Evraz Group S.A.

Consolidated Financial Statements

Year Ended December 31, 2005
with Report of Independent Auditors

Evraz Group S.A.

Consolidated Financial Statements

Year ended December 31, 2005

Contents

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Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheet of Evraz Group S.A. (the "Group") as of December 31, 2005 and the related consolidated statements of income, changes in equity and cash flows for the year then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2005 and the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to Note 1 to the consolidated financial statements. A significant part of the Group's transactions were made with related parties.

Ernst & Young LLC

April 26, 2006

Evraz Group S.A.

Consolidated Income Statement

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

	Notes	Year ended December 31, 2005	2004	2003
Revenue				
Sale of goods		**$ 6,386,888**	$ 5,794,879	$ 2,039,461
Rendering of services		**121,195**	138,242	128,528
		6,508,083	5,933,121	2,167,989
Cost of revenue	**5**	**(4,159,904)**	(3,514,048)	(1,635,496)
Amortisation of negative goodwill	**4**	–	28,012	26,271
Gross profit		**2,348,179**	2,447,085	558,764
Selling and distribution costs	**5**	**(181,064)**	(192,535)	(28,524)
General and administrative expenses	**5**	**(476,941)**	(346,689)	(164,585)
Social and social infrastructure maintenance expenses		**(75,615)**	(47,314)	(25,975)
Loss on disposal of property, plant and equipment		**(24,009)**	(11,011)	(15,438)
Impairment of assets		**(8,412)**	(1,366)	(5,499)
Foreign exchange gains/(losses), net		**(4,703)**	1,152	5,678
Other operating income/(expenses), net		**7,057**	(12,739)	11,227
Profit from operations		**1,584,492**	1,836,583	335,648
Interest income		**14,657**	9,639	9,245
Interest expense		**(141,884)**	(105,460)	(55,387)
Share of profits/(losses) of joint ventures and associates	**8**	**44,840**	43,037	(121)
Gain/(loss) on extinguishment of debts	**17,18,23**	**7,998**	(140,321)	12,065
Net trading gain from a related party	**13**	–	–	24,433
Gain/(loss) on financial assets	**5**	**(297)**	57,189	–
Loss on sale of minority interest	**15**	–	(34,885)	–
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**4**	**15,216**	53,963	–
Other non-operating gains/(losses), net	**5**	**(5,934)**	2,432	1,934
Profit before tax		**1,519,088**	1,722,177	327,817
Income tax expense	**6**	**(476,467)**	(377,289)	(74,873)
Net profit		**$ 1,042,621**	$ 1,344,888	$ 252,944
Attributable to:				
Equity holders of the parent entity		**$ 905,162**	$ 1,179,625	$ 204,982
Minority interests		**137,459**	165,263	47,962
		$ 1,042,621	$ 1,344,888	$ 252,944
Earnings per share:				
basic, for profit attributable to equity holders of the parent entity, US dollars	**15**	**$ 8.03**	$ 11.00	$ 1.91
diluted, for profit attributable to equity holders of the parent entity, US dollars	**15**	**$ 8.02**	$ 11.00	$ 1.91

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

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

	Notes	December 31, 2005	2004	2003
ASSETS				
Non-current assets				
Property, plant and equipment	**7**	**$ 2,960,190**	$ 2,398,929	$ 1,349,838
Goodwill/(negative goodwill)	**4**	**84,526**	(362,612)	(348,674)
Investments in joint ventures and associates	**8**	**893,570**	196,650	3,468
Restricted deposits at banks	**9**	**8,071**	8,570	18,122
Other non-current assets	**10**	**60,805**	16,357	21,317
		4,007,162	2,257,894	1,044,071
Current assets				
Inventories	**11**	**963,851**	807,819	484,312
Trade and other receivables	**12**	**374,517**	285,747	80,227
Prepayments		**53,780**	79,801	43,189
Loans receivable		**465**	7,959	2,474
Receivables from related parties	**13**	**89,953**	89,316	156,283
Taxes recoverable	**14**	**477,289**	397,533	149,032
Short-term investments and notes receivable		**19,326**	21,804	71,718
Restricted deposits at banks	**9**	**23,794**	12,441	4,850
Cash and cash equivalents	**9**	**640,778**	292,947	195,681
		2,643,753	1,995,367	1,187,766
Total assets		**$ 6,650,915**	$ 4,253,261	$ 2,231,837
EQUITY AND LIABILITIES				
Equity				
Parent shareholders' equity				
Issued capital	**15**	**$ 315,879**	$ 42	$ 138,935
Additional paid-in capital		**546,774**	319,177	1,003
Legal reserve		**22,331**	–	–
Unrealised gain on financial assets		**311**	–	948
Accumulated profits		**1,737,882**	1,126,070	156,042
Translation difference		**71,682**	163,755	69,661
		2,694,859	1,609,044	366,589
Minority interests		**190,018**	357,579	192,540
		2,884,877	1,966,623	559,129
Non-current liabilities				
Long-term loans	**16**	**1,514,864**	788,093	354,046
Liabilities under the Settlement Agreements		–	4,224	39,413
Restructured taxes payable	**17**	**712**	23,259	26,000
Loans payable to related parties	**18**	–	–	92,521
Deferred income tax liabilities	**6**	**227,179**	214,481	155,170
Finance lease liabilities	**19**	**30,352**	25,661	14,434
Post-employment benefits	**20**	**78,540**	53,381	30,699
Provisions	**22**	**13,720**	20,581	13,740
Other long-term liabilities	**23**	**4,948**	21,208	65,848
		1,870,315	1,150,888	791,871
Current liabilities				
Trade and other payables	**24**	**397,667**	227,935	189,140
Advances from customers		**43,065**	55,189	26,206
Short-term loans and current portion of long-term loans	**16**	**835,449**	529,951	228,244
Payables to related parties	**13**	**314,779**	117,806	293,632
Taxes payable	**25**	**266,257**	197,721	98,873
Current portion of liabilities under the Settlement Agreements		–	–	19,583
Current portion of finance lease liabilities	**19**	**7,064**	4,688	5,251
Current portion of other long-term liabilities	**23**	**138**	44	19,908
Provisions	**22**	**14,869**	–	–
Dividends payable by the parent entity to its shareholders		**2,854**	–	–
Dividends payable by the Group's subsidiaries to minority shareholders		**13,581**	2,416	–
		1,895,723	1,135,750	880,837
Total equity and liabilities		**$ 6,650,915**	$ 4,253,261	$ 2,231,837

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

Evraz Group S.A.
Consolidated Cash Flow Statement
(In thousands of US dollars)

	Year ended December 31, 2005	2004	2003
Cash flows from operating activities			
Net profit	**$ 1,042,621**	$ 1,344,888	$ 252,944
Adjustments to reconcile net profit to net cash provided by operating activities:			
Amortisation of negative goodwill *(Note 4)*	–	(28,012)	(26,271)
Depreciation, depletion and amortisation *(Note 5)*	**242,908**	196,302	145,872
Deferred income tax (benefit)/expense *(Note 6)*	**2,491**	(66,749)	(36,779)
Loss on disposal of property, plant and equipment	**24,009**	11,011	15,438
Impairment of assets	**8,412**	1,366	5,499
(Gain)/loss on extinguishment of debts *(Notes 13,18, 23)*	**(7,998)**	140,321	(12,065)
Loss on sale of minority interest *(Note 15)*	–	34,885	–
Foreign exchange (gains)/losses	**4,703**	(1,152)	(5,678)
Share of (profits)/losses from associates and a joint venture	**(44,840)**	(43,037)	121
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**(15,216)**	(53,963)	–
Gain on financial assets *(Note 5)*	**297**	(57,189)	–
Other non-operating (gains)/losses	**5,934**	(2,432)	(1,934)
Interest income	**(14,657)**	(9,639)	(9,245)
Interest expense	**141,884**	105,460	55,387
Net trading gain from a related party	–	–	(24,433)
Bad debt expense	**7,863**	23,815	4,057
Share-based payments	**8,033**	–	–
	1,406,444	1,595,875	362,913
Changes in operating assets and liabilities:			
Inventories	**(14,246)**	(277,068)	(321,952)
Trade and other receivables	**31,857**	(223,086)	(69,062)
Prepayments	**21,785**	(29,978)	(25,924)
Receivables from / payables to related parties	**(30,375)**	(3,647)	94,805
Taxes recoverable	**(101,267)**	(198,075)	(77,056)
Other assets	**(3,245)**	298	(11,225)
Trade and other payables	**128,677**	(9,206)	60,974
Advances from customers	**(14,541)**	26,778	3,816
Taxes payable	**55,044**	57,441	15,946
Other liabilities	**16,003**	7,130	9,323
Net cash flows from operating activities	**1,496,136**	946,462	42,558
Cash flows from investing activities			
Issuance of loans receivable to related parties	**(201,987)**	(5,730)	(20,184)
Proceeds from repayment of loans issued to related parties	**206,194**	14,833	–
Issuance of loans receivable	**(38,275)**	(3,978)	(431)
Proceeds from repayment of loans receivable	**45,074**	4,585	634
Purchases of subsidiaries, net of cash acquired	**(312,149)**	(224,820)	(90,030)
Purchases of minority interests	**(414,503)**	(47,443)	–
Purchase of interest in an associate/joint venture	**(400,000)**	(61,800)	–
Restricted deposits at banks	**(10,681)**	5,601	(21,979)
Short-term deposits at banks	**15,594**	6,867	(10,719)
Purchases of property, plant and equipment	**(695,358)**	(533,951)	(219,627)
Proceeds from disposal of property, plant and equipment	**7,610**	3,577	1,122
Payments to acquire equity of other companies	**(10,893)**	(2,120)	(4,921)
Proceeds from sales of equity of other companies	**3,842**	1,608	19,690
Payments to acquire debt instruments of other companies	–	(9,629)	(52,773)
Proceeds from sale/redemption of debt instruments of other companies	**11,690**	35,698	40,325
Dividends received	**29,676**	–	–
Net cash flows used in investing activities	**(1,764,166)**	(816,702)	(358,893)

Continued on the next page

Consolidated Cash Flow Statement (continued)

	Year ended December 31, 2005	2004	2003
Cash flows from financing activities			
Proceeds from issuance of share capital, net of transaction costs of $22,472, $0 and $65, respectively *(Note 15)*	**$ 399,478**	$ 30,042	$ 52,935
Contributions from Crosland Limited	**131,020**	–	–
Proceeds from issue of shares by a consolidated subsidiary to minority shareholders	–	–	1,784
Payments to entities under common control for the transfer of ownership interest in subsidiaries	**(32,866)**	(60,847)	(9,273)
Proceeds from loans provided by related parties	**8,590**	417,574	168,727
Repayment of loans provided by related parties, including interest	**(61,746)**	(646,733)	(45,420)
Net (repayment)/proceeds from bank overdraft credit lines, including interest	**(135,632)**	202,661	89,896
Proceeds from loans and promissory notes	**1,304,978**	2,559,675	650,365
Repayment of loans and promissory notes, including interest	**(418,362)**	(2,230,292)	(331,304)
Dividends paid by the parent entity to its shareholders	**(523,765)**	(55,584)	–
Dividends paid by the Group's subsidiaries to minority shareholders	**(11,444)**	–	(31)
Payments under finance leases, including interest	**(12,156)**	(10,459)	(4,601)
Proceeds from sale-leaseback	–	21,717	–
Payments under Settlement Agreements, including interest, and purchases of debts in subsidiaries	**(8,479)**	(243,470)	(93,091)
Payments of restructured taxes, including interest	**(22,015)**	(20,572)	(17,592)
Net cash flows from (used in) financing activities	**617,601**	(36,288)	462,395
Effect of foreign exchange rate changes on cash and cash equivalents	**(1,740)**	3,794	6,620
Net increase in cash and cash equivalents	**347,831**	97,266	152,680
Cash and cash equivalents at beginning of year	**292,947**	195,681	43,001
Cash and cash equivalents at end of year	**$ 640,778**	$ 292,947	$ 195,681
Supplementary cash flow information:			
Cash flows during the year:			
Interest paid	**$ 121,801**	$ 86,330	$ 36,394
Income taxes paid	**476,548**	441,910	95,972

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

Evraz Group S.A.

Consolidated Statement of Changes in Equity

(In thousands of US dollars)

	Issued capital	Additional paid-in capital	Legal reserve	Unrealised gain on financial assets	Accumulated profits (losses)	Translation difference	Parent shareholders' equity	Minority interests	Total
At December 31, 2004	**$ 42**	**$ 319,177**	**$ –**	**$ –**	**$ 1,126,070**	**$ 163,755**	**$ 1,609,044**	**$ 357,579**	**$ 1,966,623**
Change in accounting policies: derecognition of negative goodwill *(Note 2)*	**–**	**–**	**–**	**–**	**378,394**	**–**	**378,394**	**11,549**	**389,943**
At January 1, 2005	**42**	**319,177**	**–**	**–**	**1,504,464**	**163,755**	**1,987,438**	**369,128**	**2,356,566**
Effect of exchange rate changes	**–**	**–**	**–**	**–**	**–**	**(92,073)**	**(92,073)**	**(13,388)**	**(105,461)**
Net gains on available-for-sale financial assets	**–**	**–**		**311**	**–**	**–**	**311**	**–**	**311**
Total income and expense for the period recognised directly in equity	**–**	**–**	**–**	**311**	**–**	**(92,073)**	**(91,762)**	**(13,388)**	**(105,150)**
Net profit	**–**	**–**	**–**	**–**	**905,162**	**–**	**905,162**	**137,459**	**1,042,621**
Total income and expense for the period	**–**	**–**	**–**	**311**	**905,162**	**(92,073)**	**813,400**	**124,071**	**937,471**
Issue of share capital, net of transaction costs (*Note 15*)	**23,833**	**375,645**	**–**	**–**	**–**	**–**	**399,478**	**–**	**399,478**
Cancellation of own shares	**(42)**	**–**	**–**	**–**	**–**	**–**	**(42)**	**–**	**(42)**
Issue of share capital in exchange for shares in Mastercroft (*Note 15*)	**292,046**	**(292,046)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Acquisition of minority interests in existing subsidiaries *(Notes 4)*	**–**	**1,969**	**–**	**–**	**(130,589)**	**–**	**(128,620)**	**(287,321)**	**(415,941)**
Acquisition of minority interest by a joint venture *(Note 15)*	**–**	**2,976**	**–**	**–**	**–**	**–**	**2,976**	**–**	**2,976**
Minority interests arising on acquisition of subsidiaries *(Note 4)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**12,199**	**12,199**
Increase in minority interests arising due to change in ownership within the Group	**–**	**–**	**–**	**–**	**(390)**	**–**	**(390)**	**390**	**–**
Contributions from Crosland Limited (*Note 15*)	**–**	**131,020**	**–**	**–**	**–**	**–**	**131,020**	**–**	**131,020**
Share-based payments *(Note 21)*	**–**	**8,033**	**–**	**–**	**–**	**–**	**8,033**	**–**	**8,033**
Appropriation of net profit to legal reserve	**–**	**–**	**22,331**	**–**	**(22,331)**	**–**	**–**	**–**	**–**
Dividends distributed by the parent entity to its shareholders *(Note 15)*	**–**	**–**	**–**	**–**	**(518,434)**	**–**	**(518,434)**	**(5,458)**	**(523,892)**
Dividends distributed by the Group's subsidiaries to minority shareholders *(Note 15)*	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(22,991)**	**(22,991)**
At December 31, 2005	**$ 315,879**	**$ 546,774**	**$ 22,331**	**$ 311**	**$ 1,737,882**	**$ 71,682**	**$ 2,694,859**	**$ 190,018**	**$ 2,884,877**

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

Evraz Group S.A.

