
Cash and cash equivalents at beginning of period	**641**	293
Cash and cash equivalents at end of period	**$ 482**	$ 673
Supplementary cash flow information:		
Cash flows during the period:		
Interest paid	**$ 96**	$ 56
Income taxes paid	**251**	293

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

Evraz Group S.A.

Unaudited Interim Condensed Consolidated Statement of Changes in Equity

(In millions of US dollars)

	Attributable to equity holders of the parent entity							
	Issued capital	Additional paid-in capital	Legal reserve	Accumulated profits	Translation difference	Total	Minority interests	Total equity
At December 31, 2005	**$ 316**	**$ 547**	**$ 22**	**$ 1,738**	**$ 72**	**$ 2,695**	**$ 190**	**$ 2,885**
Adjustment to provisional values of the associate *(Note 7)*	**–**	**–**	**–**	**12**	**–**	**12**	**–**	**12**
At December 31, 2005	**316**	**547**	**22**	**1,750**	**72**	**2,707**	**190**	**2,897**
Effect of exchange rate changes	**–**	**–**	**–**	**–**	**238**	**238**	**11**	**249**
Total income and expense for the period recognised directly in equity	**–**	**–**	**–**	**–**	**238**	**238**	**11**	**249**
Net profit	**–**	**–**	**–**	**571**	**–**	**571**	**40**	**611**
Total income and expense for the period	**–**	**–**	**–**	**571**	**238**	**809**	**51**	**860**
Issue of share capital, net of transaction costs (*Note 11*)	**–**	**1**	**–**	**–**	**–**	**1**	**–**	**1**
Allocation of losses of prior periods to minority shareholders	**–**	**–**	**–**	**5**	**–**	**5**	**–**	**5**
Acquisition of minority interests in existing subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Increase in minority interests arising due to change in ownership within the Group	**–**	**–**	**–**	**(1)**	**–**	**(1)**	**1**	**–**
Reorganisation of ownership structure within a joint venture *(Note 7)*	**–**	**–**	**–**	**4**	**–**	**4**	**–**	**4**
Share-based payments	**–**	**6**	**–**	**–**	**–**	**6**	**–**	**6**
Appropriation of net profit to legal reserve	**–**	**–**	**6**	**(6)**	**–**	**–**	**–**	**–**
Dividends declared by the parent entity to its shareholders *(Note 11)*	**–**	**(94)**	**–**	**(64)**	**–**	**(158)**	**–**	**(158)**
Dividends declared by the Group's subsidiaries to minority shareholders *(Note 11)*	**–**	**–**	**–**	**–**	**–**	**–**	**(24)**	**(24)**
At June 30, 2006	**$ 316**	**$ 460**	**$ 28**	**$ 2,259**	**$ 310**	**$ 3,373**	**$ 217**	**$ 3,590**

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

Evraz Group S.A.

Unaudited Interim Condensed Consolidated Statement of Changes in Equity (continued)

(In millions of US dollars)

	Attributable to equity holders of the parent entity							
	Issued capital	**Additional paid-in capital**	**Legal reserve**	**Accumulated profits**	**Translation difference**	**Total**	**Minority interests**	**Total equity**
At December 31, 2004	$ –	$ 319	$ –	$ 1,126	$ 164	$ 1,609	$ 358	$ 1,967
Change in accounting policies: derecognition of negative goodwill	–	–	–	378	–	378	12	390
At January 1, 2005	–	319	–	1,504	164	1,987	370	2,357
Effect of exchange rate changes	–	–	–	–	(86)	(86)	(15)	(101)
Total income and expense for the period recognised directly in equity	–	–	–	–	(86)	(86)	(15)	(101)
Net profit	–	–	–	612	–	612	117	729
Total income and expense for the period	–	–	–	612	(86)	526	102	628
Issue of share capital, net of transaction costs	24	376	–	–	–	400	–	400
Issue of share capital in exchange for shares in Mastercroft	292	(292)	–	–	–	–	–	–
Acquisition of minority interests in existing subsidiaries	–	1	–	(65)	–	(64)	(167)	(231)
Acquisition of minority interest by a joint venture	–	1	–	–	–	1	–	1
Contributions from Crosland Limited	–	131	–	–	–	131	–	131
Share-based payments	–	1	–	–	–	1	–	1
Appropriation of net profit to legal reserve	–	–	10	(10)	–	–	–	–
Dividends declared by the parent entity to its shareholders	–	–	–	(125)	–	(125)	(6)	(131)
At June 30, 2005	$ 316	$ 537	$ 10	$ 1,916	$ 78	$ 2,857	$ 299	$ 3,156

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

1. Corporate Information

These interim consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on October 11, 2006.

