Evraz Group S.A.

Unaudited Interim Condensed
Consolidated Financial Statements

Six-month period ended June 30, 2008

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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, 2008 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 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.

Ernst & Young LLC

August 28, 2008

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, 2008		2007*
Revenue					
Sale of goods		**$**	**10,512**	$	5,916
Rendering of services			**214**		102
			10,726		6,018
Cost of revenue			**(6,546)**		(3,724)
Gross profit			**4,180**		2,294
Selling and distribution costs			**(493)**		(205)
General and administrative expenses			**(461)**		(287)
Social and social infrastructure maintenance expenses			**(52)**		(33)
Gain/(loss) on disposal of property, plant and equipment			**5**		(3)
Impairment of assets			**(2)**		(5)
Foreign exchange gains/(losses), net			**(43)**		(6)
Other operating income/(expenses), net			**(9)**		(10)
Profit from operations			**3,125**		1,745
Interest income			**29**		19
Interest expense			**(297)**		(181)
Share of profits/(losses) of joint ventures and associates	**8**		**96**		44
Gain/(loss) on financial assets and liabilities			**2**		(2)
Loss on disposal groups classified as held for sale			**(9)**		(3)
Other non-operating gains/(losses), net			**9**		3
Profit before tax			**2,955**		1,625
Income tax expense	**6**		**(864)**		(467)
Net profit		**$**	**2,091**	$	1,158
Attributable to:					
Equity holders of the parent entity		**$**	**2,043**	$	1,122
Minority interests			**48**		36
		$	**2,091**	$	1,158
Earnings per share:					
basic, for profit attributable to equity holders of the parent entity, US dollars	**12**	**$**	**16.68**	$	9.52
diluted, for profit attributable to equity holders of the parent entity, US dollars	**12**	**$**	**16.59**	$	9.45

* The amounts shown here do not correspond to the financial statements for the six-month period ended June 30, 2007 and reflect adjustments made in connection with the completion of initial accounting as detailed in Note 4.

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, 2008	December 31, 2007*
ASSETS			
Non-current assets			
Property, plant and equipment	7	**$ 10,495**	$ 9,967
Intangible assets other than goodwill		**720**	806
Goodwill	5	**4,415**	2,282
Investments in joint ventures and associates	8	**716**	592
Deferred income tax assets		**27**	22
Other non-current assets	9	**919**	240
		17,292	13,909
Current assets			
Inventories		**2,536**	1,618
Trade and other receivables		**2,027**	1,803
Prepayments		**217**	196
Loans receivable		**111**	48
Receivables from related parties	11	**218**	60
Income tax receivable		**75**	87
Other taxes recoverable		**500**	350
Short-term investments	10	**31**	25
Cash and cash equivalents	10	**888**	327
		6,603	4,514
Assets of disposal groups classified as held for sale	4, 7	**339**	211
		6,942	4,725
Total assets		**$ 24,234**	$ 18,634
EQUITY AND LIABILITIES			
Equity			
Equity attributable to equity holders of the parent entity			
Issued capital	12	**$ 320**	$ 320
Additional paid-in capital		**290**	286
Revaluation surplus	4	**211**	211
Legal reserve		**29**	29
Unrealised gains and losses		**(22)**	1
Accumulated profits		**5,007**	4,110
Translation difference		**1,398**	996
		7,233	5,953
Minority interests		**374**	400
		7,607	6,353
Non-current liabilities			
Long-term loans	13	**6,334**	4,653
Deferred income tax liabilities		**1,504**	1,620
Finance lease liabilities		**50**	54
Post-employment benefits		**435**	416
Provisions		**133**	134
Other long-term liabilities		**55**	55
		8,511	6,932
Current liabilities			
Trade and other payables		**1,347**	1,241
Advances from customers		**116**	316
Short-term loans and current portion of long-term loans	13	**3,831**	2,103
Payables to related parties	11	**1,903**	1,193
Income tax payable		**317**	82
Other taxes payable		**306**	203
Current portion of finance lease liabilities		**16**	15
Provisions		**63**	55
Amounts payable under put options for shares of subsidiaries		–	6
Dividends payable by the parent entity to its shareholders		**134**	80
Dividends payable by the Group's subsidiaries to minority shareholders		**16**	16
		8,049	5,310
Liabilities directly associated with disposal groups classified as held for sale		**67**	39
		8,116	5,349
Total equity and liabilities		**$ 24,234**	$ 18,634

* The amounts shown here do not correspond to the financial statements as of December 31, 2007 and reflect adjustments made in connection with the completion of initial accounting and acquisition of controlling interests in subsidiaries from entities under common control as detailed in Notes 2 and 4.

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, 2008	Six-month period ended June 30, 2007*
Cash flows from operating activities		
Net profit	**$ 2,091**	$ 1,158
Adjustments to reconcile net profit to net cash flows from operating activities:		
Depreciation, depletion and amortisation	**578**	297
Deferred income tax benefit	**(131)**	(32)
(Gain)/loss on disposal of property, plant and equipment	**(5)**	3
Impairment of assets	**2**	5
Foreign exchange (gains)/losses, net	**43**	6
Share of (profits)/losses of joint ventures and associates	**(96)**	(44)
(Gain)/loss on financial assets and liabilities	**(2)**	2
Loss on disposal groups classified as held for sale	**9**	3
Other non-operating (gains)/losses, net	**(9)**	(3)
Interest income	**(29)**	(19)
Interest expense	**297**	181
Bad debt expense	**2**	8
Share-based payments	**4**	3
Changes in provisions, employee benefits and other long-term assets and liabilities	**(3)**	(1)
	2,751	1,567
Changes in working capital:		
Inventories	**(390)**	70
Trade and other receivables	**(42)**	(37)
Prepayments	**10**	14
Receivables from/payables to related parties	**87**	18
Taxes recoverable	**(53)**	109
Other assets	**(9)**	1
Trade and other payables	**30**	(121)
Advances from customers	**(224)**	(1)
Taxes payable	**319**	35
Other liabilities	**(132)**	(4)
Net cash flows from operating activities	**2,347**	1,651
Cash flows from investing activities		
Issuance of loans receivable	**(59)**	(3)
Proceeds from repayment of loans receivable, including interest	**4**	11
Purchases of subsidiaries, net of cash acquired	**(1,997)**	(3,507)
Purchases of minority interests	**(48)**	(45)
Payments to acquire equity of other companies	**(683)**	(2)
Short-term deposits at banks, including interest	**17**	14
Purchases of property, plant and equipment	**(525)**	(235)
Proceeds from disposal of property, plant and equipment	**23**	8
Proceeds from sale of disposal groups classified as held for sale, net of transaction costs	**55**	82
Dividends and advances in respect of future dividends received	**50**	41
Net cash flows used in investing activities	**(3,163)**	(3,636)

