EVRAZ GROUP S.A.

(incorporated in Luxembourg as a company with limited liability)

Global Offering of 9,700,000 Shares in the form of Global Depositary Receipts Offer Price: U.S.$14.50 per Global Depositary Receipt

This Offering Circular relates to an offering (the "Offering") by Evraz Group S.A. (the "Company") of 9,700,000 of its ordinary shares, each with a nominal value of €2 per share (the "Shares"), in the form of global depositary receipts ("GDRs"), with three GDRs representing an interest in one Share.

The Offering consists of (a) an offering (the "U.S. Offering") in the United States to certain qualified institutional buyers (each a "QIB") as defined in Rule 144A ("Rule 144A") under the United States Securities Act of 1933, as amended (the "Securities Act"), of GDRs (the "Rule 144A GDRs") in reliance on Rule 144A or another exemption from, or transaction not subject to, registration under the Securities Act and (b) an offering (the "International Offering") outside the United States of GDRs (the "Regulation S GDRs") in reliance on Regulation S under the Securities Act ("Regulation S"). The GDRs will not be offered to residents of Luxembourg other than to professional investors. GDRs are not being made available, in whole or in part, to the public in connection with the Offering.

The Company has granted to Morgan Stanley & Co. International Limited (the "Stabilising Manager") an option (the "Over-allotment Option") exercisable within 30 days after the closing of the Offering, which is expected to occur on or about 7 June 2005 (the "Closing Date"), to purchase a maximum of 1,455,000 additional Shares in the form of GDRs, solely to cover over-allotments, if any, in the Offering. See "Subscription and Sale".

The GDRs are of a specialist nature and should normally only be bought and traded by investors who are particularly knowledgeable in investment matters. See "Risk Factors" beginning on page 11 for a discussion of certain matters that prospective investors should consider prior to making an investment decision.

Application has been made (i) to the UK Financial Services Authority (the "UKLA") in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "FSMA") for up to 355,077,978 GDRs, consisting of up to 29,100,000 GDRs to be issued on the Closing Date, up to 4,365,000 additional GDRs to be issued pursuant to the over-allotment option, as described herein, and up to 321,612,978 additional GDRs to be issued from time to time against the deposit of Shares with The Bank of New York, as depositary (the "Depositary"), to be admitted to the Official List of the UKLA (the "Official List") and (ii) to the London Stock Exchange plc (the "London Stock Exchange") for such GDRs to be admitted to trading on the London Stock Exchange's market for listed securities and in particular on the International Order Book (the "IOB"). Admission to the Official List together with admission to trading on the London Stock Exchange's market for listed securities constitute admission to official listing on a stock exchange ("Admission"). Application has been made for the Rule 144A GDRs to be designated as eligible for trading in The PORTAL Market of The Nasdaq Stock Market, Inc. ("PORTAL"). Prior to the Closing Date there has not been any public market for the Shares or the GDRs. It is expected that conditional trading through the IOB will commence on a "when issued" basis on or about 2 June 2005, and unconditional trading through the IOB will commence on or about 8 June 2005. **All dealings in the GDRs prior to the commencement of unconditional dealings will be of no effect if Admission does not take place and will be at the sole risk of the parties concerned. The Shares have not been, and are not expected to be, listed on any stock exchange.**

A copy of this Offering Circular, including the financial statements contained herein, comprises listing particulars relating to the Company prepared in accordance with the Listing Rules of the UKLA (the "Listing Rules") made pursuant to Part VI of the FSMA and has been delivered to the Registrar of Companies for England and Wales for registration in accordance with Section 83 of the FSMA.

The Shares and the GDRs are not and will not be listed in Luxembourg. This Offering Circular has not been reviewed, approved or disapproved by any regulatory authority in Luxembourg. The Company is not subject to the ongoing reporting requirements of the securities laws of Luxembourg.

The GDRs offered hereby are offered severally by the Managers referred to in "Subscription and Sale" (the "Managers") or through their selling agents, subject to receipt and acceptance by them and subject to their right to reject any order in whole or in part. The Regulation S GDRs will be evidenced by a Master Regulation S Global Depositary Receipt (the "Master Regulation S GDR") registered in the name of The Bank of New York Depositary (Nominees) Limited, as nominee for The Bank of New York, London branch, as common depositary for Euroclear Bank N.V./S.A. as operator of the Euroclear system ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream, Luxembourg"). The Rule 144A GDRs will be evidenced by a Master Rule 144A Global Depositary Receipt (the "Master Rule 144A GDR" and, together with the Master Regulation S GDR, the "Master GDRs") registered in the name of Cede & Co., as nominee for The Depository Trust Company ("DTC") in New York. Except as described herein, beneficial interests in the Master GDRs will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear and Clearstream, Luxembourg and their direct and indirect participants. It is expected that delivery of the GDRs will be made on or about 7 June 2005 through Euroclear and Clearstream, Luxembourg with respect to the Regulation S GDRs and through DTC with respect to the Rule 144A GDRs.

Global Co-Ordinator

Morgan Stanley

Joint Lead Managers and Joint Bookrunners

Credit Suisse First Boston **Morgan Stanley** **Renaissance Capital**

The date of this Offering Circular is 2 June 2005

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The Company accepts responsibility for the information contained in this Offering Circular. To the best of the Company's knowledge and belief (having taken all reasonable care to ensure that such is the case), the information contained in this Offering Circular is in accordance with the facts and does not omit anything likely to affect the import of such information.

The contents of Evraz's websites do not form any part of this Offering Circular.

Any reference in this document to Listing Particulars refers to this Offering Circular.

In their capacity as authorised adviser to the Company in respect of the application for admission of the GDRs to the Official List, Morgan Stanley & Co. International Limited is acting exclusively for the Company and no one else in connection with the Offering and will not be responsible to any other person for providing the protection afforded to its clients or for providing advice in relation to the Offering.

No person is authorised to give any information or to make any representation in connection with the offering or sale of the GDRs other than as contained in this Offering Circular, and, if given or made, such information or representation must not be relied upon as having been authorised by the Company, the Depositary (as defined below) or any of the Managers. This Offering Circular is being furnished by the Company solely for the purpose of enabling a prospective investor to consider the purchase of the GDRs. No representation or warranty, express or implied, is made by any Manager or any of their affiliates or advisors as to the accuracy or completeness of any information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise or representation by any Manager as to the past or the future. Any reproduction or distribution of this Offering Circular, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the GDRs is prohibited, except to the extent that such information is otherwise publicly available. Neither the delivery of this Offering Circular nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date hereof or that the information contained herein is correct at any time subsequent to such date. Each prospective investor, by accepting delivery of this Offering Circular, agrees to the foregoing.

This Offering Circular does not constitute an offer to sell, or a solicitation by or on behalf of the Company, the Depositary or any Manager to any person to subscribe for or purchase any of the GDRs in any jurisdiction where it is unlawful for such person to make such an offer or solicitation. The distribution of this Offering Circular and the offering or sale of the GDRs in certain jurisdictions is restricted by law. Persons into whose possession this Offering Circular may come are required by the Company and the Managers to inform themselves about and to observe such restrictions. No action has been taken by the Company or the Managers that would permit, otherwise than under the Offering, an offer of the GDRs, or possession or distribution of this Offering Circular or any other offering material or application form relating to the GDRs in any jurisdiction where action for that purpose is required. This Offering Circular may not be used for, or in connection with, any offer to, or solicitation by, anyone in any jurisdiction or under any circumstances in which such offer or solicitation is not authorised or is unlawful. Further information with regard to restrictions on offers and sales of the GDRs is set forth under "Selling and Transfer Restrictions".

The Regulation S GDRs and the Rule 144A GDRs will be delivered by the Depositary, pursuant to the Deposit Agreement (the "Deposit Agreement"), expected to be dated the Closing Date, between the Company and the Depositary. The Shares represented by the GDRs will be registered in the name of the Depositary or its nominee.

In connection with the Offering, Morgan Stanley & Co. International Limited or any agent acting for it may over-allot or effect transactions with a view to supporting the market price of the GDRs at a level higher than that which might otherwise prevail, for a limited period. However, there may be no obligation on Morgan Stanley & Co. International Limited or any agent for it to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.

In making an investment decision, prospective investors must rely on their own examination of the Company and the terms of this Offering Circular, including the risks involved.

THE SECURITIES OFFERED HEREBY HAVE NOT BEEN REGISTERED WITH, OR APPROVED OR DISAPPROVED BY, THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION ("SEC") OR ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING OR THE ADEQUACY OR ACCURACY OF THIS OFFERING CIRCULAR. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

This document is only being distributed to and is only directed at (i) persons who are outside the United Kingdom or (ii) to investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 (the "Order") or (iii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2) of the Order (all such persons together being referred to as "relevant persons"). The GDRs are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such GDRs will be engaged in only with, relevant persons. Any person who is not a relevant person should not act or rely on this document or any of its contents.

The Offering should not be considered a public offering in the Grand Duchy of Luxembourg ("Luxembourg"). This Offering Circular may not be reproduced or used for any purpose in Luxembourg other than the Offering, nor provided to any person in Luxembourg other than the recipient thereof. The securities are offered in Luxembourg to a limited number of sophisticated investors in all cases under circumstances designed to preclude a distribution, which would be other than a private placement. All public solicitations in Luxembourg are banned and the Offering may not be publicly advertised nor may the Offering Circular be circulated to the general public in Luxembourg.

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE, NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE, CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT, NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION, MEANS THAT THE SECRETARY OF STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Offering Circular includes "forward-looking statements", which include all statements other than statements of historical facts, including, without limitation, any statements preceded by, followed by or that include the words "targets", "believes", "expects", "aims", "intends", "will", "may", "anticipates", "would", "could" or similar expressions or the negative thereof. Such forward-looking statements involve known and unknown risks, uncertainties and other important factors beyond the Company's control that could cause the actual results, performance or achievements of the Company to be materially different from future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future. Among the important factors that could cause the Company's actual results, performance or achievements to differ materially from those expressed in such forward-looking statements include those in "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Risk Factors" and elsewhere in this Offering Circular. These forward-looking statements speak only as at the date of this Offering Circular. The Company expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in the Company's expectations with regard thereto or any change in events, conditions or circumstances on which any such statements are based unless required to do so by the Listing Rules.

AVAILABLE INFORMATION

For so long as any Shares or GDRs representing such Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Company will, during any period in which it is neither subject to Section 13 or Section 15(d) of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, provide to any holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner upon the request of such holder, beneficial owner or prospective purchaser, the information required to be delivered to such persons pursuant to Rule 144A(d)(4) under the Securities Act (or any successor provision thereto).

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Company is incorporated under the laws of Luxembourg. Certain persons referred to herein are residents of the Russian Federation and certain entities referred to herein are organised under the laws of the Russian Federation or Luxembourg. Except for certain non-executive members of the Company's Board of Directors, who are residents of the United Kingdom, all or a substantial portion of the assets of such persons, entities and the Company are located outside the United States and the United Kingdom. As a result, it may not be possible for investors to effect service of process upon such persons in the United States or the United Kingdom or to enforce against them or the Company judgments obtained in United States courts predicated upon the civil liability provisions of U.S. securities laws.

The enforcement of judgments obtained outside of Luxembourg in Luxembourg is conditional upon obtaining an enforcement order in Luxembourg. In addition, awards of punitive damages in actions brought in the United States or elsewhere may be unenforceable in Luxembourg.

Judgements rendered by a court in any jurisdiction outside Russia will be recognised by courts in Russia only if (i) an international treaty providing for the recognition and enforcement of judgements in civil cases exists between Russia and the country where judgement is rendered and/or (ii) a federal law of Russia providing for the recognition and enforcement of foreign court judgements is adopted. No such federal law has been passed and no such treaty for the reciprocal enforcement of foreign court judgements in civil cases exists between Russia, on the one hand, and the United States or United Kingdom, on the other.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this Offering Circular, all references to "Evraz" are to the Company and its consolidated subsidiaries, taken as a whole.

The Company's audited consolidated financial statements in respect of the financial years ended 31 December 2004, 2003 and 2002 included in this Offering Circular (the "Consolidated Financial Statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS"), including International Accounting Standards ("IAS") and Interpretations issued by the International Accounting Standards Board.

Market data used in this Offering Circular, including without limitation under the captions "Industry Overview" and "Regulatory Matters", have been extracted from official and industry sources and other sources the Company believes to be reliable. Throughout this Offering Circular, the Company has also set forth certain statistics, including statistics in respect of product sales volumes and market share, from industry sources and other sources the Company believes to be reliable. The Company accepts responsibility for accurately reproducing such information, data and statistics. Such information, data and statistics may be approximations or estimates or use rounded numbers.

In this Offering Circular, all references to "RUR", "Rouble" and "rouble" are to the currency of the Russian Federation ("Russia"), all references to "€" and "euro" are to the currency of the participating member states in the third stage of the Economic and Monetary Union of the Treaty establishing the European community, and all references to "U.S.$", "U.S. dollar" and "dollar" are to the currency of the United States of America. Solely for the convenience of the reader, and except as otherwise stated, this Offering Circular contains translations of some rouble amounts into U.S. dollars at a conversion rate of RUR27.75 to U.S.$1.00, which was the rate published by the Central Bank of the Russian Federation ("CBR") on 31 December 2004. No representation is made that the rouble or dollar amounts referred to herein could have been or could be converted into roubles or dollars, as the case may be, at these rates, at any particular rate or at all. See "Exchange Rate Information".

In this Offering Circular, all references to "U.S." are to the United States of America, all references to "U.K." are to the United Kingdom and all references to the "EU" are to the European Union and its member states as of the date of this Offering Circular. All references to "CIS" are to the countries that formerly comprised the Union of Soviet Socialist Republics and that are now members of the Commonwealth of Independent States: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

In this Offering Circular, all references to "tonnes" are to metric tonnes, and one metric tonne is equal to one thousand kilograms.

Certain figures included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

TABLE OF CONTENTS

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SUMMARY

This summary highlights certain aspects of Evraz's business and the Offering, but potential investors should read the entire Offering Circular, including the financial statements and related notes, before making an investment decision. Prospective investors should also carefully consider the information set forth under the heading "Risk Factors".

EVRAZ

Overview

Evraz is one of the largest vertically-integrated steel and mining businesses with operations mainly in the Russian Federation. Evraz produced 13.7 million tonnes of crude steel in 2004, ranking it as the largest producer of steel and steel products in Russia, the largest Russian producer of long products and among the fifteen largest steel producers in the world. Evraz sold 13.1 million tonnes of rolled steel products and produced approximately 7.8 million tonnes of iron ore products in 2004, and Evraz Ruda, which was then under common control with Evraz and was acquired by Evraz in March 2005, produced an additional 5.4 million tonnes of iron ore products. Most of Evraz's iron ore products are used in its steel making operations. Evraz's total consolidated revenues in 2004 amounted to U.S.$5,924.6 million, compared to U.S.$2,132.6 million in 2003.

Evraz's principal assets are:

- Three steel plants: OAO Nizhny Tagil Iron and Steel Plant ("NTMK"), which is located in Nizhny Tagil, Sverdlovsk region; OAO West Siberian Iron and Steel Plant ("ZapSib"), the largest steel plant in Siberia and the eastern-most steel plant in the Russian Federation, located near Novokuznetsk, Kemerovo region; and OAO Novokuznetsk Iron and Steel Plant ("NKMK"), located in Novokuznetsk;
- Three iron ore mining and processing facilities: OAO Kachkanarsky Mining and Metallurgical Complex ("KGOK"), which is located in Sverdlovsk region near NTMK; OAO Evraz Ruda ("Evraz Ruda"), which operates mines in Kemerovo region, the Republic of Khakassia and south Krasnoyarsk Krai and which Evraz acquired in March 2005; and OAO Vysokogorsky Mining and Metallurgical Complex ("VGOK"), which is located in Sverdlovsk region near NTMK;
- Two coal mines: OOO Mine 12 ("Mine 12"), which is located in Kemerovo region near ZapSib and NKMK and produces coking coal and steam coal, and which Evraz acquired in March 2005; and OAO UK Neryungri Ugol ("Neryungri Ugol"), which is developing coking coal deposits in the Republic of Sakha (Yakutia) and that is expected to commence production in 2006; and
- Trading and logistics assets, including OAO Nakhodka Sea Port ("Nakhodka Sea Port"), one of the largest ports in the Russian Far East and through which Evraz ships most of its exports.

Evraz also holds a 47.7% interest in ZAO Raspadskaya ("Raspadskaya"), a coking coal mine located in Kemerovo region that is accounted for on the equity basis in the Consolidated Financial Statements. In January 2005, Evraz was announced as the winner in a privatisation tender for assets of AO Chiaturmanganum, a manganese ore producer, and AO Vartsikhe GES, a hydroelectric power plant, both of which are located in Georgia. Pursuant to an agreement entered into in May 2005 with the Government of Georgia and shareholders of AO Zestafoni Ferroalloy Plant ("Zestafoni"), also located in Georgia, these assets are to be acquired by Evraz and Zestafoni's shareholders from the Government of Georgia and contributed into a newly established joint venture with shareholders of Zestafoni (who are contributing 70.81% of the shares in Zestafoni). Evraz is to own a 63.08% interest in the joint venture, which is expected to be created by July 2005.

For further information about the structure and history of Evraz, see "Description of Business—Overview" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Reorganisation and Formation of the Company".

Competitive Strengths

Dominant producer of long products in Russia: As noted above, Evraz is the largest producer of steel in Russia, the largest Russian producer of long products and among the fifteen largest steel producers globally. Evraz is the leading producer in the Russian railway products sector with an estimated nearly 100% market share in rails (by volume) in 2004 (as well as an estimated 27% market share in wheels). In the Russian construction sector, Evraz estimates that it had an 86% market share in H-beams and a 48% market share in channels in 2004, all in terms of volume, giving Evraz a strong competitive position as a full-product range producer in the domestic construction steel market. These market sectors are experiencing high levels of demand growth in Russia and there is relatively limited competition from other Russian producers, which primarily focus on producing flat products.

Vertically-integrated business: As a vertically-integrated steel producer, Evraz's exposure to high and variable raw material prices is limited by its significant internal sources of raw materials. Evraz is a large iron ore producer, sourcing approximately 73% of its iron ore requirements in 2004 from its own mining segment (including full-year supplies from KGOK, which was acquired in May 2004, and supplies from Evraz Ruda, which was acquired in March 2005) and with capacity from these operations sufficient to cover 86% of its iron ore requirements in 2004. Substantially all of the mining segment's iron ore products are produced from iron ore mined by Evraz. Evraz also obtains significant quantities of coking coal from its equity investee Raspadskaya and affiliate Yuzhkuzbassugol, which together supplied approximately 69% of Evraz's total coking coal requirements in 2004 (these companies, together with the recently acquired Mine 12, in aggregate produced approximately 158% of these requirements). Evraz sells the iron ore products that it does not consume internally to third partes.

Low cost producer: Russia is the one of the lowest cost regions for steel production, enabling Evraz to benefit from some of the lowest production costs in the steel industry worldwide. Moreover, its favourably located mining operations enable Evraz to obtain a stable supply of raw materials on the basis of relatively low transport costs. In addition to these cost advantages, as the largest producer of steel in Russia Evraz benefits from economies of scale in production and negotiating power with its suppliers. In order to maintain its cost competitiveness, Evraz has made and continues to make significant capital expenditures in upgrading its facilities to increase productivity and yield.

Strong positions in high growth steel markets: Evraz has a leading market position in products with strong growth profiles in Russia, such as construction and railway products. The construction sector has grown faster than GDP in Russia in recent years, and continues to do so, resulting in significant growth in demand for steel products. Evraz also expects demand for its principal railway products (rails and wheels) to increase significantly as the Russian railroad network is upgraded following a long period of underinvestment, particularly in light of a capital expenditure programme of approximately U.S.$21 billion from 2005 through 2007 announced by OAO Russian Railways ("Russian Railways") focused primarily on upgrading and refurbishment of infrastructure and rolling stock. Evraz is also well-positioned in the growing east and southeast Asian markets for billets and slabs as a result of the location of its production facilities and its ownership of Nakhodka Sea Port on Russia's Pacific coast.

Attractive and growing mining business: Evraz has a strong asset base in iron ore, making Evraz the second largest iron ore producer in Russia, as well as an equity interest in a major coking coal producer and other coking coal assets. Evraz has sought to increase its sales of iron ore to third parties and expects to begin selling coking coal to third parties, as well as to reduce its dependence on outside suppliers of raw materials through both organic growth and additional acquisitions. Evraz is also among the largest producers of vanadium slag globally.

Dynamic and experienced management team: Evraz's management team has a proven track record in managing operations under its control and turning around newly acquired underperforming assets, including Evraz's major production facilities. Evraz's senior management team combines extensive industry and marketing experience with financial and management expertise, and its newly-formed board of directors includes individuals who have been involved in Evraz's business as well as three internationally experienced non-executive directors.

Strong financial performance: As an integrated low-cost steel producer that has invested substantially in modernising its operations, Evraz has benefited from the improved market environment in recent years and generated strong cash flows and returns, resulting in net cash flow from operating activities of U.S.$957 million and an Adjusted EBITDA margin of approximately 33.8% in 2004. Evraz is in a strong financial position, illustrated by its Net Debt to Adjusted EBITDA ratio of 0.51 at the end of 2004. See "Summary Financial Data" for definitions of Adjusted EBITDA and Net Debt used by Evraz. Evraz believes that its strong cash flows, margins and financial position will help it to maintain and grow its business.

Strategy

Evraz's strategy is to enhance its position as a leading low-cost producer of long products in Russia, particularly in the construction and railway sectors, and to expand its presence in export markets for semi-finished products and in the production and sale of iron ore and coking coal. Evraz intends to pursue this strategy by enhancing its margin profile, achieving superior growth and expanding its mining platform, as set out below.

Enhance Margin Profile

- **Realisation of synergies from recent acquisitions and continued capital expenditure-driven efficiency improvements in order to retain Evraz's position as one of the most cost efficient integrated steel making and mining groups worldwide.** Evraz's management believes that producing low-cost steel products is essential to ensure the competitiveness of its plants. In the short to medium term Evraz intends to realise synergies from the integration of recent acquisitions by rationalising production across its plants and making selective investments in improved production technology, such as increasing the use of continuous casting in its steel production, ongoing blast furnace refurbishments and closure of open hearth furnace production facilities. In support of these objectives, Evraz has planned U.S.$411 million in capital expenditure in respect of its steel segment in 2005 and a further U.S.$550 million from 2006 through 2010.
- **Enhance product mix to expand Evraz's position as a competitive exporter of semi-finished products.** Evraz's management believes that semi-finished products will continue to offer the best export opportunities for Evraz, as these products generally are not subject to protective trade measures. Evraz is also seeking to increase the proportion of slabs in its export mix, as it believes that slab export markets offer it strong long-term growth prospects and potentially greater margins than billet export markets. As a result, Evraz has made significant investments in expanding its continuous slab-making capacity in order to become a flexible manufacturer capable of delivering a wide range of slab sizes and specifications to customers, and it expects the share of slabs in its exports to increase through 2007. Evraz's capacity for producing slabs has recently increased following the commissioning of additional continuous casters, with total annual slab production capacity increasing from 1.2 million tonnes at the end of 2003 to 2.7 million tonnes by the end of 2004 and planned to reach 5.2 million tonnes by 2006.

Achieve Superior Growth

- **Capture domestic growth.** Evraz intends to leverage its leading position in Russia's construction sector, which, as noted above, has grown and continues to grow faster than GDP in Russia. Evraz intends to develop its own distribution network to capture incremental margin on its construction sector sales in Russia and to foster higher market share retention. In particular, Evraz intends to focus on selling higher value-added products, such as beams and channels, strengthening its position as a leading full-range supplier to the Russian construction industry. In the railway sector, Evraz intends to capitalise on its position as a dominant supplier to Russian Railways in light of Russian Railways' announced capital expenditure program, for example building on recently completed improvements to its wheel-making facilities that increased annual production capacity by approximately 40%, to 630,000 units (approximately 250,000 tonnes) annually. Evraz plans to continue making selective investments in quality upgrades and product range expansion to maintain its dominant position in railway products.
- **Developing markets outside Russia.** Evraz intends to achieve growth by capturing additional margins through focused acquisitions of re-rolling and other complementary assets outside Russia, which can be supplied by its fast growing slab production capacity. As part of this strategy, Evraz has recently entered into a non-binding memorandum of understanding to acquire Palini e Bertoli SpA, a producer of steel plate products that is located in Italy, and submitted a preliminary non-binding bid for Vitkovice Steel, a rolling mill that is being

privatised by the government of the Czech Republic. Evraz is also considering further acquisitions of steel production assets in the CIS.

Expand Mining Platform

- **Enhance profitability and security of supply through vertical integration.** Evraz is seeking to increase its iron ore and coking coal production in order to enhance its margins on sales of steel products. To accomplish this objective, Evraz plans to intensify production from its existing iron ore and coking coal reserves through capital expenditures targeted at improving production capacity and efficiency. In addition, Evraz intends to expand its mining asset base through acquisitions of additional subsoil licences as well as through selective acquisitions of existing iron ore and coal mining assets, primarily in Russia and the CIS. In the coal sector, Evraz may seek to increase its interest in Raspadskaya and to acquire Yuzhkuzbassugol, should the opportunities arise.
- **Drive growth through increased sales of mining products to third parties.** Evraz intends to increase its sales of iron ore and coking coal to third parties in order to benefit from favourable market conditions for these products and to develop capabilities for exporting coking coal. Evraz is currently developing a greenfield mine for high quality coking coal, Neryungri Ugol, in eastern Siberia that will focus on third party sales to Asian markets and that is expected to start operations in 2006 and have an annual output of approximately three million tonnes by 2008. Evraz plans to pursue further such opportunities and acquisitions.

THE OFFERING

The Offering	The Offering comprises 29,100,000 GDRs, representing 9,700,000 new Shares (the "New Shares") to be issued by the Company. The GDRs are being offered (a) in the United States to QIBs in the form of Rule 144A GDRs in reliance on Rule 144A or another exemption from, or transaction not subject to, registration under the Securities Act and (b) outside the United States in the form of Regulation S GDRs in reliance on Regulation S.
Over-allotment Option	The Company has granted the Over-allotment Option to Morgan Stanley & Co. International Limited, exercisable within 30 days after the Closing Date, to purchase a maximum of 1,455,000 additional Shares in the form of GDRs solely to cover over-allotments, if any, in the Offering. See "Subscription and Sale".
Offer Price	U.S.$14.50 per GDR
The GDRs	Three GDRs will represent one Share. The GDRs will be issued and delivered by the Depositary under the Deposit Agreement. The Regulation S GDRs will be evidenced by the Master Regulation S GDR and the Rule 144A GDRs will be evidenced by the Master Rule 144A GDR. See "Summary of Provisions Relating to the GDRs while in Master Form". GDRs representing 9,700,000 Shares will initially be created for the purposes of the Offering.
Depositary	The Bank of New York
No dealing	Each of the Company and Crosland Global Limited ("the Principal Shareholder") has agreed with the Managers that, during the period beginning with the date of the Underwriting Agreement (as defined in "Subscription and Sale") and continuing to, and including the date 180 days after the Closing Date, it will not offer, issue, sell, contract to sell, pledge (or charge in respect of the Principal Shareholder), grant options over or otherwise dispose of any securities (or publicly announce any such issuance, offer, sale or disposal) of the Company that are substantially similar to the Shares or GDRs, or enter into any transaction with the same economic effect as any of the foregoing, without the prior written consent of the Managers. See "Subscription and Sale". It is a condition to the closing of the Offering that each of Mr. James W. Campbell, Lord Daresbury and Mr. Terry Robinson will enter into an agreement with the Managers containing similar restrictions.
Control of the Company	Following the Offering, the Principal Shareholder will own approximately 91.7% of the Company's issued and outstanding share capital (or 90.6% if the Over-allotment Option is exercised in full). Mr. Alexander Abramov, the Company's Chief Executive Officer and Chairman of its Board of Directors, has a beneficial interest in 65.26% of the Principal Shareholder, and Mr. Alexander Frolov, Evraz's Senior Executive Vice President and a member of the Company's Board of Directors, has a beneficial interest in 31.11%. See "Risk Factors—Risks Relating to Evraz—Evraz has been and will continue to be controlled by two beneficial owners whose interests could conflict with those of the holders of the GDRs" and "Principal Shareholders".

Voting Rights	The Shares are subject to applicable provisions of Luxembourg corporate law and the articles of association of the Company in effect after the Closing Date (the "Articles"). See "Description of Share Capital and Corporate Structure—Voting Rights". The Depositary will endeavour to exercise on behalf of holders of GDRs, at any meeting of holders of the Shares of which the Depositary receives timely notice, the voting rights relating to whole numbers of Shares underlying the GDRs in accordance with instructions it receives from holders of GDRs, but only if the Company notifies the Depositary of the resolution to be voted upon. If no voting instructions are received in respect of any GDR, the Depositary may issue a discretionary proxy to a person designated by the Company to provide voting instructions in respect of the Shares underlying such GDR. See "Terms and Conditions of the Global Depositary Receipts—the Global Depositary Receipts—Voting Rights".
Dividends	Holders of Shares, including the Depositary, will be entitled to receive amounts (if any) paid by the Company as dividends on the Shares. The Company intends to pay an interim dividend for 2005 totaling U.S.$200 million to shareholders of record as of 31 May 2005. Mastercroft Limited ("Mastercroft"), which was Evraz's holding company prior to the formation of the Company, declared total dividends of U.S.$189 million through 13 January 2005. See "Dividend Policy".
Taxation	For a discussion of certain United States federal, United Kingdom and Luxembourg income tax consequences of purchasing and holding the GDRs, see "Taxation".
Use of Proceeds	Net proceeds to the Company of the Offering will be approximately U.S.$403.1 million, assuming no exercise of the Over-allotment Option, or approximately U.S.$464.0 million, assuming that the Over-allotment Option is exercised in full. The Company intends to use these net proceeds to pursue the acquisition and/or new development of additional mining assets in Russia and the CIS, to make selected acquisitions of steel operations in the CIS and downstream steel operations outside of Russia and to consolidate its ownership interests in subsidiaries. See "Use of Proceeds".
Listing and Trading	Application has been made (i) to the UKLA for a listing of up to 355,077,978 GDRs, consisting of up to 29,100,000 GDRs to be issued on the Closing Date, up to 4,365,000 additional GDRs to be issued pursuant to the Over-allotment Option, as described herein, and up to 321,612,978 additional GDRs to be issued from time to time against the deposit of Shares with The Bank of New York, as Depositary, to be admitted to the Official List and (ii) to the London Stock Exchange for such GDRs to be admitted to trading on the London Stock Exchange's market for listed securities and in particular on the IOB. Application has been made for the Rule 144A GDRs to be designated as eligible for trading on PORTAL. Prior to the Closing Date, there has not been any public market for the Shares or the GDRs. It is expected that conditional trading of the GDRs through the IOB will commence on a "when issued" basis on or about 2 June 2005 and unconditional trading through the IOB will commence on or about 8 June 2005, the day after the Closing Date. **The Shares have not been, and are not expected to be, listed on any stock exchange.**

Payment and Settlement	Application will be made to have the Regulation S GDRs accepted for clearance through the book-entry settlement systems of Euroclear and Clearstream, Luxembourg and the Rule 144A GDRs accepted for clearance through DTC. Payment for, and delivery of, the Regulation S GDRs will be made on or about 7 June 2005 through the facilities of Euroclear and Clearstream, Luxembourg. Payment for, and delivery of, the Rule 144A GDRs will be made on or about 7 June 2005 through the facilities of DTC. The security identification numbers of the GDRs offered hereby are as follows: Regulation S GDRs CUSIP Number: 30050A202 Regulation S GDRs ISIN: US30050A2024 Regulation S GDRs Common Code: 022005715 Regulation S GDRs SEDOL: B08V9B8 Rule 144A GDRs CUSIP Number: 30050A103 Rule 144A GDRs ISIN: US30050A1034 Rule 144A GDRs Common Code: 022005618 Rule 144A GDRs SEDOL: B08V974 London Stock Exchange trading symbol: EVR PORTAL trading symbol: EVRASAYP.
Risk Factors	Prospective investors should consider carefully certain risks discussed under "Risk Factors".

SUMMARY CONSOLIDATED FINANCIAL DATA

The selected consolidated financial information set forth below shows Evraz's historical consolidated financial information and other operating information as of 31 December 2004, 2003 and 2002 and for the years then ended. The annual consolidated financial information as of 31 December 2004, 2003 and 2002 and for the years then ended has been extracted without material adjustment from, and should be read in conjunction with, the annual audited consolidated financial statements and related notes included elsewhere in this Offering Circular. Evraz's results of operations for the periods presented are significantly affected by acquisitions. Results of operations of these acquired businesses are generally included in Evraz's consolidated financial statements for the periods after their respective dates of acquisition. The annual consolidated financial information should also be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations". Evraz's annual consolidated financial statements have been prepared in accordance with IFRS. IFRS differs in certain respects from U.S. Generally Accepted Accounting Principles ("U.S. GAAP"). For a summary of certain differences between IFRS and U.S. GAAP that are relevant to Evraz, see "Summary of Certain Differences between IFRS and U.S. GAAP".

	Year ended 31 December		
	2004	2003	2002
	(thousands of U.S. dollars, except per share data and as noted)		
CONSOLIDATED INCOME STATEMENT DATA			
Revenues	5,924,648	2,132,639	1,531,727
Cost of revenues	(3,512,987)	(1,583,415)	(1,334,281)
Amortisation of negative goodwill	22,292	22,312	16,149
Gross profit	**2,433,953**	**571,536**	**213,595**
Selling and distribution expenses	(219,149)	(41,761)	(54,527)
General and administration expenses	(324,863)	(163,369)	(109,564)
Other operating expenses, net	(59,263)	(28,565)	2,964
Profit from operations	**1,830,678**	**337,841**	**52,468**
Non-operating income and expense, net	(166,591)	(6,846)	(40,005)
Profit before tax	**1,664,087**	**330,995**	**12,463**
Income tax expense	(415,843)	(75,107)	(11,151)
Net profit	**1,248,244**	**255,888**	**1,312**
Net profit attributable to equity holders of the parent entity	**1,083,810**	**207,926**	**5,876**
Net profit attributable to minority interests	164,434	47,962	(4,564)
Earnings per share	10.11	1.94	0.06
Dividends per share	0.54	—	—
Weighted average number of shares outstanding	107,204,326	107,204,326	107,204,326
Steel segment income statement data			
Revenues(1)	5,809,041	2,060,089	1,516,219
Cost of revenues(1)	(3,566,070)	(1,544,545)	(1,324,207)
Amortisation of negative goodwill	18,305	18,590	15,259
Gross profit	2,261,276	534,134	207,271
Selling and distribution expenses	(205,542)	(37,144)	(54,276)
General and administration expenses	(260,196)	(132,371)	(104,446)
Other operating expenses, net	(53,256)	(29,388)	3,951
Profit from operations	1,742,283	335,261	52,500

	Year ended 31 December		
	2004	2003	2002
	(thousands of U.S. dollars, except per share data and as noted)		
Mining segment income statement data			
Revenues(1)	340,821	98,476	21,174
Cost of revenues(1)	(212,663)	(84,134)	(17,088)
Amortisation of negative goodwill	2,446	2,446	1,458
Gross margin	130,604	16,788	5,544
Selling and distribution expenses	(9,225)	(3,020)	(1,220)
General and administration expenses	(26,798)	(8,423)	(3,605)
Other operating expenses, net	(8,720)	1,520	(1,830)
Profit (loss) from operations	85,862	6,865	(1,111)
Other operations income statement data			
Revenues(1)	344,838	97,429	14,670
Cost of revenues(1)	(279,998)	(66,956)	(12,353)
Amortisation of negative goodwill	1,541	1,276	—
Gross margin	66,381	31,749	2,317
Selling and distribution expenses	(4,382)	(1,874)	—
General and administration expenses	(52,591)	(29,880)	(808)
Other operating expenses, net	(3,040)	(1,917)	1,902
Profit (loss) from operations	6,368	(1,922)	3,411
CONSOLIDATED BALANCE SHEET DATA (at year end)			
Total assets	4,034,462	2,151,092	1,191,602
Equity	1,542,033	396,683	23,293
Minority interests	356,745	192,540	223,214
Long-term debt, net of current portion	1,123,445	739,033	416,330
CONSOLIDATED CASH FLOWS DATA			
Net cash flows from operating activities	957,173	42,811	118,275
Net cash flows used in investing activities	(792,358)	(356,192)	(117,081)
Net cash flows (used in) from financing activities	(73,400)	459,894	5,773
OTHER MEASURES			
Consolidated Adjusted EBITDA(2)	2,003,856	477,475	208,220
Steel segment Adjusted EBITDA(2)	1,899,333	471,936	206,640
Mining segment Adjusted EBITDA(2)	98,207	7,695	(773)
Other operations Adjusted EBITDA(2)	10,053	207	4,117
Net Debt(3)	1,021,477	382,596	78,880

Notes:

(1) Segment revenues and cost of goods sold include intersegment sales.

(2) Adjusted EBITDA represents profit from operations plus depreciation and amortisation, impairment of assets and loss (gain) on dispositions of property plant and equipment. Adjusted EBITDA is not a measure of financial performance under IFRS, and it should not be considered as an alternative to net profit as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Evraz's calculation of Adjusted EBITDA may be different from the calculation used by other companies and therefore comparability may be limited.

Reconciliation of Adjusted EBITDA to profit from operations is as follows:

	Year ended 31 December		
	2004	2003	2002
	(thousands of U.S. dollars)		
Consolidated Adjusted EBITDA reconciliation			
Profit from operations	1,830,678	337,841	52,468
Add:			
Amortisation of negative goodwill	(22,292)	(22,312)	(16,149)
Depreciation	183,203	141,000	154,903
Impairment of assets	1,366	5,499	1,919
Loss (gain) on disposal of property, plant & equipment	10,901	15,447	15,079
Consolidated Adjusted EBITDA	2,003,856	477,475	208,220
Steel segment Adjusted EBITDA reconciliation			
Profit from operations	1,742,283	335,261	52,500
Add:			
Amortisation of negative goodwill	(18,305)	(18,590)	(15,259)
Depreciation	159,541	134,514	153,080
Impairment of assets	5,431	5,068	1,493
Loss (gain) on disposal of property, plant & equipment	10,383	15,683	14,826
Steel segment Adjusted EBITDA	1,899,333	471,936	206,640
Mining segment Adjusted EBITDA reconciliation			
Profit from operations	85,862	6,865	(1,111)
Add:			
Amortisation of negative goodwill	(2,446)	(2,446)	(1,458)
Depreciation	16,960	3,507	1,543
Impairment of assets	(5,454)	—	—
Loss (gain) on disposal of property, plant & equipment	3,285	(231)	253
Mining segment Adjusted EBITDA	98,207	7,695	(773)
Other operations Adjusted EBITDA reconciliation			
Profit from operations	**6,368**	**(1,922)**	**3,411**
Add:			
Amortisation of negative goodwill	(1,541)	(1,276)	—
Depreciation	6,702	2,979	280
Impairment of assets	1,291	431	426
Loss (gain) on disposal of property, plant & equipment	(2,767)	(5)	—
Other operations Adjusted EBITDA	10,053	207	4,117

(3) Net Debt represents long-term loans, net of current portion, plus short-term loans and current portion of long-term loans less cash and cash equivalents (excluding restricted deposits). Net Debt is not a balance sheet measure under IFRS, and it should not be considered as an alternative to other measures of financial position. Evraz's calculation of Net Debt may be different from the calculation used by other companies and therefore comparability may be limited.

Net Debt has been calculated as follows:

	Year ended 31 December		
	2004	2003	2002
	(thousands of U.S. dollars)		
Net Debt Calculation			
Add:			
Long-term loans, net of current portion	788,093	354,046	34,257
Short-term loans and current portion of long-term loans	524,696	224,082	87,038
Less:			
Cash and cash equivalents	291,312	195,532	42,415
Net Debt	1,021,477	382,596	78,880

RISK FACTORS

An investment in the GDRs involves a high degree of risk. Prospective investors in the GDRs should carefully consider the risks described below and the other information contained in this Offering Circular before making a decision to invest in the GDRs. Any of the following risks could adversely affect Evraz's business, financial condition and results of operations, in which case the trading price of the GDRs could decline, resulting in the loss of all or part of an investment in the GDRs.

RISKS RELATING TO EVRAZ

The steel and mining industries are cyclical, and any local or global downturn in the steel or mining industries may have an adverse effect on Evraz's results of operations and financial condition.

The steel industry is cyclical because the industries in which steel customers operate are themselves cyclical and sensitive to changes in general economic conditions. The demand for steel products is thus generally correlated with macroeconomic fluctuations in the economies in which steel producers sell products which are in turn affected by global economic conditions. The prices of steel products are influenced by many factors, including demand, worldwide production capacity, capacity-utilization rates, raw material costs, exchange rates, trade barriers and improvements in steel-making processes. For example, steel prices have recently been driven to a significant extent by demand in China for imported steel and reached their highest levels in nearly 20 years during 2004. Simultaneously, global steel production volumes have reached their highest levels in the past fifty years. A decline in Chinese demand for imported steel could have a significant adverse effect on steel prices. Steel prices have experienced, and in the future may experience, significant fluctuations as a result of these and other factors, many of which are beyond Evraz's control. A decline in steel prices could have a material adverse effect on Evraz's results of operations.

Evraz's mining business also sells iron ore, and, as a result of the acquisition of Mine 12 and development of Neryungri Ugol, coal, to third parties. Cyclical and other changes in world market prices of these commodities could affect the results of Evraz's mining activities. Changes in these prices result from factors that are beyond Evraz's control, such as fluctuations in global supply and demand and transportation costs. Prices of these commodities have varied significantly in the past and could vary significantly in the future, and are also positively correlated to demand from steel producers. For example, prices of both iron ore and coking coal have increased significantly in recent years to reach their highest levels since the late 1990s, largely as a result of increasing global demand by steel producers. A decline in the prices of the commodities Evraz sells to third parties could have an adverse effect on its results of operations. A decline in steel prices could also adversely affect Evraz's customers for these commodities, in turn resulting in reduced demand for Evraz's products.

Evraz derived approximately 55% of its total consolidated revenues from sales to customers in Russia in 2004. The Russian economy has experienced significantly fluctuating growth rates over the past ten years. From 1994 to 1998, the Russian economy contracted in real terms at an average rate of 3.7% per year; after the Russian financial crisis in 1998, the economy recovered and grew in real terms at an average rate of approximately 6.9% annually from 2000 to 2004, and grew by 7.1% in real terms in 2004. Production of steel in Russia also suffered a substantial decline from over 77 million tonnes in 1991 to 44 million tonnes in 1998, but then recovered to 64 million tonnes in 2004. Similarly, production of iron ore in Russia decreased from 82 million tonnes in 1992 to 71 million tonnes in 1997 before recovering to 93 million tonnes in 2004, and production of coal in Russia decreased from 92 million tonnes in 1990 to 52 million tonnes in 1998, before recovering to 75 million tonnes in 2004. Further, Evraz's steel products in Russia are mainly used in the rail and construction industries, which are particularly vulnerable to general economic downturns. The majority of Evraz's exports are to Asia and the Middle East and the economies of these areas, like Russia's, are relatively volatile. Accordingly, any significant decrease in demand for steel products or decline in the price of these products in Russia or in Evraz's principal export markets could result in significantly reduced revenues, thereby materially adversely affecting Evraz's business, financial condition and results of operations.

The steel industry is highly competitive, and Evraz may not be able to compete successfully.

Evraz faces competition from Russian and foreign steel manufacturers. A number of its Russian competitors are undertaking modernisation and expansion plans, which may make them more efficient or allow them to develop new products. Evraz also faces price-based competition from steel producers in emerging market countries, including Ukraine in particular. Recent consolidation in the steel sector globally has also led to the creation of several large global steel producers, including Arcelor and Mittal Steel. These and many other large international steel companies have greater financial resources and more extensive global operations than Evraz. Moreover, the steel industry has historically suffered from production overcapacity. Increased competition from Russian or international steel producers could result in more competitive pricing, adversely affecting Evraz's results of operations and prospects.

Evraz has grown rapidly in a relatively short period and its strategy foresees continued integration of its steel making and mining operations as well as further acquisitions, but it is not certain that Evraz will be successful in its integration efforts or in identifying suitable acquisition targets.

Evraz has grown rapidly in a short period of time primarily through acquisitions of additional assets, and its strategy is based on its ability successfully to integrate these acquisitions in order to enhance its position as a vertically integrated steel and mining group.

The integration of newly acquired businesses may be difficult for a variety of reasons, including differing culture or management styles, poor records or internal controls and difficulty in establishing immediate control over cash flows. As a result, the need to integrate recently acquired assets, such as KGOK and Evraz Ruda, and potential future acquisitions of additional assets, poses significant risks to Evraz's existing operations, including:

- additional demands placed on Evraz's senior management, who are also responsible for managing Evraz's existing operations;
- increased overall operating complexity of Evraz's business, requiring greater personnel and other resources;
- significant cash expenditures to integrate recent acquisitions;
- incurrence of additional debt to finance acquisitions and higher debt service costs related thereto; and
- the ability to attract and retain sufficient numbers of qualified management and other personnel.

Moreover, Evraz may not be able to identify suitable acquisition targets, and future acquisitions may not be available to Evraz on terms as favourable as in the past. Evraz faces significant competition for potential acquisitions, particularly for mining assets. When making acquisitions it may not be possible for Evraz to conduct a detailed investigation of the nature of the assets being acquired, for example due to time constraints in making the decision and other factors. Evraz may also become responsible for additional liabilities or obligations not foreseen at the time of an acquisition.

Any failure to conclude acquisitions in the future or successfully to integrate past or future acquisitions could adversely affect Evraz's business, financial condition and results of operations. Moreover, even if Evraz is successful in integrating newly acquired assets and acquiring additional assets, expected synergies and cost savings may not materialise, resulting in lower than expected profit margins.

Evraz faces protective trade restrictions in the export of its steel products.

Evraz faces numerous protective tariffs, duties and quotas that reduce its competitiveness in, and limit its access to, particular markets. Several key steel importing countries currently have import restrictions on steel products or intend to introduce them in the future. For example, the EU has a quota system in place with respect to Russian steel imports, South Korea currently imposes tariffs on imports of H-beams from Russia, and South Korea and Brazil have announced that they are also considering restrictions on steel imports in order to protect domestic producers. In 1999 China imposed anti-dumping measures on imports of cold-rolled steel from Russia, but allowed them to expire in December 2004.

The United States had a quota system in effect with respect to imports from Russia of pig iron, cold-rolled steel, slabs, zinc-plated sheets and some other products that expired on 12 July 2004. From March 2002 until December 2003, the United States had implemented safeguard measures in the form of tariffs on most steel imported into the United States and has retained a licensing and monitoring regime. Depending on market conditions, the United States may in the future impose other trade restrictions.

Most of Evraz's exports of steel products are of semi-finished products, primarily billets and slabs, which generally are not subject to protective measures (including tariffs and quotas) in Evraz's principal export markets. However, there can be no assurance that these products will not be subject to such protective measures in the future. The introduction of additional protective measures could have an adverse effect on Evraz's business, results of operations and prospects.

Evraz benefits from tariffs and duties imposed on steel that is imported into Russia and which may be eliminated in the future.