Evraz Group S.A. ("Evraz Group") 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.

At June 30, 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 S.A. to Lanebrook Limited (Cyprus) which became an ultimate controlling party from that date.

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 biggest steel producers in the Russian Federation.

In the six-month periods ended June 30, 2006 and 2005, approximately 7% and 6%, 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, Corber, a joint venture, and ZAO Yuzhkuzbassugol, an associate, which are the Group's major coal suppliers. For detailed information related to such activities refer to Note 10.

2. Basis of Preparation and Accounting Policies

Basis of Preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". Accordingly, the interim condensed consolidated financial statements do not include all the information and disclosures required for a complete set of financial statements, and should be read in conjunction with the Group's annual financial statements as at December 31, 2005.

Operating results for the six-month period ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ended December 31, 2006.

2. Basis of Preparation and Accounting Policies (continued)

Significant Accounting Policies

In the preparation of the interim condensed consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the complete consolidated financial statements for year ended December 31, 2005, except for the effect of adoption of new International Financial Reporting Standards ("IFRS") and revision of the existing IAS:

- IAS 19 (amended) "Employee benefits";
- IAS 21 (amended) "The Effects of Changes in Foreign Exchange Rates";
- IAS 39 (amended) "Financial Instruments: Recognition and Measurement";
- IFRIC 4 "Determining whether an Arrangement contains a Lease".

The adoption of the amendments to the International Financial Reporting Standards, mandatory for annual periods beginning on or after January 1, 2006, did not significantly affect the Group's results or financial position.

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

- IFRS 7 "Financial Instrument: Disclosures";
- IAS 1 (amended) "Presentation of Financial Statements – Capital Disclosures";
- IFRIC 8 "Scope of IFRS 2".

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

Change in Accounting Estimates

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".

In the six-month period ended June 30, 2006, as a result of a change in the discount rate and estimated costs, the provision for site restoration costs increased by $6.

3. Seasonality of Operations

There are no material seasonal effects in the business activities of the Group.

(In millions of US dollars, unless specified otherwise)

4. Segment Information

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

The following tables present revenue and profit information regarding business segments for the six-month periods ended June 30, 2006 and 2005:

Six-month period ended June 30, 2006

	Steel production	Mining	Other operations	Eliminations	Total
Revenue					
Sales to external customers	**$ 3,727**	**$ 53**	**$ 45**	**$ –**	**$ 3,825**
Inter-segment sales	**37**	**427**	**261**	**(725)**	**–**
Total revenue	**3,764**	**480**	**306**	**(725)**	**3,825**
Result					
Segment result	**$ 841**	**$ 106**	**$ 24**	**$ (38)**	**$ 933**
Unallocated income/(expenses), net					**5**
Profit from operations					**$ 938**
Share of profits/(losses) of joint ventures and associates, net	**–**	**10**	**–**		**10**
Other income/(expenses), net					**(96)**
Income tax expense					**(241)**
Net profit					**$ 611**

Six-month period ended June 30, 2005

	Steel production	Mining	Other operations	Eliminations	Total
Revenue					
Sales to external customers	$ 3,566	$ 29	$ 37	$ –	$ 3,632
Inter-segment sales	95	565	241	(901)	–
Total revenue	3,661	594	278	(901)	3,632
Result					
Segment result	$ 776	$ 224	$ 11	$ –	$ 1,011
Unallocated income/(expenses), net					(6)
Profit from operations					$ 1,005
Share of profits of joint ventures and associates	–	41	–		41
Other income/(expenses), net					(61)
Income tax expense					(256)
Net profit					$ 729

(In millions of US dollars, unless specified otherwise)

5. Income Taxes

Major components of income tax expense for the six-month period ended June 30 were as follows:

	2006	2005
Current income tax expense	**$ (272)**	$ (267)
Deferred income tax benefit		
Relating to origination and reversal of temporary differences	**31**	11
Income tax expense reported in the consolidated income statement	**$ (241)**	$ (256)

6. Property, Plant and Equipment

Property, plant and equipment consisted of the following:

	June 30, 2006	**December 31, 2005**
Cost:		
Land	**$ 57**	$ 57
Buildings and constructions	**978**	814
Machinery and equipment	**1,857**	1,591
Transport and motor vehicles	**248**	186
Mining assets	**335**	314
Other assets	**65**	58
Assets under construction	**635**	671
Government grants: machinery and equipment, net	**(8)**	(8)
	4,167	3,683
Accumulated depreciation, depletion and amortisation:		
Buildings and constructions	**(122)**	(98)
Machinery and equipment	**(653)**	(532)
Transport and motor vehicles	**(43)**	(31)
Mining assets	**(36)**	(34)
Other assets	**(35)**	(28)
	(889)	(723)
	$ 3,278	$ 2,960

(In millions of US dollars, unless specified otherwise)

6. Property, Plant and Equipment (continued)

The movement in property, plant and equipment for the six-month period ended June 30, 2006 was as follows:

	Land	Buildings and constructions	Machinery and equipment	Transport and motor vehicles	Mining assets	Other assets	Assets under construction	Total
At December 31, 2005 cost, net of accumulated depreciation and government grants	**$ 57**	**$ 716**	**$ 1,051**	**$ 155**	**$ 280**	**$ 30**	**$ 671**	**$ 2,960**
Reclassifications	**–**	**(21)**	**18**	**3**	**–**	**–**	**–**	**–**
Additions	**2**	**–**	**1**	**15**	**2**	**1**	**266**	**287**
Assets put into operation	**–**	**133**	**160**	**37**	**3**	**3**	**(336)**	**–**
Disposals	**–**	**(2)**	**(7)**	**(1)**	**–**	**(1)**	**(7)**	**(18)**
Depreciation and depletion charge	**–**	**(19)**	**(96)**	**(12)**	**(9)**	**(6)**	**–**	**(142)**
Change in site restoration provision	**–**	**–**	**–**	**–**	**6**	**–**	**–**	**6**
Impairment loss	**(6)**	**–**	**(2)**	**–**	**–**	**–**	**–**	**(8)**
Translation difference	**4**	**49**	**71**	**8**	**17**	**3**	**41**	**193**
At June 30, 2006, cost, net of accumulated depreciation and government grants	**$ 57**	**$ 856**	**$ 1,196**	**$ 205**	**$ 299**	**$ 30**	**$ 635**	**$ 3,278**

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of $96 and $127 as of June 30, 2006 and December 31, 2005, respectively.

7. Investments in Joint Ventures and Associates

Investments in joint ventures and associates were as follows:

Name	Business activity	Percentage holding	June 30, 2006	December 31, 2005
Investment in a joint venture:				
Corber Enterprises Limited	Coal mining	50.00%	**$ 486**	$ 229
Investments in associates:				
ZAO Yuzhkuzbassugol	Coal mining	50.00%	**686**	675
Other associates			**7**	2
			$ 1,179	$ 906

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

(In millions of US dollars, unless specified otherwise)

7. Investments in Joint Ventures and Associates (continued)

Corber Enterprises Limited

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 US dollar each. Under the terms of the acquisition, preferred dividends of $319 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.

The total cost of the business combination, including cash consideration and fair value of equity instruments exchanged, amounted to $771.

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:

	May 31, 2006
Property, plant and equipment	$ 77
Mineral reserves	888
Inventories	4
Accounts and notes receivable	17
Cash	34
Total assets	**1,020**
Non-current liabilities	18
Deferred income tax liabilities	208
Current liabilities	23
Total liabilities	**249**
Net assets	**$ 771**
Purchase consideration	**$ 771**

The acquisition of MUK-96 was accounted for based on provisional values as at the date of issuance of these financial statements the entity has not completed purchase price allocation.

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.