* The amounts shown here do not correspond to the financial statements for the six-month period ended June 30, 2007 and reflect adjustments made in connection with the completion of initial accounting as detailed in Note 4.

Continued on the next page

Unaudited Interim Condensed Consolidated Cash Flow Statement (continued)

(In millions of US dollars)

	Six-month period ended June 30, 2008		2007*	
Cash flows from financing activities				
Issue of share capital	**$**	**–**	$	35
Repurchase of vested share options *(Note 12)*		**(70)**		(3)
Purchase of treasury shares *(Note 12)*		**(74)**		(5)
Sale of treasury shares		**11**		1
Distribution to a shareholder *(Note 4)*		**(68)**		–
Net proceeds from/(repayment of) bank overdrafts and credit lines, including interest		**101**		180
Proceeds from loans and promissory notes		**2,843**		2,051
Repayment of loans and promissory notes, including interest		**(803)**		(337)
Repayment of loans and promissory notes, including interest, to related parties		**(20)**		(1)
Dividends paid by the parent entity to its shareholders		**(443)**		(357)
Dividends paid by the Group's subsidiaries to minority shareholders		**(52)**		(28)
Payments under finance leases, including interest		**(11)**		(11)
Net cash flows from financing activities		**1,414**		1,525
Effect of foreign exchange rate changes on cash and cash equivalents		**(37)**		4
Net increase/(decrease) in cash and cash equivalents		**561**		(456)
Cash and cash equivalents at beginning of period		**327**		842
Cash and cash equivalents at end of period	**$**	**888**	$	386
Supplementary cash flow information:				
Cash flows during the period:				
Interest paid	**$**	**(217)**	$	(150)
Interest received		**22**		13
Income taxes paid		**(691)**		(409)
Non-cash transactions:				
Loans provided in the form of payments by banks for the subsidiaries acquired by the Group	**$**	**816**	$	–
Offset of income tax payable against input VAT		**8**		–

* The amounts shown here do not correspond to the financial statements for the six-month period ended June 30, 2007 and reflect adjustments made in connection with the completion of initial accounting as detailed in Note 4.

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	**Treasury shares**	**Additional paid-in capital**	**Revaluation surplus**	**Legal reserve**	**Unrealised gains and losses**	**Accumulated profits**	**Translation difference**	**Total**	**Minority interests**	**Total Equity**
At December 31, 2007 (as previously reported)	**$ 320**	**$ –**	**$ 286**	**$ 233**	**$ 29**	**$ 1**	**$ 4,123**	**$ 994**	**$ 5,986**	**$ 371**	**$ 6,357**
Adjustments to provisional values *(Note 4)*	**–**	**–**	**–**	**(22)**	**–**	**–**	**(36)**	**2**	**(56)**	**(5)**	**(61)**
Acquisition of subsidiaries from entities under common control *(Note 4)*	**–**	**–**	**–**	**–**	**–**	**–**	**23**	**–**	**23**	**34**	**57**
At December 31, 2007 (as restated)	**320**	**–**	**286**	**211**	**29**	**1**	**4,110**	**996**	**5,953**	**400**	**6,353**
Net losses on available-for-sale financial assets	**–**	**–**	**–**	**–**	**–**	**(23)**	**–**	**–**	**(23)**	**–**	**(23)**
Effect of exchange rate changes	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**402**	**402**	**(19)**	**383**
Total income and expense for the period recognised directly in equity	**–**	**–**	**–**		**–**	**(23)**	**–**	**402**	**379**	**(19)**	**360**
Net profit	**–**	**–**	**–**	**–**	**–**	**–**	**2,043**	**–**	**2,043**	**48**	**2,091**
Total income and expense for the period	**–**	**–**	**–**		**–**	**(23)**	**2,043**	**402**	**2,422**	**29**	**2,451**
Acquisition of minority interests in existing subsidiaries *(Note 4)*	**–**	**–**	**–**	**–**	**–**	**–**	**(1)**	**–**	**(1)**	**(2)**	**(3)**
Distribution to a shareholder *(Note 4)*	**–**	**–**	**–**	**–**	**–**	**–**	**(18)**	**–**	**(18)**	**–**	**(18)**
Change in the fair value of liability to a shareholder *(Note 4)*	**–**	**–**	**–**	**–**	**–**	**–**	**(497)**	**–**	**(497)**	**–**	**(497)**
Share-based payments	**–**	**–**	**4**	**–**	**–**	**–**	**–**	**–**	**4**	**–**	**4**
Purchase of treasury shares *(Note 12)*	**–**	**(74)**	**–**	**–**	**–**	**–**	**–**	**–**	**(74)**	**–**	**(74)**
Exercise of share options *(Note 12)*	**–**	**74**	**–**	**–**	**–**	**–**	**(133)**	**–**	**(59)**	**–**	**(59)**
Dividends declared by the parent entity to its shareholders *(Note 12)*	**–**	**–**	**–**	**–**	**–**	**–**	**(497)**	**–**	**(497)**	**–**	**(497)**
Dividends declared by the Group's subsidiaries to minority shareholders *(Note 12)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(53)**	**(53)**
At June 30, 2008	**$ 320**	**$ –**	**$ 290**	**$ 211**	**$ 29**	**$ (22)**	**$ 5,007**	**$ 1,398**	**$ 7,233**	**$ 374**	**$ 7,607**