Russia has in place import tariffs with respect to certain steel products imported from outside of Russia, excluding certain other CIS countries. These tariffs generally amount to 5% of the value of the products, but also increase to up to 20% of the value for certain higher value-added products. In addition, Russia has in place a 21% countervailing duty on imports of rebars from Ukraine, which is currently scheduled to expire in August 2005 and the Russian government is currently considering further protectionist measures against channels imported from Ukraine. Evraz believes that it benefits from these tariffs and duties because they prevent subsidised Ukrainian imports from reducing the prices that Evraz can obtain for these products in Russian markets. Evraz's sales in Russia of steel products that are protected by these tariffs and duties accounted for approximately 27% of its sales volume of construction products and approximately 13% of its total sales volume of steel products in 2004. These tariffs and duties may be reduced or eliminated in the future, which could materially adversely affect Evraz's results of operations and prospects.

In May 2004, Russia and the EU agreed on trade policy measures to be adopted in preparation for Russia's entry into the World Trade Organisation ("WTO") and, according to press reports, Russia may complete its negotiations with other countries to be able to join the WTO by 2007. Russia's future accession to the WTO could negatively affect Evraz's business and prospects, in particular by requiring that Russia lower or remove tariffs and duties on steel products, resulting in increased competition in the Russian steel market from foreign producers. See also "—Increasing tariffs and restructuring in the Russian energy sector could materially adversely affect Evraz's business".

Estimates of Evraz's mining reserves are subject to uncertainties.

The estimates concerning Evraz's iron ore and coal reserves contained in this Offering Circular are subject to considerable uncertainties. These estimates are based on interpretations of geological data obtained from sampling techniques and projected rates of production in the future. Actual production results may differ significantly from reserves estimates. In addition, it may take many years from the initial phase of drilling and exploration before production is possible. During that time, the economic feasibility of exploiting a discovery may change as a result of changes in the market price of iron ore or coal.

In addition, some of Evraz's ore deposits have not yet been evaluated in accordance with international methodologies. Information relating to Evraz's iron ore and coal in these deposits has been prepared on the basis of Russian reserves methodologies, which differ significantly from international methodologies and the standards applied by the United States Securities and Exchange Commission, among others. See "Description of Business—Mining Business—Ore Reserves".

Evraz's mining operations are subject to mining risks, and Evraz may not maintain sufficient insurance in respect of these mining and other operational risks.

Evraz's mining operations are subject to hazards and risks normally associated with the exploration, development and production of natural resources, any of which could result in production shortfalls or damage to persons or property. In particular, hazards associated with Evraz's open-pit mining operations include:

- flooding of the open pit;
- collapses of the open-pit wall;
- accidents associated with the operation of large open-pit mining and rock transportation equipment;
- accidents associated with the preparation and ignition of large-scale open-pit blasting operations;
- production disruptions due to weather; and

- hazards associated with the disposal of mineralised waste water, such as groundwater and waterway contamination.

Hazards associated with Evraz's underground mining operations include:

- underground fires and explosions, including those caused by flammable gas;
- cave-ins or ground falls;
- discharges of gases and toxic chemicals;
- flooding;
- sinkhole formation and ground subsidence; and
- other accidents and conditions resulting from drilling, blasting and removing and processing material from an underground mine.

Evraz is at risk of experiencing any or all of these hazards. For example, on 18 May 2005, a methane gas explosion occurred at Mine 12, as a result of which one miner was killed and ten were injured. The occurrence of any of these hazards could delay production, increase production costs and result in injury to persons and damage to property, as well as liability for Evraz. The liabilities resulting from any of these risks may not be adequately covered by insurance, and no assurance can be given that Evraz will be able to obtain additional insurance coverage at rates it considers to be reasonable. Evraz may therefore incur significant costs that could have a material adverse effect upon its business, results of operations and financial condition.

Evraz's business could be adversely affected if it fails to obtain or renew necessary licenses or fails to comply with the terms of its licenses.

Evraz's business depends on the continuing validity of its licenses, the issuance to it of new licenses and its compliance with the terms of its licences, including subsoil licenses for Evraz's mining operations in Russia. Evraz's subsoil licences currently expire in the period from 2013 to 2017. Regulatory authorities exercise considerable discretion in the timing of licence issuance and renewal and in monitoring of licensees' compliance with licence terms. Requirements imposed by these authorities may be costly and time-consuming and may result in delays in the commencement or continuation of exploration or production operations. Moreover, legislation on subsoil rights remains internally inconsistent and vague, and the acts and instructions of licencing authorities and procedures by which licences are issued are often arguably inconsistent with legislation.

In certain circumstances, state authorities in Russia may seek to interfere with the issuance of licences, for example by initiating legal proceedings where the issuance of a licence may allegedly violate the civil rights or legal interests of a person or legal entity. The licencing process may also be influenced by outside commentary, political pressure and other extra-legal factors. In the case of subsoil licenses, unsuccessful applicants may bring direct claims against the issuing authorities that the licence was issued in violation of applicable law or regulation. If successful, such proceedings and claims may result in the revocation or invalidation of the licence. Accordingly, licenses that Evraz requires may be invalidated or may not be issued or renewed. Licenses that are issued or renewed may not be issued or renewed in a timely fashion or may involve conditions that restrict Evraz's ability to conduct its operations or to do so profitably.

As part of their obligations under licensing regulations and the terms of their licenses, the Company's Russian subsidiaries (and Russian affiliates such as Raspadskaya) are also required to comply with numerous industrial standards, maintain production levels, recruit qualified personnel, maintain necessary equipment and a system of quality control, monitor Evraz's operations, maintain appropriate filings and, upon request, submit appropriate information to licencing authorities, which are entitled to control and inspect their activities. In most cases, a licence may be suspended or terminated if the licensee does not comply with the "significant" or "material" terms of the licence. However, the Ministry of Natural Resources of the Russian Federation has not issued any interpretive guidance on the meaning of "significant" or "material" terms of licences. Court decisions on the meaning of these terms have been inconsistent and, under Russia's civil law system, do not have significant value as precedents for future judicial proceedings. These deficiencies result in the regulatory authorities, prosecutors and courts having significant discretion over enforcement and interpretation of the law, which may be used arbitrarily to challenge the rights of subsoil licencees. As a result, while Evraz seeks to comply with the terms of its subsoil licences and believes that it is currently in material compliance with the terms of such licences, there can be no assurance that its licences may not be suspended or terminated. In the event that the licencing authorities in Russia discover a material violation by a subsidiary of the Company, such company may be required to suspend its operations or to incur substantial costs in eliminating or remedying the violation, which could have an adverse effect on Evraz's business or results of operations.

Any or all of these factors may affect Evraz's ability to obtain, maintain or renew necessary licenses. If Evraz is unable to obtain, maintain or renew necessary licenses or is only able to obtain or renew them with newly-introduced material restrictions, it may be unable to benefit fully from its reserves and its results of operations and prospects could be materially adversely affected.

Evraz will require significant amounts of cash to fund its capital investment programme, and Evraz's ability to generate cash or obtain financing depends on many factors beyond Evraz's control.

Evraz plans to make significant capital investments in its production facilities in the next five years. In particular, certain of the production facilities at NTMK and ZapSib were commissioned in the 1940s, 1950s or 1960s, and some of the production facilities at NKMK were commissioned in the 1930s. As a result of their age, parts of these facilities require significant investment in upgrades, maintenance or replacement. See "Description of Business—Steel Business—Production Facilities" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Requirements". Total capital expenditures over the next five years are expected to be approximately U.S.$1,422 million and are expected to be funded both from cash flow from operating activities and external sources, including long-term unsecured bank facilities insured by relevant export credit agencies and long-term syndicated facilities, in addition to the proceeds of the Offering. It is possible that these sources of financing may not be available in the future in the amounts Evraz requires or at an acceptable cost, for reasons including, without limitation, the unavailability of external financing sources; changes in the terms of existing financing arrangements; pursuit of new business opportunities or significant additional investment in existing businesses; fluctuations in the Russian or global steel markets; and regulatory developments. If these sources of financing are not available in the future in the amounts Evraz requires or at an acceptable cost, Evraz may not be able to make some or all of its planned capital expenditures in the amounts Evraz requires or at an acceptable cost. The unavailability or high cost of financing could have a material adverse effect on Evraz's ability to make its anticipated capital expenditures, and on its business and prospects.

Some transactions between the Company's Russian subsidiaries and their interested parties, affiliates and other members of the Evraz group require the approval of disinterested directors or disinterested shareholders.

The Company owns less than 100% of the shares in most of its subsidiaries, including NTMK, ZapSib and KGOK. These subsidiaries have in the past carried out, and continue to carry out, numerous transactions with other companies in Evraz's consolidated group and affiliates of Evraz that may be considered "interested party transactions" under Russian law, requiring approval by a majority vote of the "independent disinterested directors" or of the "disinterested shareholders", in advance of a particular transaction. In particular, NTMK, ZapSib and NKMK rely to a large extent on the supply of raw materials from related parties, including Raspadskaya, Evraz Ruda, KGOK and VGOK, and sales to Ferrotrade Limited.

Russian law requires a joint stock company that enters into transactions with certain related persons that are sometimes referred to as "interested party transactions" to comply with special approval procedures. Under Russian law, an "interested party" means: (i) any member of the board of directors or the collegiate executive body of the company, (ii) the chief executive officer of the company (including a managing organisation or hired manager), (iii) any person who, together with its affiliates, owns at least 20% of the company's voting shares or (iv) a person who on legal grounds has the right to give mandatory instructions to the company. A transaction with the company is an "interested party transaction" if any of the above listed persons, or a close relative or affiliate of such person, is, in each case:

- a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction;
- the owner of at least 20% of the shares in a company that is a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction;

- a member of a governing body of a company that is a party to a transaction with the company, whether directly or as a representative or intermediary, or a beneficiary of the transaction or an officer of the managing organisation of such company; or
- in other cases stipulated by law or the company's charter.

Due to the way in which the Russian law on interested party transactions is drafted, the special approval procedures that apply to interested party transactions also apply to transactions between entities within a consolidated group such as Evraz. The failure to obtain necessary approvals for transactions between the Company's Russian subsidiaries could result in the invalidation of such transactions and adversely affect Evraz's business.

In addition, the concept of "interested parties" is defined with reference to the concepts of "affiliated persons" and "group of persons", which are subject to many different interpretations under Russian law. Moreover, the provisions of Russian law defining which transactions must be approved as "interested party" transactions are subject to different interpretations. Evraz cannot be certain that its compliance with these concepts will not be subject to challenge. Any such challenge could result in the invalidation of transactions that are important to Evraz's business. Though Evraz generally seeks to obtain the required approvals for interested party transactions, in some cases, as a practical matter, it may not be able to obtain them. Failure to obtain the necessary approvals for transactions between the Company's Russian subsidiaries or any successful challenge to such transactions could result in the invalidation of such transactions and could have a material adverse effect on the business, financial condition, results of operations or prospects of Evraz.

Evraz has been and will continue to be controlled by two beneficial owners whose interests could conflict with those of the holders of the GDRs.

Following the Offering, assuming that the underwriters exercise the Over-allotment Option in full, 59.11% of the outstanding shares of the Company will be beneficially owned by Mr. Alexander Abramov, the Company's Chief Executive Officer and Chairman of its Board of Directors, and 28.18% by Mr. Alexander Frolov, Evraz's Senior Executive Vice President and a member of the Company's Board of Directors. As a result of their interests in Evraz, Mr. Abramov and, to a lesser extent, Mr. Frolov, have the ability to exert significant influence over certain actions requiring shareholder approval, including, but not limited to, increasing or decreasing the authorised share capital of the Company (and disapplying pre-emptive rights), the election of directors, declaration of dividends, the appointment of management and other policy decisions. The interests of the controlling beneficial owners could also at times conflict with the interests of holders of the GDRs. For example, the Company's subsidiaries have engaged in and continue to engage in transactions with related parties, including parties that are under common control with Evraz, such as procuring supplies of raw materials such as coking coal and acquiring assets such as Evraz Ruda. Although Evraz has in the past sought and continues to seek to conclude all related party transactions on an arm's-length basis, and the Company has adopted procedures for entering into transactions with related parties, conflicts of interest may arise between Evraz, its affiliates and the Company's principal shareholders or their affiliates, resulting in the conclusion of transactions on terms not determined by market forces. See "Directors and Management—Corporate Governance" and "Related Party Transactions". Any such conflict of interest could adversely affect Evraz's business, financial condition and results of operations, and therefore the value of an investment in the GDRs could be adversely affected.

Evraz's competitive position and future prospects are heavily dependent on its controlling beneficial owners' and senior management's experience and expertise.

The involvement in Evraz's management of Evraz's controlling beneficial owners, who serve as its Chairman and Chief Executive Officer and Senior Executive Vice President, respectively, has been, and Evraz believes will continue to be, important in the pursuit and implementation of Evraz's strategy. However, there can be no assurance that they will remain controlling shareholders or continue to make their services available to Evraz in the future. Evraz's business could suffer if either or both of these shareholders ceased to participate actively in its management.

In addition to the significant role in Evraz's management played by its controlling beneficial owners, Evraz's ability to maintain its competitive position and to implement its business strategy is dependent to a significant extent on the services of its senior management team, and in particular on its Chief Operating Officer, Chief Financial Officer and Commercial Director. Evraz depends on its current senior management for the implementation of its strategy and the operation of its day-to-day activities, and personal connections and relationships of members of senior management are important to the conduct of its business. However, there can be no assurance that these individuals will continue to make their services available to Evraz in the future. Evraz also does not maintain key personnel life insurance covering any of its senior managers.

The loss or diminution in the services of members of Evraz's senior management team or an inability to attract and retain additional senior management personnel could have a material adverse effect on Evraz's business, financial condition, results of operations or prospects. Moreover, competition in Russia for personnel with relevant expertise is intense due to the small number of qualified individuals, and this situation could seriously affect Evraz's ability to retain its existing senior management and attract additional suitably qualified senior management personnel. As a result, the departure of key members of management could have a material adverse effect on the business, results of operations or prospects of Evraz.

If the Russian Federal Antimonopoly Service were to conclude that Evraz acquired or created a new company in contravention of antimonopoly legislation or were to increase the level of control it exerts over certain of Evraz's operations, Evraz could face administrative sanctions, be required to divest certain assets or be subject to limitations in its operating flexibility.

Evraz's business has grown substantially through the acquisition and founding of companies incorporated and operating in the Russian Federation, many of which required the prior approval or subsequent notification of the Russian Federal Antimonopoly Service (the "FAS") or its predecessor agencies. In part, relevant legislation restricts the acquisition or founding of companies by groups of companies or individuals acting in concert without this approval or notification. Some of the Company's Russian subsidiaries are included in the register of entities holding market shares in excess of 35% that is maintained by the FAS. An entity included in the register that holds a market share in excess of 65% in a particular product market is presumed to hold a dominant position in such market and is prohibited from abuse of this position. Several of the Company's Russian subsidiaries have market shares in excess of 65% in certain product markets, including, among other products, ZapSib in respect of certain types of reinforced steel, NTMK in respect of H-beams, channels, tyres and wheels, NKMK in respect of rails and KGOK in respect of high-vanadium iron ore. See "Regulatory matters—Antimonopoly Regulation". While Evraz believes that it has complied with applicable regulations of the FAS (and its predecessor agencies), the legislation and regulations with respect to such matters are vague in certain parts and subject to varying interpretations, and there can be no assurance that the FAS will not conclude that an acquisition or the creation of a new company was done in contravention of applicable legislation and competition has been reduced as a result. Any such finding could result in the imposition of administrative sanctions or require the divestiture of such newly acquired or created company or other assets, adversely affecting Evraz's business, results of operations and prospects.

Evraz's acquisitions of certain assets have also been subject to various conditions imposed by the FAS. For example, the FAS has ordered Evraz not to reduce the production volumes of rails at NTMK and NKMK, of H-beams and channels at NTMK and ZapSib and high-vanadium iron ore, sinter and pellets at KGOK. The FAS has also ordered Evraz not to discriminate against purchasers of these products as well as customers of Nakhodka Commercial Sea Port as compared to its internal customers. Evraz must also provide certain information to the FAS about its production volumes and increases in the prices of these products on a regular basis. While Evraz believes that it is currently in compliance with the requirements established by the FAS with respect to its operations, there can be no assurance that it will be able to remain in compliance in the future or that its past conduct will not be challenged. Moreover, these requirements or any changes to these requirements, such as limitations on further acquisitions or specific pricing requirements, or on the ability of Evraz to adjust its production and pricing to respond to changed market conditions, could have an adverse effect on the results of operations and prospects of Evraz.

In the event that the title to any company acquired by Evraz through privatisation, bankruptcy sale or otherwise is successfully challenged, Evraz may lose its ownership interest in that company or its assets.

Almost all of Evraz's steel making and mining assets consist of companies that have been privatised or that Evraz acquired through bankruptcy proceedings or directly or indirectly from others who acquired them through privatisation or bankruptcy proceedings, and Evraz may seek to acquire additional companies that have been privatised or that have undergone bankruptcy proceedings.

Most of the Company's principal Russian subsidiaries are companies that have been privatised. Privatisation legislation in Russia is vague, internally inconsistent and in conflict with other elements of Russian legislation. As the statute of limitations for challenging transactions entered into in the course of privatisations is currently ten years, many privatisations are still vulnerable to challenge, including through selective action by governmental authorities motivated by political or other extra-legal considerations. In March 2005, President Putin announced that he had instructed Prime Minister Mikhail Fradkov to draft legislation that would reduce the statute of limitations on privatisation transactions from ten years to three years, and the draft bill received preliminary approval from the Government in mid-May 2005. This bill must still be approved by both houses of the Russian legislature, the State Duma and the Federation Council, and approved by the president, before becoming law.

In addition, Evraz acquired assets of Kuznetsk Iron and Steel Plant ("KMK") through a bankruptcy auction process, and other operations, including NTMK, ZapSib, and KGOK, were subject to bankruptcy proceedings prior to their acquisition by Evraz. The regulations relating to Russian insolvency proceedings are cumbersome and it may be difficult to be in full compliance with such regulations.

Evraz has also been named in litigation filed in the United States District Court for the District of Delaware and the Delaware Chancery Court that challenges certain aspects of events relating to KGOK's insolvency proceedings and Evraz's subsequent acquisition of KGOK. In these proceedings, the plaintiffs have alleged that they lost control of KGOK as a result of fraud, extortion, bribery and false bankruptcy proceedings that purportedly occurred between 1999 and 2003 (prior to Evraz's acquisition of control over KGOK), and that Evraz was owned or controlled by one or more of the other defendants in the matter (which is incorrect). Evraz and the other defendants are currently seeking dismissal of these claims on various grounds. Evraz acquired its shares in KGOK through transactions mediated by an experienced market intermediary, and received from the sellers the limited representations and warranties that are customary in the Russian market in respect of the shares it acquired. Evraz's management believes that the plaintiffs' claims against Evraz are without merit. See "Description of Business—Legal Proceedings".

While Evraz believes that it has complied with applicable legislation and regulations with respect to the acquisitions of its assets, if any of such acquisitions are challenged as having been improperly conducted and Evraz is unable successfully to defend itself, Evraz may lose its ownership interests, which could materially adversely affect its business and results of operations.

Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may affect Evraz's results of operations.

Russian transfer pricing rules entered into force in 1999, giving Russian tax authorities the right to make transfer pricing adjustments and impose additional tax liabilities in respect of all controlled transactions, provided that the transaction price differs from the market price by more than 20%. Controlled transactions include domestic and international transactions between related entities and certain other types of transactions between independent parties, such as foreign trade transactions or transactions with significant (greater than 20%) price fluctuations. The Russian transfer pricing rules are vaguely drafted, leaving wide scope for interpretation by Russian tax authorities and courts. Moreover, in the event that a transfer pricing adjustment is assessed by Russian tax authorities, the Russian transfer pricing rules do not provide for an offsetting adjustment to the related counterparty in the transaction that is subject to adjustment. While members of the consolidated Evraz group engage in numerous transactions between related parties, Evraz seeks to conduct such transactions based on prices at which Evraz believes similar transactions could be entered into between unrelated parties, which Evraz believes is the market price. However, it is not always possible to determine a relevant market price, and the Russian tax authorities may take a view as to what constitutes an appropriate market price that differs from that adopted by Evraz. As a result, Russian tax authorities may challenge Evraz's prices in such transactions and propose adjustments. If any such price adjustments are upheld by the Russian courts and implemented, Evraz could face significant losses associated with the assessed amount of prior tax underpaid and related interest and penalties, which could have an adverse effect on Evraz's financial condition and results of operations. See also "—Risks Relating to the Russian Federation—Legislative and Legal Risks—Weaknesses and changes in the Russian tax system could materially adversely affect Evraz's business and the value of the GDRs".

Evraz depends on the Russian railroad network for the transportation of mining and steel products, and the Russian railroad network is also the major purchaser of Evraz's railway products.

Railway transportation is Evraz's principal means of transporting raw materials and steel products to its facilities and to customers, as well as to ports for onward transportation overseas. Moreover, Evraz's production facilities are located at a greater distance from their primary markets and seaports than are many of Evraz's competitors. As a result, Evraz's transportation costs are generally higher than those of its competitors. For example, while two of Evraz's major Russian competitors, Severstal and Novolipetsk Iron and Steel Works ("NLMK"), ship their products to export markets via Baltic sea ports that are located relatively close to their major production facilities, Evraz ships most of its products for export via sea ports in Russia's Far East (primarily Nakhodka Commercial Sea Port and Vladivostok) that are comparatively more distant from its production facilities. As a result, increases in transportation costs may adversely affect Evraz's ability to compete successfully both on the Russian and export markets. Currently, the Russian government sets rail tariffs and may further increase these tariffs, as it has done in the past. Moreover, in 2003, legislation was enacted which sets out the framework for privatisation of certain state-owned railway enterprises, and in 2004 their assets were contributed into the share capital of a state-owned company, Russian Railways. If the privatisation of Russian Railways or other factors were to result in increased railway transport costs, Evraz's results of operations could be materially adversely affected. While Evraz believes that its position as the leading supplier of railway products to Russian Railways has in the past enabled it to increase the prices of its finished railway products to offset increases in transportation costs associated with these products, there can be no assurance that Evraz will be able to engage in such price increases in the future or that any such increases will be sufficient to offset increases in transportation tariffs.

In addition, Russian rolling stock is generally in a poor state of repair. While Evraz owns and leases railcars, and rents additional railcars, in order to reduce its dependence on rolling stock owned by Russian Railways, such assets are sufficient for only a portion of Evraz's total transportation requirements. The failure of Russian Railways to upgrade its rolling stock within the next few years could result in a shortage of available working rolling stock, a disruption in transportation of Evraz's raw materials and products and cause rail tariffs to increase. Any such occurrences could adversely affect Evraz's results of operations and prospects.

Evraz also sells most of its railway products to Russian Railways. Sales to Russian Railways accounted for approximately 17% of Evraz's total sales volume of steel products in Russia and the CIS in 2004, and approximately 7% of Evraz's total consolidated revenues in 2004. While demand from Russian Railways for railway products has generally been consistent over the last five years, any reduction in Russian Railways' investment budget, the introduction of requirements to decrease the purchase prices of railway products or the potential entry of new producers into the market for railway products could have an adverse effect on Evraz's results of operations and prospects.

More stringent environmental laws and regulations or more stringent enforcement of existing environmental laws and regulations may have a significant negative effect on Evraz's operating results.

Evraz's operations and properties are subject to environmental, health and safety and other laws and regulations in the jurisdictions in which it operates, principally in Russia. For instance, Evraz's operations generate large amounts of pollutants and waste, some of which are hazardous, such as benzapiren, sulphur oxide, sulphuric acid, sulphates, phenicols and sludges (including sludges containing chrome, copper, nickel and zinc). The discharge, storage and disposal of such hazardous waste is subject to environmental regulations, including some requiring the clean-up of contamination and reclamation. Pollution risks and related clean-up costs are often impossible to assess unless environmental audits have been performed and the extent of liability under environmental laws is clearly determinable.

Under current Russian environmental legislation, Evraz must make payments for air and water discharges as well as waste which are within specified limits as well as make increased payments for discharges and waste in excess of these limits. Evraz's total payments associated with such pollution were approximately U.S.$4.5 million in 2004, U.S.$3.3 million in 2003 and U.S.$2.8 million in 2002.

Through it has been enhanced since the Soviet era, environmental legislation in Russia is generally weaker and less stringently enforced than in the EU or the United States. More stringent standards may be introduced or enforcement increased in Russia in the future. In addition, based on the existing regulatory environment, as of 31 December 2004 Evraz had made provisions of U.S.$16.7 million for site restoration activities to be conducted at its mining facilities and U.S.$481,000 associated with the reclamation of land at its steel mills. Any change in the current regulatory environment could result in actual costs and liabilities for which Evraz has not provided or planned. Moreover, in the course of, or as a result of, an environmental investigation, regulatory authorities in Russia can issue an order reducing or halting production at a facility that has violated environmental standards. In the event that production at one of Evraz's facilities was partially or wholly prevented due to this type of sanction, its business could suffer significantly and its operating results would be negatively affected.

Furthermore, the implementation of the Kyoto Protocol to the United Nations Framework Convention on Climate Change from February 2005 may impose new and/or additional rules or more stringent environmental norms. Complying with any such requirements may entail additional capital expenditures or modifications in operating practices. The impact on Evraz will depend on, among other factors, the base level against which permissible levels of emissions are to be measured and the allocation of quotas for such emissions, which is currently uncertain.

In addition, Evraz has generally not been indemnified against environmental liabilities or any required land reclamation expenses of Evraz's acquired businesses that arise from activities that occurred prior to the acquisition of such businesses.

Fluctuations in the value of the rouble against the U.S. dollar may materially adversely affect Evraz's results of operations.

Evraz's presentation currency is the U.S. dollar. Evraz's products are typically priced in rubles for Russian and CIS sales and in U.S. dollars for international sales, and Evraz's direct costs, including raw materials, labour and transportation costs, are largely incurred in rubles, while other costs, such as interest expense, are incurred in rubles, U.S. dollars and euro. The mix of Evraz's revenues and costs is such that appreciation in real terms of the rouble against the U.S. dollar tends to result in an increase in Evraz's costs relative to its revenues, while depreciation of the rouble against the U.S. dollar in real terms tends to result in a decrease in Evraz's costs relative to its revenues. The rouble appreciated in real terms against the U.S. dollar by 13.6% in 2004, 15.0% in 2003 and 6.0% in 2002, according to the CBR. However, in recent years the effect of the real appreciation of the rouble against the U.S. dollar has been more than offset by increased prices for Evraz's steel products, both in Russia and internationally. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for the Periods ended 31 December 2004, 2003 and 2002" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Inflation". Further real appreciation of the rouble against the U.S. dollar may materially adversely affect Evraz's financial condition and results of operations.

In addition, nominal depreciation of the rouble against the U.S. dollar results in a decrease in the reported U.S. dollar value of Evraz's rouble-denominated assets (and liabilities) and nominal appreciation of the rouble against the U.S. dollar results in an increase in the reported U.S. dollar value of Evraz's rouble-denominated assets (and liabilities). Moreover, nominal appreciation and depreciation of the rouble against the U.S. dollar has a similar effect when the income statements of Evraz's Russian subsidiaries are translated into U.S. dollars in connection with the preparation of Evraz's consolidated financial statements. The average exchange rate of the rouble against the U.S. dollar depreciated by 7.0% in nominal terms during 2002, but appreciated by 2.2% and 6.5% in nominal terms in 2003 and 2004, respectively, according to the CBR.

Sustained periods of high inflation could adversely affect Evraz's business.

Evraz's production activities are located in Russia, and the majority of Evraz's direct costs are incurred in Russia. Russia has experienced high levels of inflation since the early 1990s. Inflation increased dramatically after the 1998 financial crisis, reaching a rate of 84.4% in that year. Notwithstanding recent reductions in the inflation rate, which in 2003 was 12.0% and in 2004 was 11.7%, Evraz tends to experience inflation-driven increases in certain of its costs, such as salaries, that are linked to the general price level in Russia. However, Evraz may not be able to increase the prices that it receives for its products sufficiently in order to preserve operating margins, particularly in the case of Evraz's export sales, when such inflation is accompanied by real appreciation of the rouble against the U.S. dollar. Accordingly, high rates of inflation in Russia could increase Evraz's costs and decrease Evraz's operating margins.

Increasing tariffs and restructuring in the Russian energy sector could adversely affect Evraz's business.

In 2004, Evraz's Russian operations purchased approximately 7,903 million kWh of electricity, representing approximately 92% of their requirements, from local subsidiaries of RAO UES ("UES"), the government-controlled national holding company for the Russian power sector. Domestic electricity prices are regulated by the Russian government. The government is currently in the early stages of implementing a restructuring plan for the power sector aimed at introducing competition, liberalising the wholesale electricity market and moving from regulated pricing to a market-based system by 2008. Moreover, according to the Russian Energy Strategy approved by the Russian government in 2003, electricity tariffs for industrial users are to reach 3.2-3.6 U.S. cents per kWh by 2006. In 2004, Evraz's average cost of electricity was 2.7 U.S. cents per kWh. Assuming a price of 3.6 U.S. cents per kWh in 2004, Evraz's Russian operations would have incurred approximately U.S.$103 million in additional costs. Further price increases for electricity may also occur in the future as the industry is restructured and controlled to a greater extent by the private sector. Evraz has instituted a programme to increase the proportion of its electricity requirements that it generates from internal sources and to seek more favourable pricing on the electricity that it purchases from outside suppliers. See "Description of Business—Steel Business—Raw Materials". As part of this strategy, Evraz may seek to acquire generating assets in the restructuringof the Russian power sector referred to above. However, if Evraz is required to pay higher prices for electricity in the future, its costs will rise and its business and prospects could be materially adversely affected.

Evraz's Russian operations also purchase significant amounts of natural gas, primarily for the production of electricity and heat energy at Evraz's facilities, from subsidiaries of OAO Gazprom ("Gazprom"). Gazprom is a government-controlled company and the dominant producer and monopoly transporter of natural gas within Russia. Domestic natural gas prices are regulated by the government, and have been rising over the last few years. The average price for industrial consumers in Russia was approximately RUR873 (approximately U.S. $31.46) per thousand cubic metres in 2004, an increase of approximately 65% from 1 February 2002. Despite these recent price increases, natural gas prices in Russia remain significantly below western European levels, helping to provide Evraz with a cost advantage over its competitors. In May 2004, in connection with an agreement on Russia's potential accession to the WTO, Russia and the EU agreed that Russia would raise domestic gas prices to U.S.$37-42 per thousand cubic metres for natural gas by 2006 and to U.S.$49-57 per thousand cubic metres by 2010. Assuming a price of U.S.$42 per thousand cubic metres in 2004, Evraz's Russian operations would have incurred approximately U.S.$19 million in additional costs. If Evraz is required to pay a higher price for natural gas, its costs will rise and its results of operations and prospects could be adversely affected.

Evraz's accounting systems and internal controls may be inadequate to ensure timely and accurate financial reporting, and any such shortcomings in these systems could have a material adverse affect on Evraz's business, financial condition and results of operations and thus the value of the GDRs.

Evraz's system of internal control over financial reporting is not designed for the preparation of consolidated IFRS financial statements. For example, Evraz does not have integrated information systems; each subsidiary has its own accounting platform and chart of accounts. Evraz's Russian subsidiaries prepare separate financial statements under Russian accounting standards for statutory purposes. The preparation of IFRS consolidated financial statements is a manual process that involves, first, the transformation of the statutory financial statements of Evraz's subsidiaries into IFRS financial statements through accounting adjustments and, second, a consolidation of all subsidiaries financial statements. This process is complicated and time-consuming, and it requires significant attention from Evraz's senior accounting personnel at its corporate headquarters and subsidiaries.

Evraz has taken, and plans to take, steps to improve its accounting systems and internal controls, including the development and documentation of control procedures over the financial statements closing process and hiring additional qualified personnel in the area of financial reporting. Despite these steps, and in light of Evraz's past and planned growth through acquisitions, Evraz may not be able to detect or prevent a material misstatement of its annual or interim IFRS consolidated financial statements or to ensure that its IFRS consolidated financial statements are prepared in a timely manner in accordance with the requirements of the London Stock Exchange or otherwise.

Evraz depends on key accounting staff for the preparation of IFRS financial information. These persons may leave the group, which could disrupt Evraz's ability to timely and accurately report IFRS financial information and have an adverse effect on Evraz's business and the value of the GDRs.

The preparation of Evraz's IFRS financial information is a difficult task requiring IFRS-experienced accounting personnel at each of Evraz's principal subsidiaries and at its Moscow corporate offices. However, Russia has available only a small number of accounting personnel with IFRS expertise. Moreover, there is an increasing demand for such personnel as more Russian companies are beginning to prepare financial statements on the basis of IFRS or other international standards. Such competition, combined with the remote locations of the Company's Russian subsidiaries, which such personnel may not find suitable in comparison to other opportunities, makes it difficult for Evraz to hire and retain such personnel, and Evraz's key accounting staff may leave Evraz. Any inability to hire or to retain qualified accounting staff could adversely affect Evraz's business and the value of the GDRs.

The Company's subsidiaries in Russia are in many cases the largest employers in their respective regions, and as a result Evraz may be limited in its ability to make rapid and significant reductions in numbers of employees.

The Company's subsidiaries are in many regions the largest employers in the cities in which they operate, for example NTMK in Nizhny Tagil, ZapSib and NKMK in Novokuznetsk and KGOK in Kachkanar. While Evraz does not have any specific legal social obligations or responsibilities with respect to these regions, its ability to effect alterations in the numbers of its employees may nevertheless be subject to political and social considerations. Any inability to make planned reductions in numbers of employees or other changes to Evraz's operations in such regions could have an adverse effect on its results of operations and prospects.

The Company or its non-Russian subsidiaries could be deemed to be tax residents of Russia, adversely affecting Evraz's business, financial condition and results of operations.

The Company and its subsidiaries incorporated outside of Russia are generally considered to be non-residents of Russia for tax purposes. Though Evraz believes that it conducts its operations in accordance with applicable requirements, there can be no assurance that Russian tax authorities will not deem the Company or any such non-Russian subsidiaries to have a permanent establishment in Russia as a result of an exercise of management and control from within Russia, for example by virtue of the location of Evraz's corporate headquarters activities in Russia. There are instances where foreign companies that perform holding or finance functions and are managed and controlled from Russia have been challenged by Russian tax authorities as having a permanent establishment in Russia. Such a challenge with respect to Evraz could result in the Company or one or more of its non-Russian subsidiaries being subject to Russian profits tax computed under Russian tax principles and Russian income tax withholding being assessed on dividend, interest and other similar payments paid from such companies. Such occurrences could increase Evraz's tax liabilities and adversely affect Evraz's business and results of operations and the value of the GDRs.

Changes in the application or interpretation of the Cypriot tax system could materially adversely affect Evraz's business and the value of the GDRs.

Cyprus became a member of the European Union on 1 May 2004, as a result of which it has harmonised its legislation with European Union directives and guidelines and has reformed its tax system. Moreover, Cyprus will now adhere to European Court of Justice decisions and any amendments to, or any newly introduced, European Union directives with respect to taxation. Such judicial decisions and legislative changes may adversely affect the tax treatment of Evraz's Cypriot subsidiaries and of transactions with such Cypriot companies.

In addition, in accordance with Cyprus income tax laws, a company is tax resident in Cyprus if its management and control is exercised in the Republic of Cyprus. There is no definition in the Cyprus income tax laws as to what constitutes management and control. Evraz has received advice that the Cyprus tax authorities follow the OECD model convention with respect to taxes on income and capital, which refers to a "place of effective management". The commentary on that model convention states: "The place of effective management is the place where key management and commercial decisions that are necessary for the conduct of the entity's business are in substance made. The place of effective management will ordinarily be the place where the most senior person or group of persons (for example a board of directors) makes its decisions, the place where the actions to be taken by the entity as a whole are determined; however, no definitive rule can be given and all relevant facts and circumstances must be examined to determine the place of effective management. An entity may have more than one place of management, but it can have only one place of effective management at any one time". Based on this definition, management and control may be considered to be exercised where the board of directors of a company meets and takes decisions. A company that is tax resident in Cyprus is subject to Cypriot taxation and qualifies for benefits available under the Cypriot tax treaty network, including the double-taxation treaty with Russia. In addition, an EU parent company may be able to claim tax benefits under European Union tax directives with respect to dividends paid from Cypriot resident companies or gains from the sale of shares in Cypriot resident companies.

In the event the tax residency of a company incorporated in Cyprus is challenged, such Cypriot company would be required to establish that it is managed and controlled from Cyprus. If the tax residency of any of the Company's Cypriot subsidiaries, including Mastercroft, were to be challenged and Evraz was unable to establish that such company qualified as a Cypriot tax resident, such company may be subject to tax in its place of tax residency and would be unable to make use of the Cypriot tax treaty network. If the relevant Cypriot company is not tax resident in a European Union member state, tax benefits under the EU tax directive referred to above may be restricted or eliminated.

Adverse changes in the application or interpretation of Cypriot tax law, or a finding that a subsidiary of the Company that is incorporated in Cyprus does not qualify as a Cypriot tax resident or for tax treaty based benefits, may significantly increase Evraz's tax burden and adversely affect its financial condition and results of operations.

RISKS RELATING TO THE GDRs AND THE TRADING MARKET

Because there has been no prior active public trading market for the GDRs, the Offering may not result in an active or liquid trading market for the GDRs, and their price may be highly volatile.

Before the Offering, there has been no public trading market for the GDRs or for the Company's ordinary shares. Although the GDRs will be admitted to trading on the London Stock Exchange, an active, liquid trading market may not develop or be sustained after this offering. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. If an actual liquid trading market for the GDRs does not develop, the price of the GDRs may be more volatile and it may be difficult to complete a buy or sell order for the GDRs.

The trading prices of the GDRs may be subject to wide fluctuations in response to many factors, including:

- variations in Evraz's operating results and those of other steel and mining companies;
- variations in national and industry growth rates;
- actual or anticipated announcements of technical innovations or new products or services by Evraz or its competitors;
- changes in governmental legislation or regulation;
- general economic conditions within Evraz's business sector or in Russia; or
- extreme price and volume fluctuations on the Russian or other emerging market stock exchanges.

In addition, the market price of the GDRs may decline below the offering price, which will be determined by the results of the book building exercise being conducted by the Managers.

Future sales of shares or GDRs may affect the market price of the GDRs.

Sales, or the possibility of sales, by the Company or its controlling shareholder of a substantial number of GDRs or of the Company's ordinary shares in the public markets following the Offering could have an adverse effect on the trading prices of the GDRs or could affect the Company's ability to obtain further capital through an offering of equity securities. Subsequent equity offerings or issuances by the Company may also reduce the percentage ownership of shares by its existing shareholders. Moreover, the Company may issue new shares that have rights, preferences or privileges senior to those of the Shares.

The Shares underlying the GDRs are not listed and may be illiquid.

Unlike nearly all other GDRs traded on the London Stock Exchange, the Company's ordinary shares are neither listed nor traded on any stock exchange, and the Company does not intend to apply for the listing or admission to trading of its ordinary shares on any stock exchange. As a result, a withdrawal of Shares by a holder of GDRs, whether by election or due to certain events described under "Terms and Conditions of the Global Depositary Receipts—Termination of Deposit Agreement", will result in that holder obtaining securities that are significantly less liquid than the GDRs and the price of those Shares may be discounted as a result of such withdrawal.

Holders of the GDRs may not be able to benefit from certain UK anti-takeover protections.

As the Company is not resident in the United Kingdom, the City Code on Takeovers and Mergers does not apply to the Company. As a result, a bid for, or creeping acquisition of control over, the Company is presently unregulated. Additional EU rules are likely to come into effect with respect to Luxembourg. See "Description of Share Capital and Corporate Structure—Potential Mandatory Offer Rules".

RISKS RELATING TO THE RUSSIAN FEDERATION

Political and Social Risks

Political and governmental instability could adversely affect the value of the GDRs.

Since 1991, Russia has moved from a one-party state with a centrally-planned economy to a federal republic with democratic institutions and a market-oriented economy, but the Russian political system remains vulnerable to popular dissatisfaction, including dissatisfaction with the results of privatisations in the 1990s, as well as to demands for autonomy from particular regional and ethnic groups. The course of political, economic and other reforms has in some respects been uneven, and the composition of the Russian government—the prime minister and the other heads of federal ministries—has at times been unstable. For example, six different prime ministers headed governments between March 1998 and May 2000. During his term as president, President Putin has generally maintained governmental stability. In addition, the elections to the lower house of the legislature, the State Duma, in December 2003 resulted in a substantial majority for parties supportive of President Putin.

In February 2004, just prior to his election to a second term as president, President Putin dismissed his entire cabinet, including the prime minister. He subsequently appointed Mikhail Fradkov as Prime Minister and issued a presidential decree that significantly reduced the number of federal ministries, redistributed certain functions amongst various agencies of the Government of the Russian Federation (the "Government") and announced plans for a major overhaul of the federal administrative system. Many of these changes have since been implemented. President Putin is implementing reforms by which executives of sub-federal political units are no longer elected by the population, but instead are nominated by the President of the Russian Federation and confirmed by the legislature of the sub-federal political unit. President Putin has also proposed to eliminate single-member-district elections for the State Duma, and that all votes would instead be cast on a party list basis.

Future changes in the government, major policy shifts or lack of consensus between President Putin, the Government, Russia's parliament and powerful economic groups could lead to political instability, which could have a material adverse effect on Evraz and thus the value of the GDRs.

Evraz is heavily dependent on its operations in the Russian Federation, and the reversal of reform policies or government policies targeted at specific individuals or companies could harm Evraz's business as well as investments in Russia more generally.

Since President Putin took office as prime minister and then president in 1999, the political and economic situation in Russia has generally become more stable and conducive to investment. However, signs of a breakdown in the consensus among key Governmental officials are beginning to appear, raising questions about the direction of future economic reforms. Any significant struggle over the direction of future reforms, or the reversal of the reform program, could lead to a deterioration in Russia's investment climate that might constrain Evraz's ability to obtain financing in the international capital markets, hinder its access to raw materials in and limit its sales in Russia, and otherwise harm its business and results of operations. In May 2005, President Putin ordered Prime Minister Mikhail Fradkov to submit to the Russian parliament by 1 November 2005 draft laws limiting foreign ownership of sectors that "ensure government security", which may include defense, oil and metals. The nature and scope of any such limitations that may be proposed is currently uncertain.

In 2003, Russian authorities arrested Mikhail Khodorkovsky and Platon Lebedev, key shareholders and managers of OAO NK Yukos ("Yukos"), then Russia's largest oil company by production, on tax evasion and related charges, and on 31 May 2005 they were each sentenced to nine years of imprisonment on these charges. Significant back tax claims have since been brought against Yukos, resulting in the auction of its major production subsidiary, OAO Yuganskneftegaz ("Yuganskneftegaz"), and the effective destruction of Yukos. Yuganskneftegaz was acquired, indirectly, by OAO NK Rosneft, a state-owned oil company, resulting in the first effective renationalisation of a significant company privatised in the 1990s. Some analysts contend that the arrests, destruction of Yukos and renationalisation of Yuganskneftegaz portend a willingness on the part of the Putin administration to reverse key political and economic reforms of the 1990s, including certain privatisations. Other analysts, however, believe that these arrests were isolated events that relate to the specific individuals and companies involved and do not signal any deviation from broader political and economic reforms or a wider program of asset redistribution. In March 2005, President Putin announced that he had instructed Prime Minister Mikhail Fradkov to draft legislation that would reduce the statute of limitations on privatisation transactions from ten years to three years, and a draft bill was approved by the Government in mid-May 2005, though it still must be approved by both houses of the Russian Legislature, the State Duma and the Federation Council, and approved by the president before becoming effective. President Putin also announced in March that the Government was considering plans to reform the system of tax collection and administration, and in his Annual Address to the Federal Assembly on 25 April 2005, President Putin stated that tax authorities should not "terrorize" taxpayers by repeatedly considering the same problems. For further discussion of recent activities by Russian tax authorities, see "—Legislative and Legal Risks—Unlawful, selective or arbitrary government action may have an adverse effect on Evraz's business and the value of the GDRs".

Political, social and other conflicts, and corruption, create an uncertain operating environment that hinders Evraz's long-term planning ability and could adversely affect the value of its investments in Russia.

The Russian Federation is a federation of 89 sub-federal political units, consisting of republics, territories, regions, cities of federal importance and autonomous regions and districts. The delineation of authority and jurisdiction among the members of the Russian Federation and the federal government is, in many instances, unclear and remains contested. Lack of consensus between the federal government and local or regional authorities often results in the enactment of conflicting legislation at various levels and may lead to further political instability. In particular, conflicting laws have been enacted in the areas of privatisation, securities, corporate legislation and licensing. Some of these laws and governmental and administrative decisions implementing them, as well as certain transactions consummated pursuant to them, have in the past been challenged in the courts, and such challenges may occur in the future. This lack of consensus hinders Evraz's long-term planning efforts and creates uncertainties in Evraz's operating environment, both of which may prevent Evraz from effectively and efficiently carrying out its business strategy. See also "—Risks Relating to Evraz—In the event the title to any company acquired by Evraz through privatisation, bankruptcy, sale or otherwise is successfully challenged, Evraz may lose its ownership interest in that company or its assets" and "—Legislative and Legal Risks—Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity in Russia and thus could have a material adverse effect on Evraz's business and the value of the GDRs".

In addition, ethnic, religious, historical and other divisions have, on occasion, given rise to tensions and, in certain cases, military conflict, such as the continuing conflict in Chechnya, which has brought normal economic activity within Chechnya to a halt and disrupted the economies of neighboring regions. Various armed groups in Chechnya have regularly engaged in guerrilla attacks in that area. Violence and attacks relating to this conflict have also spread to other parts of Russia, including terrorist attacks in Moscow. The further intensification of violence, including terrorist attacks and suicide bombings, or its continued spread to other parts of Russia, could have significant political consequences, including the imposition of a state of emergency in some or all of Russia. Moreover, any terrorist attacks and the resulting heightened security measures may cause disruptions to domestic commerce and exports from Russia, and could materially adversely affect Evraz's results of operations and prospects, and thus the value of the GDRs.

The implementation of Russia's economic reforms has also led from time to time to social protest. For example, in 1998, miners in several regions of Russia, demanding payment of overdue wages, resorted to strikes which included blocking major railroads, and, in early 2005, pensioners in cities across Russia protested the replacement of certain in-kind benefits with cash allowances. The escalation of social unrest could have an adverse effect on Evraz's ability to conduct its business in Russia.

Finally, the Russian and international media have reported high levels of corruption in Russia and elsewhere in the CIS. Press reports have also described instances in which Government officials have engaged in selective investigations and prosecutions to further the interests of the Government and individual officials or business groups. Moreover, certain members of the Russian media appear to have published biased articles in exchange for payment. In addition, persons who are hostile to Evraz and/or its management and/or its beneficial owners may allege, in the press or elsewhere, that Evraz and/or its beneficial owners have engaged in illegal activities. Demands of corrupt officials, claims that Evraz or its management or its beneficial owners have been involved in corruption or illegal activities or biased articles and negative publicity could adversely affect Evraz's ability to conduct its business in Russia and the value of the GDRs.

Economic Risks

Emerging markets such as Russia are subject to greater risks than more developed markets, and financial turmoil in any emerging market could disrupt Evraz's business, as well as cause the price of the GDRs to suffer.

Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved in, and are familiar with, investing in emerging markets. Investors should also note that emerging markets such as Russia are subject to rapid change and that the information set out in this Offering Circular may become outdated relatively quickly. Moreover, financial turmoil in any emerging market country tends to adversely affect prices in equity markets of all emerging market countries as investors move their money to more stable, developed markets. As has happened in the past, financial problems or an increase in the perceived risks associated with investing in emerging economies could dampen foreign investment in Russia and adversely affect the Russian economy. In addition, during such times, companies that operate in emerging markets can face severe liquidity constraints as foreign funding sources are withdrawn. Thus, even if the Russian economy remains relatively stable, financial turmoil in any emerging market country could seriously disrupt Evraz's business, as well as result in a decrease in the price of the GDRs.

Economic instability in Russia could adversely affect Evraz's business.

Since the dissolution of the Soviet Union in 1991, the Russian economy has experienced at various times:

- significant declines in gross domestic product;
- hyperinflation;
- an unstable currency;
- high government debt relative to gross domestic product;
- a weak banking system providing limited liquidity to Russian enterprises;
- a large number of loss-making enterprises that continued to operate due to the lack of effective bankruptcy proceedings;
- significant use of barter transactions and illiquid promissory notes to settle commercial transactions;
- widespread tax evasion;
- the growth of black and gray market economies;
- high levels of capital flight;
- high levels of corruption and the penetration of organized crime into the economy;
- significant increases in unemployment and underemployment; and
- the impoverishment of a large portion of the Russian population.

The Russian economy has been subject to abrupt downturns. In particular, on 17 August 1998, in the face of a rapidly deteriorating economic situation, the Russian government defaulted on its rouble-denominated securities, the CBR stopped its support of the rouble and a temporary moratorium was imposed on certain hard currency payments. These actions resulted in an immediate and severe devaluation of the rouble, a sharp increase in the rate of inflation, a dramatic decline in the prices of Russian debt and equity securities and the inability of Russian issuers to raise funds in the international capital markets. These problems were aggravated by the near collapse of the Russian banking sector after the events of 17 August 1998, which further impaired the ability of the banking sector to act as a reliable and consistent source of liquidity to Russian companies.

Recent favourable trends in the Russian economy—such as the increase in gross domestic product, a relatively stable rouble and a reduced rate of inflation—may not continue or may be abruptly reversed. For example, in the first quarter of 2005 the inflation rate in Russia increased and economic growth slowed. In addition, because Russia produces and exports large quantities of oil and natural gas, the Russian economy is particularly vulnerable to fluctuations in the price of oil and natural gas on the world market, and a decline in the price of oil or natural gas could significantly slow or disrupt the Russian economy. The occurrence of any of these events could adversely affect Russia's economy and Evraz's business in the future.

The Russian banking system remains underdeveloped, and Evraz is only able to conduct banking transactions with a limited number of creditworthy Russian banks.

Russia's banking and other financial systems are not well developed or regulated, and Russian legislation relating to banks and bank accounts is subject to varying interpretations and inconsistent application. The 1998 financial crisis resulted in the bankruptcy and liquidation of many Russian banks and almost entirely eliminated the developing market for commercial bank loans at that time. From April through July 2004, the Russian banking sector experienced its first serious turmoil since the financial crisis of August 1998. As a result of various market rumours and, in some cases, certain regulatory and liquidity problems, several privately-owned Russian banks experienced liquidity problems and were unable to attract funds on the interbank market or from their client base. Simultaneously, they faced large withdrawals of deposits by both retail and corporate customers. Several of these privately-owned Russian banks collapsed or ceased or severely limited their operations. Russian banks owned or controlled by the Government or the CBR and foreign-owned banks generally were not adversely affected by the turmoil. There are currently also only a limited number of creditworthy Russian banks, most of which are located in Moscow.

As a result of these weaknesses in the Russian banking system, Evraz seeks to reduce its risk by receiving and holding its funds in Russia, including its rouble-denominated funds, with subsidiaries of foreign banks, which it generally believes to be more stable and less risky than Russian banks. However, there are few, if any, safe rouble-denominated instruments in which Evraz may invest the excess rouble cash of its Russian subsidiaries. Another banking crisis or the bankruptcy or insolvency of the banks with which Evraz holds funds could result in the loss of Evraz's deposits or affect its ability to complete banking transactions in Russia, which could have a material adverse effect on Evraz's financial condition and results of operations.

Russia's physical infrastructure is in poor condition, which could disrupt Evraz's normal business activities.

Russia's physical infrastructure largely dates back to Soviet times, and has not been adequately funded and maintained since the dissolution of the Soviet Union. Particularly affected are the rail and road networks, power generation and transmission, communication systems and building stock. Road conditions throughout Russia are poor, with many roads not meeting minimum requirements for use and safety. On 25 May 2005, a failure in the power transmission network interrupted electricity supplies in Moscow and four other regions of Russia, causing significant disruptions to business activity. Breakdowns and failures of any part of Russia's physical infrastructure may disrupt normal business activity.

In order to enhance the prospects of infrastructure improvement, the Government is actively considering plans to reorganise the nation's rail, electricity and telephone systems. Any such reorganisations may result in increased charges and tariffs and may not result in the anticipated capital investment that is needed to repair, maintain and improve these systems. Significant increases in charges and tariffs, or further deterioration of Russia's infrastructure may limit economic growth, disrupt the transportation of goods and supplies and interrupt business operations of Evraz, its customers and suppliers, any or all of which could have a material adverse effect on Evraz's business and the value of the GDRs.

Legislative and Legal Risks

Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity in Russia and thus could have a material adverse effect on Evraz's business and the value of the GDRs.

Russia is still developing the legal framework required to support a market economy. The following risks relating to the Russian legal system create uncertainties with respect to the legal and business decisions that Evraz makes, many of which do not exist in countries with more developed market economies:

- inconsistencies among (1) federal laws; (2) decrees, orders and regulations issued by the president, the government and federal ministries; and (3) regional and local laws, rules and regulations;
- a lack of judicial and administrative guidance on interpreting Russian legislation;
- substantial gaps in the regulatory structure due to delay or absence of implementing regulations;
- the relative inexperience of judges and courts in interpreting new principles of Russian legislation;
- a lack of judicial independence from political, social and commercial forces;
- a high degree of unchecked discretion on the part of governmental authorities; and
- bankruptcy procedures that are not well developed and are subject to abuse.

Additionally, several fundamental laws in Russia have only recently become effective. The enactment of new legislation in the context of a rapid evolution to a market economy and the lack of consensus about the scope, content and pace of economic and political reforms has resulted in ambiguities, inconsistencies and anomalies in the overall Russian legal system. The enforceability and underlying constitutionality of many recently enacted laws is in doubt, and many new laws remain untested. Moreover, courts have limited experience in interpreting and applying many aspects of business and corporate law. Russian legislation also often contemplates implementing regulations that have not yet been promulgated, leaving substantial gaps in the regulatory infrastructure. All of these weaknesses could affect Evraz's ability to enforce its legal rights in Russia, including rights under its contracts, or to defend against claims by others in Russia.

The independence of the judicial system and the prosecutor general's office and their immunity from economic, political and nationalistic influences in Russia is also less than complete. The court system is understaffed and underfunded; judicial precedents generally have no binding effect on subsequent decisions; and most court decisions are not readily available to the public. Enforcement of court judgments can in practice be very difficult in Russia. All of these factors make judicial decisions in Russia difficult to predict and effective redress uncertain. Additionally, court claims are often used in furtherance of political aims, and law enforcement agencies do not always enforce or follow court judgments. Evraz may be subject to such claims and may not be able to receive a fair trial.

These uncertainties also extend to property rights. While legislation has been enacted to protect private property against expropriation and nationalisation, due to the lack of experience in enforcing these provisions and political factors, these protections may not be enforced in the event of an attempted expropriation or nationalisation. Expropriation or nationalisation of any of Evraz's entities in Russia, their assets or portions thereof, potentially without adequate compensation, could have a material adverse effect on Evraz's business and prospects.

Unlawful, selective or arbitrary Government action may have an adverse effect on Evraz's business and the value of the GDRs.

Governmental authorities have a high degree of discretion in Russia and at times appear to act selectively or arbitrarily, without hearing or prior notice, and in a manner that is contrary to law or influenced by political or commercial considerations. Moreover, the Government also has the power in certain circumstances, by regulation or government act, to interfere with the performance of, nullify or terminate contracts. Unlawful, selective or arbitrary governmental actions have reportedly included denial or withdrawal of licenses, sudden and unexpected tax audits, criminal prosecutions and civil actions. Federal and local government entities also appear to have also used common defects in matters surrounding share issuances and registration as pretexts for court claims and other demands to invalidate the issuances or registrations or to void transactions, seemingly for political purposes. Standard & Poor's has expressed concerns that "Russian companies and their investors can be subjected to government pressure through selective implementation of regulations and legislation that is either politically motivated or triggered by competing business groups". In this environment, Evraz's competitors may receive preferential treatment from the government, potentially giving them a competitive advantage. Unlawful, selective or arbitrary government action, if directed at Evraz's operations in Russia, could have a material adverse effect on its business, results of operations and prospects and on the value of the GDRs.

In addition, since 2003, the Ministry for Taxes and Levies (now succeeded by the Federal Tax Service) has begun to attack certain Russian companies' use of tax-optimisation schemes, and press reports have speculated that these enforcement actions have been selective. For example, the Russian Federal Tax Service determined that Yukos owes in excess of U.S.$28 billion in back taxes and related penalties, and, as noted above, in December 2004 Yukos' major production subsidiary, Yuganskneftegaz, was auctioned in partial settlement of these obligations. In addition, the press has reported significant claims for back taxes and related penalties against other oil companies, including TNK-BP; telecommunications companies, including OAO Vimpelcom; and other major companies. In March 2005, President Putin announced that the Government was considering plans to reform the system of tax collection and administration. However, in April 2005 the back tax claim against TNK-BP for 2001 was increased by RUR22 billion (approximately U.S.$792 million), bringing the total claim for 2001 against TNK-BP to RUR26 billion (approximately U.S.$936 million), and it has been reported that Sibneft, another oil company, may receive a back tax claim for RUR21 billion (approximately U.S.$756 million). In his Annual Address to the Federal Assembly on 25 April 2005, President Putin stated that tax authorities should not "terrorize" taxpayers by repeatedly considering the same problems. Although Evraz believes that it is currently in compliance with all of its tax obligations with respect to its operations in the Russian Federation, there can be no assurance that the Federal Tax Service will not become more aggressive in respect of future tax audits, which may have an adverse effect on Evraz's results of operations and prospects.

Shareholder liability under Russian legislation could cause the Company to become liable for the obligations of its Russian subsidiaries.

The Russian Civil Code, the Law on Joint Stock Companies and the Law on Limited Liability Companies generally provide that shareholders in a Russian joint stock company or limited liability company are not liable for the obligations of the company and bear only the risk of loss of their investment. This may not be the case, however, when one person (an "effective parent") is capable of determining decisions made by another (an "effective subsidiary"). The effective parent bears joint and several responsibility for transactions concluded by the effective subsidiary in carrying out these decisions if:

- this decision-making capability is provided for in the charter of the effective subsidiary or in a contract between the companies; and
- the effective parent gives obligatory directions to the effective subsidiary.

In addition, an effective parent is secondarily liable for an effective subsidiary's debts if an effective subsidiary becomes insolvent or bankrupt as a result of the action or inaction of an effective parent. This is the case no matter how the effective parent's capability to determine decisions of the effective subsidiary arises. For example, this liability could arise through ownership of voting securities or by contract. In these instances, other shareholders of the effective subsidiary may claim compensation for the effective subsidiary's losses from the effective parent that caused the effective subsidiary to act or fail to act, knowing that such action or inaction would result in losses. Accordingly, in the Company's position as an effective parent, it could be liable in some cases for the debts of its effective subsidiaries in Russia. The total liabilities of the Company's consolidated Russian subsidiaries as of 31 December 2004 were U.S.$1.2 billion, excluding intercompany indebtedness.

Weaknesses and changes in the Russian tax system could materially adversely affect Evraz's business and the value of the GDRs.

Generally, taxes payable by Russian companies are substantial and numerous. These taxes include, among others, income taxes, value-added tax ("VAT"), excise taxes, unified social tax and property tax.

The tax environment in Russia has historically been complicated by the fact that various authorities have often issued contradictory pieces of tax legislation. Because of the political changes which have occurred in Russia over the past several years, there have recently been significant changes to the Russian taxation system.

Tax reform commenced in 1999 with the introduction of Part One of the Russian Tax Code, which sets out general taxation guidelines. Since then, Russia has been in the process of replacing legislation regulating the application of major taxes such as corporate income tax, VAT and property tax with new chapters of the Tax Code. For instance, new chapters of the Tax Code on VAT, unified social tax and personal income tax came into force on 1 January 2001; the profits tax and mineral extraction tax chapters came into force on 1 January 2002; and the corporate property tax chapter of the Tax Code came into force on 1 January 2004.

In practice, Russian tax authorities often have their own interpretation of the tax laws that rarely favours taxpayers, who often have to resort to court proceedings to defend their position against the tax authorities. Differing interpretations of tax regulations exist both among and within government ministries and organizations at the federal, regional and local levels, creating uncertainties and inconsistent enforcement. Tax declarations, together with related documentation such as customs declarations, are subject to review and investigation by a number of authorities, each of which may impose fines, penalties and interest charges. Generally, taxpayers are subject to inspection for a period of three calendar years of their activities which immediately preceded the year in which the audit is carried out. As previous audits do not exclude subsequent claims relating to the audited period, the statute of limitations is not entirely effective. In addition, in some instances, new tax regulations have been given retroactive effect. Recently, the Constitutional Court of the Russian Federation ruled that VAT paid on a commercial enterprise's purchases, or input VAT, cannot be offset against VAT collected from sales to the extent that the input VAT was incurred on items purchased with borrowed funds.

Moreover, financial statements of Russian companies are not consolidated for tax purposes. Therefore, each of the Company's Russian subsidiaries pays its own Russian taxes and may not offset its profit or loss against the loss or profit of another entity in the consolidated Evraz group. In addition, pursuant to amendments to tax legislation effective as of 1 January 2005, payments of intercompany dividends between two Russian entities are subject to a withholding tax of 9% at the time they are paid out of profits, though this tax does not apply to dividends once they have already been taxed.

The foregoing conditions create tax risks in Russia that are more significant than typically found in countries with more developed tax systems, imposing additional burdens and costs on Evraz's operations, including management resources. There can be no assurance that current taxes will not be increased or that additional sources of revenue or income, or other activities, will not be subject to new taxes, charges or similar fees in the future. For a further discussion of the risks and uncertainties associated with the enforcement and application of the tax regime in Russia, see "—Legislative and Legal Risks—Unlawful, selective or arbitrary government action may have an adverse effect on Evraz's business and the value of the GDRs". In addition to Evraz's substantial tax burden, these risks and uncertainties complicate its tax planning and related business decisions, potentially exposing Evraz to significant fines and penalties and enforcement measures despite its best efforts at compliance, and could adversely affect Evraz's business and results of operations and the value of the GDRs.

USE OF PROCEEDS

Net proceeds to the Company of the Offering will be approximately U.S.$403.1 million, assuming no exercise of the Over-allotment Option, or U.S.$464.0 million, assuming that the Over-allotment Option is exercised in full. Total underwriting commissions, taxes, fees and expenses payable by the Company from the proceeds of the Offering are up to approximately U.S.$18.8 million, assuming no exercise of the Over-allotment Option, or up to approximately U.S.$21.2 million, assuming that the Over-allotment Option is exercised in full. The Company intends to use these net proceeds to pursue the acquisition and/or new development of additional mining assets in Russia and the CIS and downstream steel operations outside of Russia, to make selected acquisitions of steel operations in the CIS and to consolidate its ownership interests in subsidiaries (see, for example, the agreement relating to NTMK referred to under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions").

DIVIDEND POLICY

Mastercroft Limited ("Mastercroft"), a Cypriot holding company which was Evraz's holding company prior to the formation of the Company and through which Evraz now holds its subsidiaries, declared dividends of U.S.$58 million on 19 November 2004 (of which U.S.$55.6 million had been paid as of 31 December 2004) and declared further dividends of U.S.$131 million on 13 January 2005, which were paid in full by 28 April 2005. These dividends were paid to the persons who owned Mastercroft shares before the formation of the Company, and so were not received by the Company.

Since its formation on 31 December 2004, the Company has not declared or paid dividends in respect of any of its outstanding share capital. The Company intends to pay an interim dividend in respect of the first six months of 2005 of U.S.$200 million to shareholders of record as of 31 May 2005 (mainly the Principal Shareholder). Investors who purchase GDRs in the Offering will not be entitled to receive any part of this interim dividend. The Company also intends to pay dividends of up to U.S.$400 million in respect of 2005 to shareholders subsequent to the Offering.

The distribution of profits and payment of dividends by the Company are subject to compliance with the Luxembourg Companies Act of 10 August 1915, as amended (the "Luxembourg Companies Act") and the Articles. Dividends may only be paid out of profits or retained earnings as shown in the adopted stand-alone statutory financial statements. Profits must first be used to set up and maintain the legal reserve required by article 72 of the Luxembourg Companies Act and must then be set off against certain financial losses. Thereafter, the general meeting of shareholders of the Company (the "General Meeting") may determine to withhold profits as further reserves. In so far as any profits have not been allocated to reserves, they form part of the freely distributable reserves, which the General Meeting may elect to pay out in the form of a dividend. The Company's Board of Directors may also authorise the payment of interim dividends. See "Description of Share Capital and Corporate Structure—Dividends".

As a holding company, the level of the Company's stand-alone income and its ability to pay dividends depend primarily upon the receipt of dividends and distributions from its subsidiaries. The payment of dividends by the company's subsidiaries is contingent upon the sufficiency of their earnings, cash flows and distributable reserves. In addition, the payment of dividends to the Company from Mastercroft was limited by the terms of a trust deed entered into in connection with the issuance of loan participation notes by EvrazSecurities S.A. due September 2006. Evraz convened a meeting of noteholders on 31 May 2005 that approved amendments to the trust deed in respect of these notes that, among other changes, removed this limitation on the payment of dividends by Mastercroft. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital resources".

To the extent that dividends are declared and paid by the Company, owners of GDRs on the relevant record date will be entitled to receive dividends payable in respect of Shares underlying the GDRs, subject to the terms of the Deposit Agreement. Cash dividends may be paid to the Depositary in U.S. dollars and, except as otherwise described under "Terms and Conditions of GDRs—Conversion of Foreign Currency", are converted into U.S. dollars by the Depositary and paid to holders of GDRs net of currency conversion expenses.

The Company expects to pay dividends of approximately 25% of its consolidated annual net income on average through the business cycle, as calculated under IFRS. However, the payment of dividends by the Company is subject to, among other considerations, the Company's results of operations and prospects, its planned and committed capital expenditures, the availability and cost of funds from external sources, the practice of other steel and mining businesses and other relevant considerations.

EXCHANGE RATE INFORMATION

The official currency of Russia, where most of Evraz's assets and operations are located, is the rouble. However, the Company's consolidated IFRS financial statements are reported in U.S. dollars. As a result, fluctuations in the value of the rouble against the U.S. dollar may affect these results when translated into U.S. dollars. See "Risk Factors—Risks Relating to the GDRs and the Trading Market—Fluctuations in the value of the rouble against the U.S. dollar may adversely affect Evraz's results of operations" and "Management's Discussion and Analysis of Financial Conditions and Results of Operations—Quantitative and Qualitative Disclosure about Market Risk—Exchange and Interest Rate Risk".

The table below sets forth, for the periods and dates indicated, certain information regarding the exchange rate between the rouble and the U.S. dollar, based on the official exchange rate quoted by the CBR. Fluctuations in the exchange rates between the rouble and the U.S. dollar in the past are not necessarily indicative of fluctuations that may occur in the future. These rates may also differ from the actual rates used in the preparation of Evraz's financial statements and other information presented in this Offering Circular.

	High	Low	Average(1)	Period End
2005 (through 1 June)	28.19	27.46	27.87	28.19
2004	29.45	27.75	28.73	27.75
2003	31.88	29.25	30.61	29.45
2002	31.86	30.13	31.39	31.78

Note:

(1) The average of the exchange rates on the last business day of each month for the relevant annual period, and on each business day for any other period.

No representation is made that the rouble amounts referred to in this Offering Circular could have been or could be converted into U.S. dollars at the above exchange rates or at any other rate.

CAPITALISATION

The following table sets forth, at 31 December 2004, (a) the Company's historical cash and cash equivalents, short and long-term borrowings and total capitalisation, and (b) the Company's cash and cash equivalents, short and long-term borrowings and total capitalisation as adjusted to reflect the Offering and the application of the net proceeds thereof, assuming that the Over-allotment Option is exercised in full.

	At 31 December 2004	
	Historical	**As adjusted[(1)]**
	(thousands of U.S. dollars)	
Cash and cash equivalents[(2)]	291,312	755,358
Short-term borrowings (including current portion of long-term borrowings)	524,696	524,696
Long-term borrowings, net of current portion	788,093	788,093[(3)]
Equity		
Issued capital[(4)]	42	27,274
Additional paid-in capital	319,076	755,890
Accumulated profits	1,061,339	1,061,339
Translation difference	161,576	161,576
Minority interests	356,745	356,745
Total equity	1,898,778	2,362,824
Total capitalisation[(5)]	2,686,871	3,150,917

Notes:

(1) Adjusted to give effect to the application of the net proceeds of the Offering, but not adjusted for any other changes subsequent to 31 December 2004.

(2) Excludes restricted deposits at banks as of 31 December 2004 of U.S.$21.0 million, of which U.S.$12.4 million had current maturities. Since 31 December 2004, Evraz has used or agreed to use cash in several ways other than in the ordinary course of its business. On 13 January 2005 Mastercroft declared and subsequently paid a dividend of U.S.$131 million to holders of shares in Mastercroft prior to the formation of the Company. Evraz has made payment of U.S.$124 million for a 4.17% interest in Mastercroft, and subject to the completion of corporate formalities, the Mastercroft shares are expected to be transferred to Evraz on 2 June 2005. In addition, on 17 May 2005 Evraz agreed to acquire a 10.7% interest in NTMK from an unaffiliated minority shareholder for U.S.$215 million. The Company also intends to pay an interim dividend of U.S.$200 million for the first six months of 2005 to its shareholders of record as of 31 May 2005.

(3) As adjusted amounts do not include an increase of U.S.$50 million in long-term borrowings entered into on 27 April 2005. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital resources".

(4) Assuming an exchange rate €1=1.2206 dollars as of 1 June 2005.

(5) Total of long-term borrowings, net of current portion, and shareholders' equity.

Except as described above, there has been no material change in the Company's total capitalisation since 31 December 2004.

DILUTION

The Company's consolidated net tangible book value at 31 December 2004 was approximately U.S.$1,534.6 million, resulting in consolidated net tangible book value per share of U.S.$14.32. Consolidated net tangible book value per share represents the amount of the Company's total tangible assets less total liabilities and minority interest, divided by the number of shares outstanding.

Dilution in net tangible book value per share represents the difference between the amount per share paid by purchasers of GDRs in the Offering and the net tangible book value per share immediately after the completion of the Offering. After giving effect to the sale by Evraz of 11,155,000 Shares represented by GDRs in the Offering (assuming that the Over-allotment Option is exercised in full) at the offering price of U.S.$14.50 per GDR and after deducting the underwriting discount and estimated offering expenses payable by the Company, Evraz's net tangible book value as of 31 December 2004, as adjusted, would have been U.S.$1,998.7 million, or U.S.$16.89 per share. This represents an immediate increase in net tangible book value of U.S.$2.57 per share to existing shareholders and an immediate dilution of U.S.$26.61 per share to new investors purchasing GDRs in the Offering (based on a ratio of three GDRs per share).

	U.S.$
Offer price per GDR(1)	14.50
Net tangible book value per share immediately before the Offering	14.32
Increase in net tangible book value per share attributable to investors in the Offering	2.57
Pro forma net tangible book value per share immediately after the Offering	16.89
Dilution per share to investors in the Offering	26.61

Note:

(1) Based on a ratio of 3 GDRs per Share, the implied market price per Share is U.S.$43.50.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected consolidated financial information set forth below shows Evraz's historical consolidated financial information and other operating information as of 31 December 2004, 2003 and 2002 and for the years then ended. The annual consolidated financial information as of 31 December 2004, 2003 and 2002 and for the years then ended has been extracted without material adjustment from, and should be read in conjunction with, the annual audited consolidated financial statements included elsewhere in this Offering Circular. Evraz's results of operations for the periods presented are significantly affected by acquisitions. Results of operations of those acquired businesses are generally included in Evraz's consolidated financial statements for the periods after their respective dates of acquisition. The annual consolidated financial information should also be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" below. Evraz's annual consolidated financial statements have been prepared in accordance with IFRS. IFRS differs in certain respects from U.S. GAAP. For a summary of certain differences between IFRS and U.S. GAAP that are relevant to Evraz, see "Summary of Certain Differences between IFRS and U.S. GAAP".

	Year ended 31 December		
	2004	2003	2002
	(thousands of U.S. dollars, except per share data and as noted)		
CONSOLIDATED INCOME STATEMENT DATA			
Revenues	5,924,648	2,132,639	1,531,727
Cost of revenues	(3,512,987)	(1,583,415)	(1,334,281)
Amortisation of negative goodwill	22,292	22,312	16,149
Gross profit	**2,433,953**	**571,536**	**213,595**
Selling and distribution expenses	(219,149)	(41,761)	(54,527)
General and administration expenses	(324,863)	(163,369)	(109,564)
Other operating expenses, net	(59,263)	(28,565)	2,964
Profit from operations	**1,830,678**	**337,841**	**52,468**
Non-operating income and expense, net	(166,591)	(6,846)	(40,005)
Profit before tax	**1,664,087**	**330,995**	**12,463**
Income tax expense	(415,843)	(75,107)	(11,151)
Net profit	**1,248,244**	**255,888**	**1,312**
Net profit attributable to equity holders of the parent entity	**1,083,810**	**207,926**	**5,876**
Net profit attributable to minority interests	164,434	47,962	(4,564)
Earnings per share	10.11	1.94	0.06
Dividends per share	0.54	—	—
Weighted average number of shares outstanding	107,204,326	107,204,326	107,204,326
Steel segment income statement data			
Revenues(1)	5,809,041	2,060,089	1,516,219
Cost of revenues(1)	(3,566,070)	(1,544,545)	(1,324,207)
Amortisation of negative goodwill	18,305	18,590	15,259
Gross profit	2,261,276	534,134	207,271
Selling and distribution expenses	(205,542)	(37,144)	(54,276)
General and administration expenses	(260,196)	(132,371)	(104,446)
Other operating (expenses) income, net	(53,256)	(29,388)	3,951
Profit from operations	1,742,283	335,261	52,500

	Year ended 31 December		
	2004	2003	2002
	(thousands of U.S. dollars, except per share data and as noted)		
Mining segment income statement data			
Revenues(1)	340,821	98,476	21,174
Cost of revenues(1)	(212,663)	(84,134)	(17,088)
Amortisation of negative goodwill	2,446	2,446	1,458
Gross margin	130,604	16,788	5,544
Selling and distribution expenses	(9,225)	(3,020)	(1,220)
General and administration expenses	(26,798)	(8,423)	(3,605)
Other (loss) operating expenses, net	(8,720)	1,520	(1,830)
Profit from operations	85,862	6,865	(1,111)
Other operations income statement data			
Revenues(1)	344,838	97,429	14,670
Cost of revenues(1)	(279,998)	(66,956)	(12,353)
Amortisation of negative goodwill	1,541	1,276	—
Gross margin	66,381	31,749	2,317
Selling and distribution expenses	(4,382)	(1,874)	—
General and administration expenses	(52,591)	(29,880)	(808)
Other operating expenses, net	(3,040)	(1,917)	1,902
Profit (loss) from operations	6,368	(1,922)	3,411
CONSOLIDATED BALANCE SHEET DATA (at year end)			
Total assets	4,034,462	2,151,092	1,191,602
Equity	1,542,033	396,683	23,293
Minority interests	356,745	192,540	223,214
Long-term debt, net of current portion	1,123,455	739,033	416,330
CONSOLIDATED CASH FLOWS DATA			
Net cash flows from operating activities	957,173	42,811	118,275
Net cash flows used in investing activities	(792,358)	(356,192)	(117,081)
Net cash flows (used in) from financing activities	(73,400)	459,894	5,773
OTHER MEASURES			
Consolidated Adjusted EBITDA(2)	2,003,856	477,475	208,220
Steel segment Adjusted EBITDA(2)	1,899,333	471,936	206,640
Mining segment Adjusted EBITDA(2)	98,207	7,695	(773)
Other operations Adjusted EBITDA(2)	10,053	207	4,117
Net Debt(3)	1,021,477	382,596	78,880

Notes:

(1) Segment revenues and cost of goods sold include intersegment sales.

(2) Adjusted EBITDA represents profit from operations plus depreciation and amortisation, impairment of assets and loss (gain) on dispositions of property plant and equipment. Adjusted EBITDA is not a measure of financial performance under IFRS, and it should not be considered as an alternative to net profit as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Evraz's calculation of Adjusted EBITDA may be different from the calculation used by other companies and therefore comparability may be limited.

Reconciliation of Adjusted EBITDA to profit from operations is as follows:

	Year ended 31 December		
	2004	2003	2002
	(thousands of U.S. dollars)		
Consolidated Adjusted EBITDA reconciliation			
Profit from operations	1,830,678	337,841	52,468
Add:			
Amortisation of negative goodwill	(22,292)	(22,312)	(16,149)
Depreciation	183,203	141,000	154,903
Impairment of assets	1,366	5,499	1,919
Loss (gain) on disposal of property, plant & equipment	10,901	15,447	15,079
Consolidated Adjusted EBITDA	2,003,856	477,475	208,220
Steel segment Adjusted EBITDA reconciliation			
Profit from operations	1,742,283	335,261	52,500
Add:			
Amortisation of negative goodwill	(18,305)	(18,590)	(15,259)
Depreciation	159,541	134,514	153,080
Impairment of assets	5,431	5,068	1,493
Loss (gain) on disposal of property, plant & equipment	10,383	15,683	14,826
Steel segment Adjusted EBITDA	1,899,333	471,936	206,640
Mining segment Adjusted EBITDA reconciliation			
Profit from operations	85,862	6,865	(1,111)
Add:			
Amortisation of negative goodwill	(2,446)	(2,446)	(1,458)
Depreciation	16,960	3,507	1,543
Impairment of assets	(5,454)	—	—
Loss (gain) on disposal of property, plant & equipment	3,285	(231)	253
Mining segment Adjusted EBITDA	98,207	7,695	(773)
Other operations Adjusted EBITDA reconciliation			
Profit from operations	**6,368**	**(1,922)**	**3,411**
Add:			
Amortisation of negative goodwill	(1,541)	(1,276)	—
Depreciation	6,702	2,979	280
Impairment of assets	1,291	431	426
Loss (gain) on disposal of property, plant & equipment	(2,767)	(5)	—
Other operations Adjusted EBITDA	10,053	207	4,117

(3) Net Debt represents long-term loans, net of current portion, plus short-term loans and current portion of long-term loans less cash and cash equivalents (excluding restricted deposits). Net Debt is not a balance sheet measure under IFRS, and it should not be considered as an alternative to other measures of financial position. Evraz's calculation of Net Debt may be different from the calculation used by other companies and therefore comparability may be limited.

Net Debt has been calculated as follows:

	Year ended 31 December		
	2004	2003	2002
	(thousands of U.S. dollars)		
Net Debt Calculation			
Add:			
Long-term loans, net of current portion	788,093	354,046	34,257
Short-term loans and current portion of long-term loans	524,696	224,082	87,038
Less:			
Cash and cash equivalents	291,312	195,532	42,415
Net Debt	1,021,477	382,596	78,880

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of Evraz's financial condition and results of operations should be read in conjunction with Evraz Group S.A.'s consolidated financial statements, the notes thereto and the other information included elsewhere in this Offering Circular. This section contains forward-looking statements that involve risks and uncertainties. Evraz's actual results may differ materially from those discussed in such forward-looking statements as a result of various factors, including those described under "Risk Factors" and "Cautionary Note Regarding Forward-Looking Statements."

For periods ending prior to 1 January 2003, when Russia was experiencing hyperinflation, Evraz Group S.A.'s consolidated financial statements included the restatement of balances and transactions of Evraz's Russian subsidiaries for changes in the general purchasing power of the Russian rouble in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 Evraz ceased applying IAS 29 to current periods and only recognises the cumulative impact of inflation indexing on non-monetary elements of the financial statements through 31 December 2002. Non-monetary assets and liabilities acquired prior to 31 December 2002, and share capital transactions occurring before 31 December 2002, have been restated by applying the relevant conversion factors to the historical cost through 31 December 2002. Gains or losses on subsequent disposal are recognised based on the restated cost of the non-monetary assets and liabilities.

Overview

Evraz is one of the largest vertically-integrated steel and mining businesses with operations based in the Russian Federation. Evraz produced 13.7 million tonnes of crude steel in 2004, ranking it as the largest producer of steel and steel products in Russia, the largest producer of long products in Russia and among the fifteen largest steel producers in the world. Evraz also produces significant quantities of iron ore, and is expanding into the coal sector. Most of Evraz's iron ore production is used in its steel making operations.

Evraz's principal assets are its three steel plants: NTMK, ZapSib and NKMK; three iron ore mining and processing facilities: KGOK, VGOK and Evraz Ruda (acquired in March 2005); coal mining assets: Mine 12 (acquired in March 2005) and a greenfield coking coal mine, Neryungri Ugol; and trading and logistics assets. Evraz also owns an equity interest in Raspadskaya, a coking coal mine. Evraz's consolidated revenues were U.S.$5,924.6 million, and its net profit attributable to equity holders of the parent entity was U.S.$1,083.8 million, for the year ended 31 December 2004.

Reorganisation and Formation of the Company

Evraz Group S.A. was incorporated on 31 December 2004, under the laws of the Grand Duchy of Luxembourg, to serve as the holding company for Evraz's assets. In the course of the subsequent reorganisation, on 5 April 2005 95.83% of the shares of Mastercroft, a limited liability company registered under the laws of Cyprus and Evraz's holding company prior to the establishment of the Company, were contributed to the Company in exchange for newly issued shares in the Company, which have been accounted for in the Consolidated Financial Statements as at 31 December 2004. The remaining 4.17% interest in Mastercroft was held as of 31 December 2004 by the estate of a member of senior management, who acquired his interest in August 2004 and died in September of that year (see Note 18 to the Consolidated Financial Statements). Evraz made payment of U.S.$124 milion for the remaining 4.17% interest in Mastercroft on 1 June 2005, and subject to the completion of corporate formalities, the Mastercroft shares are expected to be transferred to Evraz on 2 June 2005. Accordingly, Evraz Group S.A.'s effective ownership interest in its businesses as of 31 December 2004 was less than Mastercroft's historical interest but will increase to historical ownership levels following the completion of this acquisition.

The Company holds its interests in its subsidiaries indirectly, through its interest in Mastercroft. Mastercroft was established on 31 December 2002 as a holding company to consolidate certain steel production, mining and trading entities then controlled by Crosland Limited, an entity under common control with Evraz. In 2003, Crosland Limited's interests in these entities were transferred to Mastercroft.

Purchases of subsidiaries from parties under common control are accounted for using the uniting of interest method, which is equivalent to a pooling of interests. The Company's consolidated financial statements, therefore, have been prepared on the basis that it existed for all periods presented in such statements and as if it owned interests in companies then owned by Mastercroft and by the entities from which Mastercroft acquired the interests.

As noted below under "—Summary of Acquisitions—Acquisitions/Start Ups in 2005", Evraz acquired Evraz Ruda in March 2005 from entities under common control with Evraz. This acquisition also represents a reorganisation under common control and for 2005 and thereafter will be accounted for using the uniting of interest method (pooling of interests). As a result, the acquisition will be consolidated with effect from 31 December 2001 as if it had occurred at such date, and acquisitions by Evraz Ruda subsequent to 31 December 2001 will be accounted for by Evraz in the same historical manner as by Evraz Ruda when it made the acquisitions (*i.e.*, generally on the basis of the purchase method). Accordingly, the consolidation of Evraz Ruda will affect the presentation of Evraz's consolidated financial condition and results of operations for the period under review here when Evraz publishes financial information for 2005 and thereafter. Evraz Ruda had total revenues of U.S.$270.5 million and net profit of U.S.$85.7 million for the year ended 31 December 2004 and total assets of U.S.$352.4 million as of 31 December 2004, as calculated under IFRS. As most of Evraz Ruda's sales of iron ore products in 2004 consisted of sales to Evraz (see "Related Party Transactions"), Evraz expects that the principal net effect of this accounting treatment is likely to be an increase in its margins for the period under review.

Business Structure

Segments

Evraz's business is divided into two main segments:

- the steel segment, comprising the production and sale of semi-finished and finished steel products; vanadium slag; coke and coking products; and refractory products; and
- the mining segment, comprising the production, enrichment and sale of iron ore and the development of coking coal fields at Neryungri Ugol and, since the acquisition of Mine 12, the production of coal.

The mining segment does not meet the criteria of a reportable segment under IFRS, as the majority of its revenues are earned in intersegment transactions. However, Evraz's management has designated the mining segment as a reportable segment based on its future plans to develop Evraz's mining business.

Other operations include management, logistics (including Nakhodka Sea Port) and support activities.

Intersegment sales

Evraz is a vertically-integrated steel and mining group. Evraz's mining segment supplied approximately 32% of the steel segment's total requirements of iron ore in 2004 (44% including supplies by KGOK prior to its acquisition in May 2004), and Evraz Ruda, which Evraz acquired in March 2005, supplied a further 28%. The steel segment supplies grinding balls and pit props to the mining segment for use in its day-to-day operations. Evraz believes that the prices at which products are sold between segments are generally based on those at which they could be sold to unrelated third parties and thus are in accordance with relevant Russian transfer pricing rules. See "Risk Factors—Risks Relating to Evraz—Vaguely Drafted Russian transfer pricing rules and lack of reliable pricing information may affect Evraz's results of operations". These transactions are eliminated as intercompany transactions for purposes of Evraz's consolidated financial statements.

Summary of Acquisitions

Evraz has sought to develop an integrated steel and mining business through the purchase of undervalued assets that it believes offer significant upside potential, particularly as Evraz implements improvements in working practices and operational methods.

The following is a summary of the terms of Evraz's primary steel and mining acquisitions. Except as otherwise stated, each of the acquisitions was accounted for using the purchase method of accounting. Accordingly, the results of operations of each such acquired business are included in Evraz's consolidated income statements from the date Evraz acquired control. In certain cases, where Evraz acquired its interests over a period of time, the relevant businesses were accounted for using the equity method until a controlling financial interest was acquired. Evraz's investment in Raspadskaya is currently accounted for under the equity method.

Acquisitions prior to 2002

- *Nizhny Tagil Iron and Steel Plant*. NTMK is an integrated steel mill that produces primarily railway and construction long products, pipe blanks and semi-finished products. From 1997 to 2001, entities under common control with Evraz acquired a 41.71% interest in NTMK for U.S.$59.3 million and acquired effective control over NTMK by 31 December 2001. As of 31 December 2001, through then-existing agreements, Evraz had the power to cast a majority of the votes at shareholders' meetings and to appoint or remove the majority of the members of the board of directors of NTMK, resulting in NTMK's consolidation into Evraz's consolidated financial statements from that date. Evraz acquired an additional 19.39% interest in NTMK for U.S.$9.0 million during 2002, an additional 13.25% interest for U.S.$26.2 million during 2003, and a further 6.09% interest for U.S.$48.0 million during 2004. Evraz's effective ownership interest in NTMK was 77.09% as of 31 December 2004, and will be 80.44% following the elimination of the minority interest in Mastercroft. On 17 May 2005, Evraz agreed to acquire a further 10.7% of the shares in NTMK from an unrelated minority shareholder of NTMK for U.S.$215 million, payable in cash in installments through 30 November 2005 (subject to acceleration in certain circumstances described under "Principal Shareholders"). The acquisition of this minority interest will increase Evraz's effective ownership interest in NTMK to 91.14%.
- *West Siberian Iron and Steel Plant*. ZapSib is an integrated steel mill that produces primarily construction long products and semi-finished products. In 2001, entities under common control with Evraz acquired a 5.51% interest in ZapSib for U.S.$1.1 million, and by 31 December 2001, Evraz's agents had acquired an additional 31.27% share in ZapSib for U.S.$7.0 million. As of 31 December 2001, through then-existing agreements, Evraz had the power to cast a majority of the votes at shareholders' meetings and to appoint or remove the majority of the members of the board of directors of ZapSib, resulting in ZapSib's consolidation into Evraz's consolidated financial statements from that date. During 2002, 2003 and 2004, Evraz acquired 40.61%, 15.97% and 1.23% of ZapSib's shares for U.S.$19.1 million, U.S.$61.3 million and U.S.$9.3 million, respectively. Evraz purchased an additional 0.48% of the shares in ZapSib through May 2005. Evraz's effective ownership interest in ZapSib was 90.65% as of 31 December 2004, and will be 95.07% following the elimination of the minority interest in Mastercroft (including the additional shares acquired during 2005).

Acquisitions / Start-ups in 2002-2004

- *Vysokogorsky Mining and Processing Integrated Works.* VGOK is an iron ore mining and processing complex that produces sinter from its own iron ore as well as iron ore purchased from other producers. From 1998 through October 2002, enterprises under common control with Evraz acquired an approximately 80% effective interest in VGOK. Evraz acquired effective control over VGOK's operations on 3 October 2002, resulting in VGOK's consolidation into Evraz's consolidated financial statements from that date. From 31 December 2001 to 2 October 2002, VGOK was accounted for under the equity method. Evraz's effective ownership interest in VGOK was 78.50% as of 31 December 2004, and will be 82.03% following the elimination of the minority interest in Mastercroft.
- *Nakhodka Commercial Sea Port*. Nakhodka Sea Port is a sea port located in the Far East of Russia through which Evraz ships most of its export sales. In 2001 and 2002, Evraz acquired an ownership interest of 35.47% in Nakhodka Sea Port for U.S.$6.4 million, and by February 2003 had acquired a further 24.48% interest for U.S.$3.8 million. Evraz has exercised effective control over Nakhodka Sea Port's operations since 15 February 2003, and as a result Nakhodka Sea Port has been consolidated into Evraz's consolidated financial statements from that date. From 11 February 2002 to 15 February 2003, Evraz's investment in Nakhodka Sea Port was accounted for under the equity method. Evraz acquired further interests in Nakhodka Sea Port totalling 31.56% during 2003 for total consideration of U.S.$6.4 million. Evraz's effective ownership interest in Nakhodka Sea Port was 82.21% as of 31 December 2004, and will be 85.91% following the elimination of the minority interest in Mastercroft.

- *Novokuznetsk Iron and Steel Plant*. NKMK is an integrated steel mill that specialises in producing rolled long metal products for the railway sector as well as semi-finished products. NKMK was formed in May 2003; it acquired property, plant and equipment of OAO Kuznetsk Iron and Steel Plant ("KMK") for U.S.$44.7 million subsequent to the dissolution of KMK in bankruptcy proceedings in June 2003 and commenced steel operations in October 2003. Evraz's effective ownership interest in NKMK was 89.97% as of 31 December 2004, and will be 94.00% following the elimination of the minority interest in Mastercroft.

- *Ferrotrade Limited*. Ferrotrade Limited is an export trader that sells Evraz's steel products overseas. Currently, the main international markets into which Ferrotrade Limited makes sales are Taiwan, Thailand, the Philippines, South Korea and Vietnam. Ferrotrade Limited commenced operations in October 2003, as the successor to an entity under common control with Evraz. See "Related Party Transactions". Evraz's effective ownership interest in Ferrotrade Limited was 95.83% as of 31 December 2004, and will be 100.00% following the elimination of the minority interest in Mastercroft.

- *Raspadskaya*. Raspadskaya is one of the largest coal mines in Russia, producing coking coal. On 10 March 2004, as a part of a joint venture agreement, Evraz acquired a 50% ownership interest in Corber Enterprises Limited ("Corber"), which was a joint venture created for the purpose of exercising joint control over the economic activities of Raspadskaya and other subsidiaries of Corber and which then owned 72.03% of the ordinary shares in Raspadskaya. Evraz acquired its interest for a total of U.S.$139.7 million, including U.S.$61.8 million in cash, the issuance of 6% interest-bearing promissory notes with a nominal value of U.S.$19.2 million due after 10 March 2006 and a contribution of 19.15% of the ordinary shares in Raspadskaya. Corber acquired a further 4.20% interest in Raspadskaya during 2004 for U.S.$5.5 million. Evraz's effective ownership interest in Raspadskaya was 45.70% as of 31 December 2004, and will be 47.69% following the elimination of the minority interest in Mastercroft.

- *Neryungri Ugol.* Neryungri Ugol is a coking coal mine being developed by Evraz, from which production is expected to start in 2006. In April 2004, Evraz acquired 100% of Neryungri Ugol for RUR100,000 (U.S.$4,000). Evraz's effective ownership interest in Neryungri Ugol was 95.83% as of 31 December 2004, and will be 100.00% following the elimination of the minority interest in Mastercroft.

- *Kachkanarsky Mining and Processing Integrated Works.* KGOK is an iron ore mining and processing complex that produces sinter, pellets and concentrate from high-vanadium iron ore. On 21 May 2004, Evraz acquired 83.59% of the ordinary shares of KGOK for U.S.$190.3 million and purchased restructured debts of KGOK with fair value of RUR597.0 million (U.S.$20.6 million) at their nominal value of RUR1,283.0 million (U.S.$44.3 million). Evraz acquired further interests in KGOK amounting to 14.04% of the ordinary shares during 2004 for a total of U.S.$31.3 million. Evraz's effective ownership interest in KGOK was 80.68% as of 31 December 2004, and will be 84.38% following the elimination of the minority interest in Mastercroft. See "Description of Business—Legal Proceedings" for a discussion of litigation filed in the United States District Court for the District of Delaware and the Delaware Chancery Court challenging certain aspects of events relating to KGOK's insolvency proceedings and Evraz's subsequent acquisition of KGOK.

Acquisitions / Start-ups in 2005

- *Chiaturmanganum*. In January 2005, Evraz was named the winner in a privatisation tender for assets of AO Chiaturmanganum, a major manganese ore producer, and AO Vartsikhe GES, a hydroelectric power plant, both of which are located in Georgia, for U.S.$132.0 million. On 5 May 2005, Evraz, the Government of Georgia and shareholders of Zestafoni entered into an agreement pursuant to which these assets are to be acquired by Evraz and Zestafoni's shareholders from the Government of Georgia and contributed into a newly established joint venture. The shareholders of Zestafoni are to contribute 70.81% of the shares in Zestafoni to the joint venture, and Evraz and the shareholders of Zestafoni have each paid an advance of U.S.$10 million for these assets, with U.S.$105 million to be paid by Evraz by the end of July 2005, subject to certain conditions, and the remaining U.S.$7 million by 1 April 2006. Evraz will own a 63.08% interest in the joint venture, which is expected to be created by July 2005. Zestafoni's shareholders also have a call option, which expires on 1 April 2007, to acquire a further 13.07% ownership interest in the joint venture by contributing an additional U.S.$13.7 million and 25.5% of the shares in Zestafoni.