(In millions of US dollars, unless specified otherwise)

7. Investments in Joint Ventures and Associates (continued)

Corber Enterprises Limited (continued)

The movement in investments in Corber during the six months ended June 30, 2006 was as follows:

		Carrying amount
Investment at January 1, 2006	**$**	**229**
Additional investments		225
Share of profit		13
Decrease in minority interests due to reorganisation of ownership structure within a joint venture		4
Cost of guarantee issued to a joint venture		2
Translation difference		13
Investment at June 30, 2006	**$**	**486**

ZAO Yuzhkuzbassugol

The movement in investments in ZAO Yuzhkuzbassugol during the six months ended June 30, 2006 was as follows:

		Carrying amount
Investment at December 31, 2005	**$**	**663**
Adjustment to provisional values		12
Investment at January 1, 2006		**675**
Share of loss		(13)
Dividends paid		(18)
Translation difference		42
Investment at June 30, 2006	**$**	**686**

In the six-month period ended June 30, 2006, the Group recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities of the associate. The Group expects to complete the initial accounting in respect of the acquisition of a 50% ownership interest in ZAO Yuzhkuzbassugol by December 31, 2006.

(In millions of US dollars, unless specified otherwise)

8. Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

	June 30, 2006	**December 31, 2005**
Russian roubles	**$ 155**	$ 96
US dollars	**258**	407
Euros	**63**	75
Czech koruna	**5**	62
Other	**1**	1
	$ 482	$ 641

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

In addition, as of June 30, 2006 and December 31, 2005, short-term bank deposits amounting to $287 and $16, respectively, with an original maturity of more than three months were included in short-term investments.

9. Inventories

During the six-month period ended June 30, 2006, the Group made a reversal of allowances for obsolete and slow-moving inventories and net realisable value of finished goods. The reversal, amounting to $3, arose mainly from the increased prices for steel products.

10. 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.

(In millions of US dollars, unless specified otherwise)

10. Related Party Disclosures (continued)

Amounts owed by/to related parties were as follows:

	Amounts due from related parties		Amounts due to related parties	
	June 30, 2006	**December 31, 2005**	**June 30, 2006**	**December 31, 2005**
Crondale	**$ –**	$ –	**$ –**	$ 275
Evrazmetall-Centre	**7**	6	**–**	9
Evrazmetall-Sibir	**23**	36	**–**	19
Evrazmetall-Ural	**16**	6	**–**	–
Goroblagodatskoye Ore Mine	**–**	4	**–**	–
Other entities	**27**	29	**20**	12
Dividends receivable	**18**	14	**–**	–
	91	95	**20**	315
Less: allowance for doubtful accounts	**–**	(5)	**–**	–
	$ 91	$ 90	**$ 20**	$ 315

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

	Sales to related parties		Purchases from related parties	
	2006	**2005**	**2006**	**2005**
Evrazmetall-Centre	**$ 56**	$ 44	**$ –**	$ –
Evrazmetall-Chernozemie	**18**	–	**–**	–
Evrazmetall-Povolzhie	**21**	3	**–**	–
Evrazmetall-Severo-Zapad	**20**	2	**–**	–
Evrazmetall-Sibir	**60**	56	**–**	–
Evrazmetall-Ural	**59**	29	**–**	–
Evro-Aziatskaya Energy Company	**13**	4	**61**	26
Marteck Shipping	**–**	–	**–**	40
Raspadsky Ugol	**–**	–	**46**	103
Yuzhkuzbassugol	**7**	17	**137**	269
Other entities	**6**	14	**33**	27
	$ 260	$ 169	**$ 277**	$ 465

(In millions of US dollars, unless specified otherwise)

10. Related Party Disclosures (continued)

Compensation to Key Management Personnel

Key management personnel totalled 35 and 30 persons as at June 30, 2006 and 2005, respectively. Total compensation to key management personnel was included in general and administrative expenses and consisted of the following in the six-month periods ended June 30:

	2006	2005
Salary	**$ 6**	$ 3
Performance bonuses	**4**	3
Social security taxes	**1**	1
Share-based payments	**4**	1
Other benefits	**–**	7
	$ 15	$ 15

11. Equity

Share Capital

The Company's authorised share capital comprises 157,204,326 ordinary shares. At June 30, 2006 and December 31, 2005, the Company's issued and paid share capital comprised 116,922,717 and 116,904,326 shares, respectively.

In the six-month period ended June 30, 2006, some of the share options granted under the Company's Incentive Plan were exercised. On June 16, 2006, the Company issued 18,391 shares with par value of €2 each and received $1 in cash from the Plan's participant. Share premium of $1 arising on the transaction was included additional paid-in capital.