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	Treasury shares	Additional paid-in capital	Revaluation surplus	Legal reserve	Unrealised gains and losses	Accumulated profits	Translation difference	Total	Minority interests	Total Equity
At December 31, 2006	$ 318	$ –	$ 531	$ –	$ 28	$ 1	$ 2,749	$ 439	$ 4,066	$ 169	$ 4,235
Effect of exchange rate changes	–	–	–	–	–	–	–	99	99	2	101
Revaluation surplus on acquisition of a controlling interest in associates*	–	–	–	207	–	–	–	–	207	–	207
Total income and expense for the period recognised directly in equity*	–	–	–	207	–	–	–	99	306	2	308
Net profit*	–	–	–	–	–	–	1,122	–	1,122	36	1,158
Total income and expense for the period*	–	–	–	207	–	–	1,122	99	1,428	38	1,466
Minority interests arising on acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	250	250
Decrease in minority interests arising due to change in ownership within the Group	–	–	–	–	–	–	5	–	5	(5)	–
Derecognition of minority interests in subsidiaries	–	–	–	–	–	–	(158)	–	(158)	(296)	(454)
Share-based payments	–	–	3	–	–	–	–	–	3	–	3
Purchase of treasury shares	–	(5)	–	–	–	–	–	–	(5)	–	(5)
Exercise of share options	2	4	33	–	–	–	(7)	–	32	–	32
Appropriation of net profit to legal reserve	–	–	–	–	1	–	(1)	–	–	–	–
Dividends declared by the parent entity to its shareholders	–	–	(283)	–	–	–	(107)	–	(390)	–	(390)
Dividends declared by the Group's subsidiaries to minority shareholders	–	–	–	–	–	–	–	–	–	(33)	(33)
At June 30, 2007*	$ 320	$ (1)	$ 284	$ 207	$ 29	$ 1	$ 3,603	$ 538	$ 4,981	$ 123	$ 5,104

* The amounts shown here do not correspond to the interim financial statements for the six-month period ended June 30, 2007 and reflect adjustments made in connection with the completion of initial accounting as detailed in Note 4.

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

1. Corporate Information

These interim condensed consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on August 28, 2008.

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.

Lanebrook Limited (Cyprus) is the ultimate controlling party of Evraz Group.

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 is one of the biggest steel producers globally.

In the six-month periods ended June 30, 2008 and 2007, approximately 1% 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, a joint venture and associates. For detailed information related to such activities refer to Note 11.

Deficit in Working Capital

These consolidated financial statements have been prepared on a going concern basis that contemplates the realisation of assets and satisfaction of liabilities and commitments in the normal course of business. As of June 30, 2008, the Group's current liabilities were $8,116 million and exceeded current assets by $1,174 million.

The amount of working capital deficit mainly relates to the liability payable to the parent company ($1,469 million) in connection with the acquisition of the businesses in Ukraine (Note 4). As the Group will settle this liability by the share issue, this deficit does not affect the Group's liquidity.

2. Significant Accounting Policies

Basis of Preparation

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". Accordingly, 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 financial statements for the year ended December 31, 2007.

Operating results for the six-month period ended June 30, 2008 are not necessarily indicative of the results that may be expected for the year ended December 31, 2008.

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

Completion of Initial Accounting

In 2008, the Group finalised its purchase price allocation on the acquisition of ownership interests in Yuzhkuzbassugol and Highveld Steel and Vanadium Corporation Limited. As a result, the Group recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities of these entities at the dates of acquisition and restated consolidated balance sheet at December 31, 2007 and consolidated income statement for the six-month period ended June 30, 2007 (Note 4).

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

In April 2008, the Group acquired certain steel, coking coal producing and mining enterprises located in Ukraine, from Lanebrook Limited (Note 1). The Group applied the pooling of interests method with respect to this acquisition and presented its consolidated financial statements as if the transfer of controlling interests in the subsidiaries had occurred from the date of acquisition of the subsidiaries by the transferring entity, which was December 11, 2007 (Note 4).

As a result, the Group has re-presented its financial position at December 31, 2007.

Changes in 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, 2007, except for the adoption of new standards and interpretations and revision of the existing IAS:

- The Group has early adopted the revised IAS 23 “Borrowing Costs” as of January 1, 2008. The revised standard requires that all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset must be capitalised. In accordance with the transitional requirements of this standard, this has been adopted as a prospective change. Therefore, borrowing costs have been capitalised on qualifying assets with a commencement date on or after January 1, 2008. No changes have been made for borrowing costs incurred prior to this date. During the six-month period ended June 30, 2008, borrowing costs in the amount of $1 million have been capitalised.
- IFRIC 14 “IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” (effective from January 1, 2008) provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognised as an asset under IAS 19 “Employee Benefits”. As the Group’s defined benefit schemes are currently in deficit, the Interpretation had no impact on the financial position or performance of the Group.

3. Segment Information

The Group's major business segments are steel production and mining. Steel production segment includes production of steel and related products at ten steel mills. Mining segment includes iron ore and coal mining and enrichment. Other operations include energy generating companies, sea ports, shipping and railway transportation companies.