Consolidated Statement of Changes in Equity

(In thousands of US dollars)

	Issued capital	Additional paid-in capital	Legal reserve	Unrealised gain on financial assets	Accumulated profits (losses)	Translation difference	Parent shareholders' equity	Minority interests	Total
At December 31, 2002	$ –	$ 1,003	$ –	$ –	$ (24,582)	$ 19,691	$ (3,888)	$ 223,214	$ 219,326
Net gains on available-for-sale financial assets	–	–	–	948	–	–	948	–	948
Effect of exchange rate changes	–	–	–	–	–	49,970	49,970	21,268	71,238
Total income and expense for the period recognised directly in equity	–	–	–	948	–	49,970	50,918	21,268	72,186
Net profit	–	–	–	–	204,982	–	204,982	47,962	252,944
Total income and expense for the period	–	–	–	948	204,982	49,970	255,900	69,230	325,130
Issue of share capital, net of issuance costs (*Note 15*)	138,935	–	–	–	–	–	138,935	–	138,935
Minority interest arising on acquisition of a subsidiary	–	–	–	–	–	–	–	11,595	11,595
Purchases of minority interests	–	–	–	–	–	–	–	(111,499)	(111,499)
Distributions to entities under common control (*Note 15*)	–	–	–	–	(24,358)	–	(24,358)	–	(24,358)
At December 31, 2003	138,935	1,003	–	948	156,042	69,661	366,589	192,540	559,129
Effect of exchange rate changes	–	–	–	–	–	94,094	94,094	19,970	114,064
Total income and expense for the period recognised directly in equity	–	–	–	–	–	94,094	94,094	19,970	114,064
Net gains on available-for-sale financial assets removed from equity recognised in net profit	–	–	–	(948)	–	–	(948)	–	(948)
Net profit	–	–	–	–	1,179,625	–	1,179,625	165,263	1,344,888
Total income and expense for the period	–	–	–	(948)	1,179,625	94,094	1,272,771	185,233	1,458,004
Issue of share capital (*Note 15*)	30,042	–	–	–	–	–	30,042	–	30,042
Decrease in share capital due to the Group's reorganisation (*Note 15*)	(168,935)	292,046	–	–	(123,111)	–	–	–	–
Acquisition of minority interests in existing subsidiaries *(Note 15)*	–	20,611	–	–	(12,128)	–	8,483	(103,179)	(94,696)
Acquisition of minority interest by a joint venture (*Note 8*)	–	5,517	–	–	–	–	5,517	–	5,517
Minority interest arising on acquisition of a subsidiary	–	–	–	–	–	–	–	35,600	35,600
Sale of minority interest (*Note 15*)	–	–	–	–	(12,500)	–	(12,500)	47,385	34,885
Distributions to entities under common control (*Note 15*)	–	–	–	–	(3,858)	–	(3,858)	–	(3,858)
Dividends distributed by the parent entity to its shareholders *(Note 15)*	–	–	–	–	(58,000)	–	(58,000)	–	(58,000)
At December 31, 2004	$ 42	$ 319,177	$ –	$ –	$ 1,126,070	$ 163,755	$ 1,609,044	$ 357,579	$ 1,966,623

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

(All amounts are in thousands of US dollars, unless specified otherwise)

1. Corporate Information

These consolidated financial statements were authorised for issue in accordance with a resolution of the directors on April 26, 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. Evraz Group's parent is Crosland Global Limited ("CGL" or the "Parent") which is under control of Mr. Abramov.

Evraz Group was formed through a reorganisation in which 95.83% of the shares in Mastercroft Limited ("Mastercroft"), a limited liability company registered in Cyprus, directly owned by Crosland Limited ("Crosland"), the parent of CGL, were contributed into Evraz Group in April 2005.

As Evraz Group has been formed through a reorganisation of entities under common control, these consolidated financial statements have been prepared using the pooling of interests method and, as such, the financial statements have been presented as if the transfers of the Group interests in Mastercroft had occurred from the beginning of the earliest period presented.

In 2003, Mastercroft was the parent of the group companies contributed to Evraz Group. Mastercroft was established on December 31, 2002 as a holding company to consolidate certain steel production, mining and trading entities under control of Crosland. In 2003, controlling ownership interests in such entities were transferred to Mastercroft in transactions with entities under common control with the Group (formerly Mastercroft). In 2004 and 2005, additional entities were transferred into Mastercroft by entities under common control as described further below. The Group also applied the pooling of interests method in accounting for these transactions.

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 operates three steel mills in Russia: one mill in Sverdlovsk region and two mills in Kemerovo region. The Group is one of the biggest steel producers in the Russian Federation.

(All amounts are in thousands of US dollars, unless specified otherwise)

1. Corporate Information (continued)

In the years ended December 31, 2005, 2004 and 2003, approximately 7%, 9% and 31%, respectively, of the Group's revenues were generated in transactions with related parties. In addition, a significant part of the Group's purchases was made in transactions with related parties. For detailed information related to such activities refer to Note 13.

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

Subsidiary	Actual ownership interest, %	Effective ownership interest, %			Business activity	Location
	2005	2005	2004	2003		
OAO Nizhny Tagil Iron & Steel Plant	92.38	92.38	77.09	74.35	Steel production	Russia
OAO West-Siberian Iron & Steel Plant	96.67	96.67	90.65	93.36	Steel production	Russia
OAO Novokuznetsk Iron & Steel Plant	100.00	97.26	89.97	90.09	Steel production	Russia
OAO Kachkanarsky Mining-and-Processing Integrated Works	97.72	91.98	80.68	–	Ore mining and processing	Russia
OAO Evrazruda	100.00	100.00	99.90	99.90	Ore mining	Russia
Ferrotrade Limited	100.00	100.00	95.83	100.00	Trading	Gibraltar
OOO Trade House EvrazHolding	100.00	100.00	95.83	98.00	Trading	Russia
OOO Trade House EvrazResource	100.00	100.00	95.83	–	Trading	Russia

Actual ownership interest in subsidiaries differs from the effective ownership interest due to the existence of minority interests in subsidiaries that hold ownership interests in other subsidiaries.

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

The Group consolidates OOO EvrazHolding ("EvrazHolding"), a limited liability company registered in Russia, Caplink Limited ("Caplink") and Velcast Limited ("Velcast"), limited liability companies registered in Cyprus, and OOO Slab Continuous Casting Machine, a subsidiary of Caplink registered in Russia, under the provisions of IAS 27 "Consolidated and Separate Financial Statements". The Group holds an option to acquire all ownership interests in EvrazHolding for $1,000 from EAM Group, an entity under common control with the Group. In addition, the Group signed option agreements with third parties to acquire 99% ownership interests in Caplink and Velcast for €704,000 ($831 at the exchange rate as of December 31, 2005) and €407,000 ($480 at the exchange rate as of December 31, 2005), respectively. These options are currently exercisable and, therefore, represent potential voting rights which require consolidation under IAS 27.

1. Corporate Information (continued)

EvrazSecurities S.A. ("EvrazSecurities") is a special purpose entity of the Group. In 2003 and 2004, EvrazSecurities issued $175,000 and $300,000 guaranteed notes due on September 25, 2006 and August 3, 2009, respectively (the "Notes"), which are listed on the Luxembourg stock exchange. Mastercroft and certain of its subsidiaries guaranteed EvrazSecurities' liabilities under the Notes. The Group consolidates EvrazSecurities under the provisions of Interpretation SIC-12, Consolidation – Special Purpose Entities as, in substance, the activities of EvrazSecurities are being conducted on behalf of the Group so that the Group benefits from EvrazSecurities' operations, and the Group is exposed to risks incidental to the activities of EvrazSecurities.

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

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

At December 31, 2005, the Group employed approximately 110,000 employees, excluding joint venture's and associates' employees.

2. Significant Accounting Policies

Basis of Preparation

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

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

The consolidated financial statements have been prepared under historical cost convention, other than in respect of property, plant and equipment at the date of transition to IFRS as described below.

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

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

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

Changes in Accounting Policies

The accounting policies applied are consistent with those of the previous financial year except that the Group has adopted those new/revised standards mandatory for financial years beginning on or after 1 January 2005. The changes in accounting policies result from adoption of the following new or revised standards:

- IFRS 2 “Share-Based Payment”;
- IFRS 3 “Business Combinations”;
- IFRS 5 “Non-current Assets Held for Sale and Discontinued Operations”;
- IFRS 6 “Exploration for and Evaluation of Mineral Resources” (early adoption);
- IAS 1 (revised) “Presentation of Financial Statements”;
- IAS 2 (revised) “Inventories”;
- IAS 8 (revised) “Accounting Policies, Changes in Accounting Estimates and Errors”;
- IAS 10 (revised) “Events After the Balance Sheet Date”;
- IAS 16 (revised) “Property, Plant and Equipment”;
- IAS 17 (revised) “Leases”;
- IAS 21 (revised) “The Effects of Changes in Foreign Exchange Rates”;
- IAS 24 (revised) “Related Party Disclosures”;
- IAS 28 (revised) “Investments in Associates”;
- IAS 31 (revised) “Interests in Joint Ventures”;
- IAS 32 (revised) “Financial Instruments: Disclosure and Presentation”;
- IAS 33 (revised) “Earnings per Share”;
- IAS 36 (revised) “Impairment of Assets”;
- IAS 38 (revised) “Intangible Assets”; and
- IAS 39 (revised) “Financial Instruments: Recognition and Measurement”;

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

Changes in Accounting Policies (continued)

- IFRIC 5 "Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds" (early adoption).

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

IAS 16 (revised) "Property, Plant and Equipment"

From January 1, 2005 the Group capitalises subsequent expenditures relating to replacement of components of property, plant and equipment. The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing parts when that cost is incurred and the recognition criteria are met. The carrying amount of those parts that are replaced is derecognised in accordance with the derecognition provisions of IAS 16. In 2005, the Group capitalised subsequent expenditures net of replaced components for an approximate amount of $100,000. Net book value of the replaced components amounting to $8,844 was included in loss on disposal of property, plant and equipment in the accompanying consolidated income statement for the year ended December 31, 2005. It is impracticable to determine the effect of adoption of the revised standard on the corresponding figures.

IFRS 3 "Business Combinations"

In 2004, the Group applied IFRS 3 "Business Combinations" to the accounting for business combinations, for which the agreement date was on or after March 31, 2004. In accordance with the transitional provisions of IFRS 3, on January 1, 2005 the Group ceased to recognise negative goodwill in the consolidated balance sheet. The carrying amount of negative goodwill at December 31, 2004 that arose from business combinations, for which the agreement date was before March 31, 2004, or interests in a jointly controlled entity obtained before March 31, 2004 and accounted for by applying the equity method was derecognised at January 1, 2005, with a corresponding adjustment of $389,943 to the opening balance of accumulated profits and minority interest (Notes 4 and 8).

The adoption of other standards listed above had no significant impact on the Group's financial statements.

2. Significant Accounting Policies (continued)

Basis of Preparation (continued)

Changes in Accounting Policies (continued)

IFRSs and IFRIC Interpretations not yet Effective

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

- IAS 19 (amended 2004) "Employee Benefits";
- IAS 39 (amended 2005) "Financial Instruments: Recognition and Measurement";
- IFRS 7 "Financial Instruments: Disclosures";
- IFRIC 4 "Determining whether an Arrangement contains a Lease".

The Group expects that the adoption of the pronouncements listed above will have no significant impact on the Group's financial statements in the period of initial application.

Significant Accounting Judgements and Estimates

Accounting Judgements

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

- The Group determined that the substance of the relationship between the Group and EvrazSecurities S.A., a special purpose entity (Note 1), indicates that EvrazSecurities S.A. is controlled by the Group.

- The Group determined that options to acquire ownership interests in OOO EvrazHoling, Caplink and Velcast (Note 1) represent potential voting rights which provide the Group with the power to exercise control over these subsidiaries.

- The Group determined that purchases of production complexes of OOO Kuznetsky Mining-and-Processing Integrated Works, OAO Sheregeshskoe Rudoupravlenie, OAO Irbinskoe Rudoupravlenie and OOO Nizhnesaldinsky Metallurgical Plant are, in substance, business combinations (Note 4).

Estimation Uncertainty

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

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty (continued)

Impairment of Property, Plant and Equipment

The Group assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset. This requires an estimation of the value in use of the cash-generating units (each individual subsidiary) to which the item is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. In 2005, no impairment losses were recognised or reversed.

Useful Lives of Items of Property, Plant and Equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting Policies, Changes in Accounting Estimates and Errors". In 2005, the change in estimates of useful lives of property, plant and equipment resulted in an additional depreciation expense of approximately $32,400.