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.

On April 5, 2005, the Company issued 107,204,325 ordinary shares in connection with the reorganisation of the Group in transactions between entities under common control. As a result, the earnings per share for the six-month period ended June 30, 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 millions of US dollars, unless specified otherwise)

11. Equity (continued)

Earnings per Share (continued)

In 2006, share options granted to participants of the Company's Incentive Plan had a dilutive effect. The Group has no other potential dilutive ordinary shares.

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

	Six-month period ended June 30,	
	2006	**2005**
Weighted average number of ordinary shares for basic earnings per share	**116,905,850**	108,436,923
Effect of dilution: share options	**851,192**	–
Weighted average number of ordinary shares adjusted for the effect of dilution	**117,757,042**	108,436,923
Profit for the period attributable to equity holders of the parent entity	**$ 571**	$ 612
Basic earnings per share, US dollars	**$ 4.88**	$ 5.65
Diluted earnings per share, US dollars	**$ 4.85**	$ 5.65

Legal Reserve

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

Dividends

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

On May 22, 2006, Evraz Group S.A. declared final dividends in respect of the year ended December 31, 2005 in the amount of $158 payable to the holders registered as at June 20, 2006, which represents 1.35 US dollars of dividends per share.

The dividends were distributed from accumulated profits to the extent that distributable amounts were available as of December 31, 2005. Distributable profits were determined based on separate financial statements of Evraz Group S.A. prepared in accordance with the statutory requirements. The amount of $94 representing the excess of declared dividends over the Company's distributable accumulated profits as of December 31, 2005 reduced additional paid-in capital.

(In millions of US dollars, unless specified otherwise)

11. Equity (continued)

Dividends (continued)

In the six-month period ended June 30, 2006, certain subsidiaries of the Group declared dividends. The share of minority shareholders in those dividends was $24.

12. Loans and Borrowings

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

	June 30, 2006	December 31, 2005
Bank loans	**$ 1,385**	$ 1,132
8.25 per cent notes due 2015	**750**	750
10.875 per cent notes due 2009	**300**	300
8.875 per cent notes due 2006	**175**	175
Unamortised debt issue costs	**(38)**	(36)
Interest payable	**30**	29
	$ 2,602	$ 2,350

As of June 30, 2006 and December 31, 2005 total interest bearing loans and borrowings consisted of short-term loans and borrowings in the amount of $532 and $501, respectively, and long-term loans and borrowings in the amount of $2,078 and $1,857, respectively, including the current portion of long-term liabilities of $300 and $309, respectively.

In the six-month period ended June 30, 2006, average annual interest rates were 7.4%, 6.9% and 3.8% for short-term loans denominated in roubles, US dollars and euros, respectively, and 8.4% and 5.2% for long-term loans denominated in US dollars and euros, respectively.

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

The liabilities are denominated in the following currencies:

	June 30, 2006	December 31, 2005
Roubles	**$ 17**	$ 18
US dollars	**2,225**	1,986
Euros	**398**	354
Czech koruna	**–**	28
Unamortised debt issue costs	**(38)**	(36)
	$ 2,602	$ 2,350

(In millions of US dollars, unless specified otherwise)

12. Loans and Borrowings (continued)

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

	June 30, 2006	**December 31, 2005**
Less than one year	**$ 862**	$ 839
Between one year and two years	**171**	117
Between two years and five years	**778**	612
After five years	**829**	818
Unamortised debt issue costs	**(38)**	(36)
	$ 2,602	$ 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.

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

At June 30, 2006 and December 31, 2005, the Group had equipment with a carrying value of $153 and $156, respectively, pledged as collateral under the loan agreements. In addition, the Group pledged finished goods with a carrying value of $217 and $204 as of June 30, 2006 and December 31, 2005, respectively.

As of June 30, 2006, the Group's ownership interests in Vitkovice Steel and Palini e Bertoli S.p.A., representing 16% of the consolidated equity of Evraz Group S.A., were pledged as collateral under the bank loans.

Guaranteed Notes

In September and December 2003, EvrazSecurities issued notes amounting to $175. 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 and $202, 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. 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 and KGOK's liabilities are limited to $202.