In 2008, the Group decided to disclose vanadium operations as a business segment which includes extraction of vanadium ore and production of vanadium products. Vanadium slag arising in steel-making process was also allocated to vanadium segment. As a result, the Group re-presented segment information for the six-month period ended June 30, 2007.

The following tables present revenue and profit information regarding business segments for the six-month periods ended June 30, 2008 and 2007:

Six-month period ended June 30, 2008

US$ million	Steel production	Mining	Vanadium products	Other operations	Eliminations	Total
Revenue						
Sales to external customers	**$ 9,093**	**$ 746**	**$ 739**	**$ 148**	**$ –**	**$ 10,726**
Inter-segment sales	**145**	**1,266**	**1**	**434**	**(1,846)**	**–**
Total revenue	**9,238**	**2,012**	**740**	**582**	**(1,846)**	**10,726**
Result						
Segment result	**$ 2,355**	**$ 604**	**$ 179**	**$ 64**	**$ (20)**	**$ 3,182**
Unallocated income/(expenses), net						**(57)**
Profit from operations						**$ 3,125**
Share of profits/(losses) of joint ventures and associates	**–**	**96**	**–**	**–**		**96**
Other income/(expenses), net						**(266)**
Income tax expense						**(864)**
Net profit						**$ 2,091**

Six-month period ended June 30, 2007

US$ million	Steel production	Mining	Vanadium products	Other operations	Eliminations	Total
Revenue						
Sales to external customers	$ 5,613	$ 103	$ 237	$ 65	$ –	$ 6,018
Inter-segment sales	54	698	–	310	(1,062)	–
Total revenue	5,667	801	237	375	(1,062)	6,018
Result						
Segment result	$ 1,389	$ 283	$ 54	$ 51	$ (5)	$ 1,772
Unallocated income/(expenses), net						(27)
Profit from operations						$ 1,745
Share of profits/(losses) of joint ventures and associates	19	25	–	–		44
Other income/(expenses), net						(164)
Income tax expense						(467)
Net profit						$ 1,158

4. Acquisitions of and Changes in Ownership Interests in Subsidiaries

Acquisition of Steel and Mining Businesses in Ukraine

On December 11, 2007, Lanebrook, the ultimate parent of the Group, acquired majority shares in selected production assets in Ukraine which include the following:

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

Lanebrook has acquired these production assets ("Palmrose") on the working capital free and debt free basis. Under the share purchase agreement, the seller had 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. Total consideration for the acquisition of Palmrose amounted to $2,108 million, comprising cash in the amount of $1,060 million paid by the Group on behalf of Lanebrook and 4,195,150 Evraz Group's shares with the fair value at the date of acquisition of $1,048 million.

In December 2007, the Group signed an agreement with Lanebrook to acquire Palmrose. Under that agreement, total consideration for the acquisition of Palmrose from Lanebrook comprised cash in the amount of $1,110 million and 4,195,150 Evraz Group's shares that should be issued for the settlement of this acquisition. If the number of Evraz Group shares to be issued to Lanebrook is reduced to comply with certain legal requirements in Luxembourg, the Group should make an additional cash payment to Lanebrook to compensate for that reduction based on the price of $250.2 per share.

On April 14, 2008, the Group acquired a 51.4% share in Palmrose for cash consideration of $1,110 million. In June 2008, that agreement was amended increasing the cash portion of the consideration payable to Lanebrook by $18 million.

The Group obtained control over Palmrose from April 14, 2008. The acquisition of 51.4% and 48.6% ownership interests in Palmrose are linked transactions and were accounted for as a single transaction in these financial statements. As a result, on April 14, 2008, the Group effectively acquired 100% ownership interest in Palmrose with a deferred consideration in respect of 48.6% ownership interest. In accordance with the accounting policy (Note 2), the Group accounted for this acquisition by applying the pooling of interests method and presented its consolidated financial statements as if the transfer of controlling interest in the subsidiary had occurred from the date of acquisition of the subsidiary by Lanebrook, which was December 11, 2007.

As a result, the financial position and the results of operations of Palmrose were included in the Group's consolidated financial statements beginning December 11, 2007. The acquisition of Palmrose 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".

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

Acquisition of Steel and Mining Businesses in Ukraine (continued)

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

US$ million	**December 11, 2007**
Property, plant and equipment	$ 1,592
Receivables from the seller	822
Total assets	**2,414**
Deferred income tax liabilities	306
Non-current liabilities	127
Current liabilities	839
Total liabilities	**1,272**
Minority interests	**34**
Net assets	**$ 1,108**
Purchase consideration	**$ 2,108**
Goodwill at the date of acquisition	**$ 1,000**
Translation difference	41
Goodwill at June 30, 2008	**$ 1,041**

Cash flow on acquisition was as follows:

US$ million	
Net cash acquired with the subsidiaries	$ –
Cash paid	(1,060)
Net cash outflow	**$ (1,060)**

This cash consideration was paid in 2007. $68 million paid by the Group to Lanebrook in 2008 was recorded as a distribution to a shareholder in the consolidated statement of cash flows for the six-month period ended June 30, 2008.

The excess of the consideration paid by the Group to its shareholder over the historical cost of net assets transferred to the Group, including the Predecessor's goodwill, was charged to accumulated profits and recorded as a distribution to a shareholder in the amount of $18 million and $50 million in the consolidated statements of changes in equity for the six-month period ended June 30, 2008 and for the year ended December 31, 2007, respectively.