- *Evraz Ruda.* Evraz Ruda is an iron ore mining and processing complex that produces iron ore concentrate. In March 2005, Evraz acquired a 100% interest in Evraz Ruda for RUR897.3 million (U.S.$32.3 million) from entities under common control with Evraz. As noted above, this will result in Evraz Ruda being consolidated with Evraz effective 31 December 2001 as it existed at such date, with acquisitions by Evraz Ruda subsequent to 31 December 2001 being accounted for by Evraz in the same manner as by Evraz Ruda when it made the acquisitions (*i.e.*, generally on the basis of the purchase method). Evraz's effective ownership interest in Evraz Ruda was 95.83% as of 31 March 2005, and will be 100.00% following the elimination of the minority interest in Mastercroft.

Evraz is also considering further acquisitions, as outlined under "Description of Business—Strategy" and "Use of Proceeds". For example, on 11 May 2005, Evraz entered into a memorandum of understanding with the shareholders of Palini e Bertoli SpA ("Palini"), a producer of steel plate products that is located in Italy. The memorandum of understanding gives Evraz the right to negotiate exclusively through 30 June 2005 with a view to reaching a definitive agreement for the acquisition by Evraz of a 75% plus one share interest in Palini. The remaining 25% less one share would be held by certain of Palini's current shareholders, including members of its senior management, and would be subject to a call option, pre-emptive rights and lock-up arrangements in favor of Evraz, as well as a put option against Evraz in favor of the current shareholders. Aside from agreements on exclusivity and confidentiality, the memorandum of understanding is otherwise non-binding, and a number of key terms remain to be negotiated. Accordingly, there can be no assurance that Evraz will acquire an interest in Palini on these terms or at all.

Located in northern Italy, Palini produces steel plate products, which it sells to a variety of end users in Italy and the rest of Europe. Palini's total output in 2004 was 356,000 tonnes of rolled products, and it had consolidated revenue of €183 million under Italian GAAP. Palini currently purchases a small volume of slabs from Evraz. The contemplated acquisition is in line with Evraz's strategy of acquiring high-quality re-rolling facilities worldwide. If the acquisition is completed, Evraz would seek to build on Palini's attributes as a producer of customized, high-quality plate products to penetrate new geographic markets, secure a stable customer base for its slabs outside Russia and gain additional margin from the sale outside Russia of higher value-added steel products. See "Description of Business—Strategy".

Results of Operations for the years ended 31 December 2004, 2003 and 2002

From 2002 through 2004, Evraz's consolidated revenues increased by 287% and its net profit attributable to equity holders of the parent entity increased from U.S.$5.9 million to U.S.$1,083.8 million. This increase was due mainly to:

- Improved prices for steel products in Russia and in export markets. The following table illustrates the average price trends for Evraz's principal products from 2002 through 2004 in both the Russian and non-CIS export markets:

	% change 1st half 2002 to 2nd half 2004	Year ended 31 December					
		2004		2003		2002	
		2nd half	1st half	2nd half	1st half	2nd half	1st half
		(U.S. dollars per tonne, except percentages)					
		Average Russian and CIS prices for Evraz's products(1)					
Construction products							
Rebars	231%	437	413	260	217	175	132
Sections	198%	510	443	283	225	186	171
Railway products							
Rails	64%	375	316	266	254	224	229
Wheels	142%	940	715	509	466	420	389
Mining products							
Grinding balls	188%	406	336	235	184	147	141
Semi-finished products							
Billets	227%	421	365	249	203	145	129
Slabs	171%	308	233	178	149	117	114
Pig Iron	226%	261	246	138	125	82	80
Pipe blanks	194%	406	318	225	188	148	138
Other steel products							
Plates	148%	484	422	316	256	183	195
Wire rod and rounds	216%	425	373	241	194	153	135
		Average non-CIS export prices for Evraz's products(1)(2)					
Construction							
Rebars	117%	416	373	284	256	205	192
Sections	96%	416	407	296	255	237	212
Semi-finished products							
Billets	104%	366	364	263	247	214	179
Slabs	206%	502	410	252	248	215	164
Pig Iron	149%	306	278	183	169	131	123
Other steel products							
Plates	144%	485	413	303	296	252	199
Wire rod and rounds	94%	407	400	290	280	239	210

Notes:

(1) Prices for sales denominated in roubles are converted into U.S. dollars at the average monthly exchange rate of the rouble to the U.S. dollar as stated by the CBR. Average U.S. dollar prices are calculated as a simple average of the monthly weighted average sales prices in the relevant semi-annual period.

(2) Average price data for the year ended 31 December 2004 is for sales by Ferrotrade Limited, and for the years ended 31 December 2003 and 2002 is for sales by Ferrotrade & Co. The actual amounts received by Evraz in respect of sales by Ferrotrade & Co. are less than the amounts presented here, since Ferrotrade & Co. acquired products from Evraz for resale but was not consolidated into Evraz's consolidated financial statements.

- The impact of acquisitions and start-ups (see "Summary of Acquisitions"). In the steel segment, the start up of NKMK in October 2003 made a substantial contribution, as did the consolidation of Evraz's export trading activities through Ferrotrade Limited from the same month. In the mining segment, the acquisition of VGOK in October 2002 and of KGOK in May 2004 had the greatest impact, both enhancing Evraz's vertical integration and allowing for sales of iron ore to third parties. The acquisition of Nakhodka Sea Port in February 2003 had a significant effect on Evraz's other operations segment.

- A significant increase in the volume of products sold (see "Description of Business—Steel Business—Products" and "Description of Business—Steel Business—Marketing and Distribution"), resulting mainly from acquisitions and start-ups.
- A shift toward higher margin products, especially within the semi-finished steel products group, where the focus is increasingly on slabs instead of billets.
- A significant improvement in margins, as sales prices increased faster than costs, which grew mainly as a result of acquisitions and inflation, which was moderating in Russia throughout the period. While raw materials prices increased significantly, the growth in Evraz's own iron ore production shielded it to a considerable extent (and the recent acquisitions of Evraz Ruda and Mine 12 should further reduce exposure in this area). In addition, the expansion of Evraz's mining operations has enabled it to benefit from the favourable conditions in raw materials markets by capturing additional margin through increased sales to third parties.

The following table sets forth Evraz's income statement data for the years ended 31 December 2004, 2003 and 2002 in absolute terms and as a percentage of revenues.

	Year ended 31 December					
	2004		2003		2002	
Income statement data	**Amount**	**Percentage of revenues**	**Amount**	**Percentage of revenues**	**Amount**	**Percentage of revenues**
	(thousands of U.S. dollars, except percentages)					
Revenues[(1)]	5,924,648	100.0%	2,132,639	100.0%	1,531,727	100.0%
Cost of revenues	(3,512,987)	(59.3)%	(1,583,415)	(74.2)%	(1,334,281)	(87.1)%
Amortisation of negative goodwill	22,292	0.4%	22,312	1.0%	16,149	1.1%
Gross profit	**2,433,953**	**41.0%**	**571,536**	**26.8%**	**213,595**	**13.9%**
Selling and distribution costs	(219,149)	(3.7)%	(41,761)	(2.0)%	(54,527)	(3.6)%
General and administrative expenses	(324,863)	(5.5)%	(163,369)	(7.7)%	(109,564)	(7.2)%
Other operating income and expenses, net	(59,263)	(1.0)%	(28,565)	(1.3)%	2,964	0.2%
Profit from operations	1,830,678	30.9%	337,841	15.8%	52,468	3.4%
Non-operating income and expenses, net	(166,591)	(2.8)%	(6,846)	(0.3)%	(40,005)	(2.6)%
Profit before tax	1,664,087	28.1%	330,995	15.5%	12,463	0.8%
Income tax expense	(415,843)	(7)%	(75,107)	(3.5)%	(11,151)	(0.7)%
Net profit	1,248,244	21.1%	255,888	12.0%	1,312	0.1%
Net profit attributable to equity holders of the parent entity	1,083,810	18.3%	207,926	9.7%	5,876	0.4%
Net profit attributable to minority interests	164,434	2.8%	47,962	2.2%	(4,564)	(0.3)%

Note:

(1) Includes service revenues of U.S.$150.6 million, U.S.$128.5 million and U.S.$65.0 million for the years ended 31 December 2004, 2003 and 2002, respectively. Sales of services consist primarily of heat and electricity supply and port, transportation and accounting services.

In the years ended 31 December 2004, 2003 and 2002, approximately 10%, 34% and 40%, respectively, of Evraz's revenues were generated in transactions with related parties. In addition, Evraz made significant purchases from related parties. See "Related Party Transactions" and Note 14 to the Consolidated Financial Statements.

Revenues

Evraz's consolidated revenues increased by 39% in 2003 to U.S.$2,132.6 million and by 178% in 2004 to U.S.$5,924.6 million. The following table presents Evraz's consolidated revenues by segment for 2004, 2003 and 2002.

Revenues by segment	Year ended 31 December		
	2004	2003	2002
	(thousands of U.S. dollars)		
Steel segment			
To third parties	5,754,754	2,052,409	1,512,077
To mining segment	46,483	7,440	4,142
To other operations	7,804	240	0
Total	5,809,041	2,060,089	1,516,219
Mining segment			
To third parties	60,965	14,774	4,980
To steel segment	279,112	83,702	16,194
To other operations	744	—	—
Total	340,821	98,476	21,174
Other operations			
To third parties	108,929	65,456	14,670
To steel segment	235,145	31,973	—
To mining segment	764	—	—
Total	344,838	97,429	14,670
Eliminations	(570,052)	(123,355)	(20,336)
Consolidated revenues	**5,924,648**	**2,132,639**	**1,531,727**
% from steel segment	97.1%	96.2%	98.7%
% from mining segment	1.0%	0.7%	0.3%
% from other operations	1.8%	3.1%	1.0%

The following table presents the geographic breakdown of Evraz's consolidated revenues for 2004, 2003 and 2002.

	Year ended 31 December		
	2004	2003	2002
	(thousands of U.S. dollars)		
Russia	3,279,650	1,526,439	964,650
Taiwan	806,674	95,935	83,536
Thailand	457,574	53,136	50,612
Philippines	214,655	69,957	62,021
Korea	213,292	45,095	33,889
Vietnam	213,000	37,873	84,589
Iran	195,456	47,320	—
Hong Kong	178,148	57,709	50,437
China	160,873	120,647	105,738
Other countries	205,326	78,528	96,255
Total	**5,924,648**	**2,132,639**	**1,531,727**

The significant increase in revenues arising outside of Russia in 2004 resulted from an increase in exports of steel products by the steel segment, as discussed below.

Steel segment

Steel segment revenues increased by 36% in 2003 to U.S.$2,060.0 million and by 182% in 2004 to U.S.$5,809.0 million.

Steel segment revenues were significantly affected by the price increases noted above and by the commencement of operations by NKMK in October 2003. Revenues of NKMK in 2004 and the fourth quarter of 2003 amounted to U.S.$1,034.2 million (18.0% of steel segment revenues) and U.S.$152.1 million (7.0% of steel segment revenues), respectively, excluding margins earned by Ferrotrade Limited and TH EvrazHolding on sales of products produced at NKMK. In addition, steel segment revenues were positively affected by the consolidation of export trading activities through Ferrotrade Limited beginning in October 2003, resulting in the capture of additional trading margin.

The following table shows the breakdown of Evraz's steel segment sales in 2003 and 2004, noting the contribution made by NKMK (excluding margins earned by Ferrotrade Limited and TH EvrazHolding on sales of products produced at NKMK), which commenced operations in October 2003.

	Year ended 31 December			
	2004		2003	
	Millions of U.S. dollars	Percentage of total	Millions of U.S. dollars	Percentage of total
Construction products[1]	1,835.5	31.6%	794.5	38.6%
of which NKMK	*249.3*	*4.3%*	*45.9*	*2.2%*
Railway products[2]	615.9	10.6%	267.5	13.0%
of which NKMK	*255.8*	*4.4%*	*39.1*	*1.9%*
Semi-finished products[3]	2,188.3	37.7%	647.7	31.4%
of which NKMK	*269.2*	*4.6%*	*21.0*	*1.0%*
Other steel products[4]	515.9	8.9%	183.6	8.9%
of which NKMK	*196.9*	*3.4%*	*34.1*	*1.7%*
Other products[5]	653.4	11.3%	166.9	8.1%
of which NKMK	*62.9*	*1.1%*	*14.7*	*0.7%*

Notes:

(1) Includes rebars, H-beams, channels and angles.

(2) Includes rails and wheels.

(3) Includes billets, slabs, pig iron, pipe blanks and blooms.

(4) Includes grinding balls, mine uprights, round rolls, wire and plates.

(5) Includes coke and coking products, refractory products and vanadium slag.

Revenues from sales of semi-finished products increased as a proportion of steel segment sales from 31.4% in 2003 to 37.7% in 2004, while revenues from sales of construction and railway products experienced corresponding declines as a proportion of steel segment sales. The increased share of revenues attributable to sales of semi-finished products reflects Evraz's increased emphasis on higher-priced slabs as opposed to billets in 2004 as well as generally strong prices for slabs and other semi-finished products in export markets. The decline in the share of revenues attributable to sales of construction products reflects a slight decline in sales volume, resulting from an increased emphasis on sales of semi-finished and other products in order to benefit from favourable export market conditions. The share of revenues attributable to railway products declined in 2004 despite an increase in railway product sales volume as a percentage of steel segment sales volume, reflecting the relatively slower growth in the prices of railway products, particularly rails, and the increased share of rails in the sales volume of railway products and steel segment products resulting from the consolidation of NKMK for the full year 2004. The slower growth in the price of rails reflected in part the negotiating power of Russian Railways, the largest purchaser of rails from Evraz.

For the years ended 31 December 2004, 2003 and 2002, steel segment sales to the mining segment amounted to U.S.$46.5 million, U.S.$7.4 million and U.S.$4.1 million, respectively.

Excluding intersegment sales, export sales amounted to approximately 46% of steel segment revenues in 2004, compared to 30% and 38% in 2003 and 2002, respectively. The increased share of export revenues in 2004 was attributable to increased export volumes, particularly of semi-finished products in response to favourable conditions in Evraz's northeast and east Asian export markets, as well as to the additional trading margin resulting from the consolidation of export activities through Ferrotrade Limited. See "—Summary of Acquisitions" and "Related Party Transactions". The reduced share of export revenues in steel segment revenues in 2003 was attributable to a reduced share of exports in total sales volumes, as Evraz took advantage of relatively more favourable domestic market conditions.

Mining segment

Mining segment revenue increased by 365% in 2003 to U.S.$98.5 million and by 246% in 2004 to U.S.$340.8 million. The increases in mining segment revenues were due mainly to the following factors:

- Prior to 2 October 2002, Evraz's mining segment consisted of OOO Abakan Mining Company and OOO Mundybash Processing Plant, both of which are subsidiaries of ZapSib. VGOK was consolidated beginning 2 October 2002. Revenues of VGOK increased to U.S.$102.9 million in 2004 (30.2% of mining segment revenues) from U.S.$53.2 million in 2003 (54.0% of mining segment revenues), mainly due to price increases and an increase in the production of sinter from 2.4 million to 2.9 million tonnes. The volume increase resulted from additional processing capacity that was commissioned in December 2003.
- KGOK was acquired in May 2004. Revenues attributable to KGOK in 2004 amounted to U.S.$209.4 million (61.4% of mining segment revenues).

Substantially all of Evraz's mining segment sales are of iron ore, and Evraz has recently expanded its iron ore business through the acquisition of Evraz Ruda (March 2005). During the period under review, consolidated coal assets consisted only of Neryungri Ugol, which had yet to begin production, but they now also include Mine 12 (acquired in March 2005). Evraz also has a 47.7% interest in the Raspadskaya coking coal mine, which is accounted for under the equity method.

For the years ended 31 December 2004, 2003 and 2002, mining segment sales to the steel segment amounted to U.S.$279.1 million (81.9% of mining segment sales), U.S.$83.7 million (85.0% of mining segment sales) and U.S.$16.2 million (76.5% of mining segment sales), respectively. Approximately 32% of Evraz's iron ore requirements were met by the mining segment in 2004, 14% in 2003 and less than 10% in 2002. The increase in the proportion of iron ore sourced internally resulted mainly from the acquisitions of VGOK in late 2002 and KGOK in May 2004. KGOK accounted for a further 12% of Evraz's total iron ore requirements in 2004 prior to its acquisition, and Evraz Ruda, which was acquired in March 2005, supplied a further 28% of Evraz's total iron ore requirements in 2004. The acquisition of Evraz Ruda will enhance Evraz's vertical integration going forward (and will affect its historical results when Evraz presents financial information for 2005 and thereafter following the retrospective consolidation of Evraz Ruda described above).

Third party sales have increased even faster than intersegment sales, reflecting the strong market demand for raw materials in 2004. Most third party sales in the mining segment were to customers in Russia.

Other operations

Evraz's other operations segment revenues increased by 564% in 2003 to U.S.$97.4 million and by 254% in 2004 to U.S.$344.8 million. This segment's revenues were significantly affected by acquisitions, specifically:

- Nakhodka Sea Port, which has been consolidated since 15 February 2003, provides seaport services. Nakhodka Sea Port's sales amounted to U.S.$40.1 million in 2004 and U.S.$29.9 million in 2003, subsequent to its consolidation. Intersegment sales accounted for 38% of Nakhodka Sea Port's revenues in 2004.
- Evraztrans, which commenced operations in the fourth quarter of 2003, acts as a railway forwarder for Evraz's steel segment. Evraztrans sales amounted to U.S.$75.9 million in 2004 and U.S.$0.5 million in 2003. Evraztrans derives most of its revenues from intersegment sales and benefited in 2004 from the acquisition of its own railway cars.
- Metallenergofinance ("MEF"), which has been consolidated since September 2003, supplies electricity and heat to Evraz's steel and mining segments and to third parties. MEF's sales amounted to U.S.$186.6 million in 2004 and U.S.$48.0 million in 2003, subsequent to its consolidation. MEF derives most of its revenues from intersegment sales and benefited in 2004 by supplying electricity to NTMK, VGOK and KGOK.
- OOO Evraz Holding ("Evraz Holding") provides management, accounting and other services to NTMK, ZapSib and NKMK and other Russian subsidiaries of the Company, including from 1 April 2005 KGOK, Evraz Ruda and VGOK. Evraz Holding generated management fees of U.S.$37.2 million, U.S.$25.8 million and U.S.$15.6 million in 2004, 2003 and 2002, respectively,

from the provision of management, accounting and other services to the Company's subsidiaries and to related parties; 68.5%, 33.4% and 6.2% of these fees were derived from the Company's subsidiaries in 2004, 2003 and 2002, respectively. See "Directors and Management—Management of Subsidiaries" for a further discussion of the role and functioning of Evraz Holding.

Third-party sales by the other operations segment, consisting primarily of sales of energy by MEF, provision of port services by Nakhodka Sea Port and provision of transportation and freight forwarding services by Evraztrans, increased from U.S.$14.7 million in 2002 to U.S.$65.5 million in 2003 and U.S.$108.9 million in 2004. The increase is attributable primarily to the consolidation of MEF and Evraztrans for all of 2004, offset by a decline in third-party sales by Evraz Holding and a slight decrease in third-party sales of port services by Nakhodka Sea Port.

Cost of revenues and gross profit

Evraz's consolidated cost of revenues amounted to U.S.$3,513.0 million, U.S.$1,583.4 million and U.S.$1,334.3 million in 2004, 2003 and 2002, respectively. It comprised 59.3%, 74.2% and 87.1% of consolidated revenues in 2004, 2003 and 2002, respectively. The table below sets forth cost of revenues, amortisation of negative goodwill and gross profit by segment for 2004, 2003 and 2002, including as a percentage of segment revenues.

	Year ended 31 December					
	2004		2003		2002	
	Amount	Percentage of segment revenues	Amount	Percentage of segment revenues	Amount	Percentage of segment revenues
	(thousands of U.S. dollars, except percentages)					
Steel segment						
Cost of revenues	(3,566,070)	(61.4)%	(1,544,545)	(75.0)%	(1,324,207)	(87.3)%
Raw materials	*(2,469,218)*		*(919,812)*		*(728,166)*	
Transportation	*(331,955)*		*(24,148)*		—	
Staff costs	*(325,087)*		*(186,869)*		*(199,787)*	
Depreciation	*(144,922)*		*(126,566)*		*(150,224)*	
Energy	*(272,810)*		*(165,791)*		*(139,316)*	
Other(1)	*(22,038)*		*(121,359)*		*(106,714)*	
Amortisation of negative goodwill	18,305	0.3%	18,590	0.9%	15,259	1.0%
Gross profit	2,261,276	38.9%	534,134	25.9%	207,271	13.7%
Mining segment						
Cost of revenues	(212,663)	(62.4)%	(84,134)	(85.4)%	(17,088)	(80.7)%
Raw materials	*(69,915)*		*(33,129)*		*(7,316)*	
Staff costs	*(48,724)*		*(11,411)*		*(7,589)*	
Depreciation	*(16,805)*		*(2,994)*		*(1,325)*	
Other(2)	*(77,219)*		*(36,600)*		*(859)*	
Amortisation of negative goodwill	2,446	0.7%	2,446	2.5%	1,458	6.9%
Gross profit	130,604	38.3%	16,788	17.0%	5,544	26.2%
Other operations						
Cost of revenues	(279,998)	(81.2)%	(66,956)	(68.7)%	(12,353)	(84.2)%
Amortisation of negative goodwill	1,541	0.4%	1,276	1.3%	—	0%
Gross profit	66,381	19.2%	31,749	32.6%	2,317	15.8%
Unallocated						
Amortisation of negative goodwill	—		—		(568)	
Gross profit	—		—		(568)	
Eliminations—cost of revenues	*545,744*		*112,220*		*19,268*	
Eliminations—gross profit	*(24,308)*		*(11,135)*		*(1,068)*	
Consolidated cost of revenues	(3,512,987)		(1,583,415)		(1,334,281)	
Consolidated amortisation of negative goodwill	22,292		22,312		16,149	
Consolidated gross profit	2,433,953		571,536		213,595	

Notes:

(1) Includes repairs and maintenance and auxiliary materials such as ferroalloys and refractory products.

(2) Includes energy, auxiliary materials and repairs and maintenance.

Steel segment

Steel segment cost of revenues increased by 16.6% in 2003 to U.S.$1,544.5 million and by 130.9% in 2004 to U.S.$3,566.1 million. Cost of revenues was 61.4%, 75.0% and 87.3% of steel segment revenues for 2004, 2003 and 2002, respectively.

Steel segment cost of revenues was significantly influenced by the start-up of NKMK. The cost of revenues of NKMK in 2004 and the fourth quarter of 2003 amounted to U.S.$738.3 million (20.9% of steel segment cost of revenues) and U.S.$138.0 million (8.9% of steel segment cost of revenues), respectively.

The primary factors affecting the growth of steel segment cost of revenues were:

- Raw materials costs increased by 26.3% in 2003 and by 168.4% in 2004. The increases were primarily due to price increases for coking coal and iron ore, and volume increases resulting mainly from the start-up of NKMK. On a consolidated basis, the impact of price increases for iron ore was mitigated to an increasing extent by purchases of these products from Evraz's mining segment, as discussed above.
- Transportation costs in 2003 and 2004 result from the transfer of trading activities to Ferrotrade Limited (which commenced operations in October 2003). These costs relate to railway tariffs for the transport of Evraz's steel products from the mills to the relevant ports, and prior to the transfer of trading activities to Ferrotrade Limited, such costs had been incurred by Ferrotrade & Co., a related party.
- Depreciation costs remained generally flat despite the start-up of NKMK, due to the relatively low prices paid by NKMK for the assets it acquired and to the fact that significant capital expenditures were either still in progress or completed only late in 2004, resulting in the postponement of depreciation expense into subsequent periods.
- Energy costs increased by 19.0% in 2003 and by 64.6% in 2004 mainly due to the start-up of operations at NKMK and increases in electricity and natural gas tariffs.
- Staff costs decreased by 6.5% in 2003 and increased by 74.0% in 2004. The decrease in 2003 resulted from the allocation of costs attributable to an increase in inventories at Ferrotrade Limited. Wages and salaries increased in 2004 in line with inflation, and the acquisition of NKMK contributed further to staff costs.
- Other costs increased by 13.7% in 2003 and decreased by 81.8% in 2004. The decrease in 2004 resulted from the transfer of activities to Ferrotrade Limited.

Gross profit was 38.9%, 25.9% and 13.7% of steel segment revenues in 2004, 2003 and 2002, respectively. Gross profit significantly improved over the period primarily due to greater increases in average sales prices than in production costs as well as the effect of acquisitions and start-ups. The improvement in margins was also due to increased operating efficiency resulting from Evraz's modernisation programme.

Mining segment

Mining segment cost of revenues increased by 392.4% in 2003 to U.S.$84.1 million and by 152.8% in 2004 to U.S.$212.7 million. Raw materials costs increased by 352.8% in 2003 and by 111.0% in 2004, and staff costs increased by 50.4% in 2003 and by 327.0% in 2004. Depreciation increased by 126.0% in 2003 and by 461.3% in 2004. Cost of revenues was 62.4%, 85.4% and 80.7% of mining segment revenues for 2004, 2003 and 2002, respectively.

Mining segment cost of revenues was significantly influenced by the acquisitions of VGOK and KGOK:

- VGOK's cost of revenues in 2004, 2003 and 2002 (subsequent to its acquisition in October of that year) amounted to U.S.$73.6 million, U.S.$41.3 million and U.S.$7.8 million, respectively. Price increases for purchased iron ore processed into sinter at VGOK as well as an increase of approximately 20% in the production of sinter in 2004 contributed to the growth of VGOK's cost of revenues in 2004. Purchased iron ore accounted for approximately 25%, 23% and 14% of the total volume of iron ore used by VGOK in producing sinter in 2004, 2003 and 2002, respectively.
- KGOK's cost of revenues amounted to U.S.$110.3 million following its acquisition in May 2004. Energy costs included in this amount accounted for most of the increase in other costs of revenues.

Gross profit was 38.3%, 17.0% and 26.2% of mining segment revenues in 2004, 2003 and 2002, respectively. Gross profit significantly improved in 2004, mainly because prices for iron ore increased faster than inflation. Improvements in working practices, modernisation programmes and increased integration into Evraz's operations also contributed to enhanced margins.

Other operations

Other operations cost of revenues increased by 442.0% in 2003 to U.S.$67.0 million and by 318.2% in 2004 to U.S.$280.0 million. Cost of revenues was 81.2%, 68.7% and 84.2% of other operations revenues for 2004, 2003 and 2002, respectively.

Other operations cost of revenues was significantly affected by the acquisitions of Nakhodka Sea Port, and MEF and the start of operations at Evraztrans. The major components of cost of revenues of Nakhodka Sea Port are staff costs and maintenance costs. The major component of Evraztrans' cost of revenues is rent of railway cars. The major component of MEF's cost of revenues is purchases of electricity from power generating companies.

Evraz Holding's cost of revenues amounted to U.S.$12.4 million in 2002, nil in 2003 and U.S.$6.4 million in 2004. All of Evraz Holding's costs that were classified as cost of revenues in 2002 were reclassified as general and administrative expenses in 2003 and most of such costs (76.6%) were so reclassified in 2004. The costs reclassified in this way were those attributable to intersegment sales. Staff costs account for most of Evraz Holding's costs.

Selling and distribution costs

Selling and distribution costs decreased by 23.4% in 2003 to U.S.$41.8 million and increased by 424.8% in 2004 to U.S.$219.1 million. As a percentage of consolidated revenues, selling and distribution costs amounted to 3.7%, 2.0% and 3.6% in 2004, 2003 and 2002, respectively. Selling and distribution costs consisted to a large extent of transportation expenses related to Evraz's selling activities.

The following table presents selling and distribution costs by segment for 2004, 2003 and 2002, including as a percentage of segment revenues.

	Year ended 31 December					
	2004		2003		2002	
Selling and distribution costs by segment	**Amount**	**Percentage of segment revenues**	**amount**	**Percentage of segment revenues**	**Amount**	**Percentage of segment revenues**
	(thousands of U.S. dollars, except percentage)					
Steel segment	(205,542)	(3.5)%	(37,144)	(1.8)%	(54,276)	(3.6)%
Transportation costs	(127,803)		(16,038)		(1)	
Staff costs	(17,922)		(9,264)		(1)	
Other(2)	(59,817)		(11,812)		(1)	
Mining segment	(9,225)	(2.7)%	(3,020)	(3.1)%	(1,220)	(5.8)%
Transportation costs	(1,451)		(1,790)		(1)	
Staff costs	(111)		(12)		(1)	
Bad debt provision	(4,962)		(888)		(1)	
Other	(2,701)		(331)		(1)	
Other operations	(4,382)	(1.3)%	(1,874)	(1.9)%	0	0.0%
Eliminations	—		247		1,068	
Total	(219,149)		(41,761)		(54,527)	

Notes:

(1) Information not available.

(2) Includes auxiliary materials such as packaging, customs duties, and bad debt provision (relating mainly to NTMK).

Steel segment

Selling and distribution costs amounted to 3.5%, 1.8%, and 3.6% of steel segment revenues in 2004, 2003 and 2002, respectively. The main drivers of change in absolute terms were:

- the start up in the fourth quarter of 2003 of Ferrotrade Limited's export operations, which incur freight costs and port charges (these costs were previously incurred by Ferrotrade & Co., a related party);

- the development of the distribution network of Evraz across Russia during 2003 and 2004;
- an increase in bad debt provisions from a benefit of U.S.$3.7 million in 2003 to a provision of U.S.$13.1 million in 2004. The bad debt provision in 2004 related principally to obligations of Tagil Energo, which purchases heat energy from NTMK; and
- abolition of road users tax effective 1 January 2003, which is largely responsible for the decline in selling and distribution costs from 2002 to 2003.

Mining segment

Selling and distribution costs comprised 2.7%, 3.1%, and 5.8% of mining segment revenues in 2004, 2003 and 2002, respectively. In 2003, transportation costs accounted for most of the increase in absolute terms. In 2004, most of the increase was attributable to bad debt provisions in respect of VGOK. The majority of this amount was owed by GBRU, a related party of Evraz.

Other operations

Selling and distribution costs amounted to 1.3%, 1.9%, and 0.0% of other operations revenues in 2004, 2003 and 2002, respectively. MEF and Nakhodka Sea Port together contributed most of the selling and distribution costs of other operations in 2003, and in 2004 most of these costs were attributable to MEF.

General and administrative expenses

General and administrative expenses increased by 49.1% in 2003 to U.S.$163.4 million and by 98.9% in 2004 to U.S.$324.9 million. As a percentage of consolidated revenues, general and administrative expenses amounted to 5.5%, 7.7% and 7.2% in 2004, 2003 and 2002, respectively.

The following table presents general and administrative expenses by segment for 2004, 2003 and 2002, including as a percentage of segment revenues.

	Year ended 31 December					
	2004		2003		2002	
General and administrative expenses by segment	**Amount**	**Percentage of segment revenues**	**Amount**	**Percentage of segment revenues**	**Amount**	**Percentage of segment revenues**
	(thousands of U.S. dollars, except percentages)					
Steel segment	(260,196)	(4.5)%	(132,381)	(6.4)%	(104,446)	(6.9)%
Staff costs	*(90,913)*		*(39,263)*		*(29,666)*	
Taxes, other than on income	*(38,938)*		*(35,454)*		*(26,511)*	
Management fees	*(18,467)*		*(3,665)*		*(700)*	
Other[(1)]	*(111,887)*		*(53,989)*		*(47,569)*	
Mining segment	(26,798)	(7.9)%	(8,423)	(8.6)%	(3,605)	(17.0)%
Staff costs	*(8,046)*		*(2,886)*		*(1,144)*	
Taxes, other than on income	*(5,659)*		*(1,335)*		*(853)*	
Other[(2)]	*(13,092)*		*(4,202)*		*(1,608)*	
Other operations	(52,591)	(15.3)%	(29,880)	(30.7)%	(808)	(5.5)%
Unallocated[(3)]	(9,587)		(3,583)		(705)	
Eliminations	24,308		10,888		—	
Total	(324,863)		(163,369)		(109,564)	

Notes:

(1) Includes depreciation, insurance, and bank and other service costs.

(2) Includes rent, insurance, and bank and other service costs.

(3) Relates mainly to accounting and consulting fees.

Steel segment

General and administrative expenses amounted to 4.5%, 6.4%, and 6.9% of steel segment revenues in 2004, 2003 and 2002, respectively. General and administrative expenses were affected by the following:

- Staff costs increased by 32.4% in 2003 to U.S.$39.3 million and by 131.5% in 2004 to U.S.$90.9 million due to increases in wages and salaries in line with inflation, bonuses paid to certain managers and the start-up of NKMK.
- Taxes, other than on income, including property, land and local taxes, increased by 33.7% in 2003 to U.S.$35.5 million and by 9.8% in 2004 to U.S.$38.9 million. A significant part of the increase in 2004 was attributable to the start-up of NKMK.
- Management fees to Evraz Holding were U.S.$18.5 million, U.S.$3.7 million and U.S.$0.7 million in 2004, 2003 and 2002, respectively. The increase in these fees in 2004 and 2003 is attributable to increased activities at Evraz Holding, the start-up of operations at NKMK and increased fees charged by Evraz Holding to offset its expenses.

Overall, NKMK contributed U.S.$43.8 million and U.S.$6.3 million to general and administrative expenses in 2004 and the fourth quarter of 2003, respectively.

Mining segment

General and administrative expenses amounted to 7.9%, 8.6%, and 17.0% of mining segment revenues in 2004, 2003 and 2002, respectively. The increase in general and administrative expenses in absolute terms resulted primarily from the acquisitions of VGOK in October 2002 and KGOK in May 2004. Staff costs increased by 152.3% in 2003 to U.S.$2.9 million and by 178.8% in 2004 to U.S.$8.0 million. Taxes, other than on income increased by 56.5% in 2003 to U.S.$1.3 million and by 323.9% in 2004 to U.S.$5.7 million.

Other costs increased by 161.3% in 2003 to U.S.$4.2 million and by 211.6% in 2004 to U.S.$13.1 million, resulting primarily from the acquisitions of VGOK and KGOK.

Other operations

General and administrative expenses amounted to 15.3%, 30.7%, and 5.5% of other operations segment revenues in 2004, 2003 and 2002, respectively. Evraz Holding accounted for U.S.$40.9 million (77.8%) and U.S.$23.2 million (77.6%) of other operations general and administrative expenses in 2004 and 2003, respectively, while substantially all its expenses in 2002 (U.S.$12.4 million) were reported under cost of revenues. Amounts classified as general and administrative costs in 2003 and 2004 are attributable to Evraz Holding's intersegment sales. Most of Evraz Holding's general and administrative costs relate to the wages and salaries of its employees, including Evraz's senior management.

Other operating income and expenses

Other operating expenses, net of other operating income, increased by U.S.$31.5 million, from income of U.S.$3.0 million in 2003 to an expense of U.S.$28.6 million and increased by 107.5% in 2004 to an expense of U.S.$59.3 million. Other operating expenses (net) amounted to 1.0%, 1.3% and (0.2%) of consolidated revenues in 2004, 2003 and 2002, respectively. Other operating income and expenses consist primarily of social and social infrastructure expenses, gain (loss) on disposal of property, plant and equipment, impairment of assets and foreign exchange gain (loss). Social and social infrastructure expenses, in part a legacy of the Soviet period, include such items as maintenance of medical centres, holiday apartments, employee holiday allowances, sponsorship of sports teams and events, charitable donations and cash assistance to retired and former employees and veterans.

The following table presents other operating income and expenses by segment for 2004, 2003 and 2002, including as a percentage of segment revenues.

Other operating income and expenses by segment	2004 Amount	2004 % of segment revenues	2003 Amount	2003 % of segment revenues	2002 Amount	2002 % of segment revenues
	Year ended 31 December					
	(thousands of U.S. dollars, except percentages)					
Steel segment						
Social & social infrastructure maintenance expenses	(38,289)	(0.7)%	(24,222)	1.2%	(28,129)	1.9%
Loss on disposal of property, plant and equipment	(10,383)	(0.2)%	(15,683)	(0.8)%	(14,826)	1.0%
Impairment of assets	(5,431)	(0.1)%	(5,068)	(0.2)%	(1,493)	(0.1)%
Foreign exchange gain (loss)	796	0.0%	7,188	0.3%	(14,477)	(1.0)%
Gain on net monetary position	—	—	—	—	62,232	4.1%
Other income, net	51	0.0%	8,397	0.4%	644	0.0%
Total	**(53,256)**	**(0.9)%**	**(29,388)**	**(1.4)%**	**3,951**	**0.3%**
Mining segment						
Social & social infrastructure maintenance expenses	(4,804)	(1.4)%	(1,185)	(1.2)%	(445)	(2.1)%
Gain (loss) on disposal of property, plant and equipment	(3,285)	(1.0)%	231	0.2%	(253)	(1.2)%
Impairment of assets	5,356	1.6%	—	—	—	—
Foreign exchange gain (loss)	511	0.1%	(16)	(0.0)%	(51)	(0.2)%
Gain on net monetary position	—	—	—	—	43	0.2%
Other income (expense), net	(6,497)	(1.9)%	2,490	2.5%	(1,124)	(5.3)%
Total	**(8,720)**	**(2.9)%**	**1,520**	**1.5%**	**(1,830)**	**(8.6)%**
Other operations						
Social & social infrastructure maintenance expenses	(1,363)	(0.4)%	(568)	(0.6)%	—	—
Gain (loss) on disposal of property, plant and equipment	2,767	0.8%	5	0.0%	—	—
Impairment of assets	(1,291)	(0.4)%	(431)	(0.4)%	(426)	(2.9)%
Foreign exchange gain (loss)	(643)	(0.2)%	(293)	(0.3)%	(288)	(2.0)%
Gain on net monetary position	—	—	—	—	406	2.8%
Other income (expense), net	(2,510)	(0.7)%	(630)	(0.6)%	2,210	5.6%
Total	**(3,040)**	**(0.9)%**	**(1,917)**	**(2.0)%**	**1,902**	**6.4%**
Unallocated						
Foreign exchange gains (loss), net	2,357		1,031		(168)	
Other operating income (expense)	3,394		189		(891)	
Total	**5,751**		**1,220**		**(1,059)**	
Total other operating income and expenses, net	**(59,263)**	**(1.0)%**	**(28,565)**	**(1.3)%**	**2,964**	**0.2%**

In the steel segment, the increase in social and social infrastructure expenses is primarily attributable to the start-up of operations at Ferrotrade Limited and NKMK in 2003, as well as increased expenditure at NTMK. Social and social infrastructure maintenance expenses at Ferrotrade Limited consist of payments to the Ekaterinburg Governor's Fund and charities in Primorsky Krai (the region in which Nakhodka Sea Port is located). The increase in social and social infrastructure maintenance expenses for the mining segment resulted primarily from the acquisition of KGOK in May 2004.

Profit from operations

Profit from operations increased by 543.9% in 2003 to U.S.$337.8 million and by 441.9% in 2004 to U.S.$1,830.7 million. Profit from operations as a percentage of consolidated revenues increased from 3.4% in 2002 to 15.8% in 2003 and to 30.9% in 2004, mainly as a result of improved gross margins.

The following table presents profit from operations by segment for 2004, 2003, and 2002, including as a percentage of segment revenues.

Profit from operations by segment	2004 Amount	2004 percentage of segment revenues	2003 Amount	2003 percentage of segment revenues	2002 Amount	2002 percentage of segment revenues
	(thousands of U.S. dollars, except percentages)					
Steel segment	1,742,283	30.0%	335,261	16.3%	52,500	3.5%
Mining segment	85,862	25.2%	6,865	7.0%	(1,111)	(5.2)%
Other operations	6,368	1.9%	(1,922)	(2.0)%	3,411	23.3%
Unallocated	(3,835)	—	(2,363)	—	(2,332)	—
Total	**1,830,678**		**337,841**		**52,468**	

Steel segment

Steel segment profit from operations increased by 538.6% in 2003 to U.S.$335.3 million and by 419.7% in 2004 to U.S.$1,742.3 million. Profit from operations as a percentage of steel segment revenues increased from 3.5% in 2002 to 16.3% in 2003, and to 30.0% in 2004.

Mining segment

Mining segment profit from operations increased from a loss of U.S.$1.1 million in 2002 to a profit of U.S.$6.9 million in 2003 and to a profit of U.S.$85.9 million in 2004. Profit from operations as a percentage of mining segment revenues increased from (5.2%) in 2002 to 7.0% in 2003 and to 25.2% in 2004.

Other operations

Other operations segment profit from operations decreased from U.S.$3.4 million in 2002 to a net loss of U.S.$1.9 million in 2003, and increased to a profit of U.S.$6.4 million in 2004. Profit from operations as a percentage of other operations segment revenues decreased from 23.3% in 2002 to (2.0%) in 2003, and increased to 1.9% in 2004. Loss from operations in 2003 related to losses at Nakhodka Sea Port.

Non-operating income and expense

Non-operating income and expense consists of interest income, interest expense, gain/loss on sale of investments, gain/loss on transactions with related parties, gain/loss on extinguishment of debts, write-off of negative goodwill on new acquisitions and income/loss from associates. The table below presents these items for 2004, 2003 and 2002, including as a percentage of consolidated revenues.

	2004 Amount	2004 percentage of revenues	2003 Amount	2003 percentage of revenues	2002 Amount	2002 percentage of revenues
	(thousands of U.S. dollars, except percentages)					
Interest income	9,639	0.2%	9,245	0.4%	1,712	0.1%
Interest expense	(103,795)	(1.8)%	(55,219)	(2.6)%	(57,356)	(3.7)%
Share of profits (losses) of associates and joint ventures	42,658	0.7%	(121)	0.0%	(663)	0.0%
Loss on extinguishment of debts	(139,362)	(2.4)%	12,065	0.6%	16,302	1.1%
Net trading gain from a related party	—	—	24,433	1.1%	—	—
Gain on financial assets	57,189	1.0%	—	—	—	—
Loss on sale of minority interest	(34,885)	(0.6)%	—	—	—	—
Other non-operating gain	1,965	0.0%	2,751	0.1%	—	—
Total	**(166,591)**	**(2.8)%**	**(6,846)**	**(0.3)%**	**(40,005)**	**(2.6)%**

Year ended 31 December (both tables).

Interest income increased by 440% in 2003 to U.S.$9.2 million and by 4.3% in 2004 to U.S.$9.6 million. The significant increase in 2003 resulted from loans made to related parties in that year. See "Related Party Transactions".

Interest expense decreased by 3.7% in 2003 to U.S.$55.2 million and increased by 88% in 2004 to U.S.$103.8 million. The issuance of Eurobonds in 2003 (see "—Liquidity and Capital Resources—Capital Resources"), as well as bank borrowings related to capital expenditures, resulted in the increase in interest expense in 2004. The impact of the increase in borrowings was offset by a decline in average interest rates for most categories of borrowings. See Note 19 to the Consolidated Financial Statements.

Net trading gain from a related party amounted to U.S.$24.4 million in 2003 and arose mainly from trading gains associated with repurchases of steel and steel products by Ferrotrade & Co., a related party, from Ferrotrade Limited. Prior to 31 December 2003, in order to fulfil remaining sales commitments subsequent to the transfer of trading activities to Ferrotrade Limited, Ferrotrade & Co. repurchased 521,560 tonnes of steel products from Ferrotrade Limited at higher prices than it received on the initial sale. Under IFRS, Evraz does not include repurchase transactions in revenue and cost of revenue, and only presents net gain or loss.

Gain on financial assets represents gain on re-measurement of 19.145% of shares in Raspadkaya to fair value, which was realised when these shares were contributed into Corber Enterprises, the joint venture through which Evraz holds its interest in Raspadskaya.

Loss on extinguishment of debts in 2004 amounted to U.S.$139.4 million and included the following:

- a U.S.$127.5 million loss due to the early settlement in 2004 by Evraz of debts of NTMK and ZapSib that had been rescheduled under settlement agreements entered into in connection with the resolution of the bankruptcies of those companies; a gain had arisen in prior periods in respect of these debts as a result of the discounting to present value when they were rescheduled under the settlement agreements;
- an U.S.$8.7 million loss due to a reversal of the gain that had arisen in a prior period when Evraz obtained a long term loan from a related party with a below-market interest rate; the reversal was due to the early settlement of these liabilities in 2004; and
- a U.S.$3.2 million loss resulting from the extinguishment of other debts.

Share of profits (losses) from associates and joint ventures in 2002 and 2003 arose mainly from losses at Nakhodka Sea Port prior to its acquisition, when it was consolidated under the equity method. In addition, loss from associates in 2002 includes VGOK's losses prior to its acquisition in October 2002, in the period during which VGOK was consolidated under the equity method. Income from associates and a joint venture in 2004 mainly relates to income attributable to Evraz's interest in Raspadskaya.

Income tax expense

Income tax expense increased by 573% in 2003 to U.S.$75.1 million and by 454% in 2004 to U.S.$415.8 million. Evraz's effective tax rate, which is defined as income tax expense as a percentage of profit before tax, decreased from 89.5% in 2002 to 22.7% in 2003, and increased to 25.0% in 2004. The high effective tax rate in 2002 resulted mainly from net losses at ZapSib, which could not be offset against profits of other subsidiaries. The increase in the effective tax rate from 2003 to 2004 reflects an increase in the effect of non-deductible expenses and other permanent differences and in deferred income tax provided for undistributed earnings of subsidiaries.

Current income tax charge amounted to U.S.$438.8 million, U.S.$110.8 million and U.S.$20.8 million in 2004, 2003 and 2002, respectively. Deferred income tax benefits related to the origination and reversal of temporary differences amounted to U.S.$22.9 million, U.S.$35.7 million and U.S.$9.7 million in 2004, 2003 and 2002, respectively.

Net profit attributable to equity holders of the parent entity

As a result of the factors set forth above, Evraz's net profit atttributable to equity holders of the parent entity increased from U.S.$5.9 million in 2002 to U.S.$207.9 million in 2003 and to U.S.$1,083.8 million in 2004.

Net profit attributable to minority interests

Net profit attributable to minority interests was U.S.$(4.6) million in 2002, U.S.$48.0 million in 2003 and U.S.$164.4 million in 2004. Net profit attributable to minority interests consists mainly of the share of minority shareholders in the profits of NTMK and ZapSib. The increased net profit attributable to minority interests from 2002 through 2004 resulted from the growing net profit of the subsidiaries. Evraz's strategy is to reduce the share of minorities in its subsidiaries.

Certain of Evraz's subsidiaries are consolidated on the basis of options held by Evraz in respect of controlling interests in such entities, in accordance with relevant accounting interpretations. As Evraz has no effective ownership interest in these entities, minority interest attributable to these entities is equal to 100% in Evraz's balance sheet and income statement, except to the extent of any losses. Net profit attributable to the minority interests in such entities for the year ended 31 December 2004 amounted to U.S.$353,000. MEF (which has been wholly-owned by Mastercroft since 29 December 2004) contributed a U.S.$8.1 million net profit, offset by net losses of U.S.$3.8 million at EvrazSecurities S.A., the Company's special purpose entity for the issuance of eurobonds, U.S.$2.0 million at Evraz Holding, and U.S.$1.9 million at Deltorg, which leased production equipment to certain subsidiaries of the Company. See Note 1 to the Consolidated Financial Statements for a discussion of these entities.