Fair Values of Assets and Liabilities Acquired in Business Combinations

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

Impairment of Goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at December 31, 2005 was $84,526 (2004: $0). More details are provided in Note 4.

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty (continued)

Site Restoration Provisions

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

In 2005, as a result of a change in the estimated costs and timing of restoration works, the related provision was reduced by $8,524.

Post-Employment Benefits

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

In addition, post-employment benefit obligations were calculated taking into consideration that certain of the Group's subsidiaries plan to discontinue to pay lump-sum amounts at retirement date after 2008-2011.

Allowances

The Group makes allowances for doubtful accounts receivable. Significant judgement is used to estimate doubtful accounts. In estimating doubtful accounts such factors are considered as current overall economic conditions, industry-specific economic conditions, historical and anticipated customer performance. Changes in the economy, industry, or specific customer conditions may require adjustments to the allowance for doubtful accounts recorded in the consolidated financial statements. As of December 31, 2005, 2004 and 2003, allowances for doubtful accounts have been made in the amount of $49,088, $27,783 and $15,003, respectively (Note 12).

2. Significant Accounting Policies (continued)

Significant Accounting Judgements and Estimates (continued)

Estimation Uncertainty (continued)

Allowances (continued)

The Group makes allowance for obsolete and slow-moving raw materials and spare parts. As of December 31, 2005, 2004 and 2003, allowance for the obsolete and slow-moving items was $20,725, $8,386 and $5,399, respectively (Note 11). In addition, certain finished goods of the Group are carried at net realisable value. Estimates of net realisable value of finished goods are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of the period.

Deferred Income Tax Assets

Deferred tax assets are reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgments based on the expected performance.

Foreign Currency Transactions

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

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

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

2. Significant Accounting Policies (continued)

Basis of Consolidation

Subsidiaries

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

Acquisition of Subsidiaries

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

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

(a) the fair value of the identifiable assets and liabilities acquired as at the date of acquisition to the extent of the acquirer's interest obtained in the acquisition; and
(b) the minority's proportion of the pre-acquisition carrying amounts of the identifiable assets and liabilities of the subsidiary.

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

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

2. Significant Accounting Policies (continued)

Basis of Consolidation (continued)

Acquisition of Subsidiaries (continued)

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

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

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

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

Increases in Ownership Interests in Subsidiaries

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

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

2. Significant Accounting Policies (continued)

Basis of Consolidation (continued)

Purchases of Controlling Interests in Subsidiaries from Entities under Common Control

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

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

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

Investments in Associates

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

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

Interest in a Joint Venture

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

(All amounts are in thousands of US dollars, unless specified otherwise)

2. Significant Accounting Policies (continued)

Property, Plant and Equipment

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

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

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

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

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

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

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

2. Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

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

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

Leases

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

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

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

Emission Rights

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

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

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

2. Significant Accounting Policies (continued)

Emission Rights (continued)

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

Goodwill

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

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

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

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

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

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

2. Significant Accounting Policies (continued)

Investments

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

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

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

Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity. Held-to-maturity investments are carried at amortised cost using the effective yield method.

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

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

2. Significant Accounting Policies (continued)

Investments (continued)

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

Inventories

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

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

Accounts Receivable

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

Value Added Tax

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

VAT Payable

VAT is payable to tax authorities upon collection of receivables from customers. VAT on purchases, which have been settled at the balance sheet date, is deducted from the amount payable. In addition, VAT related to sales which have not been settled at the balance sheet date (VAT deferred) is also included in VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

VAT Recoverable

VAT recoverable relates to purchases which have not been settled at the balance sheet date and property, plant and equipment not put into operation. VAT recoverable is reclaimable against VAT related to sales upon payment for the purchases and putting property, plant and equipment into operation.

2. Significant Accounting Policies (continued)

Cash and Cash Equivalents

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

Borrowings

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

Shareholders' Equity

Share Capital

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

Dividends

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

Provisions

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

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

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

2. Significant Accounting Policies (continued)

Employee Benefits

Social and Pension Contributions

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

Post-Employment Benefits

The Group companies provide additional pensions and other post-employment benefits to their employees in accordance with collective bargaining agreements. In addition, one of the Group's subsidiaries operates a separately administered defined benefit pension scheme. The entitlement to these benefits is usually conditional on both the employee remaining in service up to retirement age and the completion of a minimum service period. The amount of the benefits is stipulated in the collective bargaining agreements.

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

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

Other Costs

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

2. Significant Accounting Policies (continued)

Share-based Payment

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

The cost of equity-settled transactions with non-executive directors and employees is measured by reference to the fair value at the date on which they are granted. The fair value is determined using the Black-Scholes-Merton model, further details of which are given in Note 21. In valuing equity-settled transactions, no account is taken of any conditions, other than conditions of remaining in service up to the vesting date.

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

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

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

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share (Note 15).

2. Significant Accounting Policies (continued)

Revenue

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

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

Sale of Goods

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

Rendering of Services

Revenue is recognised when services are rendered.

Interest

Interest is recognised using the effective interest method.

Dividends

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

Rental Income

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

2. Significant Accounting Policies (continued)

Deferred Income Tax

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

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

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

3. Segment Information

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

(All amounts are in thousands of US dollars, unless specified otherwise)

3. Segment Information (continued)

The following tables present revenue and profit information and certain asset and liability information regarding business segments for the years ended December 31, 2005, 2004 and 2003:

Year ended December 31, 2005

	Steel production	Mining	Other operations	Eliminations	Total
Revenue					
Sales to external customers	$ 6,133,506	$ 147,072	$ 227,505	$ –	$ 6,508,083
Inter-segment sales	87,561	842,015	417,017	(1,346,593)	–
Total revenue	6,221,067	989,087	644,522	(1,346,593)	6,508,083
Result					
Segment result	$ 1,310,836	$ 259,059	$ 33,818		$ 1,603,713
Unallocated expenses					(19,221)
Profit from operations					$ 1,584,492
Share of profits/(losses) of joint ventures and associates	805	43,921	114		44,840
Other income/(expenses), net					(110,244)
Income tax expense					(476,467)
Net profit					$ 1,042,621
Assets and liabilities					
Segment assets	$ 4,179,378	$ 949,230	$ 203,609		$ 5,332,217
Investments in joint ventures and associates	1,634	891,936	–		893,570
Unallocated assets					425,128
Total assets					$ 6,650,915
Segment liabilities	$ 1,416,991	$ 180,744	$ 127,769		$ 1,725,504
Unallocated liabilities					2,040,534
Total liabilities					$ 3,766,038
Other segment information					
Additions to property, plant and equipment	$ 611,255	$ 124,510	$ 36,524		$ 772,289
Property, plant and equipment acquired in business combinations	188,891	9,798	–		198,689
Depreciation, depletion and amortisation	(189,811)	(53,832)	(12,593)		(256,236)
Impairment of assets	(330)	(971)	–		(1,301)

(All amounts are in thousands of US dollars, unless specified otherwise)

3. Segment Information (continued)

Year ended December 31, 2004

	Steel production	Mining	Other operations	Eliminations	Total
Revenue					
Sales to external customers	$ 5,726,069	$ 116,409	$ 90,643	$ –	$ 5,933,121
Inter-segment sales	82,972	494,365	254,195	(831,532)	–
Total revenue	5,809,041	610,774	344,838	(831,532)	5,933,121
Result					
Segment result	$ 1,742,283	$ 91,767	$ 6,368		$ 1,840,418
Unallocated expenses					(3,835)
Profit from operations					$ 1,836,583
Share of profits/(losses) of joint ventures and associates	–	43,141	(104)		43,037
Other income/(expenses), net					(157,443)
Income tax expense					(377,289)
Net profit					$ 1,344,888
Assets and liabilities					
Segment assets	$ 3,027,897	$ 779,795	$ 163,674		$ 3,971,366
Investments in joint ventures and associates	1,237	195,017	396		196,650
Unallocated assets					85,245
Total assets					$ 4,253,261
Segment liabilities	$ 1,112,285	$ 213,256	$ 108,144		$ 1,433,685
Unallocated liabilities					852,953
Total liabilities					$ 2,286,638
Other segment information					
Additions to property, plant and equipment	$ 487,924	$ 47,961	$ 97,099		$ 632,984
Property, plant and equipment acquired in business combinations	–	532,496	–		532,496
Depreciation, depletion and amortisation	(164,545)	(30,517)	(6,878)		(201,940)
Impairment of assets	(75)	–	(1,291)		(1,366)

(All amounts are in thousands of US dollars, unless specified otherwise)

3. Segment Information (continued)

Year ended December 31, 2003

	Steel production	Mining	Other operations	Eliminations	Total
Revenue					
Sales to external customers	$ 2,042,156	$ 60,377	$ 65,456	$ –	$ 2,167,989
Inter-segment sales	17,933	171,632	31,973	(221,538)	–
Total revenue	$ 2,060,089	$ 232,009	$ 97,429	$ (221,538)	$ 2,167,989
Result					
Segment result	$ 335,261	$ 6,903	$ (1,922)		$ 340,242
Unallocated expenses					(4,594)
Profit from operations					$ 335,648
Share of losses of associates	–	–	(121)		(121)
Other income/(expenses), net					(7,710)
Income tax expense					(74,873)
Net profit					$ 252,944
Assets and liabilities					
Segment assets	$ 1,864,661	$ 171,577	$ 51,486		$ 2,087,724
Investments in joint ventures and associates	1,413	–	2,210		3,623
Unallocated assets					140,490
Total assets					$ 2,231,837
Segment liabilities	$ 334,393	$ 78,240	$ 27,462		$ 440,095
Unallocated liabilities					1,232,613
Total liabilities					$ 1,672,708
Other segment information					
Additions to property, plant and equipment	$ 234,150	$ 14,184	$ 5,420		$ 253,754
Property, plant and equipment acquired in business combinations	–	–	22,673		22,673
Depreciation, depletion and amortisation	(158,335)	(7,735)	(3,507)		(169,577)
Impairment of assets	(5,068)	–	(431)		(5,499)

(All amounts are in thousands of US dollars, unless specified otherwise)

3. Segment Information (continued)

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

	2005	2004	2003
Russia	**$ 3,889,099**	$ 3,288,123	$ 1,561,789
Taiwan	**522,257**	806,674	95,935
Thailand	**476,731**	457,574	53,136
Vietnam	**211,465**	213,000	37,873
Iran	**203,486**	195,456	47,320
Philippines	**197,992**	214,655	69,957
China	**175,977**	339,021	178,356
Korea	**166,260**	213,292	45,095
Italy	**113,248**	24,088	11,331
USA	**86,941**	8,229	3,116
Kazakhstan	**80,384**	36,561	17,935
Other countries	**384,243**	136,448	46,146
	$ 6,508,083	$ 5,933,121	$ 2,167,989

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

	2005	2004	2003
Russia	**$ 4,990,392**	$ 3,439,893	$ 1,736,854
Other countries	**1,660,523**	813,368	494,983
	$ 6,650,915	$ 4,253,261	$ 2,231,837

In 2005, 2004 and 2003, substantially all the additions to the Group's property, plant and equipment related to the Russian operations of the Group.

4. Acquisitions and Increases of Ownership Interests in Subsidiaries

NTMK

In the years ended December 31, 2003 and 2002, the Group acquired minority interests in NTMK (32.64% ownership interest) for an aggregate cash consideration of $35,238. These acquisitions were accounted for as step acquisitions and the Group has recorded negative goodwill of $90,962. Through December 31, 2004, the amount of negative goodwill was amortised over the remaining average useful life of the identifiable depreciable assets acquired (13.5-15.5 years). On January 1, 2005, the Group ceased recognition of negative goodwill in the balance sheet (Note 2).

In the years ended December 31, 2005 and 2004, the Group acquired additional minority interests in NTMK (11.94% and 6.09% ownership interest, respectively) for cash consideration of $235,861 and $47,980, respectively. The excess of the amounts of consideration over the carrying value of minority interest acquired amounting to $74,991 and $8,466, respectively, was charged to accumulated profits.

ZapSib

In the years ended December 31, 2003 and 2002, the Group acquired minority interests in ZapSib (56.58% ownership interest) for an aggregate cash consideration of $80,393. These acquisitions were accounted for as step acquisitions and the Group has recorded negative goodwill of $33,025. Through December 31, 2004, the amount of negative goodwill was amortised over the remaining average useful life of the identifiable depreciable assets acquired (10-12 years). On January 1, 2005, the Group ceased recognition of negative goodwill in the balance sheet (Note 2).

In the years ended December 31, 2005 and 2004, the Group acquired additional minority interests in ZapSib (2.08% and 1.23% ownership interest, respectively) for cash consideration of $41,154 and $9,323, respectively. In the years ended December 31, 2005 and 2004, the excess of the amounts of consideration over the carrying values of minority interests acquired amounting to $23,122 and $3,662, respectively, was charged to accumulated profits, and the excess of the carrying values of minority interests acquired over consideration amounting to $0 and $587, respectively, was included in additional paid-in capital.

NMTP

On February 15, 2003, the Group acquired a 24.48% ownership interest in OAO Nakhodka Commercial Sea Port (“NMTP”) for $3,815. Prior to this date, the Group had accumulated a 35.47% ownership interest in NMTP for an aggregate cash consideration of $6,364, resulting in the recognition of negative goodwill of $5,045.

The acquisition on February 15, 2003 provided the Group a controlling interest and, as a result, the financial position and the results of operations of NMTP have been included in the Group’s consolidated financial statements as of this date. Prior to February 15, 2003, NMTP was accounted for under the equity method.

(All amounts are in thousands of US dollars, unless specified otherwise)

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

The table below sets forth the fair values of NMTP's assets and liabilities at the date of acquisition:

	February 15, 2003
Property, plant and equipment	$ 22,705
Other non-current assets	3,154
Inventories	1,621
Accounts and notes receivable	4,805
Other current assets	3,830
Cash	1,852
Total assets	**37,967**
Non-current liabilities	710
Deferred income tax liabilities	414
Current liabilities	3,982
Total liabilities	**5,106**
Net assets	**$ 32,861**
Fair value of net assets attributable to 24.48% ownership interest	$ 8,044
Less: purchase consideration	(3,815)
Negative goodwill on acquisition of 24.48% ownership interest	4,229
Negative goodwill recognised on acquisitions prior to February 15, 2003	5,045
Total negative goodwill at February 15, 2003	**$ 9,274**

NMTP's net loss for the period from February 15, 2003 to December 31, 2003 amounted to $2,562.