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

Acquisition of Steel and Mining Businesses in Ukraine (continued)

The remaining 48.6% ownership interest in Palmrose will be transferred to the Group in exchange for new shares that will be issued by Evraz Group S.A. and is subject to certain legal requirements in Luxembourg. The liability to Lanebrook in respect of the 48.6% ownership interest in Palmrose was measured at the fair value of Evraz Group's shares at respective balance sheet dates and amounted to $1,469 million and $972 million as of June 30, 2008 and December 31, 2007, respectively. The change in the fair value of that liability was credited/(charged) to accumulated profits in the amount of $(497) million and $76 million in the consolidated statements of changes in equity for the six-month period ended June 30, 2008 and for the year ended December 31, 2007, respectively.

For the period from January 1 to June 30, 2008, the newly acquired Ukrainian businesses reported net profit amounting to $69 million.

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 plate producer located in the United States.

In accordance with the US legislation, following the acquisition of the controlling interest in Claymont Steel, all the 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. The company then merged with the Group's wholly owned subsidiary. Total cash consideration for the acquisition of a 100% ownership interest in Claymont Steel amounted to $420 million, including transaction costs of $7 million.

As a result, the financial position and the results of operations of Claymont Steel were included in the Group's consolidated financial statements beginning January 16, 2008. The acquisition of the subsidiary 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".

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

Acquisition of Claymont Steel (continued)

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

US$ million		**January 16, 2008**
Property, plant and equipment	$	36
Intangible assets		4
Other non-current assets		4
Inventories		54
Accounts and notes receivable		44
Cash and cash equivalents		5
Total assets		**147**
Deferred income tax liabilities		2
Non-current liabilities		136
Current liabilities		56
Total liabilities		**194**
Net liabilities	**$**	**(47)**
Purchase consideration	**$**	**420**
Goodwill	**$**	**467**

Cash flow on acquisition during the six-month period ended June 30, 2008 was as follows:

US$ million		
Net cash acquired with the subsidiary	$	5
Cash paid		(420)
Net cash outflow	**$**	**(415)**

For the period from January 16, 2008 to June 30, 2008, Claymont Steel reported net profit amounting to $1 million.

Acquisition of IPSCO Inc.

In March 2008, the Group entered into an agreement with SSAB, a Swedish steel company, to acquire IPSCO's Canadian plate and pipe business. IPSCO is a leading North American producer of steel plates, as well as pipes for the oil and gas industry.

Under the structure of the transaction, the Group and OAO TMK ("TMK"), the Russian leading tubular player, acquired plate and pipe businesses for $4,174 million comprising certain Canadian plate and pipe businesses and a US metal scrap company (together – "IPSCO Inc."), and US tubular and pipe businesses. The Group has also entered into a back-to-back agreement with TMK and its affiliates, which consisted of an on-sale of the acquired US tubular and pipe businesses, including 51% in NS Group, to TMK for $1,250 million.

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

Acquisition of IPSCO Inc. (continued)

In addition, the Group signed an option agreement that gives it the right to sell and gives TMK the right to buy 49% in NS Group for approximately $511 million plus interest at an annual rate ranging from 10% to 12% accrued from June 12, 2008 to the date when the option is exercised. The put option can be exercised by the Group in respect of the whole stake held by the Group and not earlier than October 22, 2009. The call option can be exercised by TMK in respect of any shareholding in NS Group starting from June 12, 2008.

On June 12, 2008, the acquisition has been completed. As a result, the net cost of the acquisition of 100% of IPSCO Inc. for the Group amounted to $2,413 million, including transaction costs of $54 million.

The financial position and the results of operations of IPSCO Inc. were included in the Group's consolidated financial statements beginning June 12, 2008. The acquisition of the subsidiary 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 investment in 49% ownership interest in NS Group was included in other non-current assets caption of the consolidated balance sheet as of June 30, 2008.

The table below sets forth the provisional fair values of consolidated identifiable assets, liabilities and contingent liabilities of IPSCO Inc. at the date of acquisition:

US$ million	**June 12, 2008**
Property, plant and equipment	$ 333
Inventories	430
Accounts and notes receivable	210
Cash	2
Total assets	**975**
Deferred income tax liabilities	19
Non-current liabilities	8
Current liabilities	152
Total liabilities	**179**
Net assets	**$ 796**
Purchase consideration	**$ 2,413**
Goodwill at the date of acquisition	**$ 1,617**
Translation difference	**(3)**
Goodwill at June 30, 2008	**$ 1,614**

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

Acquisition of IPSCO Inc. (continued)

Cash flow on acquisition during the six-month period ended June 30, 2008 was as follows:

US$ million

Net cash acquired with the subsidiary	$	2
Cash paid		(1,582)
Net cash outflow	**$**	**(1,580)**

$816 million of purchase consideration was paid by a bank on behalf of the Group directly to the seller. As of June 30, 2008, accounts payable include $15 million of unpaid purchase consideration.

For the period from June 12 to June 30, 2008, IPSCO Inc. reported net profit amounting to $12 million.

Disclosure of Other Information in Respect of Business Combinations

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

Purchase of Shares of Steel Business 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 flat steel producer, headquartered in Beijing (the People's Republic of China – "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 included an initial sale to the Group of 10.01% 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 transaction). This transaction was completed on February 28, 2008

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 subject to the satisfaction of certain conditions, including obtaining antitrust approval and clearance from Ministry of Commerce and State Administration of Industry and Commerce of China. Initially, the Call Option was exercisable within six months after February 18, 2008. In August 2008, this period was extended for a period of another six months.

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

Purchase of Shares of Steel Business in China (continued)

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 ($498 million at the exchange rate as of June 30, 2008).

In addition, the beneficial shareholders of Best Decade have signed an undertaking to sell approximately 8.96% 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 estimated at S$3.9459 per share or S$189 million ($139 million at the exchange rate as of June 30, 2008).

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 ($356 million at the exchange rate as of June 30, 2008), assuming a full acceptance of the mandatory offer.