The following table presents Evraz's effective ownership interests in its major subsidiaries as of 31 December 2004, 2003 and 2002, and after giving effect to the acquisition of the 4.17% minority interest in Mastercroft and the acquisition of an additional 0.48% of the shares in ZapSib:

Subsidiary	Subsequent to the elimination of the minority interest in Mastercroft	As of 31 December 2004	2003	2002	Business activity	Location
		%				
Mastercroft	100.00	95.83	100.00	100.00	Holding Company	Cyprus
NTMK	80.44	77.09	74.35	61.10	Steel production	Russia
ZapSib	95.07	90.65	93.36	77.39	Steel production	Russia
NKMK	94.00	89.97	90.09	—	Steel production	Russia
KGOK	84.38	80.68	—	—	Iron ore mining and processing	Russia
VGOK	82.03	78.50	80.32	80.00	Iron ore mining and processing	Russia
Neryungri Ugol	100.00	95.83	—	—	Coal mining	Russia
Ferrotrade Limited	100.00	95.83	100.00	—	Trading	Gibraltar
Trade House EvrazHolding	100.00	95.83	98.00	98.00	Trading	Russia
Trade House EvrazResource	100.00	95.83	—	—	Trading	Russia
Nakhodka Sea Port	85.91	82.21	84.12	30.01	Seaport services	Russia
Evraztrans	76.00	72.83	100.00	—	Freight-forwarding	Russia
Metallenergofinance	100.00	95.83	—	—	Utilities supply	Russia

Evraz made payment of U.S.$124 million for the acquisition of the 4.17% minority interest in Mastercroft on 1 June 2005, and subject to the completion of corporate formalities, the Mastercroft shares are expected to be transferred to Evraz on 2 June 2005. See "—Reorganisation and Formation of the Company". On completion of this acquisition, Evraz's effective ownership interest in its other subsidiaries will increase, as they are all held through Mastercroft. On 17 May 2005, Evraz agreed to acquire a further 10.7% of the shares in NTMK from an unrelated minority shareholder of NTMK. See "—Summary of Acquisitions".

Liquidity and Capital Resources

Capital requirements

In addition to meeting its working capital requirements, Evraz expects that repayments of outstanding debt, capital expenditures and acquisitions will represent its most significant uses of funds for the next several years. The amount and timing of Evraz's obligations in respect of outstanding debt is described under "—Contractual obligations and commercial commitments".

Evraz's capital expenditure programme aims at the reconstruction and modernisation of its existing production facilities to reduce costs, improve process flows and expand the product range. Evraz also plans to make capital expenditures to increase the share of higher margin products it produces and sells.

Evraz has a long-term capital expenditure programme that extends through 2010. In 2005, Evraz intends to make capital expenditures of U.S.$592 million, including U.S.$411 million in respect of its steel segment and U.S.$181 million in respect of its mining segment. Evraz currently plans additional capital expenditure of approximately U.S.$830 million from 2006 through 2010, including U.S.$550 million for its steel segment and U.S.$280 million for its mining segment. See "Description of Business—Steel Business—Production facilities" and "Description of Business—Mining Business—Production Facilities" for a discussion of Evraz's principal capital expenditure projects. Evraz's capital expenditure plans are subject to change depending, among other things, on the evolution of market conditions and the cost and availability of funds.

Capital resources

Historically, Evraz has relied on cash provided by operations and short-term debt to finance its working capital and capital requirements, and management expects that these will continue to be important sources of cash in the future. At the same time, Evraz intends increasingly to substitute short-term debt for longer-term debt in order better to match its capital resources to its planned expenditure. Evraz does not currently make use of off-balance sheet financing arrangements.

Evraz intends to finance its capital investment programme with a mix of cash flows from operations and financing activities. Evraz seeks long-term financing (with tenures of five to seven years) both domestically and internationally, from banks and in the capital markets, as well as short-term working capital loans that may be secured by pledges over plant and equipment. Purchases of equipment from major European producers have been, and are expected in the future to be, backed by European export credit agencies, such as Hermes (Germany), OeKB (Austria), KUKE (Poland), SACE (Italy), ODL (Luxembourg), EximBanka SR (Slovakia) and Finnvera (Finland).

Net cash provided by operating activities was U.S.$957.2 million, U.S.$42.8 million and U.S.$118.3 million in the years ended 31 December 2004, 2003 and 2002, respectively.

The increase in net cash provided by operating activities in 2004 compared to 2003 was primarily due to an increase in operating margins and acquisitions. The increase in operating margins, in turn, was due mainly to substantial growth in prices for steel products in the international and domestic markets. This increase was partially offset by increases in cash used for working capital, including an increase of input VAT from U.S.$116.0 million in 2003 to U.S.$310.4 million in 2004. Other significant non-cash and working capital adjustments in 2004 compared to 2003 included contributions to cash from loss on extinguishment of debt, interest expense and uses of cash for trade and other receivables and in receivables from/payables to related parties. The principal reason for the decrease in net cash provided by operating activities in 2003 compared to 2002, notwithstanding an increase in operating margins and several acquisitions, was a substantial increase in cash used in working capital, in particular to build inventories. The increase in inventories resulted from increased prices for raw materials. In addition, Evraz increased the level of inventories in anticipation of further increases in the prices of raw materials and steel products. Inventories represented a significantly smaller use of cash in 2004 than in 2003. Cash provided by operating activities before working capital adjustments increased from U.S.$151.0 million in 2002 to U.S.$360.9 million in 2003 and to U.S.$1,583.8 million in 2004.

Net cash used in investing activities was U.S.$792.4 million, U.S.$356.2 million and U.S.$117.1 million in the years ended 31 December 2004, 2003 and 2002, respectively. Substantially all the cash used in investing activities related to purchases of property, plant and equipment, purchases of shares in subsidiaries, and purchase of interest in a joint venture.

Net cash (used in) from financing activities was U.S.$(73.4) million, U.S.$459.9 million and U.S.$5.8 million in the years ended 31 December 2004, 2003 and 2002, respectively. In 2003 and 2004, Evraz issued U.S. dollar-denominated notes, the proceeds of which were used to finance capital expenditures and repay short-term borrowings, as follows:

- In September and December 2003, EvrazSecurities S.A. issued notes in the aggregate principal amount of U.S.$175 million. The notes bear interest of 8.875% per annum payable semi-annually and mature on 25 September 2006. Mastercroft, together with NTMK, ZapSib, Ferrotrade Limited and NKMK jointly and severally guaranteed all amounts in respect of the notes. The notes contain covenants that impose restrictions on Mastercroft and its subsidiaries in respect of certain transactions and financial ratios. These covenants included a limitation on the payment of dividends by Mastercroft to 50% of the aggregate consolidated net profit of Mastercroft from 1 January 2003, plus proceeds from the sale of its capital stock after 1 January 2003. Evraz convened a meeting of noteholders on 31 May 2005 that approved amendments to the trust deed in respect of these notes that altered the covenants on these notes to match those on the notes issued in 2004, as described below, including the removal of the restriction on dividend payments by Mastercroft.

- In August and September 2004, EvrazSecurities S.A. issued notes in the aggregate principal amount of U.S.$300 million. The notes bear interest of 10.875% per annum payable semi-annually and mature on 3 August 2009. Mastercroft, Ferrotrade Limited, ZapSib, NTMK and NKMK jointly and severally guaranteed all amounts in respect of the notes, except that the liability of ZapSib and NTMK is subject in each case to a limit of U.S.$300 million. The covenants in these notes are generally less restrictive than those in the notes issued in 2003, and generally permit the payment of dividends by Mastercroft provided that it maintains a specified minimum consolidated net equity.

In 2003 and 2004 the most significant syndicated loan facilities Evraz obtained from international banks to finance its capital requirements included:

- On 18 December 2003, NTMK and ZapSib each entered into U.S.$50 million loan agreements with a syndicate of banks (Société Générale, Commerzbank (Eurasija), Moscow Narodny Bank, BNP Paribas, Ost-West Handelsbank AG, GarantiBank International N.V., Natexis Banques Populaires). The loans were promptly drawn down and are to be repaid in twenty-five equal monthly installments from 18 December 2004 to 18 December 2006. The proceeds of the loans are being used to finance working capital needs and investments in connection with the production and export of steel. The loans bear interest at an annual rate of LIBOR plus a margin of 3.7% per annum which may be increased by a maximum of 0.8% per annum if there is a deterioration in the company rating of Mastercroft published by Moody's Investors Service.
- In December 2004, Evraz received a U.S.$150 million syndicated loan from a group of international banks. The loan was divided into two parts: a U.S.$50 million six-year tranche ("Tranche A") and a U.S.$100 million five-year tranche ("Tranche B"). The borrowers have the option to request an extension of the Tranche B repayment period to match Tranche A's repayment profile. The loan is structured as three separate facilities in favour of NTMK ($60 million), ZapSib ($60 million) and NKMK ($30 million). Tranche A was drawn in December 2004 and Tranche B in January 2005. In April 2005, Evraz entered into an agreement to increase the amount of this loan by U.S.$50 million, structured as additional borrowings of U.S.$20 million by NTMK, U.S.$20 million by ZapSib and U.S.$10 million by NKMK. Of the additional borrowings, U.S.$28.3 million has the same maturity as Tranche A and bears interest at LIBOR plus a margin of 3.25% per annum, and U.S.$21.7 million has the same maturity as Tranche B and bears interest at LIBOR plus a margin of 2.75% per annum.

Other financing facilities historically used by Evraz include loans from Russian and international banks, trade financing facilities, and vendor financing for equipment deliveries. All decisions about financing are to be made by the Company, even though the ultimate borrowers will usually be operating subsidiaries.

Liquidity

Evraz has sufficient liquidity to support its current operations and meet its current debt obligations. As the table below illustrates, Evraz had estimated liquidity, defined as cash and cash equivalents and amounts available under unrestricted credit facilities, of approximately U.S.$561 million as of 31 December 2004. In the unlikely event that Evraz were not able to refinance any of the debt falling due in 2005, this liquidity position would be sufficient to make all debt principal repayments for this year.

Estimated Liquidity	As of 31 December 2004
	(millions of U.S. dollars)
Cash and cash equivalents[(1)]	291
Amount available under credit facilities[(2)]	270
Total estimated liquidity	**561**

Notes:

(1) Since 31 December 2004, Evraz has used or agreed to use cash in several ways other than in the ordinary course of its business. On 13 January 2005 Mastercroft declared and subsequently paid a dividend of U.S.$131 million to holders of shares in Mastercroft prior to the formation of the Company, and Evraz made payment of U.S.$124 million for a 4.17% interest in Mastercroft, and subject to the completion of corporate formalities, the Mastercroft shares are expected to be transferred to Evraz on 2 June 2005. In addition, on 17 May 2005, Evraz agreed to acquire a 10.7% interest in NTMK from an unaffiliated minority shareholder for U.S.$215 million. The Company also intends to pay an interim dividend of U.S.$200 million for the first six months of 2005 to its shareholders of record as of 31 May 2005.

(2) Total amounts available under borrowing facilities amounted to approximately U.S.$367.7 million as of 31 December 2004. Amounts in excess of the total stated in this table consisted of facilities tied to specific capital expenditures or specific other uses.

In December 2004, NTMK and ZapSib repaid most of the remaining portion of debt due to third parties in respect of settlement agreements entered into in prior periods in connection with the bankruptcies of those entities, and KGOK made a similar repayment in April 2005. Management believes that the early retirement of this debt will improve Evraz's ability to attract external financing.

Evraz's overall liquidity improved substantially over the past two years. Evraz's current ratio, defined as current assets divided by current liabilities, increased from 0.64 as of 31 December 2002 to 1.93 as of 31 December 2004. Evraz's corporate treasury monitors the financial needs of Evraz's various subsidiaries. The treasury has a variety of instruments at its disposal to ensure that each subsidiary has sufficient liquidity to meet its obligations and capital requirements.

Contractual obligations and commercial commitments

The following table sets forth the amount of Evraz's obligations in respect of loans and borrowings as of 31 December 2004 by period:

Obligations in respect of borrowings	Total	Less than 1 year	1-2 years	2-5 years	More than 5 years
	(thousands of U.S. dollars)				
Short-term loans and borrowings (including current portion of long-term borrowings)	524,696	524,696	—	—	—
Long-term loans and borrowings	799,762	—	290,209	467,002	42,551
Unamortised debt issue costs[(1)]	(11,669)	—	—	—	—
	1,312,789				

Note:

(1) Unamortised debt issue costs represent commissions and arrangement costs paid by the Company's subsidiaries in relation to the arrangement of long-term loans and the issuance of notes.

As of 31 December 2004, 2003 and 2002, Evraz had equipment with a carrying value of U.S.$95.8 million, U.S.$103.2 million and U.S.$431.7 million, respectively, pledged as collateral under loans to Evraz. In addition, Evraz had pledged finished goods with a carrying value of U.S.$336.3 million, U.S.$178.6 million and U.S.$30.2 million as of 31 December 2004, 2003 and 2002, respectively.

As of 31 December 2004, 2003 and 2002, Evraz had incurred liabilities in respect of post-employment benefits it provides to employees of certain of its subsidiaries pursuant to collective bargaining agreements of U.S.$48.2 million, U.S.$30.1 million and U.S.$19.9 million, respectively. These amounts represent the present value of Evraz's defined benefit obligation less the fair value of plan assets and adjusted for unrecognised actuarial gains and past service costs, discounted to present value. Of the total liability as at 31 December 2004, approximately U.S.$13.6 million related to NTMK, U.S.$19.1 million to ZapSib, U.S.$7.1 million to NKMK, U.S.$7.2 million to KGOK and U.S.$1.2 million to Nakhodka Sea Port.

Evraz also makes defined contributions to Russia's state pension, social insurance, medical insurance and unemployment funds at the statutory rates in force (approximately 34% as of 31 December 2004), based on gross salary payments. Evraz is only required to make these contributions as they come due, and it does not retain any legal or constructive obligation to pay future benefits. These contributions are expensed as incurred.

In addition, as at 31 December 2004 restructured taxes payable, such as social insurance taxes, road users taxes, other taxes and tax-related fines and penalties, amounted to U.S.$36.3 million, including a current portion of U.S.$13.0 million. The restructured taxes are payable in quarterly installments through 2011, with nominal amounts of U.S.$14.3 million and U.S.$15.1 million being payable in 2005 and 2006, respectively. The amount of restructured taxes payable as at 31 December 2004 does not include U.S.$101.5 million that will be forgiven so long as Evraz complies with the payment terms of the restructuring agreements and makes timely payments of its current tax obligations. Evraz believes that it has complied, and will continue to comply, with the payment terms of the restructuring agreements and will continue to make timely payments of its current tax liabilities. See Note 21 to the Consolidated Financial Statements.

Evraz has signed contracts for the purchase of production equipment and construction works. As of 31 December 2004, the amount remaining to be paid under these contracts was U.S.$385.7 million.

Future minimum lease payments were as follows as at 31 December 2004:

	Principal	Interest	Total
	(thousands of U.S. dollars)		
2005	4,688	2,828	7,516
2006–2009	21,319	5,879	27,198
2010	4,342	428	4,770
Total	30,349	9,135	39,484
Less: current portion	(4,688)	(2,828)	(7,516)
Total	**25,661**	**6,307**	**31,968**

Evraz is also involved in a number of social programmes aimed to support education, health care and development of social infrastructure in the towns in which its assets are located, and in 2005 plans to spend U.S.$20 million under these programmes.

Evraz also has committed to the government of Kemerovo Region that it will reduce future environmental pollution and contamination in accordance with an environmental protection program. In order to implement this obligation, Evraz has committed to spend approximately U.S.$54.0 million from 2005 to 2015 to replace old machinery and equipment, resulting in a reduction of emissions of pollutants.

Tax contingencies

The Russian government has initiated reforms of the tax system that have resulted in some improvement in the tax climate. Many tax laws and related regulations were introduced in 2003 and previous years which were not always clearly written, subject to varying interpretation and inconsistent enforcement. Instances of inconsistent opinions between local, regional and federal tax authorities are not unusual. Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, Evraz has accrued tax liabilities based on management's best estimates. Management estimates that the amount of potential liabilities that could arise as a result of assertions currently being made by tax authorities and that are not accrued in the accompanying financial statements could be up to approximately U.S.$25 million. The majority of these amounts relate to Russian tax liability on defaulted payments by an export customer of KGOK prior to its acquisition by Evraz. Moreover, as noted above, restructured taxes payable as at 31 December 2004 does not include U.S.$101.5 million that will be forgiven so long as Evraz complies with the payment terms of the restructuring agreement and makes timely payments of its current tax obligations. In addition, for a further discussion of tax contingencies arising out of Russia's legal, political and administrative practices, see "Risk Factors—Risks Relating to the Russian Federation—Legislative and legal Risks—Weaknesses and changes in the Russian tax system could materially adversely affect Evraz's business and the value of the GDRs" for a discussion of the tax environment in Russia and "Risk Factors—Risks Relating to the Russian Federation—Legislative and Legal Risks—Unlawful, selective or arbitrary Government action may have an adverse effect on Evraz's business and the value of the GDRs".

Inflation

While Evraz's revenues depend substantially on international prices for metallurgical products, its costs are closely linked to domestic cost factors. Inflation was moderating in Russia during the past five years and reached 11.7% in 2004, but there are signs it may be increasing again. Over the same period, however, prices for certain important raw materials, and for transportation and energy, were growing faster than the consumer price index. Nonetheless, in 2004 the overall price trends were generally positive, with steel prices growing faster than many relevant cost factors, such as railway transportation costs, natural gas prices, electricity costs and the general consumer price index. During 2004 iron ore prices increased at a slower rate than steel prices, but coking coal prices approximately in line with steel prices.

The table below presents changes in Russia's consumer price index and rouble to U.S. dollar exchange rates from 2001 through 2004.

	2001	2002	2003	2004	2000 to 2004	Source
Consumer Price Index, December to December change in RUR(1)	18.6%	15.1%	12.0%	11.7%	71%	Fedstat
Nominal RUR/U.S.$ exchange rate, December to December change(1)	(6.6%)	(5.2%)	7.9%	6.1%	1%	CBR

Note:

(1) Represents the change from 31 December of the prior period to 31 December of the indicated period.

Seasonality

Seasonal effects have a relatively limited impact on Evraz. Nonetheless, a slowing of demand and, thus, a reduction in sales volumes (and a concomitant increase in inventories) is typically evident in the first and fourth quarters of the financial year as a result of the general reduction in economic activity associated with the New Year holiday period in Russia and elsewhere. The Russian construction market in particular experiences slowdowns in the winter months, and export markets generally slow in the first and second quarters of the year.

Quantitative and Qualitative Disclosures about Market Risk

Overview

Evraz is exposed in the ordinary course of its business to risks related to changes in exchange rates, interest rates, commodity prices and energy and transportation tariffs. Evraz does not currently enter into hedging or forward contracts with respect to any of these risks, and does not currently plan to enter into such arrangements.

Exchange and Interest Rate Risk

Evraz's presentation currency is the U.S. dollar. The measurement currency of Evraz's Russian subsidiaries is the rouble, and the measurement currency of Evraz's subsidiaries located in other countries is the U.S. dollar and the euro.

The rouble is not a fully convertible currency outside the territory of the Russian Federation. Within the Russian Federation, official exchange rates are determined daily by the Central Bank of the Russian Federation (the "CBR"). Market rates may differ from the official rates but the differences are, generally, within narrow parameters monitored by the CBR. See "Exchange Rate Information".

Evraz's products are typically priced in rubles for Russian and CIS sales and in U.S. dollars for international sales, and Evraz's direct costs, including raw materials, labour and transportation costs, are largely incurred in rubles, while other costs, such as interest expense, are incurred in rubles, U.S. dollars and euros. The mix of Evraz's revenues and costs is such that appreciation in real terms of the rouble against the U.S. dollar tends to result in an increase in Evraz's costs relative to its revenues, while depreciation of the rouble against the U.S. dollar in real terms tends to result in a decrease in Evraz's costs relative to its revenues. The rouble appreciated in real terms against the U.S. dollar by 6.0% in 2002, 15.0% in 2003 and 13.6% in 2004, according to the CBR. However, in recent years the effect of the real appreciation of the rouble against the U.S. dollar has been more than offset by increased prices for Evraz's steel products, both in Russia and internationally. See "—Results of Operations for the Periods ended 31 December 2004, 2003 and 2002" and "—Inflation".

In addition, nominal depreciation of the rouble against the U.S. dollar results in a decrease in the reported U.S. dollar value of Evraz's rouble-denominated assets (and liabilities) and nominal appreciation of the rouble against the U.S. dollar results in an increase in the reported U.S. dollar value of Evraz's rouble-denominated assets (and liabilities). Moreover, nominal appreciation and depreciation of the rouble against the U.S. dollar have a similar effect when the income statements of Evraz's Russian subsidiaries are translated into U.S. dollars in connection with the preparation of Evraz's consolidated financial statements. The average exchange rate of the rouble against the U.S. dollar depreciated by 7.0% in nominal terms during 2002, but appreciated by 2.2% and 6.5% in nominal terms in 2003 and 2004, respectively, according to the CBR.

The following table summarises Evraz's outstanding interest-bearing debt, including loans and other borrowings, by currency and interest rate method:

	dollar-denominated	rouble-denominated	euro-denominated	Total
		(thousands of U.S. dollars)		
Total debt, of which	*1,102,992*	*73,458*	*156,237*	*1,332,687*
Fixed-rate debt	576,106	35,759	6,354	618,219
Variable-rate debt	526,886	37,699	149,883	714,468

The following table summarizes Evraz's currency exposure and interest rates on its outstanding debt as of 31 December 2004:

	Currency	Expected maturity as of 31 December 2004 2005	2006	2007	2008	After 2008	Total	Annual interest rate
		(thousands of U.S. dollars)						(%)
Variable-rate debt:								
Western banks—trade finance	USD	291,169	—	—	—	—	291,169	5.0%
Credit Suisse	USD	—	1,600	1,600	1,600	7,400	12,200	5.3%
BNP Paribas	USD	35,000	—	—	—	—	35,000	4.6%
Syndicated loans (ABN AMRO Bank N.V., BNP Paribas S.A. and SG)	USD	—	1,520	7,120	7,120	14,240	30,000	7.0% - 7.2%
The Russian Bank for Development	USD	1,103	1,103	1,102	—	—	3,308	6.3% - 7.4%
Commerzbank AG	USD	10,201	4,999	2,601	2,601	9,786	30,188	3.9% - 5%
Syndicated loans (Societe Generale)	USD	62,400	62,400	—	—	—	124,800	6.1%
Other banks	USD	221	—	—	—	—	221	Various
Total U.S.-dollar denominated		*400,094*	*71,622*	*12,423*	*11,321*	*31,426*	*526,886*	
Alfa-Bank	euro	1,154	1,154	1,154	1,155	—	4,617	5.6%
Sberbank	euro	811	624	—	—	—	1,435	1.5%
BNP Paribas	euro	35	—	—	—	—	35	5.0%
Bayerische Landesbank	euro	4,088	4,088	4,088	4,088	2,598	18,950	9.0%
Bayerische Landesbank	euro	7,368	14,389	13,502	13,502	20,255	69,016	3.1% - 5.4%
Gazprombank	euro	2,087	2,087	2,087	2,039	807	9,107	7.1% - 7.2%
Transcreditbank	euro	2,379	2,381	2,379	2,381	4,308	13,828	5.3% - 7.8%
Commerzbank AG	euro	—	3,175	3,175	3,175	17,462	26,987	3.2%
MDM-Bank	euro	1,477	1,477	1,477	1,477	—	5,908	8.3%
Total euro-denominated		*19,399*	*29,375*	*27,862*	*27,817*	*45,430*	*149,883*	
Bonds	rouble	36,038	—	—	—	—	36,038	14.9%
ZAO Raiffeisenbank Austria	rouble	1,661	—	—	—	—	1,661	Various
Total rouble-denominated		*37,699*	—	—	—	—	*37,699*	
Fixed-rate debt:								
Eurobond	USD	—	175,000	—	—	—	175,000	8.9%
Eurobond	USD	—	—	—	—	300,000	300,000	10.9%
Kazkommerzbank	USD	—	7,059	7,059	7,059	8,823	30,000	8.0%
Syndicated loans (ABN AMRO Bank N.V., BNP Paribas S.A. and SG)	USD	—	408	4,898	4,898	9,796	20,000	7.24%
Sberbank	USD	12,638	4,791	4,363	2,308	—	24,100	7.6% - 10.5%
Corporate Lenders	USD	27,006	—	—	—	—	27,006	2.7% - 7.7%
Total U.S.-dollar denominated		*39,644*	*187,258*	*16,320*	*14,265*	*318,619*	*576,106*	

	Currency	Expected maturity as of 31 December 2004 2005	2006	2007	2008	After 2008	Total	Annual interest rate
		(thousands of U.S. dollars)						(%)
MDM-Bank	euro	1,412	1,412	1,412	1,412	706	6,354	7.0%
Total euro-denominated		*1,412*	*1,412*	*1,412*	*1,412*	*706*	*6,354*	
Alfa-bank	rouble	19,317	—	—	—	—	19,317	13.0%
Transcreditbank	rouble	5,633	—	—	—	—	5,633	9.0%
Sberbank	rouble	4,993	—	—	—	—	4,993	8.0%
The Russian Bank for Development	rouble	541	541	540	—	—	1,622	13.0%
Vneshtorgbank	rouble	3,334	—	—	—	—	3,334	10.0% - 11.2%
Other banks	rouble	859	—	—	—	—	859	Various
Total rouble-denominated		*34,678*	*541*	*540*	—	—	*35,759*	
Total debt		**532,926**	**290,209**	**58,557**	**54,815**	**396,181**	**1,332,687**	

A hypothetical, instantaneous and simultaneous 10% appreciation of the rouble and euro against the U.S. dollar as of 31 December 2004 would have resulted in an increase of approximately U.S.$23.0 million on borrowings denominated in roubles and euro held as at 31 December 2004.

Commodity Price Risk

Evraz's revenue is exposed to the market risk of price fluctuations related to the sale of its steel products. Prices for the steel products that Evraz sells both inside and outside of Russia are generally determined by market forces. These prices may be influenced by factors such as supply and demand, production costs (including the costs of raw material inputs) and global and Russian economic growth. The prices for the mined products that Evraz sells to third parties are also affected by supply and demand and global and Russian economic growth. Adverse changes in any of these factors may reduce the revenue that Evraz receives from the sale of its steel or mined products. Evraz's costs are also exposed to fluctuations in prices for the purchase, processing and production of iron ore, coking coal, ferroalloys and other raw material inputs. Evraz's exposure to fluctuations in the price of iron ore and, as a result of the acquisition of Mine 12, coking coal, is limited by its ability to obtain these products from its own production facilities. Where Evraz obtains these products from internal sources, the effect of price fluctuations is accounted for as an intersegment transfer and eliminated on consolidation. In addition, increased prices for coking coal paid to Evraz's equity investee Raspadskaya are partially reflected as an increase in Evraz's income from affiliates.

As Evraz expands the share of raw materials that it acquires from internal sources, its exposure to commodity price risk associated with the purchase and sale of these products will decline. Evraz's ongoing process of vertical integration, including most recently its acquisitions of KGOK in May 2004 and Evraz Ruda and Mine 12 in March 2005, are important elements in Evraz's efforts to reduce its exposure to input commodity price risk.

Tariff Risk

Evraz is also exposed to uncertainty with respect to the prices of the electricity and natural gas that it consumes in producing steel and mining iron ore and coal. Prices for both electricity and natural gas are currently below market prices in western Europe and are regulated by the Government, limiting Evraz's exposure to fluctuations in the cost of these products.

Currently, the Russian electricity sector is characterised by very limited competition and regulated prices. Pricing policy is determined by the Federal Tariffs Service, a governmental agency authorised to regulate prices for the power generated by regional electricity companies, power transmission, dispatch services and interregional trade, and is influenced by regional energy commissions that are authorised to regulate prices within a specific region. Power may also be purchased from the Federal Wholesale Electricity Market ("FOREM"). Most sellers of power on the domestic market are regional generation companies, and most participants in FOREM are regional generating companies that seek to sell a power surplus to regional generating companies with supply deficits as well as industrial companies granted special access to FOREM. From October 2003, participants in FOREM may also purchase and sell limited volumes of power on the competitive sector of the wholesale market operating on test basis, in which prices for energy are formed on an "offer-demand" basis. Evraz's subsidiary MEF has been granted such access to FOREM.

In 2004, Evraz's Russian operations purchased approximately 7,903 million kWh of electricity, representing approximately 92 per cent of their needs, from local subsidiaries of UES, the government-controlled national holding company for the Russian power sector. Domestic electricity prices are regulated by the Russian government. The Government is currently in the early stages of implementing a restructuring plan for the power sector aimed at introducing competition, liberalising the wholesale electricity market and moving from regulated pricing to a market-based system by 2008. Moreover, according to the Russian Energy Strategy approved by the Government in 2003, electricity tariffs for industrial users are to reach 3.2-3.6 U.S. cents per kWh by 2006. In 2004, Evraz's average cost of electricity was 2.7 U.S. cents per kWh. Assuming a price of 3.6 U.S. cents per kWh in 2004, Evraz's Russian operations would have incurred approximately U.S.$103 million in additional costs. Further price increases for electricity may also occur in the future as the industry is restructured and controlled to a greater extent by the private sector.

Evraz's Russian operations also purchase significant amounts of natural gas, primarily for the production of electricity and heat energy at Evraz's facilities, from subsidiaries of Gazprom. Gazprom is a state-controlled company and the dominant producer and monopoly transporter of natural gas within Russia. Domestic natural gas prices are regulated by the government, and have been rising over the last few years. Evraz's average price for natural gas in 2004 was RUR1,020 per thousand cubic metres in the fourth quarter of 2004, and increased by a further 6% effective from 1 January 2005. Despite these recent price increases, natural gas prices in Russia remain significantly below western European levels, helping to provide Evraz with a cost advantage over its competitors. In May 2004, in connection with an agreement on Russia's potential accession to the WTO, Russia and the EU agreed that Russia would raise domestic gas prices to U.S.$37-42 per thousand cubic metres by 2006 and to U.S.$49-57 per thousand cubic metres by 2010. Assuming a price of U.S.$42 per thousand cubic metres in 2004, Evraz's Russian operations would have incurred approximately U.S.$19 million in additional costs.

Evraz is also exposed to fluctuations in transportation costs. Transportation costs influence Evraz's financial results directly as a component of raw material costs and the costs for transporting finished products to Nakhodka Sea Port or another designated off-take location. Though Evraz's customers in Russia for steel and mined products generally pay transportation costs from the production site to the delivery location, the prices that Evraz receives may be adversely affected by transportation costs to the extent that Evraz must reduce the prices that it can charge customers for its products in order to ensure that its products remain competitive with those of other producers, who may be located closer to customers and therefore less subject to increases in transportation costs. In recent years the Government has indexed railway tariffs in line with inflation, and Evraz expects this policy to continue for the immediate future. Therefore, Evraz does not currently expect fluctuations in railway tariffs to have a significant impact on its margins.

Critical Accounting Policies

Evraz's financial statements are prepared in accordance with International Financial Reporting Standards. Accounting policies applied in the preparation of the IFRS financial statements are described in Note 2 to the Consolidated Financial Statements. The application of certain of these policies requires management to make assumptions and judgments that can significantly affect the amounts reported in the financial statements. Management believes that the following are the critical policies where the assumptions and judgments made may significantly affect the consolidated financial statements.

Accounting for business combinations

Acquisitions of subsidiaries were accounted for under the purchase method of accounting except for acquisitions made prior to the date of transition to IFRS, which were accounted for in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards.

In acquisitions prior to the date of transition to IFRS, which for Evraz is 31 December 2001, Evraz 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 the period from 1 January 2002 to 30 March 2004, in accordance with IAS 22, Business Combinations, identifiable assets and liabilities acquired in business combinations were measured initially at the aggregate of: (i) 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 (ii) the minority's proportion of the pre-acquisition carrying amounts of the identifiable assets and liabilities of the subsidiary.

Beginning 31 March 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 accounting for business combinations under the purchase method is complicated and involves the use of significant judgment. The excess of purchase price over the fair value of Evraz's share of identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of Evraz's share of identifiable net assets of the subsidiary acquired the difference is either recorded on the balance sheet as negative goodwill (for business combinations for which the agreement date is prior to 31 March 2004) or recognised directly in the income statement (for business combinations for which the agreement date is on or after 31 March 2004).

Determining the fair values of the assets and liabilities involves the use of judgment, particularly in relation to the property, plant and equipment since the fair market value of the unique production complexes do not have fair values that are readily determinable. Different techniques may be used to determine fair values, including market prices, where available, appraisals, comparisons to transactions for similar assets and liabilities and present value of estimated future cash flows, among others. Since these estimates involve the use of significant judgment, they can change as new information becomes available. Evraz uses all available information to assess the fair value of the assets acquired through business combinations and, for major business acquisitions, typically engages an outside appraisal firm to assist in the fair value determination of the acquired long-lived assets.

Purchases of subsidiaries from entities under common control are accounted for using the uniting of interest method. The assets and liabilities of the subsidiary transferred under common control are recorded at the historical cost of the predecessor. The differences between the total book value of net assets, including the predecessor's goodwill, and the consideration paid is accounted for as an adjustment to the shareholders' equity.

Investments in associates are accounted for by 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 Evraz's share of net assets of the associate. Evraz'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. When Evraz's share of losses in an associate equals or exceeds its interest in the associate Evraz does not recognise further losses, unless Evraz is obligated to make further payments to, or on behalf of, the associate.

Interest in a joint venture is accounted for under the equity method of accounting whereby they are initially recorded at cost and adjusted thereafter for post-acquisition changes in the Company's share of net assets of the joint ventures. The income statement reflects the Company's share of the results of operations of the joint venture.

Treatment of negative goodwill

Negative goodwill arising in business combinations that occurred prior to 31 March 2004 is recognised if the cost of acquisition is less than the fair value of identifiable net assets of the acquired entities. For agreements dated on or after 31 March 2004, any excess of the net fair values of the identifiable assets, liabilities and contingent liabilities of the acquired entities over the cost of the acquisition is recognised as income immediately.

Mineral licenses and long-lived mining assets

Generally, Evraz's mining licenses and other operating permits related to the mining activity require certain actions to be taken by Evraz in the abandonment of these operations after the end of production. Evraz's estimates of future abandonment costs consider present regulatory or license requirements and are based upon management's experience of the costs and requirement of such activities. Considerable judgment is required in forecasting future abandonment costs.

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

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Generally, export revenues are recognised when goods are delivered to the port of shipment and loaded to vessels. Domestic revenues are recognised in accordance with individual contracts with the buyers, generally when title passes to the buyer at railway stations at steel plant locations.

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.

Useful lives of property, plant and equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation.

The following factors are considered in determining the useful life of an asset:

(a) the expected usage of the asset by the enterprise;

(b) the expected physical wear and tear;

(c) technical obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset; and

(d) legal or similar limits on the use of the asset, such as the expiry dates of related leases.

The estimation of the useful life of an item of property, plant and equipment is a matter of management judgment based on the experience of the enterprise with similar assets.

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and constructions	15–60 years
Machinery and equipment	4–45 years
Transport and motor vehicles	7–20 years
Other assets	3–15 years

Land is not depreciated.

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 Company 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.

Accounts receivable

Accounts receivable are recognised and carried at 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.

Significant judgment is used to estimate uncollectible amounts. In estimating uncollectible amounts such factors are considered as current overall economic conditions, industry-specific economic conditions, historical and unanticipated 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.

Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs are accounted for on a weighted average basis and include expenditures incurred in acquiring inventories and brining them to their existing locations and conditions. 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.

As a part of the estimate, inventory balances are reviewed to identify slow moving and obsolete inventories. The identification process includes historical performance of the inventory, current operational plans for the inventory, as well as industry and current specific trends.

Deferred income taxes

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, except where the deferred income tax arises from goodwill amortisation or the initial recognition 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.

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.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Post-employment benefits

In addition to defined contributions to Russian Federation state pension, social insurance, medical insurance and unemployment funds at statutory rates in force, the Company's subsidiaries provide pensions and other post-employment benefits to their employees in accordance with collective bargaining agreements. In addition, Nakhodka Sea Port operates a separately administered defined benefit pension scheme. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age, the completion of a minimum service period and the amount of the benefits 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. These gains or losses are recognised over the expected average remaining working lives of the employees participating in the plan.

Litigation, claims and assessments

Evraz is subject to various lawsuits, claims and proceedings related to matters incidental to its business. Accruals of probable cash outflows have been made based on an assessment of a combination of litigation and settlement strategies. It is possible that results of operations in any future period could be materially affected by changes in assumptions or by the effectiveness of these strategies.

Evraz records liabilities for potential tax deficiencies. These liabilities are based on management's judgment of the risk of loss. In the event that Evraz were to determine that tax-related items would not be considered deficiencies or that items previously not considered to be potential deficiencies could be considered as potential tax deficiencies (as a result of an audit, tax ruling or other positions or authority) an adjustment to the liability would be recorded through income in the period such determination was made.

Trend Information

Trading Developments

Evraz's trading environment in the first quarter of 2005 generally remained positive. Each of Evraz's steel plants experienced growth in revenue in the first quarter of 2005 as compared to the first quarter of 2004, reflecting generally stronger steel product prices in the first quarter of 2005 compared to the first quarter of 2004.

Performance at Evraz's steel plants in the first quarter of 2005 was affected by a number of factors, including positively by a significant increase in slab volumes resulting from the commissioning of additional slab production capacity at NTMK during 2004, and negatively by increased iron ore and coking coal input prices. Other cost increases resulted from increases in electricity and natural gas tariffs. As compared to the fourth quarter of 2004, in the first quarter of 2005, Zapsib and NKMK experienced a decline in profit from operations, due largely to weaker markets for their principal products, while NTMK exhibited overall growth in profit from operations. Evraz's mining operations benefited from the stronger raw material prices. Ferrotrade Limited also experienced increased revenues in the first quarter of 2005 as compared to the fourth quarter of 2004, which were offset in part by increased costs of purchasing steel from Evraz's plants and increased transportation costs.

Steel product sales were negatively affected in early 2005 by several factors, including weakness in demand for construction products largely due to seasonal effects of lower construction activity in the winter months and a relatively long winter in Russia, a weakening of export slab and billet prices as compared to the fourth quarter of 2004 and increased competiton in Russia for some of Evraz's products as a result of seasonal increases in imports from Ukraine, offset in part by generally more favourable market conditions for railway products.

Operational Outlook

Evraz's future revenues will be primarily determined by the steel price environment. However, Evraz's investment plans, which are targeted to increase operational efficiency, will enable a shift in product mix towards higher margin products as well as result in a moderate increase in output, which is likely to have a positive effect on Evraz's results of operations. For example, the premium of slab prices over billet prices has increased to nearly U.S.$170 per tonne in 2004 and early 2005, in comparison to an average of approximately U.S.$10 per tonne in recent years. Evraz expects its total steel production to increase by approximately 10% by 2007 as a result of the re-commissioning of the third blast furnace of ZapSib in May 2005, enabling the utilisation of currently excess production capacity.

Inventories were higher at the end of 2004 as a result of higher volumes of finished products and increased prices, both for raw materials and steel products. In particular, Ferrotrade had as inventory approximately 200,000 tonnes of billets for export market (as a left-over from 2003). Evraz does not expect this trend of inventory accumulation to continue in the future.

Most of Evraz's investment programme aims to increase efficiency of its production facilities and to reduce cost of production per tonne. Evraz's mining segment, including Evraz Ruda, supplies approximately 73% of iron ore requirements of the steel segment. Evraz's requirements for coking coal can be fully covered by purchases from affiliated parties, including Raspadskaya, which is accounted for under the equity method. At NTMK, investment into expansion of power-generation capacity is planned to reduce significantly NTMK's dependence on external sources of electricity by 2007. These factors are expected to help Evraz to limit the impact of increasing costs of raw materials, thereby helping to keep its production cost per tonne of steel relatively stable.

Evraz expects other domestic cost factors, such as salaries, construction materials and natural gas, to continue growing due to Russian domestic inflation.

Steel Industry Outlook

Evraz expects the Russian steel industry to continue to benefit from strong domestic and global demand for steel. In the five year period ending 31 December 2003, physical consumption of steel products in Russia increased at an average rate of 8% annually. Evraz expects consumption of steel in Russia to continue to increase, primarily driven by the engineering, construction and pipe product market sectors.

The Russian construction industry has exhibited particularly significant growth in recent years, with an annual growth rate of approximately 14% in 2003 and 10% in 2004, in excess of the overall rate of GDP growth. Ongoing reform of the Russian railroad sector is also expected to result in significant investment opportunities in this sector and lead to increased demand for steel products, particularly in light of the significant under-investment in the Russian railway system in the past and announced plans by Russian Railways to invest nearly U.S.$21 billion in its network from 2005 through 2007, including U.S.$12.5 billion on infrastructure and U.S.$4.5 billion on rolling stock. Overall, Evraz believes that it is positioned to benefit from an increased focus on Russian markets.

Global steel demand is expected to remain relatively strong in the near term. Consolidation in Western Europe and bankruptcy-related closures in North America have allowed for increasing supply-side discipline among producers, which has supported very strong steel price recovery from 2002 through 2004. The extent to which these developments can be sustained will depend on a number of factors, including primarily the sustainability of Asian demand and the extent and pace of economic recovery in Europe and the United States.

Early in 2005, high production levels combined with stagnant demand undermined steel prices in developed European and North American markets, and in the first quarter of 2005 prices for steel products declined somewhat compared to the very strong levels at the end of 2004. However, strong demand in China and other emerging markets continued to support the global steel market. With China returning to imports of flat products and reducing its long product exports, Asian regional and CIS export prices benefited accordingly.

Early in 2005, several major steel producers announced that they had concluded new iron ore supply agreements that incorporated substantial price increase. For example, Nippon Steel announced that prices on two contracts with its suppliers will increase by 71.5%. Evraz believes that global increases in iron ore prices will have only a limited short-term adverse impact on it due to its relatively high levels of vertical integration, but it may be adversely affected if prices for steel products fail to increase sufficiently to offset iron ore price increases.

SUMMARY OF CERTAIN DIFFERENCES BETWEEN IFRS AND U.S. GAAP

The financial information included in this Offering Circular is prepared and presented in accordance with IFRS. Certain differences exist between IFRS and U.S. GAAP, which might be material to the financial information herein. The matters described below summarise certain differences between IFRS and U.S. GAAP that may be material. The Company has not prepared a complete reconciliation of its consolidated financial statements and related footnote disclosures between IFRS and U.S. GAAP and has not quantified such differences. Accordingly, no assurance is provided that the following summary of differences between IFRS and U.S. GAAP is complete. Potential investors should consult their own professional advisers for an understanding of the differences between IFRS and U.S. GAAP, and how those differences might affect the financial information herein.

IFRS	U.S. GAAP
Changes in Accounting Policies	
A change in accounting policy should be applied retrospectively unless the amount of any resulting adjustment that relates to prior periods is not reasonably determinable. Any resulting adjustment should be reported as an adjustment to the opening balance of retained earnings. Comparative information should be restated unless it is impracticable to do so. When the amount of the adjustment to the opening balance of retained earnings cannot be reasonable determined, IAS 8, Net Profit or Loss for the Period, Fundamental Errors and Changes in Accounting Policies, allows prospective application.	Normally, U.S. GAAP requires changes in accounting policies to be recognised by means of a cumulative catch-up adjustment in the income statement for the current period, a method similar to IAS 8's allowed alternative treatment.
Correction of Errors	
The IAS 8 benchmark treatment requires fundamental errors to be accounted for retrospectively by adjusting the opening balance of retained earnings and restating comparative information, unless it is impracticable to do so. Fundamental errors are errors of such significance that the financial statements of one or more prior periods can no longer be considered to have been reliable at the date of their issue. The allowed alternative treatment under IAS 8 requires such changes to be accounted for by including the cumulative effect in income for the period.	Under U.S. GAAP, all errors should be accounted for as prior period adjustments.
First-time application	
When an entity applies IFRS for the first time, it must apply it as if it had always applied IFRS. However, IFRS 1, First-time Adoption of International Financial Reporting Standards, grants limited exceptions from certain requirements in specific areas where the cost of complying with them would be likely to exceed the benefits to users of financial statements.	When an entity applies U.S. GAAP for the first time, it must apply it as if it had always applied U.S. GAAP. This might involve substantive restatement of the opening balance sheet.

IFRS	U.S. GAAP
Definition of Subsidiary	
IFRS requires consolidation of all enterprises that are controlled by the parent. Control is defined as the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.	U.S. GAAP focuses on a controlling financial interest through ownership of a majority voting interests or by contract coupled with control. In addition, variable interest entities ("VIE") in which a parent does not have voting control but absorbs the majority of losses or returns must be also consolidated.
Special Purpose Entities	
IFRS requires consolidation of special purpose entity ("SPE") where the substance of the relationship indicates control.	U.S. GAAP requires consolidation of SPE, if consolidation requirements for VIE are met. Qualifying SPE is excluded from consolidation.
Minority Interests	
IAS 27, Consolidated and Separate Financial Statements, requires minority interests be presented in the consolidated balance sheet within equity, separately from the parent shareholders' equity. Minority interests in the profit or loss of the group should be separately disclosed.	FASB Concepts Statement No. 6, Elements of Financial Statements, describes minority interest as a part of equity. However, the display of the non-controlling interest is not specifically prescribed in U.S. consolidation pronouncements. Different practices have displayed the non-controlling interest (a) as a separate item between consolidated liabilities and equity, (b) as a separate item among liabilities, (c) as a separate item among equity, or (d) as part of an item such as "other liabilities" and in the income statement as a deduction (sometimes among items of other expenses and sometimes as a separate item) to arrive at net income.
Business Combinations	
All business combinations for which the agreement date is on or after 31 March 2004 shall be accounted for by applying the purchase method. Before 31 March 2004, business combinations could be in the form of either an acquisition accounted for by applying the purchase method (most common) or a uniting of interests (severely restricted).	All business combinations commenced after 30 June 2001 shall be accounted for by applying the purchase method. Before 30 June 2001, business combinations were accounted for using either the purchase method or the pooling-of-interests (similar to uniting of interests) method.
The date of acquisition is the date on which the acquirer obtains control over the net assets and operations of the acquiree.	The date of acquisition is the date on which assets are received or securities are issued.
IFRS does not have specific guidance for accounting for business combinations involving entities under common control.	U.S. GAAP provides a specific guidance for accounting of acquisitions which involve the transactions with the entities under common control.

IFRS	U.S. GAAP
IFRS requires recognition of minority interest at the minority's proportion of the fair values of the identifiable assets, liabilities and contingent liabilities for all business combinations for which the agreement date is on or after 31 March 2004. For acquisitions commenced prior to this date IFRS allowed two options for recognition of minority interests: either at the minority's proportion of the pre-acquisition carrying amounts of the identifiable assets and liabilities of the subsidiary; or at the minority's proportion of the fair values of the identifiable assets and liabilities.	U.S. GAAP allows recognition of minority interest only at the minority's proportion of the pre-acquisition carrying amounts of the identifiable assets and liabilities of the subsidiary.
Acquisitions of minority interests are not in the scope of IFRS 3, Business Combinations. Thus, under IFRS preferred accounting treatments would be either to recognise the difference between the cost of the additional interest in the subsidiary and the minority interest's share of the assets and liabilities reflected in the balance sheet at the date of acquisitions as being goodwill; or recognise such difference as being transaction between the owners, which is reflected in the statement of changes in equity.	In an acquisition of minority interest, U.S. GAAP requires application of the purchased method to the share of net assets acquired.