In the period from February 15, 2003 to December 31, 2003, the Group acquired an additional 31.56% ownership interests in NMTP for a consideration of $6,374. These acquisitions were accounted for as step acquisitions and the Group has recorded additional negative goodwill of $4,473. Through December 31, 2004, the amount of negative goodwill was amortised over the remaining average useful life of the identifiable depreciable assets acquired (9 years). On January 1, 2005, the Group ceased recognition of negative goodwill in the balance sheet (Note 2).

In the year ended December 31, 2005, the Group acquired additional minority interests in NMTP (2.10%) for cash consideration of $240. The excess of the carrying values of minority interests acquired over consideration amounting to $396 was included in additional paid-in capital.

(All amounts are in thousands of US dollars, unless specified otherwise)

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

Kachkanarsky Mining-and-Processing Integrated Works

On May 21, 2004, the Group acquired 83.59% of the ordinary shares in Kachkanarsky Mining-and-Processing Integrated Works ("KGOK") for $190,311. In addition, as part of the acquisition cost, the Group purchased restructured debts of KGOK with a fair value of $20,595 for $44,264. As a result, the financial position and the results of operations of KGOK were included in the Group's consolidated financial statements beginning May 21, 2004.

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

	May 21, 2004
Property, plant and equipment	$ 337,053
Other non-current assets	3,983
Inventories	17,140
Accounts and notes receivable	66,342
Cash	2,271
Total assets	**426,789**
Non-current liabilities	35,722
Deferred income tax liabilities	68,155
Current liabilities	66,924
Total liabilities	**170,801**
Net assets	**$ 255,988**
Fair value of net assets attributable to 83.59% ownership interest	**213,980**
Purchase consideration	**$ 213,980**

KGOK's net profit for the period from May 21, 2004 to December 31, 2004 amounted to $58,220.

Subsequent to the acquisition date, in 2004, the Group acquired an additional 14.04% ownership interest in KGOK for $31,256. The excess of the carrying value of minority interest over the amount of consideration amounting to $11,420 was recorded in additional paid-in capital.

In 2005, the Group acquired additional minority interests in KGOK (0.08%) for cash consideration of $791. The excess of the amounts of consideration over the carrying value of minority interest acquired amounting to $532 was charged to accumulated profits.

(All amounts are in thousands of US dollars, unless specified otherwise)

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

Kuznetsky Mining-and-Processing Integrated Works

In February 2004, the Group acquired a production complex from OOO Centerprom-MT for $8,085. The production complex consisted of items of property, plant and equipment, which were previously owned by OOO Kuznetsky Mining-and-Processing Integrated Works ("KuzGOK"). The production complex acquired represents a business and was accounted for as a business combination in accordance with IAS 22. Identifiable assets and liabilities of the production complex were measured at fair value on the date of acquisition. In September 2004, the Group acquired 100% ownership interest in KuzGOK, for $1. KuzGOK had licenses for iron ore reserves being mined using the assets of the production complex acquired.

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

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

	February 19, 2004	September 30, 2004	Total
Property, plant and equipment	$ 87,943	$ 8,315	$ 96,258
Inventories	–	2,743	2,743
Accounts and notes receivable	–	20,494	20,494
Cash	–	7	7
Total assets	**87,943**	**31,559**	**119,502**
Non-current liabilities	2,293	1,178	3,471
Deferred income tax liabilities	19,063	–	19,063
Current liabilities	–	51,843	51,843
Total liabilities	**21,356**	**53,021**	**74,377**
Net assets/(liabilities)	**66,587**	**(21,462)**	**45,125**
Purchase consideration	**8,085**	**1**	**8,086**
Total goodwill/(negative goodwill)	**$ (58,502)**	**$ 21,463**	**$ (37,039)**

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

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

(All amounts are in thousands of US dollars, unless specified otherwise)

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

Sheregeshskoe and Irbinskoe Ore Deposits

In July 2004, the Group acquired production complexes of OAO Sheregeshskoe Rudoupravlenie ("Sheregeshskoe Ore Deposit") and OAO Irbinskoe Rudoupravlenie ("Irbinskoe Ore Deposit") on open auctions for cash considerations of $2,996 and $3,053, respectively. The production complexes acquired represent businesses and therefore their acquisitions were accounted for as business combinations in accordance with IFRS 3. Identifiable assets, liabilities and contingent liabilities of the production complexes were measured at fair value on the dates of acquisitions.

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

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

	July 30, 2004
Property, plant and equipment	$ 37,991
Inventories	798
Accounts and notes receivable	324
Total assets	**39,113**
Non-current liabilities	1,216
Deferred income tax liabilities	9,946
Total liabilities	**11,162**
Net assets	**27,951**
Purchase consideration	**2,996**
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition recognised in the income statement	**$ (24,955)**

(All amounts are in thousands of US dollars, unless specified otherwise)

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

Sheregeshskoe and Irbinskoe Ore Deposits (continued)

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

	July 30, 2004
Property, plant and equipment	$ 37,262
Inventories	704
Accounts and notes receivable	2,729
Total assets	**40,695**
Non-current liabilities	850
Deferred income tax liabilities	10,418
Total liabilities	**11,268**
Net assets	**$ 29,427**
Purchase consideration	**3,053**
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition recognised in the income statement	**$ (26,374)**

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

Mastercroft

On June 1, 2005, the Group acquired a 4.17% interest in Mastercroft for cash consideration of $124,000. The excess of the amount of consideration over the carrying value of that minority interest amounting to $31,944 was charged to accumulated profits.

LDPP

On June 30, 2005, the Group acquired additional minority interest of 30.10% in OAO Large Diameter Pipe Plant ("LDPP") for cash consideration of $12,598. The excess of the amount of the carrying value of minority interest over consideration amounting to $1,383 was included in additional paid-in capital.

Palini & Bertoli S.p.A.

On August 11, 2005, the Group acquired a 75% plus one share ownership interest in Clama S.r.l. ("Clama"). Clama owns 100% of the share capital of Palini & Bertoli S.p.A. ("Palini"), an Italian rolling mill. Purchase consideration for both companies amounted to $118,722, including transaction costs of $2,736 and fair value of a put/call option of $3,676. Under the put/call option agreement, the minority shareholders in Clama have a put option, and the Group has a corresponding call option, exercisable in the period of 2007-2010, in respect of 25% minus one share ownership interest in Clama.

(All amounts are in thousands of US dollars, unless specified otherwise)

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

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

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

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

	August 11, 2005
Property, plant and equipment	$ 47,365
Deferred tax asset	4,132
Inventories	51,704
Accounts and notes receivable	63,543
Cash	72
Total assets	**166,816**
Non-current liabilities	1,686
Deferred income tax liabilities	8,722
Current liabilities	120,519
Total liabilities	**130,927**
Net assets	**$ 35,889**
Fair value of net assets attributable to 75% plus one share ownership interest	**26,917**
Purchase consideration	**118,722**
Goodwill as of August 11, 2005	**91,805**
Translation difference	(7,279)
Goodwill as of December 31, 2005	**$ 84,526**

Clama's consolidated net profit for the period from August 11, 2005 to December 31, 2005 amounted to $8,579.

The acquisition of Palini was accounted for based on provisional values as the subsidiary, as of the date of authorisation of issue of these financial statements, has not completed valuation of assets in accordance with IFRS 3.

(All amounts are in thousands of US dollars, unless specified otherwise)

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

Vitkovice Steel

On November 14, 2005, the Group acquired a 98.96% ownership interest in Vitkovice Steel ("Vitkovice"), a rolling mill, located in the Czech Republic, for cash consideration of $298,084, including transaction costs of $15,146.

As a result, the financial position and the results of operations of Vitkovice were included in the Group's consolidated financial statements beginning November 14, 2005. The table below sets forth the fair values of Vitkovice's consolidated identifiable assets, liabilities and contingent liabilities at the date of acquisition:

	November 14, 2005
Property, plant and equipment	$ 130,442
Deferred tax asset	2,759
Other non-current assets	25,612
Inventories	96,717
Accounts and notes receivable	109,523
Other current assets	2,237
Cash	88,957
Total assets	**456,247**
Non-current liabilities	643
Current liabilities	145,359
Total liabilities	**146,002**
Net assets	**$ 310,245**
Fair value of net assets attributable to 98.96% ownership interest	**307,018**
Purchase consideration	**298,084**
Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition recognised in the income statement	**$ (8,934)**

Vitkovice's consolidated net loss for the period from November 14, 2005 to December 31, 2005 amounted to $4,317.

The acquisition of Vitkovice was accounted for based on provisional values as the subsidiary, as of the date of authorisation of issue of these financial statements, has not completed valuation of assets in accordance with IFRS 3.

(All amounts are in thousands of US dollars, unless specified otherwise)

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

Other Acquisitions

In 2005, the Group purchased 100% ownership interest in OOO Mine 12 ("Mine 12") and OAO Zapadno-Sibirskoye Geologicheskoye Upravlenie ("ZSGU"). In addition, the Group acquired the assets and the business of OOO Nizhnesaldinsky Metallurgical Plant. The excess of fair value of identifiable assets, liabilities and contingent liabilities acquired over consideration amounting to $6,281 was included in the income statement. Goodwill of $971 was determined as impaired and included in impairment of assets in the accompanying income statement for the year ended December 31, 2005.

Disclosure of Other Information in Respect of Business Combinations

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

Negative Goodwill

The table below presents a reconciliation of the carrying amount of negative goodwill at December 31, 2005, 2004 and 2003:

	Gross book value	Accumulated amortisation	Total
At December 31, 2002	(358,386)	17,855	(340,531)
Negative goodwill previously recognised in investments under the equity method	(5,045)	343	(4,702)
Negative goodwill recognised on acquisitions	(23,974)	–	(23,974)
Amortisation	–	26,271	26,271
Translation difference	(6,048)	310	(5,738)
At December 31, 2003	(393,453)	44,779	(348,674)
Negative goodwill recognised on acquisitions	(37,039)	–	(37,039)
Amortisation	–	28,012	28,012
Translation difference	(5,488)	577	(4,911)
At December 31, 2004	(435,980)	73,368	(362,612)
Change in accounting policies: derecognition of negative goodwill	**435,980**	**(73,368)**	**362,612**
At January 1, 2005 and **December 31, 2005**	**$ –**	**$ –**	**$ –**

As described in Changes in Accounting Policies above, in accordance with the transitional provisions of IFRS 3, on January 1, 2005 the Group ceased to recognise negative goodwill in the consolidated balance sheet.

(All amounts are in thousands of US dollars, unless specified otherwise)

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

Goodwill

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

	Carrying amount
At December 31, 2004	**$ –**
Goodwill recognised on acquisitions of subsidiaries (Note 4)	92,776
Impairment of goodwill (Note 4)	(971)
Translation difference	(7,279)
At December 31, 2005	**$ 84,526**

The carrying value of goodwill of €71,650,000 ($84,526 at the exchange rate as of December 31, 2005) relates to the acquisition of Clama and Palini in 2005. The recoverable amount of goodwill was based on value in use determined based on future cash flow analysis covering an eight-year period and a discount rate of 14.8% per annum. For periods beyond this eight year projection a zero terminal value was assumed. The calculations have used the following key assumptions:

- Expected commodity prices of steel plates in the range from €430 to €470;
- Plant cost per ton for the production of steel plates was adjusted for inflationary increases of 2% for 2006 onwards.

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

5. Revenues and Expenses

Revenue from sales of goods and cost of revenues included non-monetary exchanges of dissimilar goods for $0, $0 and $239,165 for the years ended December 31, 2005, 2004 and 2003, respectively.

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

	2005	2004	2003
Cost of inventories recognised as expense	**$ 2,509,203**	$ 2,299,722	$ 891,466
Staff costs, including social security taxes	**769,188**	591,771	288,218
Depreciation, depletion and amortisation	**242,908**	196,302	145,872

Gain on Financial Assets

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

(All amounts are in thousands of US dollars, unless specified otherwise)

5. Revenues and Expenses (continued)

Other Non-Operating Loss

Other non-operating loss for the year ended December 31, 2005 includes $10,000 paid to the government of Georgia as a non-refundable prepayment for the acquisition of ownership interest in JSC Chiaturmanganum and JSC Vartsikhe GES. The Group planned to acquire a 63.08% interest in these entities, but abandoned the project.

6. Income Taxes

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

	2005	**2004**	**2003**
Current income tax expense	**$ 466,564**	$ 444,038	$ 111,652
Adjustment in respect of income tax of previous years	**7,412**	–	–
Deferred income tax expense/(benefit)			
Relating to origination and reversal of temporary differences	**2,491**	(66,749)	(36,779)
Income tax expense reported in the consolidated income statement	**$ 476,467**	$ 377,289	$ 74,873

In the years ended December 31, 2005, 2004 and 2003, the Group's income was subject to tax at 24% in the Russian Federation, 10% in Cyprus, and 24% and 11.6% (depending on the type of income) in Switzerland. Ferrotrade Limited has a Taxation Exemption Certificate under which it is currently liable to tax at the fixed annual amount of £225. This certificate is valid through 2010.