As of June 30, 2008, the Group included its investments in Delong in other non-current assets caption of the consolidated balance sheet. The investments have been classified as available for sale financial assets and measured at fair value based on market quotations.

Adjustments to Provisional Values

At December 31, 2007, the acquisition of Highveld and Yuzhkuzbassugol was accounted for based on provisional values as the Group, at the date of authorisation of issue of the financial statements for the year ended December 31, 2007, did not completed purchase price allocation in accordance with IFRS 3 "Business Combinations".

In 2008, the Group finalised its purchase price allocation on the acquisition of Highveld and Yuzhkuzbassugol. As a result, the Group recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities at the dates of acquisitions. Identifiable assets, liabilities and contingent liabilities of the acquirees were as follows:

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

Adjustments to Provisional Values (continued)

Highveld

US$ million	Provisional fair values	Final estimation of fair values
Property, plant and equipment	$ 431	$ 431
Intangible assets	419	419
Other non-current assets	2	2
Inventories	81	81
Accounts and notes receivable	168	168
Cash	75	75
Assets of disposal groups classified as held for sale	338	295
Total assets	**1,514**	**1,471**
Non-current liabilities	54	54
Deferred income tax liabilities	191	181
Current liabilities	329	329
Liabilities directly associated with disposal groups classified as held for sale	44	44
Total liabilities	**618**	**608**
Net assets	**$ 896**	**$ 863**

Yuzhkuzbassugol

US$ million	Provisional fair values	Final estimation of fair values
Mineral reserves	$ 1,403	$ 1,661
Other property, plant and equipment	856	856
Investments in associates (Note 8)	204	18
Other non-current assets	45	45
Inventories	38	38
Accounts and notes receivable	115	105
Cash	17	17
Total assets	**2,678**	**2,740**
Non-current liabilities	192	196
Deferred income tax liabilities	402	462
Current liabilities	327	327
Total liabilities	**921**	**985**
Minority interests	**15**	**13**
Net assets	**$ 1,742**	**$ 1,742**
Fair value of net assets attributable to 50% ownership interest	**871**	**871**
Purchase consideration	**871**	**871**

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

Adjustments to Provisional Values (continued)

As both Highveld and Yuzhkuzbassugol were acquired by the Group in steps, at the dates of business combinations, April 26, 2007 and June 8, 2007, respectively, the Group recognised a revaluation surplus in respect of the change in fair values of identifiable assets, liabilities and contingent liabilities of Highveld and Yuzhkuzbassugol allocated to the previously acquired stakes. The revaluation surplus amounted to $28 million and $183 million, respectively.

As a result of completion of the purchase price allocation, the overall value of net assets acquired decreased by $33 million, goodwill increased by $8 million and revaluation surplus decreased by $22 million as compared to the amounts presented in the consolidated financial statements of the Group for the year ended December 31, 2007.

Purchases of Minority Interests

In February 2008, the Group acquired minority interests (0.24%) in Highveld Steel and Vanadium Corporation ("Highveld") for cash consideration of $3 million. The excess of the amounts of consideration over the carrying values of minority interests acquired amounting to $1 million was charged to accumulated profits.

5. Goodwill

The table below presents movements in the carrying amount of goodwill during the six-month period ended June 30, 2008.

US$ million	**Carrying amount**
At December 31, 2007 (as previously reported)	$ 1,271
Adjustments to provisional values	11
Goodwill in respect of subsidiaries acquired from entities under common control (Note 4)	1,000
At December 31, 2007 (as adjusted)	2,282
Goodwill recognised on acquisitions of subsidiaries (Note 4)	2,084
Translation difference	49
At June 30, 2008	**$ 4,415**

Goodwill arising in 2008 relates to the assembled workforce and synergy from integration of the acquired subsidiaries into the Group.

6. Income Taxes

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

US$ million	2008	2007
Current income tax expense	**$ (995)**	$ (499)
Deferred income tax benefit relating to origination and reversal of temporary differences	**131**	32
Income tax expense reported in the consolidated income statement	**$ (864)**	$ (467)

7. Property, Plant and Equipment

The movement in property, plant and equipment for the six-month period ended June 30, 2008 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, 2007 cost, net of accumulated depreciation and government grants (as previously reported)	$ 148	$ 1,630	$ 3,261	$ 298	$ 2,072	$ 76	$ 676	$ 8,161
Adjustments to provisional values	–	–	–	–	218	–	–	218
Assets of subsidiaries acquired from entities under common control	–	202	586	68	647	–	85	1,588
At December 31, 2007 (as adjusted)	148	1,832	3,847	366	2,937	76	761	9,967
Reclassifications	–	103	(83)	(7)	–	(14)	1	–
Assets acquired in business combination	8	40	274	1	–	10	36	369
Additions	–	–	5	4	15	–	509	533
Assets put into operation	–	63	268	37	51	4	(423)	–
Disposals	(1)	(2)	(7)	(2)	–	–	(6)	(18)
Depreciation and depletion charge	–	(88)	(295)	(27)	(109)	(10)	–	(529)
Impairment loss	–	(1)	–	–	(1)	–	–	(2)
Assets held for disposal	–	(19)	(20)	(2)	(130)	–	(1)	(172)
Translation difference	4	87	100	15	125	(1)	17	347
At June 30, 2008, cost, net of accumulated depreciation and government grants	$ 159	$ 2,015	$ 4,089	$ 385	$ 2,888	$ 65	$ 894	$ 10,495

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of $170 million and $114 million as of June 30, 2008 and December 31, 2007, respectively.

Assets held for disposal represent property, plant and equipment of Tomusinskaya mine which is planned to be sold to Raspadskaya, a subsidiary of Corber which is the Group's joint venture.