Negative Purchase Goodwill

IFRS	U.S. GAAP
IFRS requires recognition of negative purchase goodwill on all business combinations for which the agreement date is on or after 31 March 2004 immediately in the income statement. Previously, IAS 22 required negative goodwill to be treated in a number of different ways, depending on how it had arisen. To the extent that negative goodwill related to future losses and expenses that were identified in the acquirer's plan for the acquisition and could be measured reliably, it was recognised in the income statement in the period that those losses and expenses occurred. Negative goodwill that did not relate to losses or identified expenses was nominally allocated to the non-monetary assets acquired and was recognised in the income statement as these assets were depreciated. Any negative goodwill in excess of the fair value of the acquired non-monetary assets was recognised immediately in the income statement. Negative goodwill was presented in the balance sheet in the same category as positive goodwill under IAS 22. Effective 1 January 2005, all previously recognised and unamortized negative goodwill is written off to accumulated profits.	FAS 141 requires negative goodwill to be allocated to reduce proportionately the values assigned to all (excepting certain categories) of the acquired assets. Any remaining goodwill, once the value of the acquired assets has been reduced to zero, is recognised as an extraordinary gain in the period that the acquisition takes place. Negative goodwill is not reported in the balance sheet as a separate item, but reduces directly the carrying values of the acquired assets.

IFRS	U.S. GAAP

Hyperinflation

IFRS	U.S. GAAP
IAS 29 requires non-monetary balance sheet items and all items in the income statement to be expressed in the measuring unit current at the balance sheet date by applying a general price index. If the entity operating in the hyperinflationary economy is also a foreign subsidiary of an entity that prepares consolidated financial statements, then the restated results will be translated from the hyperinflationary currency into the group's reporting currency only after this restatement has taken place.	FAS 52 requires an entity operating in a hyperinflationary economy to translate its assets, liabilities and income statement into a stable currency as if the stable currency were the functional currency of the entity. If the entity is also a foreign subsidiary, then the parent company is able to restate the subsidiary's reported results and balance sheet directly into its own functional currency.

Decommissioning Costs

IFRS	U.S. GAAP
IAS 37 requires entities to record a liability for decommissioning costs using a discount rate that reflects the current market assessment of the time value of money at balance sheet date.	Under FAS 143, the liability is not remeasured for changes in the risk-free interest rate used to discount the provision.

Impairment of Assets

IFRS	U.S. GAAP
The IAS 36 methodology for carrying out an impairment review is a two-stage process that requires the reporting entity to consider first whether indicators of impairment are present and, if they are, to compare the asset's carrying value directly to its recoverable amount—defined as the higher of an asset's net selling price and its value in use. Under IFRS, the value in use calculation involves discounting the expected future cash flows to be generated by the asset to their net present value.	FAS 121 and FAS 144 both require a three-stage impairment review process: having determined that indicators of impairment are present, a recoverability test must be performed by comparing the estimated sum of undiscounted cash-flows attributable to the asset to its carrying amount. Only if the asset fails this recoverability test will the third stage, which involves calculating the amount of the impairment by comparing the asset's carrying value to its fair value, be carried out.

Extinguishment of Debts

IFRS	U.S. GAAP
Liabilities are remeasured (extinguished) and gain or loss is recognised when there is a significant modification of the terms. Significant modification of the terms in IFRS is when the change in present value of the old debt and the new debt exceeds 10%.	Liabilities are remeasured and gain or loss is recognised in accordance with EITF 96-16, Debtors Accounting for a Modification in Exchange of Debt Instruments, which is more restrictive than IFRS concerning when to recognise gain on extinguishment of debts (that is, when the obligation is discharged and the debtor is legally released from the liability).

Deferred Taxation

IFRS	U.S. GAAP
IAS 12 has exemption for temporary differences in respect of investments where the reporting entity has control over the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.	FAS 109 does not require a liability to be recognised for the difference between the book value and the tax basis of an investment in a foreign subsidiary or joint venture, unless it becomes apparent that this difference will reverse in the foreseeable future.
In respect of elimination of intercompany profits, for example inventory, IAS 12 requires the deferred tax provision to be made at the tax rate of the company that is holding the inventory.	FAS 109 requires the deferred tax provision to be made at the tax rate of the selling company.

IFRS	U.S. GAAP
IAS 12 requires recognition of a deferred tax asset or liability in relation to temporary differences that arise on foreign non-monetary assets that are measured at a historic exchange rate in the reporting entity's functional currency, but whose tax base is in the foreign currency.	FAS 109 prohibits recognition of a deferred tax liability or asset for differences related to assets that are translated from the local currency into the functional currency using historical exchange rates, when those differences arise either from changes in exchange rates or indexing for tax purposes.
Provisions	
IAS 37 requires the time value of money to be taken into account when making a provision.	U.S. GAAP only permits a provision to be discounted where the amount of the liability and the timing of payments are fixed or reliably determinable.
Where there is a range of possible outcomes, IAS 37 requires a provision for the expected value of the obligation to be made, weighting all possible outcomes by their associated probabilities.	Under U.S. GAAP, if any outcome within the range is more likely, then that outcome should be accrued. If no amount within the range is a better estimate than any other, then the minimum amount should be accrued.
Under IFRS, the general principles of IAS 37 should be followed for both environmental and decommissioning provisions. This means that a provision is made where there is a legal or constructive obligation to incur costs. If a provision is made for the costs of cleaning up a site after use or returning it to its original condition, then the costs provided for are included in the capitalised cost of the fixed asset.	There are specific rules under U.S. GAAP for environmental costs in SOP 96-1. There rules require a provision to be recognised when it is probable that a liability has been incurred and the amount can be reasonably estimated. The probability test will be met if litigation can be asserted, or is under way, and it is probable that the outcome of the litigation will be unfavourable.
IAS 37 permits this disclosure to be omitted if it would be severely prejudicial to the entity's position in a dispute with other parties over the contingent liability.	U.S. GAAP has no similar exemption from disclosure of a contingent liability.
Statement of Cash Flows	
IFRS permits interest paid, interest received and dividends received to be classified as part of either operating cash flows or financing/investing cash flows.	Under U.S. GAAP, interest paid, interest received and dividends received must be classified as operating activities.
Segment Reporting	
Segments under IFRS are defined as "a distinguishable component of an entity that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments".	U.S. GAAP follows a "management approach" in requiring the reportable business segments to be based on the way that management organises segments for making operating decisions and assessing performance.

IFRS	U.S. GAAP
IFRS distinguishes between business and geographical segments of an entity. Entities that use business segments as their primary reporting format must present secondary segment information based on geographical segments. Conversely, entities that use geographical segments as their primary reporting format need to present secondary segment information based on business segments.	U.S. GAAP requires disclosure of information by operating segment and by geographical segment, but disclosures for the latter may be less extensive than under IFRS.
IFRS specifically requires that the accounting policies applied in preparing the consolidated financial statements should also be applied in preparing segment information.	U.S. GAAP requires the use of internal financial reporting policies in preparing segment information, which may differ from the accounting policies used in the consolidated financial statements and may in some cases not conform to U.S. GAAP.

The following information includes extracts from publicly available information, data and statistics and has been extracted from official sources and other sources the Company believes to be reliable. The Company accepts responsibility for accurately reproducing such information, data and statistics but accepts no further responsibility in respect of such information, data and statistics. Such information, data and statistics may be approximations or use rounded numbers.

Steel Industry

Global Overview

Steel is one of the most important, multi-functional and adaptable materials in use today, and is generally considered to be a backbone of industrial development. Steel is highly versatile, as it is hot and cold formable, weldable, hard, recyclable and resistant to corrosion, water and heat. The industries in which steel is used include construction, transportation (including railway) and engineering. Steel is also used in the production of power lines, pipelines, white goods and containers.

The steel industry is affected by a combination of factors, including periods of economic growth or recession, worldwide production capacity and the existence of, and fluctuations in, steel imports and protective trade measures. Steel prices respond to supply and demand and fluctuate in response to general and industry-specific economic conditions. Global steel prices have increased significantly since the end of 2003, reflecting strong demand, particularly in China.

The steel industry operates predominantly on a regional basis as a result of the high cost of transporting steel. For example, the top five producers in each of Japan and the EU control more than 60% of their respective regional markets. However, despite the limitations associated with transportation costs, as well as the restrictive effects of protective tariffs, duties and quotas, global imports and exports have generally increased in the last decade as production has shifted towards low-cost production regions such as China and Southeast Asia.

While steel production has historically been concentrated in the EU, North America, Japan and the former Soviet Union, steel production in China and elsewhere in Asia has grown in importance over the past decade. In 2004, China was the largest single producer of steel in the world, producing approximately 272 million tonnes of crude steel, as well as the largest consumer of steel, consuming over 301 million tonnes of crude steel. World steel production in 2004 increased by 8.8% from 2003, to 1.04 billion tonnes, according to the International Iron and Steel Institute, and production in China increased by 23.2%, to 272 million tonnes, reaching 26% of global steel production. The following table sets forth crude steel production data by country or region for 1997 through 2004:

	1997	1998	1999	2000	2001	2002	2003	2004
	(million tonnes)							
China	109	115	124	127	151	182	220	272
EU(1)	160	160	155	163	158	159	161	194
Japan	105	94	94	106	103	108	111	113
United States	98	99	97	102	90	92	94	99
Russia	49	44	52	59	59	60	63	64
South Korea	43	40	41	43	44	45	46	48
Other Asia(2)	52	49	50	56	56	68	63	51
Other non-CIS Europe(3)	51	48	43	47	47	49	49	28
Other	132	128	133	145	142	141	161	165
Total	**799**	**777**	**789**	**848**	**850**	**904**	**968**	**1,035**

Source: International Iron and Steel Institute

Notes:

(1) Data for 2004 include production of 28 million tonnes in the ten states that joined the EU on 1 May 2004.

(2) Excludes production in China, Japan and South Korea.

(3) Excludes EU member states. Data for periods prior to 2004 include production in the ten states that joined the EU on 1 May 2004.

Steel consumption has historically been centered in the EU, Japan and the United States. In recent years, steel consumption in Asia, and in particular China, has increased significantly. Moreover, while production in Europe, Japan and the United States remains significant, steel producers in those regions have increasingly focused on rolling and finishing of semi-finished products. The following table sets forth estimated crude steel consumption data by country or region for 1997 through 2003.

	1997	1998	1999	2000	2001	2002	2003
				(million tonnes)			
China	115	123	136	138	170	206	258
EU	144	156	154	161	156	153	154
United States	124	135	127	133	114	118	104
Japan	86	71	71	81	75	73	77
South Korea	40	26	35	40	40	45	47
Russia	21	18	21	29	31	28	27
Other Asia(1)	98	83	90	95	96	106	105
Other non-CIS Europe(2)	40	42	36	41	40	42	46
Other	121	124	123	135	138	144	152
Total	**789**	**778**	**793**	**853**	**860**	**915**	**970**

Source: International Iron and Steel Institute

Notes:

(1) Excludes China, Japan and South Korea.

(2) Excludes EU member states.

Despite producing significant quantities of steel, China and the United States are both net importers of steel, while Japan and Russia are net exporters of steel. The major traded steel products worldwide include semi-finished products, hot and cold-rolled sheets and coils, steel tubes and fittings, galvanised sheet, wire rod and angles and sections.

The strategy and product mix of steel producers generally varies between producers in industrial countries and producers in emerging markets. Historically, commodity steel producers in industrialised countries had limited export markets due to the high cost of transporting steel relative to the low value of commodity steel grades. In the second half of the twentieth century, producers in emerging markets began to compete with steel producers in industrialised counties as they took advantage of the lower manufacturing costs in their countries to offset high transportation costs. In response, producers in Western Europe and Japan invested heavily in new technology and capacity to produce high value-added steel grades in order to differentiate their product portfolio and protect their margins by reducing their exposure to commodity steel prices. However, these similar and simultaneous investments resulted in production overcapacity and put pricing pressures on value-added segments. Recently, the growth and consolidation of both steel consumers and raw material suppliers has weakened the bargaining power of steel producers and put further pressure on their margins. Steel producers have responded with a phase of industry consolidation. In 2002, Usinor, Arbed and Aceralia in Europe merged to form Arcelor, and Kawasaki Steel and NKK in Japan merged to form JFE. In 2002 Nucor acquired the assets of Birmingham Steel and International Steel Group ("ISG") acquired the assets of Acme, LTV and Bethlehem Steel in the United States. In late 2004, Ispat International N.V. and LNM Holdings N.V., which comprised the LNM Group, merged to form Mittal Steel and in early 2005 Mittal Steel merged with ISG, forming the world's largest steel company.

Consolidation has enabled steel companies to lower their production costs and allowed for more stringent supply-side discipline, including through selective capacity closures. Despite the recent consolidation, the global steel market remains highly fragmented. In 2004 the five largest producers—Mittal Steel, including ISG (59 million tonnes); Arcelor (47 million tonnes); Nippon Steel (31 million tonnes); JFE (31 million tonnes); and POSCO (31 million tonnes)—accounted for approximately 19% of total worldwide steel production, with Mittal Steel, the largest, accounting for under 6%. The 20 largest steel producers accounted for approximately 41% of total global steel production in 2004.

The Russian Steel Industry

Following the collapse of the Soviet Union, the Russian steel industry experienced a substantial decline in production, from over 77 million tonnes in 1991 to 44 million tonnes in 1998. Since then, output has increased by nearly 45%, and in 2004 Russia produced 64 million tonnes of crude steel, or 6.2% of world production, making it the world's fourth largest producer of crude steel. Russia produced nearly

54 million tonnes of rolled products in 2004, operating at approximately 93% of installed capacity. Of this amount, approximately 29 million tonnes (or 54% of the total output of rolled steel) was exported. In 2004, semi-finished products comprised approximately 47% of the total volume of Russian steel exports. Overall, the Russian steel industry sells over 54% of its output abroad and benefits from geographical proximity to strong global markets, particularly in Asia, which is the most significant export market for Russian producers.

Russia is generally considered to be among the lowest-cost steel-producing regions, largely due to relatively low labour and energy costs. Russian steel producers tend to focus on vertical integration, which ensure that they have access to a stable supply of certain raw materials, particularly coking coal and iron ore. While the share of open-hearth furnaces in total steel production in Russia decreased from 53% in 1990 to 22% in 2004, and the share of continuous casting increased from 23% to 59% during the same period, Russian steel producers also have in many cases not yet implemented the latest production technologies. As a result, some Russian steel producers have significant potential for productivity improvements from increased capital investment.

Steel Producers

The Russian steel industry is characterized by a relatively high concentration of production, with the five largest steel companies accounting for approximately 79% of total steel production in Russia. These five companies can be divided into two groups by product type. Evraz and Mechel Steel Group produce primarily long products, and Magnitogorsk Iron and Steel Works ("MMK"), Severstal and Novolipetsk Iron & Steel Works ("NLMK") produce primarily flat products.

The following table provides information on Russian rolled steel production volumes by producer in 2004 and each producer's main product type:

Company	Output	Market share	Main product type
	(thousand tonnes)	(%)	
Evraz	11,269	21	Long
MMK	10,276	19	Flat/long
Severstal[1]	9,140	17	Flat/long
NLMK	8,567	16	Flat
Mechel Steel Group	3,418	6	Long/flat
Ural Steel	2,732	5	Flat/long
OEMK	1,952	4	Long
Other	6,368	12	—
Total	**53,722**	**100%**	

Source: Chermet

Note:

(1) Russian production only.

The following is an overview of Evraz's principal Russian competitors.

MMK. MMK produces primarily flat products, including slabs, hot- and cold-rolled coils, hot-rolled sheets and plates as well as value-added products such as galvanised steel sheets and tin plate and commodity long products, including billets, bars, wire rod and beams. MMK's production plant, which is the largest single-site integrated steel making facility in Russia, is located in Magnitogorsk, at the edge of the southern Urals in the Chelyabinsk Region. MMK has very low levels of vertical integration, with no significant affiliated sources of coking coal or iron ore. In 2004, MMK exported approximately 53% of its production, primarily to markets in Southeast Asia and the Far East, the Middle East, and western Europe. In Russia, MMK sells its products primarily in the Urals, Central Russia, and Volga regions.

Severstal. Severstal's major product lines are cold and hot rolled steel, which it principally supplies to the automotive, metal processing and oil and gas industries. Severstal has also formed Severgal, a joint-venture with Arcelor, to produce hot dip galvanised sheet for the automotive industry. Severstal's primary steel production plant is located in Cherepovets, Vologda Region. Severstal obtains significant quantities of its iron ore and coking coal requirements from affiliated entities. In 2004, Severstal exported approximately 48% of its total steel production. Its main export markets are Europe, South East Asia and Central Asia. In 2004, Severstal acquired the assets of Rouge Industries and its primary operating subsidiary, Rouge Steel, which are located in the United States, and in February 2005 Severstal announced that together with its controlling shareholder it had reached an agreement to acquire approximately 70% of Lucchini, an Italian steel producer.

NLMK. NLMK produces primarily hot-rolled and cold-rolled flat steel, galvanised steel and colour coated-steel, pipes and other products. NLMK's production facilities are located in Lipetsk in the European part of Russia, south-east of Moscow. NLMK sources significant quantities of its iron ore from affiliated entities, but very little of its coking coal requirements. In 2004, NLMK exported approximately 69% of its production. Its main export markets are South-East Asia, the EU and other European countries (including Turkey) and North America.

Mechel. Mechel produces primarily semi-finished steel products, carbon and specialty long products, carbon and stainless flat products and value-added downstream metal products including hardware, stampings and forgings. Its production facilities are located in Chelyabinsk, in the southern Urals. Mechel obtains some of its iron ore requirements from affiliated producers, as well as most of its coking coal requirements. In 2004, Mechel exported approximately 48% of its total production, primarily to customers in Europe and Asia.

Ural Steel. Ural Steel's main products include pig iron and rolled products. Its production facilities are located in Orsk, Urals, and were acquired by Ural Steel in 2003 by a tender in connection with bankruptcy proceedings of OAO NOSTA. Ural Steel and its affiliates produce significant quantities of iron ore. In 2004, Ural Steel exported approximately 48% of its total production, primarily to customers in Iran and South Korea.

Russian market

Russian steel production decreased from 1991 through 1998 as a result of the general economic decline in Russia during this period and the consequent reduced demand from the primary steel product consumers: the construction, infrastructure and engineering industries and the military sector. Consumption of rolled steel products in Russia has followed a U-shaped trend since 1990. Consumption was 65 million tonnes in 1990 and then declined steadily due to reduced consumption by heavy industry, to only 18 million tonnes in 1998. However, the devaluation of the rouble in 1998 resulted in economic growth and a sharp increase in domestic demand for steel products, and by 2004, total Russian steel consumption had increased to 27.9 million tonnes.

Despite this increase, steel consumption has remained relatively low in Russia. In 2004 Russia consumed approximately 198 kilograms per capita, down from nearly 309 kilograms in 1992, and substantially less than in such countries as Japan, which consumed 561 kilograms per capita, the United States, which consumed 404 kilograms per capita, and countries in the EU, which consumed on average 390 kilograms per capita, in 2004.

Imported steel comprised only 11% of total steel consumed in Russia during 2004, a decrease from 15% in 2003. Imports of steel into Russia have generally been restrained by trade policy measures implemented by Russian authorities as well as by the relatively high costs of transporting steel to customers in Russia. Russian trade policy has included anti-dumping measures; safeguard measures; and compensatory payments. Anti-dumping measures are determined based on a comparison of import and domestic prices; special defenses are implemented based on damages to domestic producers; and compensation payments are required where evidence of foreign subsidies can be found. Imports of Ukrainian rebar are currently subject to compensation payments in the form of a 21% duty and imports of galvanised steel from Ukraine and Kazakhstan are subject to a 24% anti-dumping duty. Investigations of anti-dumping with respect to imports of Ukrainian pipe and channels and EU nickel-containing flat products are currently ongoing.

Export market

Asia, the Middle East and the EU are the primary export destinations for Russian steel producers. China, which is the largest steel importer in the world, accounted for 8% of Russia's total steel exports in 2004. In 2004, Russian producers exported 29 million tonnes of rolled products, of which semi-finished products (including pig iron, slabs and billets) accounted for 47%, flat products for 38%, and long products for 15% The abolition of steel export duties in 2002 by the Russian government has also improved export market opportunities.

Exports of rolled and cast products gradually gained importance during the 1990s, increasing from 12 million tonnes in 1991 to 29 million tonnes in 2004. Exports of rolled products accounted for over 53% of total Russian steel production in 2004. The following table sets forth by percentage the export destinations for Russian steel products in 2004:

Region	Share of total exports
	(%)
Asia	37
Europe	30
Middle East	13
North and South America	11
CIS (other than Russia)	6
Africa	2
Other / Unknown	1
Total	100

Source: Russian State Customs Committee

Trade Restrictions

Global trade in steel products is subject to numerous protective tariffs, duties and quotas, though semi-finished products are not generally subject to such measures.

Several treaties between the Russian Federation and the European Union regulate exports of certain steel products from the Russian Federation to the European Union. Exports to the European Union are conducted on the basis of licences issued by the Russian authorities and quotas established in accordance with the treaties. In July 2002 the Ministry of Economic Development and Trade of the Russian Federation and the European Commission entered into a new treaty on the exports of Russian steel to the European Union, pursuant to which the Russian steel export quota for 2002 was increased by 28%, to 1.21 million tonnes, and by a further 2.5% as compared to the preceding year in each of 2003 and 2004, to 1.23 million tonnes and 1.38 million tonnes, respectively. As a result of the accession of ten new members to the EU in May 2004, the Russian import quota was increased by 396 thousand tonnes, to a total of 1.78 million tonnes. The Russian Ministry of Economic Development and Trade reached an agreement with the European Union in December 2004 that provides for a quota of 2.22 million tonnes of export in 2005 and 2.27 million tonnes in 2006, though the final agreement is not expected to be signed until the first half of 2005.

South Korea imposes a 15.95% tariff on imports of H-beams from Russia that is scheduled to expire in July 2005, and both South Korea and Brazil have announced that they are considering further restrictions on steel imports in order to protect domestic producers. Anti-dumping measures on imports of cold-rolled steel from Russia that China imposed in 1999 were allowed to expire in December 2004.

The United States had a quota system in place with respect to imports from Russia of pig iron, cold-rolled steel, slabs, zinc-plated sheets and some other products from Russia which expired on 12 July 2004. From March 2002 until December 2003, the United States had implemented safeguard measures in the form of tariffs on most steel imported to the United States and has retained a licencing and monitoring regime.

Exports of steel products from the Russian Federation are primarily regulated by the Law on Foreign Trade Activity and international treaties of the Russian Federation. There are several treaties with the United States, which establish minimum prices and/or quotas for certain types of steel products which are exported from the Russian Federation to the United States. These treaties also provide that the export of steel products by Russian exporters into the United States is conducted on the basis of licences issued by Russian authorities.

Overview of the Production Process

The primary components of steel production are coke production, iron making, steelmaking and steel rolling. Following is a brief summary of these processes.

Coke Production

Coke is a solid product of coal coking. Coke contains 86-90% carbon and is used as the main fuel in blast furnaces. Coke is produced by heating coking coal that has been ground and dressed without excess air at temperatures of 1,100° - 1,200° C (pyrolysis) for 16-18 hours in coke ovens. After discharge from the ovens, coke is delivered to blast furnaces for use in iron making.

Other products of the coking process include coke-oven gas and various by-products made from the coke-oven gas. Coke-oven gas is used as gaseous fuel in other shops of steel plants and, by-products are often supplied to chemical departments for further processing.

Iron Making

Prepared iron ore raw materials (sinter and pellets) and coke are used for hot metal production. Coke and natural gas serve as fuel for the blast furnaces. Coke-oven gas, together with top gas from the blast furnaces, is used as fuel for the heating of stoves. Sinter, pellets and coke are mixed and added into a blast furnace from the top using skips. Fuel combustion, reduction of iron from oxides, carbonisation of iron with partial reduction of silicon and manganese, melting of all components of burden and slag-making all occur inside a blast furnace.

Hot metal is tapped into hot metal transfer ladles and delivered to the steel making machinery to be converted into steel. Hot metal can also be delivered to a pig iron casting machine that produces pig iron for sale as a semi-finished product. Slag from blast furnaces is fed to slag processing units, where part of the slag is granulated in granulating units and the rest is processed into crushed rock and slag sand.

At many steel plants, top gas produced in the blast furnaces during the iron making process is also used as a fuel for stoves, coke ovens, boilers, rolling mills and for other purposes.

Steel Making

Steel is produced from raw materials using one of three production techniques.

Oxygen converter process. The oxygen converter process is based on the interaction of process oxygen (practically pure oxygen) with impurities in liquid hot metal. Scrap and hot metal are charged into the vessel and oxygen is then blown via a lance into the vessel, oxidising carbon and other impurities (silicon, manganese, etc.). Metallurgical lime and fluor-spar are fed into the vessel to form slag, which absorbs impurities during the steel making process. The oxygen converter process is generally the most modern and efficient means by which to produce large volumes of high-quality steel.

Electric arc furnaces. Electric arc furnaces produce steel by applying heat generated by electricity arcing between graphite electrodes and a metal bath. The main components of the electric arc furnace are a furnace shell with a tapping device and work opening and a removable roof with electrodes and a tilting device. The steps in the electric arc furnace production process consist of charging, melting, oxidising or purifying, deoxidising or refining. The charge includes scrap, iron ore, fluxes (lime, fluorspar), reducing agents (carbon) and ferroalloys. Further scrap may be added after the ignition of the electric arc and melting. Temperatures in the electric arc furnace may reach as high as 3,500° C in order to melt alloying components that are otherwise difficult to melt. During the refining stage, iron oxides contained in the slag react with the carbon of the bath, which has the effect of rinsing away impurities. The metallurgical process of the oxidisation and reduction phases can be replaced by secondary metallurgical treatment further downstream in the production process.

Open hearth process. Steel is produced in the open hearth process by melting scrap and hot metal on the hearth of a combustion reverberating furnace bath. Scrap, flux and ore are charged into the furnace prior to heating. Fuel is burned in the furnace and the heat necessary to melt the raw materials is provided by radiation from the burning fuel. Hot metal is charged and slag is formed and flushed. During melting, the oxidisation of carbon and other impurities (such as silicon and manganese) takes place. Metallurgical lime, fluor-spar and brickbats are used to form slag, which absorbs impurities during the steel making process. Open hearth furnaces are disadvantaged by relatively high operating costs due to high levels of energy consumption, high levels of pollutants and relatively low productivity. Open hearth furnaces are also less well suited for continuous casting than oxygen converters or electric arc furnaces, and as a result open hearth furnaces generally work through the less efficient ingot casting process. For a number of years, the general trend worldwide has been for open hearth furnaces to be replaced by more efficient and environmentally cleaner oxygen converters and electric arc furnaces.

Steel Rolling

Cast steel is a relatively weak mass of coarse uneven metal crystals or "grains". Rolling the steel makes this coarse grain structure re-crystallise into a much finer grain structure, giving greater toughness, shock resistance and tensile (stress) strength. Rolling is also the main method used to shape steel into different products. The rolling process consists of passing the steel between two rolls revolving at the same speed but in opposite directions. The gap between the rolls is less than the thickness of the steel being rolled, resulting in the steel being reduced in thickness and, at the same time, lengthened. In addition to hot rolling, in which the steel is rolled at a high temperature, steel may also be rolled at ambient temperatures, resulting in a different set of properties.

Mining Industry

Iron Ore

Overview

The global iron ore industry is characterized by a high degree of consolidation, with BHP Billiton, CVRD and Rio Tinto accounting for approximately 70% of the global seaborne iron ore trade. The major iron ore producing countries are Australia, Brazil and China. Several development projects in Australia, Brazil and South Africa are expected to increase global production.

Iron ore production costs have declined in recent years, largely due to productivity enhancements. Freight rates remain a major cost constraint, comprising approximately half of total costs, according to Metal Bulletin, and helping to maintain the regional segregation of the industry. Iron ore prices increased significantly during 2004, reflecting strong global demand, and according to industry analysts are expected to rise further during 2005 and to remain high for the next several years.

The following table sets forth iron ore production by country or region for 1997 through 2003.

	1997	1998	1999	2000	2001	2002	2003
	(million tonnes)						
China	269	222	237	224	217	231	261
Brazil	188	183	189	209	210	225	246
Australia	158	153	154	168	181	187	213
India	69	72	70	76	82	94	106
Russia	71	72	82	87	83	84	91
Ukraine	53	51	47	56	55	59	62
United States	63	63	58	63	46	52	48
EU	24	23	21	22	21	22	24
Other Asia(1)	3	3	3	2	2	3	2
Other non-CIS Europe(2)	7	6	6	6	6	6	5
Other	158	158	150	160	132	155	172
Total	**1,063**	**1,006**	**1,017**	**1,073**	**1,035**	**1,118**	**1,230**

Source: International Iron and Steel Institute

Notes:

(1) Excludes China and India.

(2) Excludes EU member states.

Historically, Europe, Japan and China have been the major iron ore consumption centers, but areas such as the CIS, South Korea and Thailand have recently exhibited higher growth rates as the European and Japanese markets have matured. Following an economic slowdown in 2001 and corresponding reduction in iron ore demand, markets rebounded in 2002, with China and certain CIS countries showing significant increases in demand in connection with increases in steel production in these countries.

The major exporting countries of iron ore globally include Australia, Brazil and India, and the major importers are major steel producing countries: China, Japan and South Korea.

Russian market

Total iron ore production in Russia in 2004 was approximately 93 million tonnes. Total iron ore exports were over 19 million tonnes, and total imports exceeded 10 million tonnes. Imports to Russia are generally limited by high transportation costs and the lack of port facilities in the Far East and on the Black Sea that are capable of handling large sizes of ore carrying vessels. Russian iron ore production is highly concentrated, and the three largest producers accounted for approximately 54% of total iron ore production in Russia in 2004. Russian steel producers have increasingly sought to acquire control of iron ore production assets, and attained control over nearly all of the major Russian producers of iron ore by the end of 2004. For example, during 2004, Evraz acquired control of KGOK, NLMK acquired control of Stoilensky GOK, and Ural Steel acquired control over Mikhailovsky GOK. Production of iron ore in Russia is concentrated in the Kursk region (55%), the Northwest district (18%) and the Urals district (15%). Iron ore produced in Russia is mainly magnetite, not hematite, which is common in Australia and Brazil.

Total iron ore feed consumption of Russian steel mills in 2004 consisted of concentrate (61%), pellets (33%) and sinter (6%).

Producers

The following table presents production of iron ore products by the largest Russian producers of iron ore in 2004:

Company	Concentrate	Pellets	Sinter	Other	Affiliated steel producer
		(thousand tonnes)			
Mikhailovsky GOK	7,103	8,803	—	2,158	Ural Steel
Lebedinsky GOK	9,219	8,174	—	993	Ural Steel
Stoilensky GOK	10,931	—	—	1,652	NLMK
KGOK	14	5,597	2,829	—	Evraz
Evraz Ruda(1)	7,703	—	—	—	Evraz
Karelskiy Pellet	—	7,462	—	—	Severstal
Kovdorsky GOK	5,337	—	—	—	—
Korshunovsky GOK	3,736	—	—	—	Mechel
Olkon	3,602	—	—	—	Severstal
VGOK	—	—	2,918	—	Evraz

Source: Rudprom

Note:

(1) Represents production of "Siberian Producers" as reported by Rudprom less production attributable to an entity not affiliated with Evraz Ruda.

Production process

Approximately 90% of iron ore mined in Russia is extracted by open-pit methods, and the balance from underground mines. After extraction, the ore is processed further in order to increase its iron concentration. The iron ore is then crushed to a powder-like consistency, and iron-rich particles are separated from the waste rock by magnetic separation to produce iron ore concentrate. This concentrate is then formed into pellets or sinter that is suitable for use as blast furnace feed.

Sinter production. To produce sinter, iron ore, iron ore concentrates and iron-bearing materials (blast furnace dust, screenings of sinter and pellets, scale, waste and slime), flux (limestone) and coke breeze are weighed and mixed to form sinter burden. This sinter burden is then granulated and laid in two layers in sinter machines. The sinter burden becomes sinter at temperatures of 1,070° - 1,200° C through the combustion of carbon from the coke breeze, while air is simultaneously drawn through the sinter burden by means of exhausters. After crushing, screening and cooling the sinter is ready for delivery to blast furnaces.

Pellet production. In producing iron ore pellets, concentrate is mixed with water and other additives, such as magnetite ore. The resulting slurry is dried, mixed with binding agents and baked at approximately

1,300° C. After the pellets have been screened and undersized material removed, they are prepared for use in blast furnaces.

Coal

Overview

Coal may be divided into steam (thermal) coal and coking (metallurgical) coal. Steam coal is used in electricity generation and industrial applications, while coking coal is used to manufacture coke for use in steel manufacture and other metallurgical applications. Coking coal swells when heated in coke ovens to produce hard coke, which characteristic is essential in steel making operations. Approximately 400-500 kilograms of coke is used per tonne of steel produced. Coke is supplemented by the direct injection of pulverized coal, or PCI, at rates of 100-200 kilograms per tonne of steel. PCI uses less expensive steam and semi-soft coking coal to reduce costs.

In recent years, the global coal industry has consolidated, partly as a result of oil companies and other non-mining companies exiting the sector. The top five export coal producers (Anglo-American, BHP Billiton, Drummond, Rio Tinto and Xstrata) now produce 40% of total internationally traded volumes, with the top ten producers controlling approximately 60% of the total traded coal market. As a result of this concentration, coal suppliers have gained more pricing power.

Russian Market

Russia has the world's second largest coal reserves, after the United States. Its proven coal reserves total approximately 157 billion tonnes, accounting for 16% of the world's proven coal reserves. In 2004, Russia produced 283 million tonnes of coal, of which approximately 74% was steam coal and the balance was coking coal. Approximately 70% of Russia's coking coal production capacity was owned by or affiliated with Russian steel producers in 2004.

Coal production in Russia is concentrated in the Kuznetsk Basin and the Kansko-Achinskii Basin, which are east of the Ural mountains and together accounted for approximately 68% of Russia's total coal production in 2004.

Exports of coal from Russia have increased over the past several years. In 2004, Russian companies exported approximately 79 million tonnes of coal, a 32% increase from 60 million tonnes in 2003.

Producers

The following table presents production by major Russian coal producers in 2004:

Company	Steam coal production	Steam coal share of total production	Coking coal	Coking coal share of total production	Total	Total share of production
	(thousand tonnes)	(%)	(thousand tonnes)	(%)	(thousand tonnes)	(%)
OAO SUEK	78,237	37.6%	—	—	78,237	27.7%
OAO UK Kuzbassrazrezugol	34,139	16.4%	5,222	7.0%	39,361	13.9%
OAO OUK Yuzhkuzbassugol(1)	4,081	2.0%	14,005	18.8%	18,086	6.4%
OAO UK Yuzhni Kuzbass	6,316	3.0%	9,318	12.5%	15,634	5.5%
Raspadskaya(2)(3)	—	—	9,721	13.0%	9,721	3.4%
OAO Yakutugol	3,958	1.9%	5,430	7.3%	9,388	3.3%
OAO Vorkutaugol	373	0%	7,117	9.5%	7,490	2.6%
Others	81,117	39.1%	23,741	31.8%	104,859	37.1%
Total	**208,221**	**100.0%**	**74,554**	**100.0%**	**282,775**	**100.0%**

Source: Rosinformugol

Notes:

(1) Under common control with Evraz.

(2) Accounted for in Evraz's consolidated financial statements on the equity basis.

(3) Total production at the Raspadskaya site, including from assets that are not part of Evraz's joint venture.

Production process

Approximately 64% of Russian coal is mined through open pit mining, and the balance through underground mining. At surface mines, a combination of shovels and draglines is used for moving coal and overburden after drilling and blasting. Production at underground mines in Russia is predominantly from longwall mining. After mining, depending upon the amount of impurities in the coal, the coal is processed in a wash plant, where it is crushed and beneficiated. Coking coal is then transported to steel plants for conversion to coke for use in steel-making. Steam coal is shipped to utilities that use it in boilers to generate steam used in producing electricity.

DESCRIPTION OF BUSINESS

Overview

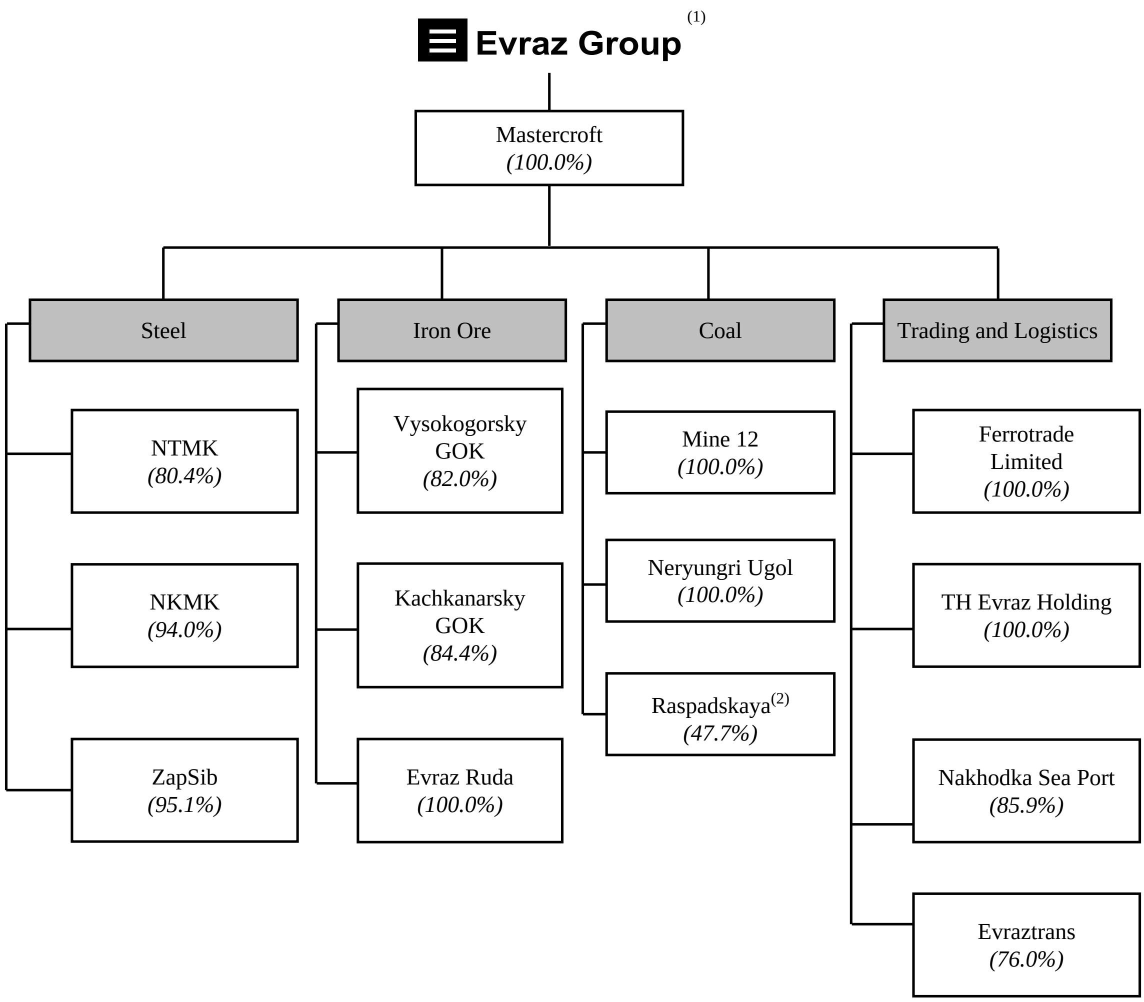
Evraz is one of the largest vertically-integrated steel and mining businesses with operations mainly in the Russian Federation. Evraz produced 13.7 million tonnes of crude steel in 2004, ranking it as the largest producer of steel and steel products in Russia, the largest Russian producer of long products and among the fifteen largest steel producers in the world. Evraz sold 13.1 million tonnes of rolled steel products and produced approximately 7.8 million tonnes of iron ore products in 2004, and Evraz Ruda, which was then under common control with Evraz and was acquired by Evraz in March 2005, produced an additional 5.4 million tonnes of iron ore products. Most of Evraz's iron ore products are used in its steel making operations. Evraz's total consolidated revenues in 2004 amounted to U.S.$5,924.6 million, compared to U.S.$2,132.6 million in 2003.

Evraz's principal assets are:

- Three steel plants: OAO Nizhny Tagil Iron and Steel Plant, which is located in Nizhny Tagil, Sverdlovsk region; OAO West Siberia Iron and Steel Plant, the largest steel plant in Siberia and the eastern-most steel plant in the Russian Federation, located near Novokuznetsk, Kemerovo region; and OAO Novokuznetsk Iron and Steel Plant, located in Novokuznetsk;
- Three iron ore mining and processing facilities: OAO Kachkanarsky Mining and Metallurgical Complex, which is located in Sverdlovsk region near NTMK; OAO Evraz Ruda, which operates mines in Kemerovo region, the Republic of Khakassia and South Krasnoyarsk Krai and which Evraz acquired in March 2005; and OAO Vysokogorsky Mining and Metallurgical Complex, which is located in Sverdlovsk region near NTMK;
- Two coal mines: OOO Mine 12, which is located in Kemerovo region near ZapSib and NKMK and produces coking coal and steam coal, and which Evraz acquired in March 2005; and OAO Neryungri Ugol, which is developing coking coal deposits in the Republic of Sakha (Yakutia) and that is expected to commence production in 2006; and
- Trading and logistics assets, including OAO Nakhodka Sea Port, one of the largest ports in the Russian Far East and through which Evraz ships most of its exports.

Evraz also holds a 47.7% interest in ZAO Raspadskaya, a coking coal mine located in Kemerovo region that is accounted for on the equity basis in the Consolidated Financial Statements. In January 2005, Evraz was announced as the winner in a privatisation tender for assets of AO Chiaturmanganum, a manganese ore producer, and AO Vartsikhe GES, a hydroelectric power plant, both of which are located in Georgia. Pursuant to an agreement entered into in May 2005 with the Government of Georgia and shareholders of Zestafoni Ferroalloy Plant, also located in Georgia, these assets are to be acquired by Evraz and Zestafoni's shareholders from the Government of Georgia and contributed into a newly established joint venture with shareholders of Zestafoni (who are contributing 70.81% of the shares in Zestafoni). Evraz is to own a 63.08% interest in the joint venture, which is expected to be created by July 2005.

The following chart presents Evraz's organisational and operational structure.



Notes:

(1) Ownership interests represent Evraz's effective interest subsequent to the acquisition of the 4.17% minority stake in Mastercroft Limited, which is expected to be completed on 2 June 2005, and purchases of an additional 0.48% of the shares of ZapSib through May 2005. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Reorganisation and Formation of the Company". The chart does not take into account the acquisition of a further 10.7% in NTMK, agreed on 17 May 2005. Following the acquisition, Evraz's effective interest in NTMK will be 91.14%. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions—Acquisitions prior to 2002—Nizhny Tagil Iron and Steel Plant".

(2) Accounted for on the equity basis.

Evraz was founded in 1992 as the limited liability company "Evroazmetall" ("EvrazMetal"). EvrazMetal was established by a group of Russian scientists and engineers led by Alexander Abramov (the "Original Group"), and specialised in marketing metal products and supplying raw materials and equipment to Russian and Ukrainian mining and metallurgical enterprises. In 1995, EvrazMetal and its affiliates expanded their operations into trading on international markets in partnership with Duferco S.A., an international metals trading company.

In the mid-1990s, major metals traders on the Russian market (including the Original Group), as part of their trading activity, financed production at the steel plants (including NTMK and ZapSib) from which they bought steel. As a result, these traders became the largest creditors of both NTMK and ZapSib. In 1997, a group of creditors and the management of NTMK agreed on a debt-to-equity swap, as a result of which the Original Group, Duferco S.A. and ZAO Interural (another metals trading company) became NTMK's major shareholders. The shares owned by Duferco S.A. and ZAO Interural were subsequently bought out by Evraz.

Evraz continued to make additional acquisitions, and by 2002 had become a conglomerate of steel and mining assets. At the end of 2002, Evraz's management initiated a multi-stage reorganisation in order to arrange all of the companies of Evraz into a structure that would improve the legal and financial transparency of the group (in particular, to create a more transparent ownership structure and to facilitate financial reporting) and to facilitate access to international financing. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Reorganisation and Formation of the Company" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions". As a result of this reorganisation, which culminated in the creation of the Company as the holding company for Evraz's assets, Evraz has adopted its present structure.

Competitive Strengths

Dominant producer of long products in Russia: As noted above, Evraz is the largest producer of steel in Russia, the largest Russian producer of long products and among the fifteen largest steel producers globally. Evraz is the leading producer in the Russian railway products sector with an estimated nearly 100% market share in rails (by volume) in 2004 (as well as an estimated 27% market share in wheels). In the Russian construction sector, Evraz estimates that it had an 86% market share in H-beams and a 48% market share in channels in 2004, all in terms of volume, giving Evraz a strong competitive position as a full-product range producer in the domestic construction steel market. These market sectors are experiencing high levels of demand growth in Russia and there is relatively limited competition from other Russian producers, which primarily focus on producing flat products.

Vertically-integrated business: As a vertically-integrated steel producer, Evraz's exposure to high and variable raw material prices is limited by its significant internal sources of raw materials. Evraz is a large iron ore producer, sourcing approximately 73% of its iron ore requirements in 2004 from its own mining segment (including full-year supplies from KGOK, which was acquired in May 2004, and supplies from Evraz Ruda, which was acquired in March 2005) and with capacity from these operations sufficient to cover 86% of its iron ore requirements in 2004. Substantially all of the mining segment's iron ore products are produced from iron ore mined by Evraz. Evraz also obtains significant quantities of coking coal from its equity investee Raspadskaya and affiliate Yuzhkuzbassugol, which together supplied approximately 69% of Evraz's total coking coal requirements in 2004 (these companies, together with the recently acquired Mine 12, in aggregate produced approximately 158% of these requirements). Evraz sells the iron ore products that it does not consume internally to third parties.

Low cost producer: Russia is the one of the lowest cost regions for steel production, enabling Evraz to benefit from some of the lowest production costs in the steel industry worldwide. Moreover, its favourably located mining operations enable Evraz to obtain a stable supply of raw materials on the basis of relatively low transport costs. In addition to these cost advantages, as the largest producer of steel in Russia Evraz benefits from economies of scale in production and negotiating power with its suppliers. In order to maintain its cost competitiveness, Evraz has made and continues to make significant capital expenditures in upgrading its facilities to increase productivity and yield.

Strong positions in high growth steel markets: Evraz has a leading market position in products with strong growth profiles in Russia, such as construction and railway products. The construction sector has grown faster than GDP in Russia in recent years, and continues to do so, resulting in significant growth in demand for steel products. Evraz also expects demand for its principal railway products (rails and wheels) to increase significantly as the Russian railroad network is upgraded following a long period of underinvestment, particularly in light of a capital expenditure programme of approximately U.S.$21 billion from 2005 through 2007 announced by Russian Railways focused primarily on upgrading and refurbishment of infrastructure and rolling stock. Evraz is also well-positioned in the growing east and southeast Asian markets for billets and slabs as a result of the location of its production facilities and its ownership of Nakhodka Sea Port on Russia's Pacific coast.