(All amounts are in thousands of US dollars, unless specified otherwise)

6. Income Taxes (continued)

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

	2005	2004	2003
Profit before income tax	**$ 1,519,088**	$ 1,722,177	$ 327,817
At the Russian statutory income tax rate of 24%	**364,581**	413,323	78,677
Adjustment in respect of income tax of previous years	**7,412**	–	–
Effect of non-deductible expenses and other non-temporary differences	**55,945**	42,340	7,762
Effect of the difference in tax rates on dividend income	**(10,510)**	–	–
Tax on dividends distributed by the Group's subsidiaries to parent company	**44,187**	–	–
Effect of the difference in tax rates in countries other than the Russian Federation	**(6,507)**	(60,349)	(11,566)
Deferred income tax provided for undistributed earnings of the Group's subsidiaries	**1,663**	16,337	–
Share of profits in joint ventures and associates	**(3,051)**	(10,263)	–
Excess of interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over the cost of acquisition	**(3,652)**	(12,951)	–
Gain on financial assets	–	(13,725)	–
Change in allowance for deferred tax asset	**26,399**	2,577	–
Income tax expense reported in the consolidated income statement	**$ 476,467**	$ 377,289	$ 74,873

(All amounts are in thousands of US dollars, unless specified otherwise)

6. Income Taxes (continued)

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

	2005	Change recognised in income statement	Change due to business combinations	Translation difference	2004	Change recognised in income statement	Change due to business combinations	Translation difference	2003
Deferred income tax liabilities:									
Property, plant and equipment	$ 237,622	$ 4,865	$ 11,752	$ (7,215)	$ 228,220	$ (14,656)	$ 103,025	$ 10,298	$ 129,553
Liabilities under the Settlement Agreements	1,059	(12,673)	–	(854)	14,586	(31,722)	8,669	1,395	36,244
Undistributed earnings of subsidiaries	18,000	1,663	–	–	16,337	16,337	–	–	–
Other	17,114	(24)	3,024	(622)	14,736	7,532	679	3,924	2,601
	273,795	(6,169)	14,776	(8,691)	273,879	(22,509)	112,373	15,617	168,398
Deferred income tax assets:									
Tax losses available for offset	29,871	25,577	1,835	(118)	2,577	2,577	–	–	–
Accrued liabilities	24,260	2,774	723	1,090	19,673	13,135	(2,578)	1,065	8,051
Accounts receivable	14,677	4,333	290	(1,833)	11,887	2,541	5,255	667	3,424
Other	23,584	(14,945)	6,972	329	31,228	28,564	624	287	1,753
	92,392	17,739	9,820	(532)	65,365	46,817	3,301	2,019	13,228
Valuation allowance	(28,774)	(26,399)	–	202	(2,577)	(2,577)	–	–	–
	63,618	(8,660)	9,820	(330)	62,788	44,240	3,301	2,019	13,228
Net deferred income tax asset	17,002	7,069	6,891	(348)	3,390	3,465	–	(75)	–
Net deferred income tax liability	$ 227,179	$ 9,560	$ 11,847	$ (8,709)	$ 214,481	$ (63,284)	$ 109,072	$ 13,523	$155,170

As of December 31, 2005, 2004 and 2003, deferred income taxes have been provided for undistributed earnings of the Group's subsidiaries amounting to $464,725, $273,268 and $0, respectively, as management intended to dividend these amounts. Management does not intend to distribute other earnings in the foreseeable future.

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

In the context of the Group's current structure, tax losses and current tax assets of the different companies may not be set off against current tax liabilities and taxable profits of other companies, except for the companies registered in Cyprus where group relief can be applied. As of December 31, 2005, the unused tax losses carry forward approximated to $155,513. The Group recognised deferred tax asset of $4,319 in respect of unused tax losses. Deferred tax asset in the amount of $25,552 has not been recorded as it is not probable that sufficient taxable profit will be available in the foreseeable future to offset these losses. Tax losses of $139,313 for which deferred tax asset was not recognised arose in companies registered in Luxembourg, Cyprus and Russia. Losses in the amount of $119,283 are available indefinitely for offset against future taxable profits of the companies in which the losses arose and $20,030 will expire during 2012-2015.

(All amounts are in thousands of US dollars, unless specified otherwise)

7. Property, Plant and Equipment

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

	2005	2004	2003
Cost:			
Land	**$ 57,259**	$ 53,250	$ 26,239
Buildings and constructions	**814,503**	662,182	274,324
Machinery and equipment	**1,590,924**	1,276,433	935,563
Transport and motor vehicles	**185,732**	143,970	20,996
Mining assets	**313,950**	284,244	169,838
Other assets	**57,456**	46,204	29,292
Assets under construction	**671,036**	499,430	242,961
	3,690,860	2,965,713	1,699,213
Accumulated depreciation, depletion and amortisation:			
Buildings and constructions	**(98,669)**	(70,568)	(40,367)
Machinery and equipment	**(531,497)**	(440,467)	(276,526)
Transport and motor vehicles	**(30,644)**	(13,080)	(5,187)
Mining assets	**(33,714)**	(14,488)	(6,755)
Other assets	**(27,918)**	(18,804)	(10,912)
	(722,442)	(557,407)	(339,747)
Government grants:			
Machinery and equipment, net	**(8,228)**	(9,377)	(9,628)
	$ 2,960,190	$ 2,398,929	$ 1,349,838

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of $126,557, $137,489 and $74,027 as of December 31, 2005, 2004 and 2003, respectively.

(All amounts are in thousands of US dollars, unless specified otherwise)

7. Property, Plant and Equipment (continued)

The movement in property, plant and equipment for the year ended December 31, 2005 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, 2004 cost, net of accumulated depreciation and government grants	**$ 53,250**	**$ 591,614**	**$ 826,589**	**$ 130,890**	**$269,756**	**$ 27,400**	**$ 499,430**	**$ 2,398,929**
Reclassifications	**–**	**16,849**	**(16,866)**	**–**	**–**	**17**	**–**	**–**
Additions	**951**	**257**	**5,054**	**18,231**	**16,821**	**3,417**	**727,558**	**772,289**
Assets acquired in business combination	**11,798**	**71,422**	**96,820**	**2,558**	**9,252**	**1,065**	**5,774**	**198,689**
Assets put into operation	**1,117**	**106,539**	**366,138**	**26,906**	**18,881**	**9,719**	**(529,300)**	**–**
Disposals	**(523)**	**(12,740)**	**(18,001)**	**(2,228)**	**–**	**(559)**	**(10,599)**	**(44,650)**
Depreciation & depletion charge	**–**	**(34,734)**	**(177,627)**	**(18,136)**	**(15,341)**	**(10,398)**	**–**	**(256,236)**
Amortisation of government grants	**–**	**–**	**826**	**–**	**–**	**–**	**–**	**826**
Change in site restoration provision	**–**	**–**	**–**	**–**	**(8,524)**	**–**	**–**	**(8,524)**
Impairment loss	**(7,111)**	**–**	**–**	**–**	**–**	**–**	**(290)**	**(7,401)**
Translation difference	**(2,223)**	**(23,373)**	**(31,734)**	**(3,133)**	**(10,609)**	**(1,123)**	**(21,537)**	**(93,732)**
At December 31, 2005, cost, net of accumulated depreciation and government grants	**$ 57,259**	**$ 715,834**	**$1,051,199**	**$ 155,088**	**$280,236**	**$ 29,538**	**$ 671,036**	**$ 2,960,190**

The movement in property, plant and equipment for the year ended December 31, 2004 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, 2003, cost, net of accumulated depreciation and government grants	$ 26,239	$ 233,957	$ 649,409	$ 15,809	$163,083	$ 18,380	$ 242,961	$ 1,349,838
Additions	21,214	5,467	5,581	84,612	9,555	3,228	503,327	632,984
Assets acquired in business combination	3,942	322,845	52,539	24,952	95,973	994	31,251	532,496
Assets put into operation	61	32,854	222,459	11,108	–	11,398	(277,880)	–
Disposals	(4)	(2,865)	(3,641)	(650)	–	(899)	(21,967)	(30,026)
Depreciation & depletion charge	–	(29,339)	(146,461)	(8,637)	(10,354)	(7,149)	–	(201,940)
Amortisation of government grants	–	–	811	–	–	–	–	811
Impairment loss	–	–	–	–	(1,701)	–	(127)	(1,828)
Translation difference	1,798	28,695	45,892	3,696	13,200	1,448	21,865	116,594
At December 31, 2004, cost, net of accumulated depreciation and government grants	$ 53,250	$ 591,614	$ 826,589	$ 130,890	$269,756	$ 27,400	$ 499,430	$ 2,398,929

(All amounts are in thousands of US dollars, unless specified otherwise)

7. Property, Plant and Equipment (continued)

The movement in property, plant and equipment for the year ended December 31, 2003 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, 2002, cost, net of accumulated depreciation and government grants	$ 15,844	$ 214,675	$ 667,831	$ 6,926	$ 145,486	$ 15,859	$ 107,761	$ 1,174,382
Additions	7,863	11,797	25,345	2,708	10,627	4,186	191,228	253,754
Assets acquired in business combination	1,059	4,001	15,449	1,860	–	134	170	22,673
Assets put into operation	34	6,611	31,134	6,058	–	3,436	(47,273)	–
Disposals	–	(904)	(3,410)	(48)	–	(625)	(19,676)	(24,663)
Depreciation & depletion charge	–	(19,201)	(137,846)	(2,546)	(4,862)	(5,883)	–	(170,338)
Amortisation of government grants	–	–	761	–	–	–	–	761
Impairment loss	–	–	–	–	–	–	(4,094)	(4,094)
Translation difference	1,439	16,978	50,145	851	11,832	1,273	14,845	97,363
At December 31, 2003, cost, net of accumulated depreciation and government grants	$ 26,239	$ 233,957	$ 649,409	$ 15,809	$ 163,083	$ 18,380	$ 242,961	$ 1,349,838

As of December 31, 2005, 2004 and 2003, certain items of production equipment with an approximate carrying value of $155,838, $95,802 and $103,172, respectively, were pledged to banks as collateral against loans to the Group (Notes 16).

In addition, the Group pledged property, plant and equipment with an approximate carrying value of $0, $0 and $12,752 as of December 31, 2005, 2004 and 2003, respectively, in respect of loans received by the Group's related parties.

8. Investments in Joint Ventures and Associates

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

Name	Business activity	Percentage holding	2005	2004	2003
Investment in a joint venture:					
Corber Enterprises Limited	Coal mining	50.00%	**$ 229,155**	$ 194,712	$ –
Investments in associates:					
ZAO Yuzhkuzbassugol	Coal mining	50.00%	**662,521**	–	–
Other associates			**1,894**	1,938	3,468
			$ 893,570	$ 196,650	$ 3,468

(All amounts are in thousands of US dollars, unless specified otherwise)

8. Investments in Joint Ventures and Associates (continued)

Corber Enterprises Limited

On March 10, 2004, as part of a joint venture agreement, the Group acquired a 50% ownership interest in Corber Enterprises Limited ("Corber"), a joint venture created for the purpose of exercising joint control over economic activities of Raspadskaya Mining Group and other Corber subsidiaries. At the date of acquisition, Corber owned 72.03% of ordinary shares in ZAO Raspadskaya, one of the largest coal mines in the Russian Federation. The Group's consideration in exchange for the ownership interest in Corber was $139,651 including a cash payment of $61,800, the issuance of 6% interest-bearing promissory notes of Mastercroft Mining with total nominal value of $19,200 payable not earlier than March 10, 2006 and a contribution of 88,016 (19.15%) ordinary shares in ZAO Raspadskaya with a carrying value of $58,651.

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

	March 10, 2004
Mineral reserves	$ 269,960
Other property, plant and equipment	176,723
Other non-current assets	1,139
Inventories	11,000
Accounts and notes receivable, net	33,373
Other current assets	1,294
Cash	5,644
Total assets	**499,133**
Non-current liabilities	16,564
Deferred income tax liabilities	82,100
Current liabilities	27,387
Total liabilities	**126,051**
Minority interests	**36,988**
Net assets	**$ 336,094**
Fair value of net assets attributable to 50% effective interest	**168,047**
Negative goodwill	**(28,396)**
Consideration paid	**$ 139,651**

The Group accounted for the investment in Corber under the equity method.

(All amounts are in thousands of US dollars, unless specified otherwise)

8. Investment in Joint Ventures and Associates (continued)

Corber Enterprises Limited (continued)

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

	2005	2004
Mineral reserves	$ 246,381	$ 266,758
Other property, plant and equipment	298,622	234,818
Other non-current assets	3,731	612
Inventories	18,552	12,681
Accounts and notes receivable, net	83,171	63,170
Cash	41,750	48,066
Total assets	**692,207**	**626,105**
Non-current liabilities	26,067	43,243
Deferred income tax liabilities	76,874	80,060
Current liabilities	113,286	34,758
Total liabilities	**216,227**	**158,061**
Minority interests	**17,671**	**23,958**
Net assets	**$ 458,309**	**$ 444,086**

As of December 31, 2005 and 2004, the Group's effective interest in these assets and liabilities is 50%.

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

	Year ended December 31, 2005	From March 10, to December 31, 2004
Revenue	$ 548,891	$ 363,586
Cost of revenue	(329,733)	(211,952)
Other expenses, including income taxes	(103,296)	(64,499)
Net profit	**$ 115,862**	**$ 87,135**
Attributable to:		
Equity holders of the parent entity	$ 112,800	$ 84,152
Minority interests	3,062	2,983
Net profit	**$ 115,862**	**$ 87,135**
Share of profits attributable to the Group	56,400	42,076
Amortisation of negative goodwill	–	1,065
Share of profits of a joint venture	**$ 56,400**	**$ 43,141**

(All amounts are in thousands of US dollars, unless specified otherwise)

8. Investment in Joint Ventures and Associates (continued)

Corber Enterprises Limited (continued)

	Carrying amount
Investment at March 10, 2004	**$ 139,651**
Share of profit of a joint venture	43,141
Translation difference	6,403
Additional paid-in capital in respect of acquisition of minority interests (Note 15)	5,517
Investment at December 31, 2004	**194,712**
Change in accounting policies: derecognition of negative goodwill (Note 2)	27,331
Investment at January 1, 2005	**222,043**
Share of profit of a joint venture	56,400
Dividends paid	(43,689)
Net gains on available-for-sale financial assets	311
Translation difference	(8,886)
Additional paid-in capital in respect of acquisition of minority interests (Note 15)	2,976
Investment at December 31, 2005	**$ 229,155**

ZAO Yuzhkuzbassugol

On December 30, 2005, the Group acquired a 50% ownership interest in ZAO Coal Company Yuzhkuzbassugol (“Yuzhkuzbassugol”) for cash consideration of $675,000 payable to Crondale Overseas Limited (“Crondale”), an entity under common control with the Group (Note 13). Yuzhkuzbassugol, a closed joint stock company, is a vertically integrated group being one of the largest coal producers in Russia. The Group determined that its ownership interest in Yuzhkuzbassugol represents the purchase of an associate.