12. Loans and Borrowings (continued)

Guaranteed Notes (continued)

In November 2005, Evraz Group S.A. issued notes amounting to $750. 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.

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

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Possible liabilities, which were identified by management at the balance sheet date as those that can be subject to different interpretations of the tax laws and regulations and are not accrued in the accompanying financial statements could be up to approximately $15.

Other Contingencies

Possible liabilities, which were identified by management at the balance sheet date as those that can be subject to different interpretations of laws and regulations other than tax laws and regulations and are not accrued in the accompanying financial statements could be up to approximately $8.

13. Commitments and Contingencies (continued)

Guarantees

On May 25, 2006, the Group guaranteed the liabilities of Corber under a $300 short-term loan agreement with Natexis Banques Populaires. On July 17, 2006, Corber repaid all its liabilities under the loan agreement.

Contractual Commitments

The Group signed contracts for the purchase of production equipment and construction works for an approximate amount of $450 as of June 30, 2006.

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. As of June 30, 2006, the Group's commitments under these programmes were $47 which are planned to be incurred in the second half of 2006.

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 2006 to 2012, the Group is obligated to spend approximately $134 for replacement of old machinery and equipment which will result in reduction of polution.

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.

13. Commitments and Contingencies (continued)

Legal Proceedings (continued)

The Group, together with several other corporations and individuals, acts as a defendant in a civil action related to bankruptcy proceedings at KGOK that occurred between 1999 and 2003, prior to the Group's acquisition of KGOK. This law suit was filed in November 2004 in the United States District Court for the District of Delaware (the "District Court"). The plaintiffs seek damages in excess of $500. In April 2005, the plaintiffs filed another suit with the Delaware Chancery Court against the same defendants, including the Group, based on the same factual allegations. However, in October 2005, the Chancery Court granted the defendant's motion to stay the action pending the developments of the litigation between the parties in the District Court. In April 2006, the District Court dismissed the claim based on a decision that the plaintiffs' claim arises from the conduct of business in Russia and, therefore, the Russian jurisdiction is an adequate forum for the plaintiffs' claim. Upon getting such decision in the District Court, the plaintiffs filed an appeal on that decision and made another attempt to continue the proceeding in the Chancery Court. In August 2006, the Chancery Court issued an opinion denying the plaintiffs' motion to lift the stay. Consequently, management believes that the ultimate resolution of the lawsuit will not have a significant impact on the financial position of the Group. Therefore, no provision is recognised in the financial statements in respect of this case.

In addition, the Group is involved in several litigations that may have an impact on the assets of Vitkovice Steel, the Group's subsidiary acquired in 2005. Accounts receivable of Vitkovice Steel include an amount of Czech koruna 409 million ($18 at the exchange rate as of June 30, 2006) due from OSINEK, the former parent company of Vitkovice Steel. This amount is under dispute between OSINEK and VYSOKE PECE Ostrava, a.s. No allowance is recognised in respect of this receivable, as management believes that this amount will be recovered.

14. Subsequent Events

Business Combinations

Strategic Minerals Corporation ("Stratcor")

On August 23, 2006, the Group acquired 72.84% of ordinary shares of Stratcor, including 69.00% of voting shares, for an approximate cash consideration of $99. Stratcor (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.

It is impracticable to determine the carrying amounts of assets, liabilities and contingent liabilities of Stratcor at the date of acquisition and immediately before the business combination, as at the date of authorisation of issue of these financial statements Stratcor has not prepared IFRS financial statements.

14. Subsequent Events (continued)

Other Acquisitions

Highveld Steel and Vanadium Corporation Limited ("Highveld")

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

It is impracticable to determine the carrying amounts of assets, liabilities and contingent liabilities of Highveld at the date of and immediately before the acquisition of 24.9% ownership interest, as at the date of authorisation of issue of these financial statements Highveld has not prepared IFRS financial statements.

Borrowings

Subsequent to June 30, 2006, the Group signed bank loan agreements for $421, including $214 in respect of long-term loans.

Guarantees

On July 7, 2006, the Group guaranteed the liabilities of OAO Raspadskaya, Corber's subsidiary, under a $300 loan agreement with Natexis Banques Populaires. The loan bears interest of LIBOR +0.85% per annum and matures on July 6, 2007.