Attractive and growing mining business: Evraz has a strong asset base in iron ore, making Evraz the second largest iron ore producer in Russia, as well as an equity interest in a major coking coal producer and other coal assets. Evraz has sought to increase its sales of iron ore to third parties and expects to begin selling coking coal to third parties, as well as to reduce its dependence on outside suppliers of raw materials through both organic growth and additional acquisitions. Evraz is also among the largest producers of vanadium slag globally.

Dynamic and experienced management team: Evraz's management team has a proven track record in managing operations under its control and turning around newly acquired underperforming assets, including Evraz's major production facilities. Evraz's senior management team combines extensive industry and marketing experience with financial and management expertise, and its newly-formed board of directors includes individuals who have been involved in Evraz's business as well as three internationally experienced non-executive directors.

Strong financial performance: As an integrated low-cost steel producer that has invested substantially in modernising its operations, Evraz has benefited from the improved market environment in recent years and generated strong cash flows and returns, resulting in net cash flow from operating activities of U.S.$957 million and an Adjusted EBITDA margin of approximately 33.8% in 2004. Evraz is in a strong financial position, illustrated by its Net Debt to Adjusted EBITDA ratio of 0.51 at the end of 2004. Evraz believes that its strong cash flows, margins and financial position will help it to maintain and grow its business.

Strategy

Evraz's strategy is to enhance its position as a leading low-cost producer of long products in Russia, particularly in the construction and railway sectors, and to expand its presence in export markets for semi-finished products and in the production and sale of iron ore and coking coal. Evraz intends to pursue this strategy by enhancing its margin profile, achieving superior growth and expanding its mining platform as set out below.

Enhance Margin Profile

- **Realisation of synergies from recent acquisitions and continued capital expenditure-driven efficiency improvements in order to retain Evraz's position as one of the most cost efficient integrated steel making and mining groups worldwide.** Evraz's management believes that producing low-cost steel products is essential to ensure the competitiveness of its plants. In the short to medium term Evraz intends to realise synergies from the integration of recent acquisitions by rationalising production across its plants and making selective investments in improved production technology, such as increasing the use of continuous casting in its steel production, ongoing blast furnace refurbishments and closure of open hearth furnace production facilities. In support of these objectives, Evraz has planned U.S.$411 million in capital expenditure in respect of its steel segment in 2005 and a further U.S.$550 million from 2006 through 2010.
- **Enhance product mix to expand Evraz's position as a competitive exporter of semi-finished products.** Evraz's management believes that semi-finished products will continue to offer the best export opportunities for Evraz, as these products generally are not subject to protective trade measures. Evraz is also seeking to increase the proportion of slabs in its export mix, as it believes that slab export markets offer it strong long-term growth prospects and potentially greater margins than billet export markets. As a result, Evraz has made significant investments in expanding its continuous slab-making capacity in order to become a flexible manufacturer capable of delivering a wide range of slab sizes and specifications to customers, and it expects the share of slabs in its exports to increase through 2007. Evraz's capacity for producing slabs has recently increased following the commissioning of additional continuous casters, with total annual slab production capacity increasing from 1.2 million tonnes at the end of 2003 to 2.7 million tonnes by the end of 2004 and planned to reach 5.2 million tonnes by 2006.

Achieve Superior Growth

- **Capture domestic growth.** Evraz intends to leverage its leading position in Russia's construction sector, which, as noted above, has grown and continues to grow faster than GDP in Russia. Evraz intends to develop its own distribution network to capture incremental margin on its construction sector sales in Russia and to foster higher market share retention. In particular, Evraz intends to focus on selling higher value-added products, such as beams and channels, strengthening its position as a leading full-range supplier to the Russian construction industry. In the railway sector, Evraz intends to capitalise on its position as a dominant supplier to Russian Railways in light of Russian Railways' announced capital expenditure program, for example building on recently completed improvements to its wheel-making facilities that increased annual production capacity by approximately 40%, to 630,000 units (approximately

250,000 tonnes) annually. Evraz plans to continue making selective investments in quality upgrades and product range expansion to maintain its dominant position in railway products.

- **Developing markets outside Russia.** Evraz intends to achieve growth by capturing additional margins through focused acquisitions of re-rolling and other complementary assets outside Russia, which can be supplied by its fast growing slab production capacity. As part of this strategy, Evraz has recently entered into a non-binding memorandum of understanding to acquire Palini, a producer of steel plate products that is located in Italy and submitted a preliminary non-binding bid for Vitkovice Steel, a rolling mill that is being privatised by the government of the Czech Republic. Evraz is also considering further acquisitions of steel production assets in the CIS.

Expand Mining Platform

- **Enhance profitability and security of supply through vertical integration.** Evraz is seeking to increase its iron ore and coking coal production in order to enhance its margins on sales of steel products. To accomplish this objective, Evraz plans to intensify production from its existing iron ore and coking coal reserves through capital expenditures targeted at improving production capacity and efficiency. In addition, Evraz intends to expand its mining asset base through acquisitions of additional subsoil licences as well as through selective acquisitions of existing iron ore and coal mining assets, primarily in Russia and the CIS. In the coal sector, Evraz may seek to increase its interest in Raspadskaya and to acquire Yuzhkuzbassugol, should the opportunities arise.
- **Drive growth through increased sales of mining products to third parties.** Evraz intends to increase its sales of iron ore and coking coal to third parties in order to benefit from favourable market conditions for these products and to develop capabilities for exporting coking coal. Evraz is currently developing a greenfield mine for high quality coking coal, Neryungri Ugol, in eastern Siberia that will focus on third party sales to Asian markets and that is expected to start operations in 2006 and have an annual output of approximately three million tonnes by 2008. Evraz plans to pursue further such opportunities and acquisitions.

Steel Business

Evraz conducts its steel business primarily through NTMK, ZapSib and NKMK. In 2004, it sold 13.1 million tonnes of steel, with consolidated segment sales revenue of U.S.$5,754.8 million in 2004, an increase from U.S.$2,052.4 million in 2003.

Products

The table below shows Evraz's consolidated sales of its principal steel products in 2004, 2003 and 2002.

	Year ended 31 December					
	2004		2003		2002	
	Volume	Percentage	Volume	Percentage	Volume	Percentage
	(thousand tonnes, except percentages)					
Product						
Construction sector, of which	**3,030**	**23.1%**	**3,089**	**28.6%**	**2,637**	**27.4%**
Rebars	1,372	10.5%	1,471	13.6%	1,331	13.8%
H-beams	966	7.4%	852	7.9%	634	6.6%
Channels	434	3.3%	470	4.3%	443	4.6%
Angles	258	2.0%	296	2.7%	229	2.4%
Railway sector, of which	**1,426**	**10.9%**	**812**	**7.5%**	**669**	**6.9%**
Rails	1,048	8.0%	481	4.4%	413	4.3%
Wheels	147	1.1%	179	1.7%	169	1.8%
Other	231	1.8%	152	1.4%	87	0.9%
Mining sector, of which	**260**	**2.0%**	**259**	**2.4%**	**204**	**2.1%**
Grinding balls	201	1.5%	182	1.7%	135	1.4%
Mine uprights	59	0.4%	77	0.7%	69	0.7%
Other finished products, of which	**1,621**	**12.4%**	**1,265**	**11.7%**	**1,055**	**10.9%**
Wire rod and rounds	793	6.0%	801	7.4%	772	8.0%
Wire	192	1.5%	208	1.9%	202	2.1%
Plates	425	3.2%	116	1.1%	0	0.0%
Other	211	1.6%	140	1.3%	81	0.8%
Semi-finished products, of which	**6,776**	**51.7%**	**5,389**	**49.8%**	**5,074**	**52.6%**
Billets	3,441	26.2%	2,895	26.8%	3,205	33.3%
Slabs	1,437	11.0%	1,337	12.4%	1,130	11.7%
Pig iron	1,061	8.1%	263	2.4%	47	0.5%
Pipe blanks	670	5.1%	839	7.8%	654	6.8%
Blooms	167	1.3%	55	0.5%	38	0.4%
Total	**13,111**	**100.0%**	**10,816**	**100.0%**	**9,640**	**100.0%**

In Russia, Evraz sells the majority of its steel products to the construction, railway, mining and pipe manufacturing industries. Evraz adjusts its product mix on a monthly basis depending on the demand and profitability of particular products.

In addition to its steel products, Evraz sells various by-products produced during the steel making process, such as vanadium slag produced at NTMK, and coke. Evraz sold approximately 8,883 million tonnes of vanadium slag in 2004. Evraz sells vanadium slag primarily to TulaVanady, a Russian slag converter, as well as to customers in China.

Construction sector

Evraz's principal products for the construction sector include rebars, H-beams, channels, and angles. The Russian construction sector has exhibited growth rates in excess of Russian GDP growth since 2001.

Rebars. Evraz produced approximately 40% of the total volume of rebars produced in Russia and accounted for approximately 25% of the total sales volume of rebars in Russia in 2004. Mechel's sales of rebars in Russia in 2004 were similar to Evraz's, and Severstal and MMK together accounted for less than 15% of the total sales volume of rebars in Russia in 2004. Rebars are a commodity product, and market share depends primarily on price. Sales volumes of rebars have in recent years generally been driven by strong demand from the Russian construction sector.

H-beams. Evraz is the dominant producer of H-beams in Russia, and in 2004 accounted for approximately 86% of total sales volumes of H-beams in Russia. Approximately 60% of total sales of H-beams in Russia in 2004 by volume consisted of varieties of which NTMK is currently the only Russian producer. Evraz's main competitors for sales of H-beams in Russia are Azovstal (located in Ukraine) and MMK. Evraz's main export markets for its H-beams are China, Vietnam and the Philippines.

Channels. Evraz produces channels at NTMK and ZapSib, and accounted for approximately 48% of the total sales volume of channels in Russia in 2004. The balance is supplied by MMK, Severstal and Ukrainian producers (approximately 20%), providing the greatest competition for Evraz in the southern and northwestern and Ural regions of Russia.

Angles. Evraz produced approximately 23% of the total volume of angles produced in Russia and approximately 19% of the total volume of angles sold in Russia in 2004. Evraz, MMK, Severstal and Ukrainian producers are the major producers of angles sold in the Russian Federation.

Railway sector

Evraz's products for the railway sector include rails, wheels, rail fasteners, rough tyres, axle blanks and railcar uprights. Evraz sells railway products primarily to Russian Railways, which in 2004 accounted for approximately 7% of Evraz's total sales revenue. Evraz accounted for nearly 100% of sales of rails in Russia in 2004. Russian Railways has over 85,000 kilometres of track, 635,000 freight cars and 42,000 passenger cars, making it one of the world's largest railway system operators. In light of the significant under-investment in the Russian railway system in the past and announced plans by Russian Railways to invest nearly U.S.$21 billion in its network from 2005 through 2007, including U.S.$12.5 billion on infrastructure and U.S.$4.5 billion on rolling stock, Evraz expects significant demand for its railway-related products in the next several years. Prices for Evraz's railway products must be agreed with Russian Railways.

Rails. Evraz produces rails at NTMK and NKMK, which are the only producers of rails in Russia and currently the only suppliers to Russian Railways. Russian Railways under-invested in railway infrastructure in the 1990s and there is currently a backlog in replacement of rails. Largely as a result of this backlog (in addition to the consolidation of NKMK), Evraz's total sales of rails have increased in recent years. Russian Railways is the primary customer for Evraz's rails, accounting for approximately 51% of its total Russian and CIS sales of rails by volume in 2004 (79% of its total Russian sales of rails by volume in 2004). The remainder of Evraz's sales are to the growing industrial sector for internal transportation systems, and a small proportion are sold to urban transport authorities.

Wheels. Evraz produces railway wheels at NTMK. NTMK and Vyksunsky Metallurgical Plant (located in the Nizhny Novgorod region) are the only manufacturers of railway wheels in Russia, and in 2004 Evraz accounted for approximately 27% of wheels sold in Russia. Evraz is currently considering opportunities to export wheels to western Europe and other markets. During 2004, Evraz completed an upgrade of the wheel mill at NTMK, which will enable increased production volumes and higher-quality products. See "Production Facilities—NTMK—Investment Programme—Wheel-rolling mill".

Other. Evraz also produces other railway products, including rough tyres, railcar uprights, axle blanks and rail fasteners. Evraz accounted for over 90% of sales of sales of rail fasteners, railcar uprights, Z sections, axles and rail fasteners in Russia in 2004.

Mining sector

Evraz's major product for the mining sector is grinding balls, and it also produces mine uprights. Evraz sells grinding balls primarily to ore enrichment plants. Its major customer is Mikhailovsky GOK, which is located in the Kursk region in central Russia, as well as Norilsk Nickel and Evraz's own mining operations.

Other finished products

Wire rod and rounds. Round rolls include wire rod and other round rolls. In Russia, Evraz sells wire rod, accounting for approximately 43% of the total sales volume (excluding sales of wire rod producers to integrated hardware plants) and other round rolls, accounting for approximately 15% of the total sales volume. Exports consist almost exclusively of wire rod and in 2004 were primarily to customers in China, the Philippines and Taiwan.

Other products. Evraz sells wire almost exclusively to the Russian market, as well as small volumes of plates and other products.

Semi-finished products

Pipe blanks. Evraz sells pipe blanks to pipe manufacturers for finishing. Sales of pipe blanks have generally increased in recent years due to increased demand from Evraz's major customers for pipe blanks, largely as a result of increased demand for finished pipe in the oil and gas sector combined with a decline in the competitiveness of Evraz's principal competitors, Oskolsky Metallurgical Plant and Ural Steel, resulting from increases in transportation costs. Evraz expects that the construction and maintenance of oil and natural gas pipelines will continue to result in stable demand for pipe blanks.

Other semi-finished products. Evraz sell other semi-finished products, including billets, slabs and blooms, primarily to its export markets. The majority of Evraz's sales have historically been of billets, but Evraz's capacity for producing slabs has recently increased following the commissioning of additional continuous casters, with total annual slab production capacity increasing from 1.2 million tonnes at the end of 2003 to 2.7 million tonnes by the end of 2004 and planned to reach 5.2 million tonnes by 2006. Evraz believes that the increased emphasis on slab production provides more flexible and stronger long-term growth prospects, evidenced in part by a price premium over billets that increased significantly in 2004 in comparison to historical averages, and that increased further in the first quarter of 2005. Evraz's slab production capacity can, if warranted by market conditions, be redeployed to the production of billets. Evraz also sells pig iron, resulting from its current excess iron production capacity. In 2004, Evraz sold billets primarily to customers in Taiwan, Thailand and the Philippines; slabs primarily to customers in China, Taiwan and Thailand; and pig iron primarily to customers in China, South Korea and Taiwan. Evraz also ships small volumes of pig iron to customers in Russia.

Marketing and Distribution

Evraz generally seeks to focus its sales on the Russian market, subject to relevant market conditions. Its sales in Russia are typically of finished products, which generally provide higher margins than are available from sales of semi-finished products. Moreover, Evraz has a dominant market position in Russia in many of its primary product markets. Evraz's sales in Russia are denominated in rubles, as are most of Evraz's production costs, limiting Evraz's exposure to fluctuations in exchange rates. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Quantitative and Qualitative Disclosures about Market Risk—Exchange and Interest Rate Risk". In 2004, sales in Russia and the CIS accounted for 46% of Evraz's consolidated steel sales volume and 54% of its consolidated steel segment revenue, as compared to 49% of its consolidated sales volume and 70% of its consolidated steel segment revenue in 2003.

The following table summarises Evraz's steel segment sales in 2004, 2003 and 2002.

	Year ended 31 December					
	2004		2003		2002	
	(thousand tonnes)	(thousands of U.S. dollars)	(thousand tonnes)	(thousands of U.S. dollars)	(thousand tonnes)	(thousands of U.S. dollars)
Sales (excluding intersegment sales)						
Russian and CIS sales	6,021	3,122,158	5,308	1,446,209	4,424	945,000
Non-CIS export sales	7,090	2,632,596	5,508	606,200	5,216	567,077
Total	**13,111**	**5,754,754**	**10,816**	**2,052,409**	**9,640**	**1,512,077**
Intersegment sales	**53**	**54,287**	**3**	**7,680**	**1**	**4,142**

Russian and CIS sales

Evraz's customers in Russia are located throughout the country, with major economic centres being the most important markets. Russian Railways in Evraz's most significant customer in Russia, accounting for 17% of Evraz's total steel sales volume in Russia and the CIS and approximately 7% of Evraz's total revenue. Total sales in 2004 to customers in Moscow and the Moscow Region were approximately 772 thousand tonnes, and sales to customers in western Siberia and the Urals amounted to 668 thousand tonnes and 383 thousand tonnes, respectively. As Evraz's construction products in particular are commodity products, sales are heavily influenced by price, including transportation costs. Transportation costs for sales within Russia from the steel plant to the designated delivery point are generally paid by Evraz's customers. While Evraz has adopted a pricing strategy that seeks to account for differences in transportation costs as compared to its principal competitors, it tends to have its strongest market position in its commodity steel products closer to its steel making plants. Delivery terms for Russian sales are generally FCA (free carrier) to railway stations located adjacent to the steel plant site (in the case of NTMK and ZapSib) or nearby (in the case of NKMK, which ships from the same railway station as ZapSib).

Evraz also exports a small proportion of its production to other CIS countries. Total CIS export sales in 2004 amounted to approximately 0.4 million tonnes, unchanged from 2003.

Evraz conducts its Russian and CIS sales through its wholly-owned trading company TH Evraz Holding. Most sales of non-railway products, except pipe blanks, are made to independent regional distributors and "stockists", who sell a range of products in smaller lots to end consumers. Prior to 1 April 2005, rails and other railway products were sold on behalf of Evraz by its agent OAO Ferrotranstrade ("Ferrotranstrade"), which is under common control with the Company. From 1 April 2005, Evraz has ceased to use Ferrotranstrade as its agent, and has transferred responsibility for future sales to its subsidiary TH Evraz Holding. Russian Railways is the principal customer for Evraz's rails and most other railway products. The majority of Evraz's sales agreements require prepayment.

Railway products are sold to Russian Railways based on annual agreements that require payment on delivery. In December 2004, Evraz concluded new framework cooperation agreements with Russian Railways with respect to the supply of rails, wheels and other railway products from 2004 through 2010. Evraz committed to reconstruct its wheel rolling mill at NTMK; to reconstruct its rail mills at NTMK and NKMK to meet the requirements of Russian Railways; and to transport minimum volumes of products on the Russian railways network. Russian Railways committed to make annual purchases of rails, wheels and other railway products of specified minimum volumes; to assist NTMK in improving production technologies and quality; and to provide transportation services. According to these non-binding agreements, prices and quantities for the supply of railway products are to be specified in annual delivery contracts, with Evraz entitled to receive a price premium for technological improvements resulting in improved wheel quality.

The following table sets out Evraz's Russian and CIS consolidated sales product mix in 2004, 2003 and 2002 (by volume):

	Year ended 31 December		
	2004	2003	2002
	(share of total sales volume)		
Semi-finished products, of which	**22.4%**	**27.1%**	**25.5%**
Pipe blanks	11.1%	15.8%	14.8%
Slabs	5.5%	9.1%	7.4%
Other	5.8%	2.2%	3.3%
Finished products, of which	**77.6%**	**72.9%**	**74.5%**
Rails	16.4%	8.2%	8.8%
Rebars	15.3%	16.5%	19.2%
Beams	8.4%	8.4%	7.9%
Wire rod and rounds	7.3%	8.5%	9.0%
Channels	6.7%	8.3%	8.7%
Angles	3.9%	5.4%	4.6%
Other	19.6%	17.6%	16.3%
Total	**100.0%**	**100.0%**	**100.0%**

Export sales

Evraz exports primarily semi-finished products, as well as some finished products, mainly beams and rebars. The semi-finished products Evraz exports have not historically been subject to protective trade barriers. See "Risk Factors—Risks Relating to Evraz—Evraz faces protective trade restrictions in the export of its steel products" and "Industry Overview—Steel Industry—Trade Restrictions". In 2004, Evraz exported 54% of its total steel sales volume, an increase from 51% in 2003. Billets have historically accounted for the largest share of export sales, though the share of contribution of slabs to total exports has been increasing as a result of the installation of additional slab-casting capacity.

Evraz exports its products through its subsidiaries Ferrotrade Limited and its agent East Metals S.A. Prior to October 2003, non-CIS exports were sold by Ferrotrade & Co., an entity under common control with the Company. As a result, Evraz did not capture the entire margin on these sales, but in effect shared them with a related party. Since October 2003, these sales have been made through Ferrotrade Limited. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions" and "Related Party Transactions".

The principal non-CIS export markets for Evraz are the Far East and the Middle East. The following table sets out the distribution of Evraz's non-CIS consolidated export sales volume by country in 2004, 2003 and 2002:

	Year ended 31 December		
	2004	**2003(1)**	**2002(1)**
	(share of total sales volume)		
Taiwan	29%	15%	11%
Thailand	16%	9%	7%
South Korea	10%	8%	4%
China	8%	17%	11%
Philippines	8%	9%	6%
Iran	8%	7%	2%
Vietnam	7%	6%	10%
Hong Kong	5%	7%	6%
Other and unspecified	8%	22%	43%
Total	**100.0%**	**100.0%**	**100.0%**

Note:

(1) Based on records of Ferrotrade & Co., which acted as Evraz's export sales agent prior to October 2003.

Evraz has relationships with more than 200 customers in 20 countries. Evraz's three largest purchasers, Vanomet (Sahaviriya), Investal and Yieh Loong, accounted for approximately 5%, 3% and 3%, respectively, of Evraz's total revenues in 2004. Sales of semi-finished steel products are made primarily on spot markets.

The following table sets out Evraz's consolidated non-CIS export sales product mix in 2004, 2003 and 2002 (by volume):

	Year ended 31 December		
	2004	**2003**	**2002**
	(share of total sales volume)		
Semi-finished products, of which	**76.5%**	**71.7%**	**75.7%**
Billets	48.4%	52.4%	60.1%
Slabs	15.6%	15.5%	15.4%
Pig iron	12.5%	3.8%	0.2%
Finished products, of which	**23.5%**	**28.3%**	**24.3%**
H-beams	6.5%	7.4%	5.5%
Rebars	6.4%	10.9%	9.2%
Wire rod and rounds	5.0%	6.4%	7.2%
Plates	3.6%	1.4%	—
Other	2.0%	2.2%	2.4%
Total	**100.0%**	**100.0%**	**100.0%**

Distribution

Evraz's customers in Russia are generally responsible for transportation costs, while for export sales Evraz is responsible for transportation costs from the designated off-take location (Smychka with respect to NTMK and Novokuznetsk Severniy with respect to ZapSib and NKMK) to the relevant port or transport transfer location.

Russia. Within Russia, Evraz ships its products, including sales both to Russian and export customers, primarily by Russian Railways. Tariffs charged by Russian Railways vary based on distance and other factors, and discounts of up to 40% are available when Evraz provides its own railcars, for example in transporting products from its steel plants to the relevant port or transport transfer location. Evraz's transportation subsidiary Evraztrans provides substantially all of Evraz's transportation services including supplies of raw materials, intragroup transfers and shipments to Nakhodka Sea Port or other export transport transfer locations, Evraztrans owns or leases over 2,000 railcars and rents additional railcars, enabling Evraz to benefit from reduced tariffs when transporting its products by Russian Railways, and in 2004, Evraz made use of such railcars in respect of over 40% of its total volume of rail shipments.

Export. Evraz ships a significant proportion of its export sales through its Nakhodka Sea Port, one of the largest ports in the Russian Far East, and which has an annual capacity of approximately 10 million tonnes. Approximately 59% of Evraz's export volumes were shipped through Nakhodka Sea Port in 2004, an increase from 51% in 2003 and 34% in 2002. Evraz also ships some of its exports through Vladivostok (approximately 24% of total export volumes in 2004) and other Russian ports (primarily Astrakhan and Novorossiysk, which accounted for approximately 6% and 4% of Evraz's total export volumes in 2004, respectively), and ships some exports to end customers directly by rail. During 2004, Evraz purchased four vessels with a total deadweight capacity of 95,000 tonnes, which cover approximately 25% of Evraz's total shipping requirements and which it uses to transport its products from Nakhodka to end customers. The acquisition of these vessels reduced Evraz's exposure to price and capacity fluctuations in the global shipping market.

Market share and competition

Both the Russian and international steel markets are highly competitive. Primary competitive factors include quality and price and the use of new technologies to expand the product range.

The Russian domestic steel market is characterised by high levels of competition for customers, raw materials and capital. While the Russian domestic market for flat products is dominated by MMK, Severstal and NLMK, Evraz maintains the leading position in the Russian market for long products. Its principal competitors in this market are Mechel and Ural Steel. Evraz also faces competition from some Ukrainian steel producers whose product range is similar to that of Evraz. The generally comparable production costs of these Ukrainian companies is offset by higher transportation costs (except to western Russian regions) and the effect of the trade protections established in the Russian Federation that limit imports of certain steel products to Russia. See "Industry Overview—Steel Industry—The Russian Steel Industry—Russian market" and "Industry Overview—Steel Industry—Trade Restrictions".

In its export markets, Evraz's major competitors are low-cost producers of semi-finished products located in Ukraine and Brazil.

Raw Materials

The principal materials used by Evraz in steel production include coking coal, iron ore sinter and pellets, scrap, ferroalloys and refractory materials. As part of its strategy of increasing vertical integration, Evraz has sought to increase the share of these inputs that are obtained from other members of its consolidated group or from affiliates. Concluding such arrangements helps to ensure reliability of supply and helps to provide more stable pricing, and in the case of purchases from other members of its consolidated group also enables Evraz to capture internally the margin on its supplies of these raw materials.

Coking coal and coke

Evraz obtains coking coal primarily from Raspadskaya, in which it holds an equity interest, and Yuzhkuzbassugol, which is controlled by an affiliate of Evraz. See "Related Party transactions". Evraz obtained approximately 69% of its coking coal requirements from Raspadskaya and Yuzhkuzbassugol in 2004. Together with Mine 12, which Evraz acquired in March 2005, production at these sites was sufficient to cover 158% of Evraz's 2004 coking coal requirements. Evraz has purchased selected coal grades from parties other than Yuzhkuzbassugol, Raspadskaya and Mine 12 in order to maximise economic and operational efficiency. See "Mining Business—Production Facilities—Coking Coal".

Coke is the largest cost item in the blast furnace production process. Evraz produces its entire requirements of coke at its steel plants, and also sells some coke to third parties.

Iron ore

Evraz's principal sources of sinter and pellets are its subsidiaries KGOK, VGOK and Evraz Ruda, as well as Mikhailovsky GOK. Including full-year production of KGOK, which was acquired in May 2004, and of Evraz Ruda, which was acquired in March 2005, Evraz's iron ore production in 2004 was sufficient to cover approximately 86% of its total iron ore requirements. ZapSib also operates a sinter plant on site. As it has acquired control over additional iron ore assets, Evraz has sought to increase the share of these operations in its total iron ore consumption. Evraz's steel making facilities consumed a total of 6.9 million tonnes of concentrate, 4.8 million tonnes of pellets and 7.7 million tonnes of sinter in 2004, of which approximately 73% was supplied by KGOK, VGOK and Evraz Ruda. See "Mining Business—Production Facilities—Iron Ore".

The table below sets out the main suppliers of iron ore for Evraz's steel making operations in 2004, 2003 and 2002.

	2004		**2003(1)**		**2002**	
	(thousand tonnes)	**(share)**	**(thousand tonnes)**	**(share)**	**(thousand tonnes)**	**(share)**
Internal Supply:						
Kachkanarsky GOK(2)	6,001	30.9%	5,826	34.7%	5,593	35.9%
Evraz Ruda(3)	5,682	29.2%	2,762	16.4%	2,238	14.4%
Vysokogorsky GOK(4)	2,415	12.4%	2,134	12.7%	1,723	11.1%
External Supply:						
Mikhailovsky GOK	2,481	12.8%	4,543	27.0%	3,630	23.3%
Korshunovsky GOK	1,212	6.2%	127	0.8%	731	4.7%
Kovdorsky GOK	652	3.4%	1,184	7.0%	773	5.0%
Others	999	5.1%	223	1.3%	886	5.7%
Total	**19,442**	**100.0%**	**16,800**	**100.0%**	**15,574**	**100.0%**

Notes:

(1) Consumption for NKMK is included from the date of its consolidation into Evraz's consolidated financial statements in October 2003.

(2) Consolidated into Evraz's consolidated financial statements from May 2004.

(3) Acquired in March 2005.

(4) Consolidated into Evraz's consolidated financial statements from October 2002.

Ferroalloys

Evraz's main suppliers of ferroalloys are Chelyabinsk Electrometallurgical Plant, Promspetskomplekt, Kosogorsky MZ and Ural-Siberian GMK.

Scrap

Evraz purchases scrap from a number of third parties and obtains it internally from waste created by its blooming plants and rolling mills. The share of outside purchases of scrap is expected to increase as a result of the closure of blooming mills as Evraz shifts its production from ingot casting to continuous casting, which results in lower volumes of waste steel.

Refractory materials

Evraz produces some refractory materials at NTMK, and purchases the remainder of its requirements from outside suppliers. Evraz's major suppliers of refractory materials are Spetsoborudovaniye i Materialy (located in Germany), as well as the Russian producers Magnesit, Pervouralsky Dinasovy Zavod and OAO Ogneupory.

Energy

The steelmaking process requires significant amounts of electricity and heat energy. Energy related expenses amounted to approximately 8.1% of Evraz's total costs of producing steel in 2004, of which 4.8% relates to electricity, 2.5% to natural gas and the remainder to heat and steam power. See "Risk Factors—Risks Relating to Evraz—Increasing tariffs and restructuring in the Russian energy sector could adversely affect Evraz's business".

Electricity. Evraz obtains electricity from regional generation subsidiaries of UES and from internal sources. In 2003 and 2004, Evraz obtained approximately 8% of its total electricity requirements from internal sources, and it plans to increase this amount. The average cost of electricity purchased from subsidiaries of UES in 2004 was RUR7.57 (approximately 2.7 U.S. cents) per KWh, and Evraz believes that the total cost of internally generated electricity is less than the cost of electricity it purchases from external sources. In 2004, NTMK produced approximately 32% of its electricity requirements. ZapSib and NKMK do not currently produce significant quantities of electricity. Evraz is currently engaged in a project to increase its generation capacity at NTMK from 10% of NTMK's total electricity needs in 2001 to 60% by 2007 to mitigate the effects of increasing costs of externally generated electricity by utilising waste gases from coke production and blast furnace production and waste steam as energy resources. Evraz may also seek to participate in privatisations of generating assets resulting from the proposed restructuring of the Russian electricity sector. See "Production Facilities—NTMK—Investment programme—Electricity generation".

Natural gas. Evraz purchases the natural gas consumed by its blast furnaces and used in generating heat and electricity from subsidiaries of Gazprom. Average natural gas tariffs have increased significantly in recent years, for example on average in Russia by 20% in 2004 as compared to 2003 and by approximately 65% from 1 February 2002 to 1 January 2004 in nominal rouble terms. Evraz's average natural gas tariffs increased by a further 6% from 1 January 2005.

Transportation

Transportation costs influence Evraz's operations indirectly, as a component of raw material costs, as well as by affecting the prices Evraz can charge customers for its products and the competitiveness of the products with those of other producers. Costs associated with the transportation of raw materials have increased in recent years.

The main provider of rail transportation services to Evraz for factory-bound shipments is Russian Railways. The steel plants also operate their own transportation facilities for transportation over short distances, such as between stages of the production process and shipments of new materials and products to and from railway stations.

Tariffs for rail shipments are set by Russian Railways and are regulated by Russian Railways and the Federal Tariffs Service. A discounted tariff applies where a customer utilises its own railcars to transport materials on Russian Railways' infrastructure. In order to benefit from those discounts Evraz owns or leases over 2,000 railcars, and rents additional railcars. In 2004, Evraz made use of such owned, leased or rented railcars in respect of over 40% of the total volume of rail shipments by Evraztrans, which provided substantially all of Evraz's rail transportation services (including supplies of raw materials, intragroup transfers and shipments to Nakhodka Sea Port or other transport transfer locations).

Production Facilities

Evraz produces steel at NTMK, ZapSib and NKMK. The following table sets forth the raw steel production capacity and utilisation at each of these plants in 2004, 2003 and 2002:

	Annual design capacity	Production		
		2004	2003	2002
		(thousand tonnes)		
NTMK, *of which*	5,500	5,482	5,467	5,291
Oxygen converters	3,500	3,373	3,450	3,304
Open hearth	2,000	2,109	2,018	1,987
ZapSib, *of which*	8,080	5,604	5,931	5,716
Oxygen converters	8,000	5,557	5,883	5,669
Electric arc furnaces	80	47	48	47
NKMK[(1)], *of which*	2,960	2,603	2,460	2,420
Electric arc furnaces	1,430	1,246	1,118	888
Open hearth	1,580	1,357	1,342	1,532
Total	**16,540**	**13,689**	**13,859**	**13,427**

Note:

(1) Consolidated into Evraz's consolidated financial statements from October 2003.

NTMK

NTMK is located in Nizhny Tagil, Sverdlovsk region, approximately 140 kilometres north of Ekaterinburg and approximately 1,100 kilometres north-east of Moscow. Nizhny Tagil is one of the oldest mining and steel production centres in Russia. NTMK currently occupies an area of approximately 1,490 hectares, most of which it owns. Shares in NTMK are traded on the Russian Trading System ("RTS"), a major Russian stock exchange.

History

Production at NTMK started in 1940, after ten years of construction. During World War II, the plant's major product was armour plate, and approximately one-third of Soviet combat tanks were armoured with steel manufactured at NTMK. After World War II, NTMK developed by improving its overall production and implementing new technologies. NTMK was privatised and transformed into an open joint stock company under Russian law in 1992.

In 1999, prior to Evraz's acquisition of a controlling interest by NTMK, due to poor market conditions and inefficient management NTMK failed to make payments on some of its debt and trade obligations and bankruptcy proceedings were instituted against NTMK. In November 1999, NTMK and its creditors concluded a settlement agreement, which was approved by a court on 9 December 1999, ending the bankruptcy proceedings and rescheduling NTMK's payments of debt and trade payables and its tax arrears and social contributions. Evraz acquired control over NTMK after the conclusion of this settlement agreement. In December 2004, the board of directors of NTMK resolved to pre-pay the full nominal amount remaining under the settlement agreement by the end of 2004. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Liquidity".

Facilities

NTMK is an integrated steel production plant. It consists of coke-chemical production facilities, six blast furnaces, steel making facilities (oxygen converters as well as open hearth furnaces), four continuous casters and six rolling mills.

Coke production. The coke-chemical production currently consists of two coking plants, which currently operate six coking batteries producing both wet and dry quenched coke. In 2004, NTMK produced 3,033 thousand tonnes of coke, as compared to 2,920 thousand tonnes in 2003 and 2,870 thousand tonnes in 2002. NTMK also operates by-products production facilities, including a chemical plant, coke pitch plant and pitch distillation and rectification plant, the products of which it sells primarily to third parties.

Iron production. NTMK operates six blast furnaces. One of the blast furnaces was reconstructed in order to improve its efficiency in processing high vanadium content iron ore (such as that produced at KGOK) and re-commissioned in August 2004, and a second blast furnace is currently undergoing a similar reconstruction. The annual capacity of each blast furnace ranges from 750 to 1,620 thousand tonnes, for an aggregate capacity of 6,380 thousand tonnes. The aggregate production of the blast furnaces was 4,782 thousand tonnes in 2004, a slight decrease from 4,804 thousand tonnes in 2003.

NTMK produces both steel making iron and natural alloy vanadic crude iron. The unique vanadium ferrous ore from KGOK results in the natural ferro-alloying of steel, which enables NTMK to produce steel and finished products with improved characteristics for operation in low temperatures. Vanadium slag produced as a by-product of the iron production process is sold primarily to TulaVanady and to customers in China. NTMK also operates two pig iron casting machines for casting hot metal into pig iron for sale as foundry iron. Blast furnace slag is granulated and then sold to cement plants.

Steel production. The steel production shop comprises both an oxygen converter plant and an open hearth plant. The design of the oxygen converter facilities is outdated, and it is intended to upgrade these facilities. The proposed upgrade would allow NTMK to increase the steel-making capacity of its oxygen converters by approximately 44% See "—Investment Programme—Steel production". The open hearth furnaces currently in operation were initially commissioned at NTMK in 1950, and five furnaces remain operational. Since 1993 the open hearth furnaces at NTMK have gradually been replaced by the oxygen converter process, which is more cost efficient and environmentally cleaner.

Continuous casting. NTMK operates four continuous casting machines in the converter shop with an aggregate annual production capacity of 3.1 million tonnes. The first continuous casting machine was installed in 1995 and produces round billets for rolling railway wheels and tyres, as well as rectangular cross section billets for rolling rails, H-beams and pipes. A second continuous casting machine, commissioned in 1996, produces both slabs and large blooms, though it is primarily used to produce small slabs. A third continuous casting machine, commissioned in 2000, produces five types of shaped billets for rolling H-beams, channels and sheet piles. A fourth continuous casting machine was commissioned in August 2004 and produces slabs.

Blooming plant. NTMK also operates a blooming plant, which after the commissioning of the fourth continuous caster in August 2004 is supplied only from the open hearth furnaces.. In 2004, NTMK produced 2,016 thousand tonnes of slabs and billets in its blooming plant, as compared to 2,027 thousand tonnes in 2003. Evraz plans to close the blooming plant when the open hearth furnaces are shut down. See "—Investment programme—Steel production".

Rolling mills. NTMK operates seven primary rolling mills (an universal beam mill, a heavy section mill, a rail and structural mill, two ball-rolling mills, a wheel-rolling mill and a tyre mill). The design of these mills allows for a flexible product mix. NTMK upgraded its wheel rolling mill during 2004. See "—Investment programme—Wheel-rolling mill".

Production

In 2004, NTMK produced 4,782 thousand tonnes of pig iron, compared to 4,804 thousand tonnes in 2003 and 4,701 tonnes in 2002; 5,482 thousand tonnes of steel, compared to 5,467 thousand tonnes in 2003 and 5,291 thousand tonnes in 2002; and 4,903 thousand tonnes of rolled products, compared to 4,782 thousand tonnes in 2003 and 4,663 thousand tonnes in 2002. NTMK's primary products are railway products (rails and wheels), construction products and pipe blanks, as well as semi-finished products.

The table below shows NTMK's capacity utilisation. Currently, through a more effective use of production facilities, the production of steel exceeds design capacity. Commissioning of the fourth continuous casting machine in August 2004 and planned improvements to the oxygen converter plant will enable further increases in production, to be partially offset by the potential closure of the open hearth furnaces.

The following table sets out capacity utilisation at NTMK in 2004, 2003 and 2002:

	2004	2003	2002
		(%)	
Iron, total	96.6	97.0	94.9
Steel, total	99.7	105.1	101.7
—Oxygen converter plant	96.4	107.8	103.2
—Open hearth plant	105.4	100.9	99.4
Blooming plant	94.8	95.7	95.7
Universal beam mill	88.9	102.0	95.9
Heavy section mill	75.0	78.0	81.6
Rail and structural mill	77.3	83.1	82.4
Ball-rolling mill	80.2	90.4	76.0
Tyre mill	40.8	36.5	34.3
Wheel-rolling mill	79.0	93.7	90.3

Investment programme

NTMK's investment programme involves the reconstruction and modernisation of various elements of the production process. The programme aims to maintain and increase the production capacity of the steel plant, reduce costs, improve production efficiency and enable the manufacture of a broader range of rolled steel products. Evraz has planned capital expenditures at NTMK of U.S.$199 million in 2005, and U.S.$398 million from 2006 through 2008. The principal components of NTMK's investment programme are set forth below.

Coke ovens. NTMK's long-term capital repair programme provides for the reconstruction of its coke oven batteries in order to increase their useful life, their production efficiency and the output of coke and to reduce atmospheric emissions. Capital expenditure of U.S.$39 million from 2002 through 2006 is planned for this project.

Iron production. In August 2004, NTMK completed the reconstruction of one of its blast furnaces, for total capital expenditure of U.S.$82 million, and it is reconstructuring an additional blast furnace for additional capital expenditure of U.S.$148 million from 2004 through 2006. Following the completion of this second reconstruction, Evraz plans to determine whether to reconstruct a third blast furnace. The reconstruction of the blast furnaces reduces their coke consumption, modifies their operations to enable more efficient processing of high vanadium iron ore, such as that produced at KGOK, decreases environmental emissions and results in further improvements in labour, electricity and maintenance costs. After completion of the project, it is currently planned to shut down three of the remaining blast furnaces, though total iron output will be maintained at a level sufficient to meet the requirements of the steel making facilities and may increase due to the improved efficiency of the remaining blast furnaces.

Steel production. Evraz plans to improve the oxygen converters to increase their annual steel output to over five million tonnes. The oxygen converter vessel shells are close to the end of their working lives and will be replaced in sequence with modern shells of a larger size. Evraz plans to make capital expenditure of U.S.$352 million from 2004 through 2008 on this project, resulting in increased production capacity, decreased emissions and reduced production costs. The majority of the work will involve the replacement of the converter hoods and fume scrubbing system, which currently limits output, as well as the reconstruction of two continuous casting machines. Following the completion of this project, NTMK plans to shut down the open hearth plant and blooming mill.

During 2004, NTMK completed the construction of an additional continuous slab caster and ladle furnace for total capital expenditure of U.S.$100 million, enabling the termination of ingot casting in the oxygen converter shop, decreasing production costs, including product yields and improving steel quality.

Wheel-rolling mill. During 2004, NTMK completed the modernisation of its wheel-rolling mill in order to improve the quality of railway wheel production, increase its wheel output by approximately 40%, to 630,000 items (approximately 250,000 tonnes) annually, and enable the production of additional varieties of and higher quality wheels. Capital expenditure of this project totaled U.S.$57 million, and involved installing two new presses and a new quality control line (the previous mills were built in 1938 and still operated much of the original equipment).

Electricity generation. NTMK currently meets approximately 32% of its electricity requirements from in-plant facilities. In order to mitigate the risks associated with predicted increases in electricity tariffs, NTMK intends to increase its internal electricity generation capacity to 60% of its total requirements by 2007. As part of this project, technology will be introduced to utilise waste gases from coke production and blast furnace production and waste steam as energy resources.

Quality control

NTMK products for sale on the Russian market as well as for export adhere to strict specifications and standards. NTMK's rolling mills and refractory manufacturing facility are certified under DIN EN ISO 9001:2000. NTMK's products have received various certifications, both Russian and foreign, including certification of continuous casting slabs by Lloyd's Register.

ZapSib

ZapSib is the largest steel mill in the Siberian region and the eastern-most steel mill in the Russian Federation. It occupies an area of over 3,000 hectares and is located 25 kilometres from the city of Novokuznetsk, in the Kemerovo Region. Shares in ZapSib are traded on the RTS.

History

Construction of the plant began in 1957, and production commenced in 1964. The first rolled products at ZapSib were manufactured in 1965; the converter shop (the first in the Soviet Union) was commissioned in 1968; and the blooming shop and continuous billet mill became operational in 1969 and 1970, respectively. During the 1970s, ZapSib's production facilities were further extended by the commissioning of a new blast furnace, coke-oven battery, oxygen converter facilities shop and a wire-drawing shop for the metalware division. ZapSib was privatised and transformed into an open joint stock company under Russian law in 1992.

In 1996, prior to its acquisition by Evraz, due to poor financial management ZapSib failed to make principal payments on some of its debt obligations and bankruptcy proceedings were instituted against

ZapSib. In November 2001, ZapSib and its creditors concluded a settlement agreement that rescheduled through 2006 ZapSib's trade debt payables and its tax, pension and social fund liabilities through 2006. In December 2004, ZapSib prepaid most of the amounts outstanding under the settlement agreement and rescheduled the remaining amount outstanding from 2006 through 2009. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources".

Facilities

ZapSib is an integrated steel plant. It consists of coke-chemical production, sinter production, three blast furnaces, steel making facilities, a blooming plant, a continuous casting machine and four rolling mills.

Coke production. ZapSib operates seven coke oven batteries, five of which are currently operational. In 2004 ZapSib produced 3,383 thousand tonnes of coke, as compared to 3,410 thousand tonnes in 2003 and 3,323 thousand tonnes in 2002. ZapSib also operates coke by-products production facilities.

Iron production. To produce steel, ZapSib uses liquid blast-furnace crude iron produced at its three blast furnaces. One of these blast furnaces was recently reconstructed and recommissioned in May 2005. The re-commissioning of the blast furnace will enable full utilisation of existing steel making capacity. ZapSib also operates a three strand sinter plant.

Steel production. ZapSib produces steel in two oxygen converter plants as well as a small electric arc furnace.

Continuous casting machines. ZapSib formerly operated one eight-strand continuous casting machine which produced steel products which had a limited demand (e.g., large diameter rounds) on the market, but which was subsequently modified to produce square billets. In 2004, 1,143 thousand tonnes of billets were cast, as compared to 1,023 thousand tonnes in 2003. ZapSib plans to commission an additional continuous caster during 2005 and 2006, enabling the termination of ingot casting and the shut-down of the blooming mill. See "—Investment programme—Steel production".

Blooming plant. ZapSib operates a blooming plant with a capacity of 6,480 thousand tonnes per annum. In 2004 it produced 3,977 thousand tonnes of slabs and square billets, as compared to 4,390 thousand tonnes in 2003.

Rolling mills. ZapSib operates four rolling mills, consisting of three rolled steel mills and one wire mill.

Production

In 2004, ZapSib produced 4,558 thousand tonnes of iron, compared to 4,897 thousand tonnes in 2003 and 4,632 thousand tonnes in 2002; 5,603 thousand tonnes of steel, compared to 5,931 thousand tonnes in 2003 and 5,716 thousand tonnes in 2002; and 5,009 thousand tonnes of rolled products, compared to 5,318 thousand tonnes in 2003 and 5,006 thousand tonnes in 2002. The decrease in production of iron and steel during 2004 resulted from scheduled maintenance activities. Completion of the blast furnace reconstruction and replacement of ingot casting by continuous casting are also expected to result in increases in production as compared to 2004. See "—Investment Programme—Steel production". ZapSib's primary products are construction products (primarily rebars and sections) and wire rod, as well as semi-finished products.

The following table sets out capacity utilisation at ZapSib in 2004, 2003 and 2002:

	2004	2003	2002
		(%)	
Iron, total	93.1	100.0	94.6
Steel, total	69.3	73.4	70.7
Blooming plant	68.3	75.2	77.8
Medium section mill	67.8	75.1	77.9
Small section mills 250-1	77.2	83.3	79.9
Small section mills 250-2	87.5	91.2	88.3
Wire mill 250	83.1	89.4	89.5

Investment programme

ZapSib is investing in improving the capacity of existing production assets, improving production capacity and efficiency and widening the product range. Total capital expenditure under this program is planned to be U.S.$143 million in 2005, and U.S.$122 million from 2006 through 2008.

Coke production. Capital expenditure of U.S.$94 million from 2002 through 2006 is planned in reconstructing the coke batteries at ZapSib. These improvements are intended to increase production efficiency and reduce environmental emissions.