The acquisition of Yuzhkuzbassugol was accounted for based on provisional values as the associate, as of the date of authorisation of issue of these financial statements, has not completed preparation of IFRS financial statements.

(All amounts are in thousands of US dollars, unless specified otherwise)

8. Investment in Joint Ventures and Associates (continued)

ZAO Yuzhkuzbassugol (continued)

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

	December 30, 2005
Mineral reserves	$ 1,224,886
Other property, plant and equipment	614,534
Investment in an associate	6,767
Other non-current assets	13,790
Inventories	42,372
Accounts and notes receivable, net	80,503
Other current assets	1,752
Cash	11,937
Total assets	**1,996,541**
Non-current liabilities	106,021
Deferred income tax liabilities	313,013
Current liabilities	238,170
Total liabilities	**657,204**
Minority interests	**14,294**
Net assets	**$ 1,325,043**
Fair value of net assets attributable to 50% effective interest	**662,521**
Goodwill	**12,479**
Consideration	**$ 675,000**

The investment in Yuzhkuzbassugol is accounted for under the equity method.

As of December 31, 2005, the Group tested goodwill for impairment and determined that it was impaired. Impairment loss of $12,479 was included in share of profits/(losses) of associates in the accompanying consolidated income statement for the year ended December 31, 2005.

(All amounts are in thousands of US dollars, unless specified otherwise)

9. Cash and Cash Equivalents and Restricted Deposits at Banks

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

	2005	2004	2003
Roubles	**$ 96,216**	$ 64,632	$ 41,767
US dollars	**406,724**	227,194	150,327
Euros	**75,424**	1,121	3,587
Czech Koruna	**61,541**	–	–
Other	**873**	–	–
	$ 640,778	$ 292,947	$ 195,681

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

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

	2005	2004	2003
Deposits to secure bank loans	**$ 24,644**	$ 17,570	$ 22,972
Other	**7,221**	3,441	–
	31,865	21,011	22,972
Less: deposits with current maturities	**(23,794)**	(12,441)	(4,850)
	$ 8,071	$ 8,570	$ 18,122

In 2003-2005, the deposits earned interest in the range from 0.98% to 8.50% per annum. The deposits to secure bank loans are mainly denominated in US dollars.

10. Other Non-Current Assets

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

	2005	2004	2003
Deferred income tax assets (Note 6)	**$ 17,002**	$ 3,390	$ –
Long-term input VAT	**15,784**	4,177	5,968
Emission rights	**10,184**	–	–
Held-to-maturity financial assets	**2,773**	3,696	1,055
Investments in equities of other companies	**2,325**	3,010	5,346
Other	**12,737**	2,084	8,948
	$ 60,805	$ 16,357	$ 21,317

(All amounts are in thousands of US dollars, unless specified otherwise)

11. Inventories

Inventories, at cost, consisted of the following as of December 31:

	2005	2004	2003
Raw materials and spare parts	**$ 427,884**	$ 390,367	$ 188,440
Work-in-progress	**115,200**	63,229	34,885
Finished goods:			
– at cost	**287,444**	327,099	266,386
– at net realisable value	**154,048**	35,510	–
	984,576	816,205	489,711
Allowance for obsolete and slow-moving items	**(20,725)**	(8,386)	(5,399)
	$ 963,851	$ 807,819	$ 484,312

As of December 31, 2005, 2004 and 2003, certain items of inventory with an approximate carrying amount of $203,570, $336,348 and $178,597, respectively, were pledged to banks as collateral against loans provided to the Group (Note 16).

12. Trade and Other Receivables

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

	2005	2004	2003
Trade accounts receivable	**$ 402,913**	$ 275,189	$ 77,537
Other receivables	**20,692**	38,341	17,693
	423,605	313,530	95,230
Allowance for doubtful accounts	**(49,088)**	(27,783)	(15,003)
	$ 374,517	$ 285,747	$ 80,227

(All amounts are in thousands of US dollars, unless specified otherwise)

13. Related Party Disclosures

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

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

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

	Amounts due from related parties			**Amounts due to related parties**		
	2005	**2004**	**2003**	**2005**	**2004**	**2003**
Crondale	**$ –**	$ –	$ –	**$ 275,000**	$ –	$ –
EAM Group	**–**	–	–	**–**	–	7,709
Evrazmetall-Centre	**6,001**	20,930	–	**8,587**	–	–
Evrazmetall-Sibir	**36,343**	21,721	–	**18,707**	349	–
Evrazmetall-Ural	**5,469**	–	–	**–**	–	–
Ferrotrade & Co.	**–**	–	62,247	**–**	–	116,514
Ferrotranstrade	**2,159**	25,453	–	**200**	4,005	–
Goroblagodatskoye Ore Mine	**3,874**	7,778	8,679	**2**	2,456	–
Kuzbassuglepostavka	**–**	–	–	**–**	–	19,408
Marteck Shipping	**–**	–	–	**–**	7,708	–
Relsy KMK	**–**	–	2,277	**–**	–	7,629
SEAR MF	**32**	3	9,028	**2**	–	1,766
Other entities	**26,422**	15,807	65,931	**12,281**	22,988	65,251
Dividends receivable	**14,177**	–	–	–	–	–
Short-term loans receivable/payable	**96**	4,206	16,958	**–**	47,997	35,253
Liabilities to entities under common control for transfers of ownership interests in subsidiaries	**–**	–	–	–	32,303	53,431
	94,573	95,898	165,120	**314,779**	117,806	306,961
Less: allowance for doubtful accounts	**(4,620)**	(6,582)	(8,837)	**–**	–	–
Less: amounts due to related parties under Settlement Agreements	**–**	–	–	**–**	–	(13,329)
	$ 89,953	$89,316	$ 156,283	**$ 314,779**	$ 117,806	$ 293,632

In addition to the balances and transactions disclosed in this note, loans due to and from related parties are presented separately in the accompanying consolidated balance sheets and in Notes 18 and 23.

(All amounts are in thousands of US dollars, unless specified otherwise)

13. Related Party Disclosures (continued)

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

	Sales to related parties			Purchases from related parties		
	2005	**2004**	**2003**	**2005**	**2004**	**2003**
D.E.Metals	**$ –**	$ 637	$ –	**$**	$ 12,423	$ 24,629
Evrazmetall-Centre	**99,723**	105,654	–	**99**	–	–
Evrazmetall-Chernozemie	**18,105**	–	–	–	–	–
Evrazmetall-Povolzhie	**21,845**	–	–	–	–	–
Evrazmetall-Severo-Zapad	**19,522**	–	–	–	–	–
Evrazmetall-Sibir	**122,734**	102,660	–	**439**	–	–
Evrazmetall-Ural	**67,402**	–	–	**129**	–	–
Evro-Aziatskaya Energy Company	**13,591**	117	–	**74,981**	474	–
Ferrotrade & Co.	**–**	124,258	484,669	**–**	–	–
Ferrotranstrade	**233**	45,585	7,377	**1,226**	3,483	1,745
KMK- Energo	**236**	5,538	1,145	**1,746**	51,597	14,213
UDP Denisovskoye	**–**	–	–	**6,016**	–	–
Kuzbassuglepostavka	**–**	–	6,822	**–**	–	229,280
Kuznetsk Coal Company	**–**	10,435	104,471	**–**	73	142,738
Marteck Shipping	**–**	7,238	–	**40,297**	97,528	1,263
PromKhimProduct	**–**	83,866	–	**–**	532	–
Raspadsky Ugol	**–**	–	–	**146,971**	79,504	–
Relsy KMK	**–**	–	27,668	**–**	–	51,451
Steel of KMK	**–**	21,651	18,042	**–**	69,814	13,368
Yuzhkuzbassugol	**26,035**	222	14,609	**426,388**	287,258	6,122
Other entities	**10,702**	31,708	12,583	**30,523**	51,050	24,258
	$ 400,128	$ 539,569	$677,386	**$ 728,815**	$ 653,736	$ 509,067

Crondale is an entity under common control with the Group. Accounts payable to Crondale represent the Group's liabilities for the purchase of 50% share in Yuzhkuzbassugol payable by January 31, 2006 (Note 8). In January 2006, the Group fully repaid its liabilities to Crondale.

ZAO D.E.Metals ("D.E.Metals") became an entity under common control with the Group in 2003. It served as a purchasing agent to the Group.

ZAO EAM Group ("EAM") is an entity under common control with the Group. At December 31, 2003, the Group owed $7,661 to EAM under the Settlement Agreement.

OOO Evrazmetall-Centre, OOO Evrazmetall-Sibir, OOO Evrazmetall-Ural, OOO Evrazmetall-Povolzhie, OOO Evrazmetall-Severo-Zapad, OOO Evrazmetall-Chernozemie, the entities under common control with the Group, purchase steel products from the Group. In 2005, the Group sold approximately 5.74% of volume of steel products to these entities. The transactions were made on terms equivalent to those that prevail in arm's length transactions.

Evro-Aziatskaya Energy Company, an entity under common control, is an energy generating company. It supplies natural gas, coke-oven gas, steam and electricity to certain subsidiaries of the Group and purchases metal products and materials from the Group.

13. Related Party Disclosures (continued)

Ferrotrade & Co. is an entity under common control with the Group. Prior to 2004, Ferrotrade & Co. exported the Group's products from Russia. At the end of 2003, Ferrotrade & Co. discontinued entering into new sales contracts and sold all of its inventories to Ferrotrade Limited, the Group's newly established wholly owned subsidiary. Prior to December 31, 2003, in order to fulfil remaining sales commitments, Ferrotrade & Co. repurchased back from Ferrotrade Limited 521,560 metric tons of steel products at a higher price. The Group did not include these transactions in revenue and cost of revenue. Gain of $24,433 arising from the resale at a higher price was recognised as a net trading gain in the accompanying consolidated income statement for the year ended December 31, 2003. In 2004, the Group sold to Ferrotrade & Co. 467,479 metric tons of steel products for $124,258.

OAO Ferrotranstrade ("Ferrotranstrade"), an entity under common control with the Group, acts as the Group's sales agent. In 2004, the Group also sold its steel products to Ferrotranstrade.

KMK-Energo, an entity under common control with the Group, supplied electricity to certain subsidiaries of the Group.

OOO Kuzbassuglepostavka ("Kuzbassuglepostavka"), an entity under common control with the Group, supplied coal to and purchased tolling services from the Group in 2003. In 2004, Kuzbassuglepostavka ceased to be a related party with the Group.

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

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

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

OOO Raspadsky Ugol ("Raspadsky Ugol"), a subsidiary of the Group's joint venture, sells coal to the Group. Raspadsky Ugol represents approximately 14% of volume of the Group's coal purchases. In 2005, coal was sold at prevailing market prices at the dates of transactions.

OOO Relsy KMK ("Relsy KMK") was an entity under common control with the Group. Relsy KMK sold metal products and materials to and purchased metal products from the Group. In 2003, the Group acquired property, plant and equipment items for 308,506,799 roubles ($10,340 at the exchange rate as of the date of acquisitions) from Relsy KMK. In 2003, Relsy KMK ceased to be a related party.

(All amounts are in thousands of US dollars, unless specified otherwise)

13. Related Party Disclosures (continued)

ZAO SEAR MF ("SEAR MF") is an entity under common control with the Group. At December 31, 2003 and 2002, ZapSib owed $1,562 and 3,681, respectively, to SEAR MF under the Settlement Agreement. In 2004, the Group repaid these liabilities to SEAR MF. The difference between cost and carrying value of the debts amounting to $10,480 was included in loss on extinguishment of debts in the accompanying consolidated income statement for the year ended December 31, 2004.

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

Yuzhkuzbassugol, the Group's associate, sells coal to the Group. In 2005, the Group sold coal to processing mills of Yuzhkuzbassugol in connection with an accident at a coal mine. The entity provides approximately 47% of volume of the Group's coal purchases. In 2005, the transactions were made at prevailing market prices at the dates of transactions.

The balances of amounts due to related parties as of December 31, 2004 and 2003 include liabilities to entities under common control for transfers of ownership interests in subsidiaries. As described in Notes 1 and 15, ownership interests in certain subsidiaries were transferred to the Group in transactions with entities under common control with the Group. When the transfer of ownership interest in such subsidiaries actually occurred after December 31, 2003, and the results of operations of such subsidiaries have been included in the accompanying consolidated financial statements from the dates earlier than December 31, 2003, the carrying amounts of net assets of such subsidiaries, net of minority interests, have been included in amounts due to related parties as of December 31, 2004 and 2003.

Compensation to Key Management Personnel

Key management personnel totalled 33, 22 and 19 persons as at December 31, 2005, 2004 and 2003, respectively. Total compensation to key management personnel were included in general and administrative expenses in the accompanying income statement and consisted of the following:

	2005	2004	2003
Salary	**$ 11,214**	$ 3,806	$ 1,670
Performance bonuses	**11,801**	4,802	30
Social security taxes	**1,552**	622	176
Share-based payments (Note 21)	**5,175**	–	–
Other benefits	**11,750**	26,530	–
	$ 41,492	$ 35,760	$ 1,876

(All amounts are in thousands of US dollars, unless specified otherwise)

14. Taxes Recoverable

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

	2005	2004	2003
Input VAT	**$ 383,824**	$ 324,571	$ 125,829
Other taxes	**93,465**	72,962	23,203
	$ 477,289	$ 397,533	$ 149,032

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

15. Equity

Share Capital

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

Share Capital of Mastercroft

On December 31, 2002, Mastercroft issued 1,966 shares with par value of 1 US dollar each. These shares were paid in cash in 2003.

On May 14, 2003 and October 31, 2003, the Central Bank of Cyprus granted permissions for the additional issue to Crosland of 100,017,700 and 200,000,000 ordinary shares of 1 US dollar each, respectively.

In respect to the shares issued on May 14, 2003, Mastercroft received contributions from Crosland of $100,018, of which $14,018 was in cash and $86,000 was in the form of promissory notes of an entity under common control with the Group. The Group offset its liabilities to that entity under common control against these promissory notes.