8. Investments in Joint Ventures and Associates

The movement in investments in joint ventures and associates during the six months ended June 30, 2008 was as follows:

US$ million	**Corber**	**Kazankov-skaya**	**Other associates**	**Total**
At December 31, 2007 (as reported)	**$ 573**	**$ 210**	**$ 4**	**$ 787**
Adjustments to provisional values (Note 4)	–	(195)	–	(195)
At December 31, 2007 (as adjusted)	573	15	4	592
Share of profit/(loss)	103	(7)	–	96
Translation difference	27	1	–	28
At June 30, 2008	**$ 703**	**$ 9**	**$ 4**	**$ 716**

9. Other Non-Current Assets

Other non-current assets were as follows:

US$ million	**June 30, 2008**	**December 31, 2007**
Financial instrument relating to the transaction with a 49% ownership interest in NS Group (Note 4)	**$ 511**	$ –
Deposit to secure put option for the shares of OAO Vanady	**132**	126
Investments in Delong Holdings Limited (Note 4)	**124**	–
Investments in Cape Lambert Iron Ore	**24**	–
Loans issued to related parties	**54**	46
Loans receivable	**12**	12
Trade and other receivables	**29**	27
Restricted deposits at banks	**2**	5
Other	**31**	24
	$ 919	$ 240

10. Cash and Cash Equivalents

Cash and cash equivalents were denominated in the following currencies:

US$ million	**June 30, 2008**	**December 31, 2007**
US dollar	**$ 404**	$ 72
Euro	**172**	83
Singapore dollar	**126**	–
Russian rouble	**110**	55
Ukrainian hryvnia	**37**	–
South African rand	**28**	105
Czech koruna	**7**	10
Other	**4**	2
	$ 888	$ 327

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

In addition, as of June 30, 2008 and December 31, 2007, short-term bank deposits with an original maturity of more than three months amounting to $31 million and $25 million, respectively, were included in short-term investments.

11. Related Party Disclosures

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

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

The nature and terms of related party transactions are consistent with those of a prior period which are disclosed in the annual financial statements.

11. Related Party Disclosures (continued)

Amounts owed by/to related parties were as follows:

	Amounts due from related parties		Amounts due to related parties	
US$ million	**June 30, 2008**	December 31, 2007	**June 30, 2008**	December 31, 2007
Corber	**$ –**	$ –	**$ 118**	$ 70
Marens	**31**	31	**–**	–
Kazankovskaya	**13**	7	**–**	7
Krasnokamenskoye Ore Mine	**2**	2	**8**	8
Lanebrook Limited	**123**	–	**1,469**	1,022
Raspadsky Ugol	**4**	–	**18**	24
SEAR-MF	**–**	–	**–**	19
Sojitz Noble Alloys Corp.	**6**	2	**11**	3
Yuzhny GOK	**32**	–	**273**	–
Other entities	**9**	20	**6**	40
	220	62	**1,903**	1,193
Less: allowance for doubtful accounts	**(2)**	(2)	**–**	–
	$ 218	$ 60	**$ 1,903**	$ 1,193

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

	Sales to related parties		Purchases from related parties	
US$ million	**2008**	2007	**2008**	2007
Evrazmetall-Centre	**$ –**	$ 92	**$ –**	$ –
Evrazmetall-Chernozemie	**–**	42	**–**	–
Evrazmetall-Povolzhie	**–**	42	**–**	–
Evrazmetall-Severo-Zapad	**–**	30	**–**	–
Evrazmetall-Sibir	**–**	78	**–**	–
Evrazmetall-Ural	**–**	99	**–**	–
Highveld	**–**	–	**–**	9
Raspadsky Ugol	**–**	–	**162**	43
Sojitz Noble Alloys Corp.	**32**	2	**3**	–
Yuzhkuzbassugol	**–**	8	**–**	119
Yuzhny GOK	**37**	–	**357**	–
Other entities	**10**	–	**29**	10
	$ 79	$ 393	**$ 551**	$ 181

Yuzhny GOK, the ore mining and processing plant, is an entity under common control with the Group. The Group sold steel products to Yuzhny GOK and purchased iron ore from the entity.

11. Related Party Disclosures (continued)

Compensation to Key Management Personnel

Key management personnel totalled 58 and 50 persons as at June 30, 2008 and 2007, 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:

US$ million	2008	2007
Salary	**$ 12**	$ 9
Performance bonuses	**16**	4
Social security taxes	**1**	1
Share-based payments	**2**	2
	$ 31	$ 16

12. Equity

Share Capital

Number of shares	**June 30, 2008**	**December 31, 2007**
Authorised		
Ordinary shares of €2 each	**157,204,326**	157,204,326
Issued and fully paid		
Ordinary shares of €2 each	**118,309,653**	118,309,653

Treasury Shares and Repurchase of Share Options after Vesting

During the six-month period ended June 30, 2008, the Group purchased 232,214 treasury shares for $74 million and sold 230,772 shares to the plan participants at exercise prices determined in the Incentive Plans. In addition, 255,873 share options have been repurchased after vesting. The excess of the purchase cost of treasury shares over the proceeds from their sale together with the cash spent on repurchase of vested options amounting to $133 million was charged to accumulated profits. As of June 30, 2008 and December 31, 2007, the Group had 1,979 and 537 treasury shares, respectively.

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.

Share options granted to participants of the Company's Incentive Plans had a dilutive effect. The Group has no other potential dilutive ordinary shares.