In respect of the shares issued on October 31, 2003, Mastercroft called up for payment of 0.1949 US dollar per share out of 1 US dollar, being the nominal value of the ordinary share, and received from Crosland cash of $38,980. As of December 31, 2003, the balance of 0.8051 US dollar has not been called for payment.

In the year ended December 31, 2004, Mastercroft called for payment an additional $30,000 and received this amount from Crosland. As of December 31, 2004, the balance of 0.6551 US dollar has not been called for payment.

15. Equity (continued)

Share Capital (continued)

Share Capital of Mastercroft (continued)

In January 2005, prior to the completion of the Group's reorganisation, Mastercroft called up for payment the remaining $131,020 for shares issued in 2003 and received this amount from Crosland.

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

Share Capital of Evraz Group

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

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

On June 7, 2005, 29,100,000 global depositary receipts, representing additionally issued 9,700,000 shares with par value of €2 each (totalling $23,833 at the exchange rate as of June 7, 2005) were placed on the London Stock Exchange for $421,950. Share premium arising on the share issue amounted to $375,645, net of transaction costs of $22,472.

At December 31, 2005 and 2004, the Company's authorised shares comprised of 157,204,326 and 15,500 ordinary shares, respectively, and the Company's issued and paid share capital comprised of 116,904,326 and 15,500 shares, respectively.

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

(All amounts are in thousands of US dollars, unless specified otherwise)

15. Equity (continued)

Earnings per Share

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

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

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

In 2005, share options granted to participants of the Company's Incentive Plan (Note 15) 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:

	2005	**2004**	**2003**
Weighted average number of ordinary shares for basic earnings per share	**112,731,997**	107,204,326	107,204,326
Effect of dilution: share options	**132,141**	–	–
Weighted average number of ordinary shares adjusted for the effect of dilution	**112,864,138**	107,204,326	107,204,326
Profit for the year attributable to equity holders of the parent	**$ 905,162**	$ 1,179,625	$ 204,982
Basic earnings per share	**$ 8.03**	$ 11.00	$ 1.91
Diluted earnings per share	**$ 8.02**	$ 11.00	$ 1.91

Acquisitions of Minority Interests by a Joint Venture

In 2005 and 2004, Corber, the Group's joint venture, acquired additional 1.43% and 4.20% ownership interests, respectively, in Raspadskaya Mining Group, Corber's subsidiary, for cash consideration of $1,300 and $5,522, respectively. The 50% of excess of the carrying value of acquired minority interest over the amount of consideration paid by the joint venture amounting to $2,976 and $5,517, respectively, was recorded in additional paid-in capital (Note 8).

15. Equity (continued)

Legal Reserve

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

Sale of Minority Interest

On August 6, 2004, Crosland sold 12,500,000 shares (4.17%) of Mastercroft to a minority shareholder for $12,500. The Group charged the amount received by Crosland, Mastercroft's parent prior to reorganisation, to accumulated profits as a distribution to shareholders. Difference between the carrying value of that minority interest and the amount of consideration amounting to $34,885 was recognised by the Group as a loss on sale of minority interest in the accompanying income statement for the year ended December 31, 2004.

Acquisitions of Minority Interests in Subsidiaries

In 2005 and 2004, the Group acquired minority interests in certain subsidiaries (Note 4). The excess of acquired minority interests over the consideration amounting to $1,969 and $20,611, respectively, was recorded as additional paid-in capital and the excess of consideration over the minority interests amounting to $130,589 and $12,128, respectively, was charged to accumulated profits.

Transfers of Ownership Interests in Subsidiaries

The legal transfer of ownership interests in certain subsidiaries has been made by entities under common control with the Group in the year ended December 31, 2003. The excess of the amounts paid by the Group to the entities under common control over the historical cost of net assets transferred to the Group amounting to $24,358 was recorded as a distribution to entities under common control in the accompanying statement of changes in equity for the year ended December 31, 2003.

Distributions to Entities under Common Control

In 2004, the Group's distributions to entities under common control were $3,858, representing dividends payable to an entity under common control, which were declared prior to the transfer of ownership interest in a subsidiary to the Group.

Dividends

On November 19, 2004, directors of Mastercroft approved distribution of dividends in the amount of $58,000, which represents 0.19 US dollars of dividends per share.

On January 13, 2005, directors of Mastercroft approved distribution of dividends of $131,000 to Crosland and other shareholders registered as of December 31, 2004, which represents 0.44 US dollars of dividends per share.

(All amounts are in thousands of US dollars, unless specified otherwise)

15. Equity (continued)

Dividends (continued)

In addition, in 2005, certain subsidiaries of the Group declared dividends. The share of minority shareholders in those dividends was $22,991.

On July 27, 2005, Evraz Group S.A. declared interim dividends of $200,000 payable to the holders registered on May 31, 2005, which represents 1.87 US dollars of dividends per share.

On November 24, 2005, Evraz Group S.A. distributed interim dividends in the amount of $192,892 to the shareholders registered as of November 24, 2005, which represents 1.65 US dollars of dividends per share.

16. Loans and Borrowings

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

	2005	2004	2003
Russian banks	**$ 55,012**	$ 110,061	$ 159,991
International banks	**1,077,436**	688,983	207,990
8.25 per cent notes due 2015	**750,000**	–	–
10.875 per cent notes due 2009	**300,000**	300,000	–
8.875 per cent notes due 2006	**175,000**	175,000	175,000
Bearer coupon debt securities	**–**	36,038	33,951
Loans provided by other companies	**–**	859	11,105
Unamortised debt issue costs	**(36,398)**	(11,669)	(10,109)
Interest payable	**29,263**	18,772	4,362
	$ 2,350,313	$ 1,318,044	$ 582,290

As of December 31, 2005, 2004 and 2003, total interest bearing loans and borrowings consisted of short-term loans and borrowings in the amount of $500,206, $378,583 and $217,880, respectively, and long-term loans and borrowings in the amount of $1,857,242, $932,358 and $370,157, respectively, including the current portion of long-term liabilities of $309,324, $132,596 and $6,002, respectively.

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

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

In 2003, average annual interest rates were 13.0%, 5.8% and 15.0% for short-term loans denominated in roubles, US dollars and euros, respectively, and 13.7%, 7.5%, 6.9% for long-term loans denominated in roubles, US dollars and euros, respectively.

(All amounts are in thousands of US dollars, unless specified otherwise)

16. Loans and Borrowings (continued)

The liabilities are denominated in the following currencies:

	2005	2004	2003
Roubles	**$ 17,668**	$ 78,828	$ 89,116
US dollars	**1,986,630**	1,094,087	463,097
Euros	**353,857**	156,798	40,186
Czech Koruna	**28,556**		
Unamortised debt issue costs	**(36,398)**	(11,669)	(10,109)
	$ 2,350,313	$ 1,318,044	$ 582,290

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

	2005	2004	2003
Less than one year	**$ 838,793**	$ 529,951	$ 228,244
Between one year and two years	**117,146**	290,209	87,439
Between two years and five years	**612,661**	467,002	266,831
After five years	**818,111**	42,551	9,885
Unamortised debt issue costs	**(36,398)**	(11,669)	(10,109)
	$ 2,350,313	$ 1,318,044	$ 582,290

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 December 31, 2005, 2004 and 2003, the Group had equipment with a carrying value of $155,838, $95,802 and $103,172, respectively, pledged as collateral under the loan agreements. In addition, the Group pledged finished goods with a carrying value of $203,570, $336,348 and $178,597 as of December 31, 2005, 2004 and 2003, respectively. In addition, as of December 31, 2005, the Group’s ownership interests in Vitkovice Steel and 100% in Palini e Bertoli S.p.A. (Note 4) were pledged as collateral under the bank loans.

Guaranteed Notes

In September and December 2003, EvrazSecurities issued notes amounting to $175,000. The notes bear interest of 8.875% per annum payable semi-annually and mature on September 25, 2006. Mastercroft Limited, Ferrotrade Limited, ZapSib, NTMK and NKMK, jointly and severally, guaranteed the due and punctual payments of all amounts in respect of the notes except that NKMK’s liabilities are limited to $137,512.

16. Loans and Borrowings (continued)

Guaranteed Notes (continued)

In August and September, 2004, EvrazSecurities issued notes amounting to $300,000. The notes bear interest of 10.875% per annum payable semi-annually and mature on August 3, 2009. Mastercroft Limited, Ferrotrade Limited, ZapSib, NTMK and NKMK, 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 $300,000.

In November 2005, Evraz Group S.A. issued notes amounting to $750,000. The notes bear interest of 8.25% per annum payable semi-annually and mature on November 10, 2015. Mastercroft Limited unconditionally and irrevocably guaranteed the due and punctual payments of all amounts in respect of the notes.

Bearer Coupon Debt Securities

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

Unamortised Debt Issue Costs

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

Unutilised Borrowing Facilities

As of December 31, 2005, the Group had unutilised borrowing facilities in the amount of $716,187.

17. Restructured Taxes Payable

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

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

(All amounts are in thousands of US dollars, unless specified otherwise)

17. Restructured Taxes Payable (continued)

Restructured taxes payable, which are denominated in roubles, were as follows as of December 31:

	2005	2004	2003
Social insurance taxes	**$ 7,232**	$ 16,655	$ 21,714
Road users tax	**–**	14,833	13,301
Tax-related fines and penalties	**559**	4,161	3,029
Other taxes	**50**	652	1,402
	7,841	36,301	39,446
Less current portion (Note 25):			
Social insurance taxes	**(6,687)**	(8,685)	(9,646)
Road users tax	**–**	(4,093)	(2,744)
Tax-related fines and penalties	**(442)**	(119)	(303)
Other taxes	**–**	(145)	(753)
	(7,129)	(13,042)	(13,446)
	$ 712	$ 23,259	$ 26,000

As of December 31, 2005, the nominal amount of $8,032, should be paid in quarterly installments through 2010 as follows:

2006	$ 7,281
2007	685
2008-2010	66

In 2005, the tax authorities approved the forgiveness of certain restructured tax-related fines and penalties. The gain on the forgiveness of the tax-related fines and penalties of $14,285 was included in gain on extinguishment of debts in the consolidated income statement for the year ended December 31, 2005. Loss arising from the early repayment of restructured taxes of $2,020 was included in loss extinguishment of debts in the consolidated income statement for the year ended December 31, 2005.

Further, tax related fines and penalties in the amount of $59,621 to be forgiven under the restructuring terms, if all the other payments are made on a timely basis, were not accrued as of December 31, 2005, because management believes that it is virtually certain that the Group will comply with the payment terms of the restructuring agreements and make timely payments of its current tax liabilities.

Gains on restructurings were recognised at respective restructuring dates as gains on extinguishment of debts. Such gains were $0, $0 and $2,259 in the years ended December 31, 2005, 2004 and 2003, respectively, and included in the accompanying consolidated income statements.

(All amounts are in thousands of US dollars, unless specified otherwise)

18. Long-Term Loans due to Related Parties

Long-term loans due to related parties as of December 31 were as follows:

	2005	2004	2003
Entities under common control:			
Ferrotrade & Co.	$ –	$ –	$ 91,887
Marteck International Ltd.	–	–	11,686
Melandra Marketing	–	–	321
	–	–	103,894
Less: current portion	–	–	(11,373)
	$ –	$ –	$ 92,521

Ferrotrade & Co.

In June 2003, Ferrotrade & Co. granted to the Group a $120,000 loan facility. The loan bore no interest and was repayable on June 1, 2006. The long-term loan due to Ferrotrade & Co. was measured at amortised cost based on a contractual maturity and a discount rate of 3.96% in the accompanying consolidated balance sheet as of December 31, 2003. In 2004, the loan agreement was revised and the facility became payable not later than December 31, 2004, bearing interest at the rate of 4.25% starting from January 1, 2004. In 2004, the Group received additional $11,948 under this loan agreement and in November 2004 repaid the outstanding loan amount along with the interest of $4,091 accrued for the period from January 1, 2004 up to the payment date. Loss of $8,695 arising from the change in terms of the loan agreement was included in loss on extinguishment of debts in the accompanying consolidated income statement for year ended December 31, 2004.

Marteck International Ltd.

In April 2001, Marteck International Ltd. (“Marteck”) granted to the Group a $50,000 loan facility. The loan bore no interest and was repayable on December 31, 2007. In 2004, the Group fully repaid its liabilities to Marteck.

On October 3, 2002, the Group entered into another agreement with Marteck International Ltd. for a loan of € 9,100,000 ($11,373 at the exchange rates as of December 31, 2003). The loan was due for repayment on December 31, 2010 and bore interest of 3% per annum. The loan was fully repaid in June 2004.

19. Finance Lease Liabilities

In 2000-2005, the Group entered into lease agreements under which it has an option to acquire the leased assets at the end of lease term ranging from 2 to 10 years. The estimated average remaining useful life of leased assets varies from 1 to 22 years.

(All amounts are in thousands of US dollars, unless specified otherwise)

19. Finance Lease Liabilities (continued)

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

	2005	2004	2003
Machinery and equipment	**$ 2,890**	$ 4,811	$ 18,537
Transport and motor vehicles	**52,521**	29,369	–
Other assets	**34**	52	–
	$ 55,445	$ 34,232	$ 18,537

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

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

	Principal	**Interest**	**Total**
2006	**$ 7,064**	**$ 3,886**	**$ 10,950**
2007 – 2010	**25,129**	**8,554**	**33,683**
2011	**5,223**	**519**	**5,742**
	37,416	**12,959**	**50,375**
Less: current portion	**(7,064)**	**(3,886)**	**(10,950)**
	$ 30,352	**$ 9,073**	**$ 39,425**

In the years ended December 31, 2005, 2004 and 2003, the average interest rates under the finance lease liabilities were 12.5%, 9.3% and 14.8%.

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

	2005	2004	2003
Roubles	**$ 40**	$ 17,098	$ 5,392
US dollars	**37,228**	13,041	14,293
Euros	**148**	210	–
	$ 37,416	$ 30,349	$ 19,685

20. Post-Employment Benefits

The Group companies provide additional pensions and other post-employment benefits to their employees in accordance with collective bargaining agreements. Defined benefit pensions and other post-employment benefits consist of regular lifetime pension payments and lump-sum amounts payable at the retirement date. These benefits generally depend on years of service, level of compensation and amount of pension payment under the collective bargaining agreement. The Group pays the benefits when they fall due for payment.

(All amounts are in thousands of US dollars, unless specified otherwise)

20. Post-Employment Benefits (continued)

The components of net benefit expense recognised in the consolidated income statement for the years ended December 31, 2005, 2004 and 2003 and amounts recognised in the consolidated balance sheet as of December 31, 2005, 2004 and 2003 for the post-employment benefits are as follows:

Net benefit expense (recognised in cost of sales)

	2005	2004	2003
Current service cost	**$ 2,175**	$ 5,313	$ 1,759
Interest cost on benefit obligation	**4,594**	2,553	1,850
Expected return on plan assets	**(56)**	(50)	(25)
Net actuarial loss recognised in the year	**–**	–	(1)
Past service cost	**22,356**	3,944	6,230
Net benefit expense	**$ 29,069**	$ 11,760	$ 9,813

Benefit liability

	2005	2004	2003
Benefit liability	**$ 78,984**	$ 53,857	$ 31,107
Plan assets	**(444)**	(476)	(408)
	78,540	53,381	30,699
Unrecognised net actuarial losses/(gains)	**2,442**	(3,076)	(1,816)
Unrecognised past service cost	**–**	1,731	–
Benefit obligation	**$ 80,982**	$ 52,036	$ 28,883

Movements in benefit liability

	2005	2004	2003
At January 1	**$ 53,381**	$ 30,699	$ 19,922
Benefit expense	**29,069**	11,760	9,813
Change in liability due to business combinations	**6,154**	11,159	655
Benefits paid	**(7,762)**	(2,934)	(1,589)
Translation difference	**(2,302)**	2,697	1,898
At December 31	**$ 78,540**	$ 53,381	$ 30,699

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

	2005	2004	2003
Discount rate	8.0%	8.0%	8.0%
Future benefits increases	5.0%	4.2%	4.2%

(All amounts are in thousands of US dollars, unless specified otherwise)

21. Share-based Payments

On April 25, 2005, the Group adopted the Incentive Plan under which certain senior executives and members of the Board of Directors ("participants") may acquire shares in the Company. This plan is administrated by the Board of Directors of the Group. The exercise price of the options is fixed at 27.75 US dollars and 43.5 US dollars per share.

The options become exercisable from one to three years from the grant date as follows.

Vesting date	**Number of shares**
December 15, 2005	63,685
June 15, 2006	555,170
June 15, 2007	750,000
June 15, 2008	1,250,000
	2,618,855

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

All of the share options were granted on June 15, 2005.

The Group accounted for its share options at fair value pursuant to the requirements of IFRS 2. The weighted average fair value of options granted during the period was 10.88 US dollars. The fair value of these options was estimated at the date of grant using the Black-Scholes-Merton option pricing model with the following assumptions:

Dividend yield (%)	6.00 – 8.00
Expected volatility (%)	55.00
Risk-free interest rates (%)	4.36 – 4.59
Expected life of options (years)	0.5 – 3

The expected volatility reflects the assumption that the industry average volatility is indicative of future trends which may not necessarily be the actual outcome.

The following table illustrates movements in share options during the year.

	Number of Shares
Outstanding at January 1, 2005	–
Granted during the year	2,618,855
Forfeited during the year	(51,724)
Outstanding at December 31, 2005	**2,567,131**
Exercisable at December 31, 2005	**63,686**

(All amounts are in thousands of US dollars, unless specified otherwise)

21. Share-based Payments (continued)

The weighted average remaining contractual life for the share options outstanding as at December 31, 2005 is 1.68 years.

In the year ended December 31, 2005, compensation expense arising from the share option plan amounted to $8,033.

22. Provisions

In the years ended December 31, 2005, 2004 and 2003, the movement in provisions was as follows:

	Site restoration costs	Legal claims	Other provisions	Total
Balance at December 31, 2002	**$ 10,544**	**$ 5,000**	**$ –**	**$ 15,544**
Increase from passage of time	2,098	–	–	2,098
Change in provisions due to business combinations	–	283	–	283
Utilised in the year	–	(4,300)	–	(4,300)
Unused amounts reversed	–	(786)	–	(786)
Translation difference	886	15	–	901
Balance at December 31, 2003	**13,528**	**212**	**–**	**13,740**
Additional provisions	72	1,196	–	1,268
Increase from passage of time	212	–	–	212
Change in provisions due to business combinations	4,408	–	–	4,408
Utilised in the year	–	(71)	–	(71)
Translation difference	1,024	–	–	1,024
Balance at December 31, 2004	**19,244**	**1,337**	**–**	**20,581**
Additional provisions	**–**	**4,087**	**1,853**	**5,940**
Increase from passage of time	**2,826**	**–**	**–**	**2,826**
Effect of change in the discount rate	**132**	**–**	**–**	**132**
Effect of change in estimated costs and timing	**(8,656)**	**–**	**–**	**(8,656)**
Change in provisions due to business combinations	**154**	**–**	**8,453**	**8,607**
Unused amounts reversed	**–**	**(136)**	**–**	**(136)**
Translation difference	**(578)**	**(48)**	**(79)**	**(705)**
Balance at December 31, 2005	**$ 13,122**	**$ 5,240**	**$ 10,227**	**$ 28,589**

(All amounts are in thousands of US dollars, unless specified otherwise)

22. Provisions (continued)

Site Restoration Costs

Under the Russian legislation, mining companies and steel mills have obligations to restore mining and certain other sites. As of December 31, 2005, 2004 and 2003, the Group accrued a provision for site restoration costs in the amount of $13,122, $19,244, and $13,258, respectively. The liabilities were measured based on estimates of restoration costs which are expected to be incurred in the future discounted at the annual rates ranging from 17.6% to 20.9% in 2005 and from 15.5% to 19.0% in the previous periods.

23. Other Long-Term Liabilities

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

	2005	2004	2003
Obligations for the purchase of liabilities under the Settlement Agreements	**$ –**	$ –	$ 51,831
Liabilities to entities under common control for transfers of ownership interests in subsidiaries	**–**	–	30,432
Promissory notes payable	**41**	20,220	576
Other liabilities	**5,045**	1,032	2,917
	5,086	21,252	85,756
Less: current portion	**(138)**	(44)	(19,908)
	$ 4,948	$ 21,208	$ 65,848

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

	2005	2004	2003
Roubles	**$ 41**	$ –	$ 34,137
US dollars	**–**	20,220	40,696
Euros	**3,496**	–	10,923
Other	**1,549**	1,032	–
	$ 5,086	$ 21,252	$ 85,756

Obligations for the Purchase of Liabilities under the Settlement Agreements

Long-term obligations for the purchase of liabilities under the Settlement Agreements represented amounts payable to City Capital, Inc. (“City Capital”) and Ocstar Holding, Inc. (“Ocstar Holding”) maturing in the period from 2004 to 2026. Long-term accounts payable were recognised at amortised cost which was determined as of the dates the amounts became payable based on the expected amounts to be paid, their expected timing and applicable discount rates.

(All amounts are in thousands of US dollars, unless specified otherwise)

23. Other Long-Term Liabilities (continued)

The Group's payments to City Capital and Ocstar in 2003 were $74,043. In 2004, the Group repaid all its liabilities to City Capital and Ocstar. The difference between the carrying value of the liabilities as of the date of repayment and the nominal amount repaid to City Capital and Ocstar amounting to $79,658 is included in loss on extinguishment of debts in the accompanying consolidated income statement for the year ended December 31, 2004.

24. Trade and Other Payables

Trade and other payables were mainly denominated in roubles and consisted of the following as of December 31:

	2005	**2004**	**2003**
Trade accounts payable	**$ 248,979**	$ 116,279	$ 131,932
Long-term promissory notes with current maturities	**21,284**	–	7,986
Promissory notes payable on demand	**–**	14,523	7,779
Accrued payroll	**77,949**	57,495	30,850
Other payables	**49,455**	39,638	10,593
	$ 397,667	$ 227,935	$ 189,140

25. Taxes Payable

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

	2005	**2004**	**2003**
Income tax	**$ 69,824**	$ 54,643	$ 25,714
Social insurance taxes	**22,145**	19,813	14,571
VAT and related fines and penalties	**137,790**	83,605	22,626
Current portion of restructured taxes (Note 17)	**7,129**	13,042	13,446
Property tax	**6,147**	4,796	2,617
Land tax	**404**	38	4,092
Personal income tax	**5,865**	6,058	3,762
Other taxes, fines and penalties	**16,953**	15,726	12,045
	$ 266,257	$ 197,721	$ 98,873

26. Commitments and Contingencies

Operating Environment of the Group

The Russian economy while deemed to be of market status continues 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 Russia. The stability of the Russian economy will be significantly impacted by the government's policies and actions with regards to supervisory, legal, and economic reforms.

26. Commitments and Contingencies (continued)

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 $17,500.

Contractual Commitments

The Group signed contracts for the purchase of production equipment and construction works for an approximate amount of $385,000.

Agreement with Mitsui & Co.

On September 21, 2005, the Group signed an agreement with Mitsui & Co. (Japan) according to which Mitsui & Co. will pay $42,797 to the Group in exchange for a 30% ownership interest in Neryungriugol, the Group's subsidiary involved in coal mining business. Further, investments in the project will be shared by the Group and Mitsui & Co. on a pro rata basis to their shareholdings. As of the date of authorisation of issue of these financial statements, the transaction has not been completed due to the parties are in process of obtaining necessary permissions.

Social Commitments

The Group is involved in a number of social programmes aimed to support education, health care and social infrastructure development in towns where the Group's assets are located. In 2006, the Group plans to spend approximately $40,000 under these programmes.

26. Commitments and Contingencies (continued)

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 $134,000 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.

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 $500,000. On April 26, 2005, the plaintiffs filed another suit with the Delaware Chancery Court against the same defendants, including the Group, based on the same factual allegations. However, in October 2005, the Chancery Court granted the defendant's motion to stay the action pending the developments of the litigation between the parties in the District Court. In April 2006, the District Court dismissed the claim based on a decision that the plaintiffs' claim arises from the conduct of business in Russia and, therefore, the Russian jurisdiction is an adequate forum for the plaintiffs claim. Upon getting such decision in the District Court, the plaintiffs filed an appeal on that decision.

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

In addition, the Group is involved in several litigations that may have an impact on the assets of Vitkovice Steel, the Group's subsidiary acquired in 2005 (Note 4). Accounts receivable of Vitkovice Steel include amount of Czech koruna 409 million ($16,634 at the exchange rate as of December 31, 2005) due from OSINEK, the former parent company of Vitkovice Steel. This amount is under dispute between OSINEK and VYSOKE PECE Ostrava, a.s. Management believes that this receivable will be recoverable during 2006.

(All amounts are in thousands of US dollars, unless specified otherwise)

27. Financial Risks

Foreign Exchange Risk

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

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

Interest Rate Risk

The Group incurs interest rate risk on loans and borrowings. The Group borrows on both a fixed and variable rate basis. The table below summarises the Group's outstanding interest-bearing debt as of December 31, 2005:

Fixed-rate debt	$ 1,616,895
Variable-rate debt	759,753
	$ 2,376,648

The table below summarises the Group's outstanding variable-rate debt by the year of repayment as of December 31, 2005:

2006	$ 550,839
2007	42,983
2008	47,364
2009	48,816
2010	28,311
2011	16,176
2012	15,914
2013	5,473
2014	1,307
2015	1,375
2016	1,195
	$ 759,753

Credit Risk

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

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

(All amounts are in thousands of US dollars, unless specified otherwise)

27. Financial Risks (continued)

Credit Risk (continued)

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

Fair Value of Financial Instruments

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

As of December 31, 2005, the fair value of the notes issued by EvrazSecurities with a carrying amount of $491,836 was equal to $511,146. The fair value of the notes issued by Evraz Group S.A. with a carrying amount of $739,114 was equal to $745,508. The fair value of the notes and bonds was determined based on market quotations.

28. Non-cash Transactions

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

	2005	2004	2003
Liabilities for purchases of property, plant and equipment	**$ 27,554**	$ 15,234	$ 2,083
Liabilities for purchases of shares in subsidiaries and other entities	**11,447**	43,532	46,206
Fair value of ordinary shares of ZAO Raspadskaya given in consideration for an acquisition of an interest in a joint venture (Notes 8)	**–**	58,651	–
Liabilities for purchase of interest in associates/joint ventures	**296,284**	19,200	–
Loans paid by entities under common control to vendors and suppliers in respect of operating activities	**–**	1,333	47,384
Loans paid by banks to suppliers in respect of operating activities	**–**	85,832	–
Loans paid by banks to vendors for property, plant and equipment	**36,966**	55,149	15,600
Exchange of promissory notes for equity of other enterprises	**–**	–	27,875
Settlement of accounts payable with available-for-sale financial instruments	**–**	–	16,858
Offset of available-for-sale financial instruments and loans receivable against loans payable	**–**	–	91,822
Receipt of promissory notes of entity under common control as capital contribution	**–**	–	86,000
Exchange of debt instruments of other enterprises for debt instruments of subsidiaries	**–**	–	6,025

29. Subsequent Events

Purchase of Vanadium Ore Mining

On April 7, 2006 Evraz Group S.A. entered into an agreement with owners of Strategic Minerals Corporation (“Stratcor”) to acquire 72.84 % of common shares of Stratcor, including 69.00% of voting shares, for an approximate purchase consideration of $110,000. Stratcor, a privately-held company, headquartered in Danbury, Connecticut, USA, is one of the world's leading producers of vanadium alloys and chemicals for steel and chemical industries. Stratcor has two wholly-owned subsidiaries – Stratcor, Inc. with a mill in Hot Springs, Arkansas, USA, and Vametco Minerals Corporation with a mine and a mill in Brits, South Africa. As of the date of authorisation of issue of these financial statements, the transaction has not been completed.

Borrowings

Subsequent to December 31, 2005, the Group signed bank loan agreements for $263,000.