12. Equity (continued)

Earnings per Share (continued)

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

	Six-month period ended June 30, 2008	2007
Weighted average number of ordinary shares for basic earnings per share	**122,492,340**	117,845,831
Effect of dilution: share options	**634,119**	899,729
Weighted average number of ordinary shares adjusted for the effect of dilution	**123,126,459**	118,745,560
Profit for the period attributable to equity holders of the parent entity, US$ million	**$ 2,043**	$ 1,122
Basic earnings per share	**$ 16.68**	$ 9.52
Diluted earnings per share	**$ 16.59**	$ 9.45

The weighted average number of ordinary shares for the period ended June 30, 2008 includes the shares that will be issued as part of the cost of a business combination (Note 4). When calculating earnings per share, it was assumed that the shares were issued on the acquisition date (December 11, 2007), since this is the date from which the results of the newly acquired Ukrainian businesses were recognised in the consolidated income statement.

Dividends

Dividends declared by Evraz Group S.A. in the six-month period ended June 30, 2008 were as follows:

	Date of declaration	To holders registered at	Dividends declared, US$ million	US$ per share
Final for 2007	May 15, 2008	May 14, 2008	497	4.20

In the six-month period ended June 30, 2008, certain subsidiaries of the Group declared dividends. The share of minority shareholders in those dividends was $53 million.

13. Loans and Borrowings

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

US$ million	**June 30, 2008**	**December 31, 2007**
Bank loans	**$ 7,120**	$ 5,748
8.875 per cent notes due 2013	**1,300**	–
8.25 per cent notes due 2015	**750**	750
9.5 per cent notes due 2018	**700**	–
10.875 per cent notes due 2009	**300**	300
Unamortised debt issue costs	**(98)**	(82)
Interest payable	**93**	40
	$ 10,165	$ 6,756

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, 2008 and December 31, 2007, the Group had equipment with a carrying value of $411 million and $121 million, respectively, pledged as collateral under the loan agreements. In addition, the Group pledged inventory with a carrying value of $944 million and $415 million as of June 30, 2008 and December 31, 2007, respectively.

The terms of the most significant borrowings during the six-month period ended June 30, 2008 are disclosed below.

On April 24 and May 27, 2008, Evraz Group S.A. issued notes for the total amount of $1,300 million due in 2013 and notes for the total amount of $700 million due in 2018. The notes due in 2013 bear semi-annual coupon at the annual rate of 8.875% and must be redeemed at their principal amount on April 24, 2013. The notes due in 2018 bear semi-annual coupon at the annual rate of 9.5% and must be redeemed at their principal amount on April 24, 2018. The proceeds from the issue of the notes were used for financing a portion of the cost of the acquisition of IPSCO.

On June 12, 2008, the Group entered into a first lien secured term loan in the amount of $400 million and an unsecured term loan in the amount of $400 million. The secured term loan bears interest of Base Rate plus 3% per annum and is secured by a first priority perfected security interest in all assets of IPSCO Inc. (Note 4). The unsecured term loan bears interest of Base Rate plus 1.25% per annum. The loans are repayable in bullet repayment on December 12, 2008. Both loans were used for financing the acquisition of IPSCO.

14. Commitments and Contingencies

Operating Environment of the Group

The Group is one of the biggest steel producers globally. Its major subsidiaries are located in Russia, Ukraine, the European Union, the USA, Canada and the Republic of South Africa. Russia and Ukraine are considered as developing markets with higher risks.

The Russian and Ukrainian economies while deemed to be of market status continue to display certain characteristics consistent with that of a market in transition. These characteristics include, but are not limited to, relatively high inflation and the existence of currency controls which cause the national currency to be illiquid outside of countries. The stability of the Russian and Ukrainian economies will be significantly impacted by the government's policies and actions with regards to supervisory, legal, and economic reforms.

Taxation

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

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 these financial statements could be up to approximately $27 million.

Contractual Commitments

The Group signed contracts for the purchase of production equipment and construction works for an approximate amount of $754 million as of June 30, 2008.

14. Commitments and Contingencies (continued)

Social Commitments

The Group is involved in a number of social programmes aimed to support sport, education, health care and social infrastructure development in towns where the Group's assets are located. As of June 30, 2008, the Group's commitments under these programmes were $83 million which are planned to be incurred in the second half of 2008.

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 $267 million 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.

15. Subsequent Events

Cape Lambert Iron Ore Project

In July 2008, the Group signed a Co-operation Agreement with China Metallurgical Group Corporation ("MCC") for the joint development of the Cape Lambert Iron Ore Project ("the Project") located in the Northern coastal Pilbara region of Western Australia.

The project is at feasibility stage. The Group and MCC will jointly invest in the development of the project with the Group having a 75% and MCC a 25% economic interest in the project. It is anticipated that all of the project's iron ore will be shipped to China to meet the requirements of Chinese mills, while MCC will be entitled to sign an off-take agreement for up to 60% of the iron ore volumes.

Licence for Mezhegey Coal Deposit

In July 2008, the Group won the tender to develop the Mezhegey coal deposit in the Republic of Tyva, the Russian Federation. The Group offered $725 million in the tender held by the Russian State Mineral Resources Agency.

The development of the Mezhegey deposit is expected to commence in 2010 with the first coal to be mined in 2014. The Group plans that the target production level of 10 million tonnes of raw coal, i.e. approximately 8.4 million tonnes of coal concentrate, will be reached by 2016. Based on the Group's experience in developing coal projects in Siberia, the Company estimates the project's development costs at approximately $1,500 million.

Borrowings

Subsequent to June 30, 2008, the Group signed bank loan agreements for $912 million, including long-term loans in the amount of $725 million.

Dividends

On August 28, 2008, directors of Evraz Group S. A. approved distribution of interim dividends of $8.25 per share to the shareholders registered as of September 18, 2008. The total amount of dividends will approximate $1,011 million, which includes dividends on 4,195,150 Evraz Group's shares that will be issued for the settlement of the acquisition of the Ukrainian businesses (Note 4).