Iron production. In May 2005 ZapSib re-commissioned a blast furnace, increasing annual iron production by approximately 1.2 million tonnes, reducing the risks of production interruptions from reliance on two blast furnaces and enabling the full utilisation of existing oxygen converter capacity. Planned capital expenditure in this project amounts to approximately U.S.$45 million in 2004 and 2005.

Steel production. Evraz's capital investment programme at ZapSib focuses on the replacement of ingot casting by continuous casting, in order to allow for increased production of technologically more sophisticated steel grades and products that have a greater export potential. ZapSib plans to make capital expenditures of U.S.$85 million in 2005 and 2006 to install a 350 tonne twin ladle furnace and a 2.4 million tonne per annum continuous slab caster. These improvements will permit the termination of ingot casting, increase output yields, reduce production costs and provide for greater product diversification.

Quality control

ZapSib operates a quality assurance system certified under ISO-9002, which it originally received in 1994 and renewed in 1997. ZapSib has also received a Lloyd's Register Quality Assurance Certificate of conformity to ISO 9001:2000, EN ISO 9001:2000 and BS EN ISO 9001:2000.

NKMK

NKMK is an integrated iron and steel plant located in the city of Novokuznetsk, Kemerovo region, occupying an area of over 325 hectares. NKMK is the leading rail producer in the Russian Federation, producing a full range of rails, and, together with NTMK, the exclusive rail supplier to Russian Railways. NKMK's output of rails accounts for approximately two-thirds of Russian rail production.

History

NKMK was established by Evraz in 2003 to acquire production and other assets of KMK. Construction of KMK began in the early 1920s, and pig iron and rail production commenced at KMK in 1932. In the early 1990s, KMK was privatised and transformed into a joint stock company under Russian law, and registered as an open joint stock company in 1992.

On 30 May 2002, prior to the involvement of Evraz, KMK was declared bankrupt by a decision of the Kemerovo region arbitration court. Some of the assets of KMK were subsequently acquired on behalf of an affiliate of Evraz at auction and most of these assets were subsequently consolidated within NKMK by Evraz. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions".

Facilities

NKMK is an integrated steel plant. It produces various types of steel products and is the leading rail producer in Russia. Its production facilities include a coke-chemical production plant, two blast furnaces, steel-making facilities, a blooming plant, two continuous casting machines, rail production facilities and rolling mills.

Coke production. Coke-chemical production facilities at NKMK include two coal preparation shops, two gas recovery shops, a rectification shop, a tar processing shop and a phtalyc anhydride shop. NKMK operates three coking batteries, which produced 1,187 thousand tonnes of coke in 2004, as compared to 1,175 thousand tonnes in 2003 and 1,136 thousand tonnes in 2002.

Iron production. NKMK operates two blast furnaces, and in 2004 produced 2,218 thousand tonnes of iron, compared to 2,168 thousand tonnes in 2003 and 2,162 thousand tonnes in 2002. One blast furnace may be shut down when the open hearth plant is closed as a result of the reduced hot metal requirements.

Steel production. NKMK produces steel in an open hearth plant and two electric arc furnaces, with a total capacity of 5,400 thousand tonnes per year. NKMK combines liquid blast-furnace crude iron produced in-house with scrap to produce steel. The alloying of metal is performed by adding various ferroalloys.

Continuous casting. NKMK operates two continuous casting machines with a total design capacity of 830 thousand tonnes per annum, and in 2004 produced 1,048 thousand tonnes of billets.

Blooming plant. NKMK operates a blooming plant with a capacity of 2,900 thousand tonnes per annum. In 2004 it produced 1,286 thousand tonnes of slabs and blooms.

Rolling mills. NKMK operates seven rolling mills: a rail and structural steel mill, a plate mill, two ball-rolling mills, a rail fasteners mill and two section mills. NKMK's production of rolled products (including semi-finished products) was 2,459 thousand tonnes in 2004. The rail and structural steel mill consumes steel primarily produced in the electric arc furnaces through the two continuous casting machines. NKMK conducts thermal treatment of rails in order to further improve the quality of the final product.

Production

In 2004, NKMK produced 2,218 thousand tonnes of pig iron, compared to 2,168 thousand tonnes in 2003 and 2,162 thousand tonnes in 2002; 2,603 thousand tonnes of steel, compared to 2,459 thousand tonnes in 2003 and 2,435 thousand tonnes in 2002; and 2,319 thousand tonnes of rolled products, compared to 2,216 thousand tonnes in 2003 and 2,048 thousand tonnes in 2002. In addition to rails, NKMK produces significant quantities of plates, pig iron and other semi-finished products.

The following table sets out capacity utilisation at NKMK from 2002 through 2004.

	2004	**2003**(1)	**2002**(2)
		(%)	
Iron, total	99.2	97.0	96.7
Steel, total	88.0	94.7	93.6
—*Electric arc furnaces*	86.6	105.0	84.2
—*Open hearth plant*	88.7	87.7	100.1
Blooming plant	59.4	59.3	64.8
Rail and structural steel mill	88.8	84.6	81.5
Plate mill	85.5	93.2	77.2
Medium-section mill 500	59.6	62.1	49.4
Medium-section mill 450	73.6	75.4	66.7
Ball-rolling mill	109.0	88.4	77.2
Rail fasteners mill	87.0	90.9	101.0

Notes:

(1) Data for 2003 include production of KMK prior to the start of operations at NKMK in October 2003.

(2) Data for 2002 relate to KMK.

Investment programme

The programme of restructuring production facilities at NKMK includes upgrading the electric arc furnaces, shutting down the open hearth plant and modernising the rolling mills, resulting in a "mini-mill" configuration at NKMK. Evraz plans to make capital expenditure of U.S.$69 million at NKMK in 2005, and a further U.S.$30 million in 2006 and 2007. The principal components of NKMK's investment programme are set forth below.

Steel production. The primary component of NKMK's investment programme is modernisation of the electric arc furnaces. The capacity of one of the electric arc furnaces is to be increased to enable steel production up to 1.5 million tonnes of crude steel annually, decrease the cost of steel production and to increase the production of continuously cast billets. Total capital expenditure of U.S.$66 million from 2003 through 2007 is planned for this project. The open hearth plant is scheduled to be shut down when these improvements are completed, at which time one of the blast furnaces may also be shut down as a result of the reduced hot metal requirements.

Rail and structural steel mill. The second major component of NKMK's modernisation programme is the construction of a walking-beam furnace in the rail and structural steel mill as well as other improvements to the existing facilities, for capital expenditures of U.S.$29 million from 2003 through 2005 and resulting in reduced production costs, reduced waste and improved quality of finished products.

Quality Control

Quality control of NKMK is performed on the basis of its "Quality Policy". NKMK's Quality Policy sets out the following priorities: involvement of all personnel in quality management, improvement of consumer properties of metal products and reduction of production costs. The quality management system covers all stages of NKMK's production process. All railway products produced at NKMK are also certified by the Russian Railways certification system. NKMK's production of rails and rail fasteners has also received DIN EN ISO 9001:2000 certification.

Mining Business

Evraz conducts its mining business primarily through Evraz Ruda, KGOK, VGOK, Mine 12 and Neryungri Ugol, and Evraz also has an equity interest in Raspadskaya coking coal mine. In 2004, Evraz sold 7,838 throusand tonnes of iron ore products, of which 5,871 thousand tonnes consisted of intra-group sales. Evraz Ruda, which has been consolidated into Evraz's consolidated financial statements since March 2005, sold an additional 5,839 thousand tonnes of iron ore concentrate. Mine 12, which is being consolidated into Evraz's consolidated financial statements from March 2005, produced 547,000 tonnes of coking coal and 159,000 tonnes of steam coal in 2004. Evraz's mining operations had total sales revenue of U.S.$340.8 million in 2004, of which U.S.$279.9 million consisted of intersegment sales, an increase from U.S.$98.5 million in 2003, of which U.S.$83.7 million consisted of intersegment sales.

Products

Evraz produces iron ore at Evraz Ruda, KGOK and VGOK. Evraz produces coking coal and steam coal at Mine 12, is developing coking coal deposits at Neryungri Ugol, and its equity investee Raspadskaya also produces coking coal. Evraz primarily makes use of this iron ore and coking coal at its steel making facilities, and also makes some sales to third parties.

Iron ore and coking coal are generally commodity products, and most customers make purchases on the basis of price, including transportation costs. Evraz processes iron ore into concentrate, sinter and pellets prior to sale. Iron ore produced at KGOK has a high vanadium content, and thus can only be used in large quantities where blast furnaces have been specially modified to support the high vanadium levels. The major customers for iron ore produced at KGOK are NTMK and Chusovsky metallurgical plant, which is owned by Ural Steel, both of which operate facilities that are adapted for high-vanadium iron ore, as well as ZapSib, NKMK and other steel plants in smaller quantities.

Marketing and Distribution

In addition to its internal sales, Evraz sells its mined products primarily to other customers located in Russia. The following table summarises Evraz's mining segment sales in 2004, 2003 and 2002.

	Year ended 31 December					
	2004		2003		2002	
	(thousand tonnes)	(thousands of U.S. dollars)	(thousand tonnes)	(thousands of U.S. dollars)	(thousand tonnes)	(thousands of U.S. dollars)
Sales (excluding intersegment sales)						
Russian and CIS sales	957	48,564	276	14,774	78	4,980
Non-CIS export sales	252	12,401	—	—	—	—
Total	**1,967**	**60,965**	**276**	**14,774**	**78**	**4,980**
Intersegment sales(1)	**6,629**	**279,856**	**2,134**	**83,702**	**429**	**16,194**

Note:

(1) Intersegment sales include sales (primarily from KGOK) to TH Evraz Holding, which is accounted for in the steel segment, that are subsequently resold to third parties.

Sales

In Russia, Evraz sells its mining segment products to end customers, both internal and external. These customers are generally located near to Evraz's mines, due to the high transportation costs of mined products relative to the market prices. Currently only KGOK sells significant volumes to third parties, though Evraz seeks to increase these volumes in the future through production at Neryungri Ugol and possible additional acquisitions.

Evraz does not currently export significant volumes of its mined products. Non-CIS exports in 2004, all of which were produced at KGOK, amounted to 252 thousand tonnes of iron ore products, mostly to customers in China and the Czech Republic.

Distribution

Evraz transports its mined products to customers by Russian Railways. Transportation costs are generally paid by customers. In the case of intersegment sales to Evraz's steel plants, substantially all transportation services are provided by Evraztrans. See "—Steel Business—Raw Materials—Transportation".

Production Facilities

Evraz produces iron ore at Evraz Ruda, KGOK and VGOK. Evraz produces coking coal and some steam coal at Mine 12, and Evraz's equity investee Raspadskaya also produces coking coal. Evraz is also developing coking coal fields in the Republic of Sakha (Yakutia) through Neryungri Ugol, which it expects will commence production in 2006.

The following table sets forth the production of Evraz's mining assets in 2004, 2003 and 2002.

		Year ended 31 December		
	Iron content	**2004**	**2003**	**2002**
			(million tonnes)	
Evraz Ruda[1]				
Mined ore	28.5%	14,132	12,949	11,808
Primary concentrate	42.4%	7,703	7,017	6,622
Concentrate	58.1%	2,139	1,718	1,279
Sinter	55.0%	3,323	3,295	3,395
KGOK[2]				
Mined ore	15.8%	47,181	45,253	41,494
Concentrate	61.7%	8,964	8,609	7,811
Pellets	60.5%	5,587	5,329	5,248
Sinter	54.3%	2,848	2,735	2,296
VGOK[3]				
Mined ore	27.8%	3,806	3,345	3,092
Concentrate	63.0%	1,492	1,310	1,226
Sinter	55.0%	2,918	2,410	2,025

Notes:

(1) Acquired in March 2005.

(2) Consolidated into the Company's consolidated financial statements from May 2004.

(3) Consolidated into the Company's consolidated financial statements from October 2002.

Iron Ore

Evraz Ruda

Evraz Ruda started operations in 2002, bringing several mining and processing enterprises in Kemerovo region, the Republic of Khakassia and Krasnoyarsk Krai under common management. Evraz Ruda occupies a total area of over 4,400 hectares, and sells iron ore primarily to ZapSib and NKMK. Evraz Ruda, which Evraz acquired in March 2005, had total revenues of U.S.$270.5 million and net profit of U.S.$85.7 million for the year ended 31 December 2004 and total assets of U.S.$352.4 million as of 31 December 2004, as calculated under IFRS. Most of its sales were to Evraz. See "Related Party Transactions". Evraz plans to invest in developing additional "brownfield" production sites at Evraz Ruda and to make improvements that will increase both the volume and efficiency of iron ore production, with total capital expenditure of U.S.$166 million from 2004 through 2014.

Kachkanarsky GOK

KGOK extracts iron ore from the Gusevogorsky deposit and processes iron ore. KGOK is located approximately 150 kilometres away from NTMK, also in Sverdlovsk region. KGOK currently mines iron ore from three open pit mines, which it processes in on-site crushing, enrichment, sintering and pelletizing facilities. Final products (sinter and pellets) are loaded on to railcars and shipped to end consumers. Approximately 28% of KGOK's total sales in 2004 were to customers other than Evraz.

KGOK produces vanadium oxide rich sinter and pellets. These products have relatively high production costs, as the iron content of KGOK iron ore is very low and the ore must therefore undergo enrichment and concentration. The high vanadium content of KGOK's ore leads to improved strength, ductility and anti-corrosion characteristics of steel, but also adversely affects the speed and effectiveness of the blast furnace smelting process. As a result, at most steel plants high vanadium content iron ore is limited to approximately 10% to 15% of total iron ore consumption, though limited quantities of vanadium help to prolong the time between blast furnace relinings due to the mineral deposits that form in the blast furnace.

Evraz plans to make capital expenditures at KGOK of U.S.$47 million from 2005 through 2010 on improving operational efficiency and de-bottlenecking existing operations and reducing its electricity costs.

Vysokogorsky GOK

VGOK operates underground ore mines as well as processing facilities, and is located near Nizhny Tagil, approximately 10 kilometres from NTMK and 180 kilometres north of Ekaterinburg. VGOK mines the Vysokogorskoye, Lebyazhinskoye, Estuninskoye and Mednorudyanskoye iron ore deposits. VGOK supplies sinter to Evraz's steel plants, primarily NTMK, and also makes sales to third parties. Approximately 75% of the iron ore used in producing sinter constitutes VGOK's own production and by-products of the blast furnace process at NTMK, and the balance is purchased from other producers, primarily Bogoslovskoye RU, an iron ore mine located nearby. Evraz plans to make total capital expenditures of U.S.$118 million at VGOK from 2005 through 2010 on improving operational efficiency and de-bottlenecking existing operations.

Coking Coal

Mine 12

Evraz acquired an 100% interest in Mine 12, which produces coking coal and steam coal, in March 2005. Mine 12 is located in Kemerovo region. Mine 12 produced approximately 547,000 tonnes of coking coal and 159,000 tonnes of steam coal in 2004.

Neryungri Ugol

Evraz acquired Neryungri Ugol in 2003 in order to develop resources in the Denisovskoye field, in the Republic of Sakha (Yakutia). Evraz expects to start production of coking coal from Neryungri Ugol in 2006, and expects the field to reach its full production capacity of three million tonnes of raw coking coal by 2008, resulting in approximately 2.7 million tonnes of coking coal output. Evraz plans to export coking coal produced at Neryungri Ugol to customers in Asia. Evraz plans to invest a total of approximately U.S.$183 million from 2004 through 2006 in starting production at Neyungry Ugol.

Raspadskaya

Raspadskaya is one of the largest coking coal mines in the Russian Federation, and is an underground mine located in Kemerovo region. Evraz acquired a 50% ownership interest in Corber Enterprises Limited ("Corber"), in March 2004. Corber then owned 72.03% of the ordinary shares in ZAO Raspadskaya, and Corber subsequently acquired a further 4.20% ownership interest in Raspadskaya, resulting in a total effective interest for Evraz of 47.7% following the elimination of the minority interest in Mastercroft. Operations at the Raspadskaya field produced a total of 9,721 thousand tonnes of coking coal in 2004, of which 8,216 thousand tonnes was attributable to the operations owned by Corber (the remainder was attributable to other operations in which Corber does not have an interest). Total production at the Raspadskaya field (including operations in which Corber does not now have an interest) was 8,600 thousand tonnes in 2003 and 7,073 thousand tonnes in 2002.

Ore Reserves

Most of Evraz's ore reserves have been evaluated according to international and/or Russian methodologies.

International Reporting Methodologies

Several codes exist for reporting reserves in the international mining industry. The technical differences between these codes are minor, and results are generally comparable regardless of which methodology is employed in assessing a particular deposit. The principal reporting codes in current use are:

- United States Geologic Survey Circular 831 (United States);
- Ontario Securities Commission Instrument 43-101 (Canada);
- Australasian Joint Ore Reserves Committee ("JORC") Code (Australia);
- Institute of Materials, Minerals and Mining ("IMMM") Reporting Code (United Kingdom and Ireland); and
- South African Institute of Mining and Metallurgy ("SAIMM") Reporting Code (South Africa).

Each of these codes recognises the difference between mineral resources and ore reserves. Conversion from a mineral resource to an ore reserve requires the application of "modifying factors", including mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. A "resource" is geologically defined; it becomes a "reserve" when the modifying factors, especially technical and economic factors, are taken into account. Each of these codes also includes strict guidelines for data quality and reporting in mining commodities.

The Council of Mining and Metallurgical Institutions ("CMMI"), which includes representatives of the major international standard-setting organisations, is currently working to establish a common international reporting code standard. CMMI has promulgated common definitions that have been adopted by each of its member organisations in their respective reporting codes, including the principal reporting codes noted above, and these definitions are also incorporated into reporting standards that have been adopted by the United Nations Economic Commission for Europe.

A mineral resource is a concentration or occurrence of material of intrinsic economic interest in or on the earth's crust (a "deposit") in such a form, quality and quantity that there are reasonable prospects for eventual economic extraction. The location, quantity, grade, geological characteristics and continuity of a mineral resource are known, estimated or interpreted from specific geological evidence and knowledge. Mineral resources are subdivided, in order of increasing geological confidence, into inferred, indicated and measured categories. Portions of a deposit that do not have reasonable prospects for eventual economic extraction are not included as mineral resources.

An *inferred mineral resource* is that part of a mineral resource for which tonnage, grade and mineral content can be estimated with a low level of confidence. It is inferred from geological evidence and assumed but not verified geological and/or grade continuity, and based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes which is limited or of uncertain quality and/or reliability.

An *indicated mineral resource* is that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes. The locations are too widely or inappropriately spaced to confirm geological continuity and/or grade continuity but are spaced closely enough for continuity to be assumed.

A *measured mineral resource* is that part of a mineral resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable exploration, sampling and testing information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings, and drill holes. The locations are spaced closely enough to confirm geological and/or grade continuity.

Ore reserves are the economically mineable parts of an indicated or measured mineral resource. Ore reserves take account of diluting materials and allowances for losses which may occur when the material is mined. Appropriate assessments, which may include feasibility studies, have been carried out on the deposit and include consideration of and modification by realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. These assessments establish that at the time of reporting extraction is reasonably justified.

A *probable ore reserve* is the economically mineable part of an indicated and, in some circumstances, a measured mineral resource.

A *proved ore reserve* is the economically mineable part of a measured mineral resource.

Russian Reporting Methodologies

Russia has a long-established system of reserve and resource reporting, set forth by the Russian Federation Ministry of Natural Resources. The primary difference between Russian and international methodologies is that Russian methodologies rely on "geometrical" methods to determine reserves, as compared to international methodologies, which utilise sampling and extrapolation techniques.

Deposits are classified into one of four classes, based on the complexity of their geological structure. This classification may take into account quantitative results measuring the inconsistencies in the basic features of mineralisation. This initial classification is intended to identify those resources warranting further study. Depending on the extent of further exploration, mineral resources are subsequently divided into "explored" and "evaluated" deposits. Explored deposits have been sufficiently explored to proceed with a feasibility study relating to commercial development, and evaluated deposits have been explored to the extent necessary to determine whether continued exploration is warranted. Resources that do not meet the standards for explored or evaluated deposits are classified as projected resources.

Explored and evaluated deposits are further classified based on the type, quantity and quality of the measurements taken to evaluate the reserves.

Category A reserves include only explored deposits, and must meet the following criteria:

1. the sizes, forms and bedding conditions of the mineral body have been determined; the nature and regularities in their morphology and internal fabric have been studied; the barren and off-grade segments within the mineral bodies have been detected and mapped; and the locations and fault amplitudes of dislocations with a break have been identified;
2. the natural varieties of the minerals within the body have been determined; its categories and grades have been identified and mapped; its compositions and properties have been verified; and the quality of all categories and grades of the identified minerals have been characterised in terms of all parameters stipulated by industrial regulations;
3. the distribution and forms of those valuable and noxious components found in the mineral body and products of its processing have been investigated; and
4. the mineral reserves have been mapped based on test wells, mine workings and detailed trial runs.

Category B reserves include only explored deposits. Category B reserves have been subject to a high level of investigation, though their boundaries have been determined with less accuracy than Category A reserves. Category B reserves meet the criteria established for Category A reserves, except that Category B reserves may contain a limited extrapolation zone that is substantiated on the basis of geological criteria and geophysical and geochemical research.

Category C1 reserves are characterised by a lower level of accuracy than the determination of Category B reserves. Most explored deposits are Category C1 reserves. Category C1 reserves meet the criteria established for Category B, except that additional extrapolation is permitted in mapping the mineral deposit.

Category C2 reserves consist of evaluated deposits. Category C2 reserves must meet the criteria established for Category C1, except that:

1. the sizes, forms, internal fabric and bedding conditions of the mineral body are confirmed by means of only a limited number of test wells and core samples; and

2. the boundaries of the deposit (including core samples and outcroppings) are mapped based on data gathered from only a limited number of test wells, and a geologically substantiated extrapolation of deposit parameters is permitted.

Resources that do not meet the standards for classification as A, B, C1 or C2 reserves may be classified as probable resources, in categories P1, P2 or P3. Such deposits have been undergone some exploration, but require further geological work in order to be upgraded to A, B, C1 or C2 reserves.

While a direct comparison between international and Russian reporting methodologies is difficult because each is founded on different principles, it is often the case that category A and B Russian reserves correlate to proved reserves, and C1 Russian reserves to probable reserves. However, these relationships may vary among deposits, and at different times for the same deposits.

Evraz's Reserves

Most of Evraz's iron ore reserves and the coal reserves of its equity investee Raspadskaya have been evaluated to international standards. The international consulting firm IMC Economic and Energy Consulting ("IMC"), in association with its subcontractors for geological appraisals Associated Mining Consultants Ltd. and Saint Barbara Consultancy Services, was retained to conduct independent reviews of the mineral resources and ore reserves at Evraz Ruda, KGOK and Raspadskaya. These reviews included site visits to the mining properties in order to collect data and review the operations. Subsequent to the site visits, IMC reviewed the available information and conducted economic evaluations.

IMC and its contractors reviewed the methodology and data used by Evraz's mining operations and used to develop the Russian reserves estimates. However, these reviews did not include a detailed re-estimation of the resources at individual deposits. IMC and its contractors found that, as with most Russian properties, the exploration, sampling and ore body definition was generally consistent with standard practice for the industry. Based on its review of the resource estimates, the volume of exploration data, the operating history and past experience in Russia, IMC believes that the resource estimates, on which it based its estimates of the ore reserves, are reasonable. Estimates of ore reserves are based only on that portion of the deposit that meets accepted international industry standard guidelines for classification as proved and probable reserves.

Evraz's reserves are based on drilling and geological data, and represent the part of the mineral resources that could be legally and economically extracted or produced at the time of the reserve estimation. Russian subsoil licenses are issued for defined boundaries and for specific periods. However, under the Subsoil Law, licences are required to be extended by the relevant authorities at their scheduled termination at the initiative of the subsoil user if the extension is necessary to finish production in the field, provided that the licensee has not violated the conditions of the licence. See "Regulatory Matters—Subsoil Licencing". As Evraz currently plans to extend its licences at their scheduled termination and believes that it will be entitled to do so, its reserves are stated based on the maximum projected useful lives of the relevant fields. However, there can be no assurance that Evraz will be able to extend its licences, or that its licences will not be withdrawn prior to their scheduled expiration. See "Risk Factors—Risks Relating to Evraz—Evraz's business could be adversely affected if it fails to obtain or renew necessary licenses or fails to comply with the terms of its licenses".

Evraz holds a total of 16 exploration and production licences with respect to its mining operations and which expire in 2013 through 2017. Raspadskaya also has two exploration and production licenses, which expire in 2014 and 2023. None of Evraz's mining licences has ever been revoked or suspended.

Iron ore reserves

The table below summarises Evraz's iron ore reserves according to international and Russian methodologies as at the dates indicated. Reserves at VGOK as well as at the Abakanskoye field, which is operated by Evraz Ruda though the licence is held by ZapSib, have not yet been evaluated according to international methodologies, and only data from evaluations in accordance with Russian methodologies are presented below for these companies. The mines evaluated to international standards account for approximately 93% of Evraz's total Russian reserves classification A, B and C1 iron ore reserves as of 31 December 2004. The correlation between total proved and probable and A, B and C1 iron ore reserves may differ in the deposits that have not yet been evaluated by IMC. Moreover, the correlation may vary at different times for the same deposits.

Mine	International Reserves Classification	Russian Reserves Classification				Average Iron Content
	Total Proved and Probable[1]	A	B	C1	Total	
		(thousands of tonnes)				(%)
Evraz Ruda[2]	262,700	10,264	94,575	363,330	468,169	30.6
KGOK[3]	1,200,849	60,174	1,015,303	5,157,003	6,232,480	16.2
VGOK[4]	—	306	113,814	260,340	374,460	33.3
Abakanskoye[4][5]	—	2,433	18,480	93,960	114,873	28.7

Notes:

(1) Limitations of the data provided to IMC and its subcontractors in connection with their reviews do not permit a separation of proved and probable reserves.

(2) Data according to international methodologies are presented as of 1 January 2005. Data according to Russian methodologies are presented as of 31 December 2004.

(3) Data according to international methodologies are presented as of 1 July 2004. Data according to Russian methodologies are presented as of 31 December 2004. Of the total according to Russian methodologies, approximately 60,174 thousand tonnes of category A, 520,094 thousand tonnes of category B and 2,702,031 thousand tonnes at category C1 reserves relate to the Sobstvennoye-Kachkanarskoye field, for which Evraz does not currently hold a licence. All of the reserves according to international classifications relate to areas for which Evraz currently holds a licence.

(4) Data according to Russian methodologies are presented as of 31 December 2004.

(5) The licence for this field is held by ZapSib, but it is currently operated by Evraz Ruda.

The evaluation by IMC and its contractor concluded that the present reserves at Evraz Ruda are sufficient to fulfill management's current 20-year plan for mine development. The evaluation by IMC and its subcontractor concluded that the present reserves at KGOK are sufficient to sustain operations for a further 20 to 25 years based on current technical parameters, with the possibility of further prolongation through development of adjoining ore deposits and deepening of existing pits beyond planned depths.

Coal reserves

The table below summarises Evraz's coal reserves, including its equity investee Raspadskaya, according to international and Russian reserves methodologies as at the dates indicated. The correlation between proved and probable and A, B and C1 coal reserves may differ in the deposits that have not been evaluated by IMC. Moreover, the correlation may vary at different times for the same deposits.

Mine	International Reserves Classification			Russian Reserves Classification				Average sulfur content[1]	Average ash content[1]
	Proved	Probable	Total proved and probable	A	B	C1	Total A, B and C1		
	(thousands of tonnes)							(%)	(%)
Mine 12[2]	—	—	—	—	80,315	6,655	86,970	0.3-0.4	21
Neryungri Ugol[2]	—	—	—	—	60,240	5,771	66,011	0.3	22
Raspadskaya[3][4]	47,000	163,000	210,000	35,529	341,045	314,834	691,408	0.66	22

Notes:

(1) Estimated.

(2) Data according to Russian methodologies are presented as of 31 December 2004.

(3) Accounted for in Evraz's consolidated financial statements on the equity basis.

(4) Data according to international methodologies are presented as of 1 April 2004. Data according to Russian methodologies are presented as of 31 December 2004. Data according to Russian methodologies include parts of the deposit in which Evraz does not have an interest.

The evaluation by IMC and its subcontractor concluded that the present reserves at Raspadskaya are sufficient to fulfill management's current 20-year plan for mine development.

Insurance

Evraz has obtained insurance for its steel production facilities that it believes cover property and performance risks at industry standard levels. Evraz obtained coverage of up to an aggregate of

U.S.$2.83 billion for NTMK, ZapSib and NKMK from OAO Rosno in January 2005, with single event coverage of up to U.S.$75 million for each of NTMK and ZapSib and U.S.$60 million for NKMK. Evraz has obtained property insurance for KGOK for up to U.S.$300 million through Insurance House VSK. Evraz plans to obtain industry standard insurance coverage for its other mining operations. Evraz maintains obligatory insurance policies required by Russian law and employees' insurance policies required by the terms of collective bargaining agreements at all of its facilities.

Legal Proceedings

Evraz has been and continues to be the subject of legal and arbitration proceedings and adjudications from time to time. Except as set out below, there are no legal or arbitration proceedings (including none that are pending or threatened of which Evraz is aware) nor have there been any legal or arbitration proceedings in the last 12 months which have had or may have a significant effect on Evraz's financial position or results of operations.

Evraz, together with several other corporations and individuals, has been named as a defendant in a civil action that was filed in November 2004 and is now pending before the United States District Court for the District of Delaware (a United States federal court). The plaintiffs have alleged conversion and violations of the United States Racketeer Influenced and Corrupt Organizations Act ("RICO") with regard to ownership and control of KGOK, resulting in the loss of their ownership in KGOK as a result of alleged fraud, extortion, bribery and false bankruptcy proceedings that purportedly occurred between 1999 and 2003. While these events occurred prior to Evraz's acquisition of control over KGOK, the plaintiffs incorrectly allege that Evraz was owned or controlled by one or more of the defendants in the matter. The plaintiffs seek damages in excess of U.S.$500 million, which can be trebled if the claims under RICO are substantiated, and an injunction ordering the return of KGOK shares the plaintiffs allegedly owned and any subsequently-issued KGOK shares.

Evraz and the other defendants are currently seeking dismissal of these claims based on the prior dismissal of a suit brought by the same plaintiffs asserting the same claims against most of the same defendants (not Evraz) in the United States District Court for the Southern District of New York. In the earlier action, the New York federal court ruled (and was confirmed on appeal by the United States Court of Appeals for the Second Circuit) that the suit should be dismissed based on the doctrine of *forum non conveniens*, because Russian courts were a more appropriate forum for the dispute. In the Delaware action, Evraz and the other defendants have moved for dismissal on four grounds: that the New York court's ruling bars the plaintiffs from seeking again to bring their claims in the United States; that the Russian courts are a more suitable forum for the plaintiffs' claims; that principles of comity prevent the court from reconsidering the prior adjudication of the plaintiffs' claims in Russian courts; and that the plaintiffs' failure to state a valid claim for conversion or violations of RICO. The Delaware federal court has determined that it initially will address the first ground for dismissal—that the suit should be dismissed based on the ruling in the prior New York action—and will address the other grounds for dismissal only if the suit is not dismissed on this initial basis. The plaintiffs' responsive briefs on this issue were filed on 31 May 2005 and reply briefs from the defendants are due in late June 2005.

On 26 April 2005, the plaintiffs amended their original complaint (leaving the alleged violations of RICO to be adjudicated in the United States District Court for the District of Delaware) to remove the claims for conversion and equitable relief and filed a second claim in Delaware Chancery Court (a Delaware state court) against the same defendants (including Evraz) based on the same factual allegations, asserting Delaware state law claims for conversion, aiding and abetting conversion, and civil conspiracy. In the state court action, the plaintiffs are requesting monetary damages in excess of U.S.$500 million as well as an injunction ordering the return of KGOK shares the plaintiffs allegedly owned and any subsequently-issued KGOK shares.

Evraz acquired its shares in KGOK through transactions mediated by an experienced market intermediary, and received from the sellers the limited representations and warranties that are customary in the Russian market in respect of the shares it acquired. Evraz's management believes that the plaintiffs' claims against Evraz are without merit.

Environmental Matters

Evraz believes that it holds all necessary environmental licences, including licences for the use of water resources, water discharges, air emissions, waste disposal and waste management, for operations at its facilities. Evraz's costs of environmental compliance include (i) payments for air and water discharges as well as waste which are within the limits set out in its licences and (ii) payments for discharge and waste in excess of these limits. Annual payments for pollution were approximately U.S.$4.5 million in 2004, as compared to U.S.$3.3 million in 2003 and U.S.$2.8 million in 2002. Most of these payments relate to air emissions.

Evraz is subject to requirements to conduct reclamation and restoration activities at some of its operating facilities. Evraz has made commitments to restore certain parcels of land at its steel plants, and in order to implement this obligation had made provisions in respect of these expenditures of approximately U.S.$481,000, U.S.$330,000 and U.S.$265,000 as of 31 December 2004, 2003 and 2002, respectively, based on the present discounted value of the expected restoration costs. Mine operators are also required to restore mining sites. As of 31 December 2004, 2003 and 2002, Evraz had accrued provisions for site restoration in the amount of U.S.$16.7 million, U.S.$12.7 million and U.S.$9.9 million, respectively, in respect of its mining operations, based on discounted estimates of restoration costs that are expected to be incurred.

Evraz also has committed to the government of Kemerovo Region that it will reduce future environmental pollution and contamination in accordance with an environmental protection program. In order to implement this obligation, Evraz has committed to spend approximately U.S.$54.0 million from 2005 to 2015 to replace old machinery and equipment, resulting in a reduction of emissions of pollutants.

During 2004, independent evaluations of Evraz's steel plants by international environmental consultants did not identify any significant environmental concerns arising under Russian law at these facilities. Evraz has also conducted a number of environmental improvements at its steel making facilities in recent years that have reduced emissions, including a significant reduction in the volume of air discharges at NTMK. These reductions at NTMK were accomplished by the commissioning of three continuous casting machines and a reduction in production by NTMK's open hearth plant; equipment modernisation and upgrades; and the commissioning of a waste processing plant with a three million tonne annual capacity to process the over 50 million tonnes of accumulated and newly-produced slag and other iron-containing waste materials. Evraz plans to undertake activities that will further reduce environmental emissions as part of its capital investment programme. This programme includes improvements to Evraz's coke batteries and blast furnaces and the closure of open hearth furnaces. See "Mining Business—Production facilities".

NTMK plans to obtain an ISO 14001 certification by 2010. Receipt of ISO 14001 certification will establish that necessary management systems are in place and working to sustain environmental improvements. ZapSib has a quality assurance system in accordance with ISO 9001:2000, which was audited and confirmed by Lloyds Register in March 2004. ZapSib is also in the process of developing an Environmental Management System (EMS) to meet ISO 14001 standards. ZapSib also has a laboratory for environmental protection and for monitoring of emissions and discharges that is licensed by the Kemerovo Regional Administration and accredited by the Russian State Standards Committee. NKMK also plans to obtain an ISO 14001 certification by 2010, which will establish that the necessary management systems are in place and it is working to sustain the environmental improvements. NKMK also operates an on-site laboratory which monitors emissions and discharges and is certified by the Russian Committee for Certification and Metrology for the monitoring and analysis of emissions to the atmosphere and liquid effluents, and also has been certified to ISO 17025: General Requirements for the Competence of Testing and Calibration Laboratories.

Research and Development

Evraz regularly seeks to improve the operations at its facilities, principally by improving operating efficiency, reliability and capacity. Most such efforts constitute incremental improvements to current activities, and as a result are undertaken in connection with regular operational maintenance and monitoring. Where appropriate, Evraz seeks to register any rights to intellectual property that may result from these efforts. Evraz does not believe that its research and development activities are significant to its results of operations.

Employees

The table below sets out the average number of employees of Evraz in 2004, 2003 and 2002.

Company	Average number of employees[1] 2004	2003	2002
Steel segment			
NTMK	30,550	30,447	30,947
ZapSib[2]	29,093	29,415	29,950
NKMK[3]	13,046	11,752	—
Mining segment			
KGOK[4]	9,594	—	—
VGOK[5]	6,924	6,619	5,584
Mine 12[6]	—	—	—
Neryungri Ugol[7]	—	—	—
Evraz Ruda[8]	—	—	—
Other operations			
Nakhodka Commercial Sea Port[9]	2,502	3,010	—
Evraz Holding	675	540	329
Other[10]	853	431	220
Total[11]	93,237	82,214	62,842

Notes:

(1) Average is calculated as the arithmetic mean of the number of employees as of 1 January and 31 December for each period. For companies consolidated into Evraz's consolidated financial statements for only a portion of an annual period, the average for the company is stated on the same basis but included in the average total number of employees for Evraz based on the number of months for which such company was consolidated into Evraz's consolidated financial statements for the relevant annual period.

(2) Evraz acquired control over ZapSib in April 2002.

(3) Operations started at NKMK in October 2003.

(4) Evraz acquired control over KGOK in May 2004.

(5) Evraz acquired control over VGOK in October 2002.

(6) Evraz acquired control over Mine 12 in February 2005. As of April 2005, Mine 12 had approximately 2,700 employees.

(7) Approximately 412 employees as of April 2005.

(8) Evraz acquired control over Evraz Ruda in March 2005. As of April 2005, Evraz Ruda had approximately 11,500 employees.

(9) Evraz acquired control over Nakhodka Commercial Sea Port in February 2003.

(10) Includes some operations classified for accounting purposes in the steel or mining segment.

(11) Calculated as the sum of the averages presented as in note 1 above, except that companies not consolidated into Evraz's consolidated financial statements for all of an annual period are weighted based on the number of months for which such company was consolidated into Evraz's consolidated financial statements in the relevant period. As a result of this weighting, the totals presented here may not be the arithmetic sum of the preceding items.

Evraz is currently seeking to optimise its personnel structure, primarily through a controlled reduction in the number of its employees, outsourcing non-production activities and reducing administrative staff. While Evraz's productivity (as measured by tonnes of production per employee) is below western European standards, Evraz's production facilities are the principal employers in their respective towns and regions, and reductions in the workforce are generally constrained by relevant Russian labour legislation as well as other political and social considerations. For these reasons, Evraz manages reductions in the number of personnel it employs gradually and in a controlled manner.

Over 80% of Evraz's employees were members of trade unions at the end of 2004. Each of Evraz's production facilities enters into collective bargaining arrangements with its trade unions bi-annually. The current agreements provide for an increase in employee wages within the approved budgets and contain no restrictions on layoffs.

There have been no strikes or other cases of industrial action at Evraz's production facilities since Evraz acquired each of these facilities. The relations between NTMK and ZapSib and the unions are good, in part reflecting the fact that NTMK and ZapSib offer attractive employment opportunities in their respective regions in comparison to available alternatives. Upon consolidation of KMK's assets by NKMK in 2003 and 2004, a substantial part of the former KMK employees remained employed by NKMK, and NKMK employees now enjoy the same social benefits as those of ZapSib. NKMK has also paid the unpaid wages accrued during the KMK bankruptcy proceedings. While historically there was substantial social unrest at KMK, since the acquisition of its assets by NKMK there have not been any significant conflicts with the employees or trade unions. Average salaries at NTMK, ZapSib, NKMK and KGOK were each above average for the respective regions. Evraz plans to increase average salaries at Evraz Ruda and VGOK in connection with the optimisation of business processes at these facilities.

Evraz makes defined contributions to pension funds for its employees in accordance with relevant Russian legislation, and also provides pension and other post-employment benefits to its 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. Evraz pays these benefits when they fall due for payment. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Contractual obligations and commercial commitments".

RELATED PARTY TRANSACTIONS

The following is a summary of Evraz's most significant transactions with related parties for the years ended 31 December 2004, 2003 and 2002. For further details of these transactions, see Note 14 to the Consolidated Financial Statements.

In the ordinary course of its business, Evraz has engaged, and continues to engage, in transactions with parties that are under common control with Evraz or that are otherwise related parties to Evraz. Transactions with entities under common control with Evraz constitute transactions with parties that have the same beneficial owners as the Company, who are also members of the Company's board of directors (the "Board of Directors"). See "Principal Shareholders". Other than the transactions with entities under common control described herein, Evraz did not engage in any transactions with members of its Board of Directors during the period under review. Transactions with Evraz Holding and other entities that are consolidated on the basis of option agreements are not considered to be transactions with related parties. See Note 1 to the Consolidated Financial Statements.

Evraz seeks to conduct all transactions with entities that are under common control or otherwise constitute related parties on market terms and in accordance with relevant Russian and other legislation. However, there can be no assurance that any or all of these transactions have been or will be conducted on market terms. See "Risk Factors—Risks Relating to Evraz—Vaguely drafted Russian transfer pricing rules and lack of reliable pricing information may affect Evraz's results of operations" and "Risk Factors—Risks Relating to Evraz—Some transactions between the Company's Russian subsidiaries and their interested parties, affiliates and other members of the Evraz group require the approval of disinterested directors or disinterested shareholders" for a discussion of applicable Russian requirements.

The Board of Directors has adopted certain procedures relating to the approval of transactions with related parties, including requiring the approval of a majority of independent directors for any transactions exceeding €30 million in value. See "Directors and Management—Corporate Governance" for a discussion of these procedures.

Significant transactions with related parties during the years ended 31 December 2004, 2003 and 2002 are set out below.

Purchases of Raw Materials

Iron ore and coking coal

Evraz purchases significant quantities of raw materials for use in its steel making operations, primarily iron ore and coking coal, from related parties. In particular, in 2004 Evraz purchased significant quantities of iron ore from Evraz Ruda; coking coal and coking coal concentrate from OOO Raspadsky Ugol, which is a subsidiary of Raspadskaya; and coking coal from OAO UK Yuzhkuzbassugol and ZAO Yuzhkuzbassugol. Evraz also purchases electricity from KMK-Energo.

Evraz Ruda and KMK-Energo are under common control with Evraz, and OAO UK Yuzhkuzbassugol and ZAO UK Yuzhkuzbassugol are associates of an entity under common control with Evraz. Two members of the Board of Directors serve on the board of directors of Raspadskaya, which is the parent company of Raspadsky Ugol.

In March 2005, Evraz acquired a 100% interest in Evraz Ruda for U.S.$32.3 million, as a result of which Evraz Ruda ceased to be classified as a related party. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions".

The following table sets forth Evraz's purchases of raw materials from certain related parties, consisting primarily of iron ore, coking coal and electricity, for the years ended 31 December 2004, 2003 and 2002.

Related Party	Year Ended 31 December		
	2004	2003	2002
	(thousands of U.S. dollars)		
Evraz Ruda[1]	203,725	87,930	11,094
OOO Raspadsky Ugol	79,504	—	—
OAO UK Yuzhkuzbassugol	29,582	6,122	—
ZAO Yuzhkuzbassugol	257,676	—	—
OAO KMK-Energo	58,192	14,213	—

Note:

(1) Acquired by Evraz in March 2005.

Other

Evraz also purchases raw materials and other supplies for its steel-making and mining operations from other related parties. These transactions with related parties for the years ended 31 December 2004, 2003 and 2002 are summarised below.

ZAO D.E. Metals ("D.E. Metals") became an entity under common control with Evraz in 2003. It served as a purchasing agent to NTMK in 2003 and 2004. In the years ended 31 December 2004 and 2003, respectively, D.E. Metals sold products totaling U.S.$12.4 million and U.S.$24.6 million to Evraz.

Marteck Shipping Limited ("Marteck Shipping"), an entity under common control with Evraz, provides freight services to Evraz. Total purchases from Marteck Shipping amounted to U.S.$97.5 million and U.S.$1.3 million for the years ended 31 December 2004 and 2003, respectively.

During 2004, NKMK sold raw materials and pig iron to OOO Steel of Kuznetsk Steel Plant ("Steel of KMK"), which was under common control with Evraz until July 2004. Steel of KMK used these materials to produce blanks and blooms, and NKMK purchased blanks and blooms from Steel of KMK. During 2004, NKMK also acquired from Steel of KMK items of property, plant and equipment. Total sales to Steel of KMK amounted to U.S.$21.7 million, U.S.$18.0 million and U.S.$25.9 million, and total purchases from Steel of KMK amounted to U.S.$69.8 million, U.S.$13.4 million and U.S.$17.5 million for the years ended 31 December 2004, 2003 and 2002, respectively. Steel of KMK was acquired by an unaffiliated party and ceased to be a related party with Evraz in July 2004.

During 2003 and the first part of 2004, Evraz purchased coke and coal from OOO Kuznetsk Coal Company ("Kuznetsk Coal Company"), which was under common control with Evraz. In June 2004, Kuznetsk Coal Company was acquired by an unaffiliated party and ceased to be a related party with Evraz. Total purchases from Kuznetsk Coal Company amounted to U.S.$73,000 and U.S.$142.7 million for the years ended 31 December 2004 and 2003, respectively.

During 2003, Evraz purchased coal and tolling services totaling U.S.$229.3 million from OOO Kuzbassuglepostavka ("Kuzbassuglepostavka"), which was under common control with Evraz. In 2004, Kuzbassuglepostavka was acquired by an unaffiliated party and ceased to be a related party with Evraz.

During 2002 and 2003, ZapSib and NKMK purchased metal products from OOO Relsy KMK ("Relsy KMK"), which was under common control with Evraz. In 2003, Evraz also purchased certain items of property, plant and equipment from Relsy KMK for RUR308.5 million (U.S.$10.3 million as of the date of the transaction). Total purchases from Relsy KMK amounted to U.S.$51.5 million and U.S.$214,000 for the years ended 31 December 2003 and 2002, respectively. Relsy KMK was acquired by an unaffiliated party and ceased to be a related party with Evraz during 2003.

In 2002, ZAO Sibirskaya Gornaya Company ("SGC"), an entity under common control with Evraz, sold raw materials to ZapSib. Total sales to ZapSib amounted to U.S.$40.3 million for the year ended 31 December 2002. SGC was liquidated in 2003, and as a result ceased to be a related party to Evraz.

Sales of products and services

Evraz also enters into agreements for the sale of its steel and other products and services with related parties. In particular, prior to 1 April 2005, Ferrotranstrade, which is under common control with Evraz, acts as a sales agent for Evraz in its sales of railway products to Russian Railways. In addition, prior to 2004 Evraz sold its products for export to Ferrotrade & Co., which was under common control with Evraz. These transactions are discussed in further detail below.

OAO Ferrotranstrade

Ferrotranstrade, which is under common control with Evraz, acted as a sales agent of NTMK and NKMK in respect of their sales of railway products to Russian Railways prior to 1 April 2005. Substantially all of Evraz's sales of railways products to Russian Railways were conducted through Ferrotranstrade. Total sales to Ferrotranstrade amounted to U.S.$45.6 million, U.S.$7.4 million and U.S.$499,000 for the years ended 31 December 2004, 2003 and 2002, respectively. The increase in sales in 2004 is largely attributable to the centralisation of Evraz's sales relationships with Russian Railways into Ferrotranstrade and the increased volume of sales to Russian Railways resulting from the consolidation of NKMK. Evraz also made purchases from Ferrotranstrade amounting to U.S.$3.5 million and U.S.$1.7 million for the years ended 31 December 2004 and 2003, respectively. From 1 April 2005, Evraz ceased to use Ferrotranstrade as its agent, and has transferred responsibility for future sales of railway products to Russian Railways to its subsidiary TH Evraz Holding.

Ferrotrade & Co.

Prior to 2004, steel products exported by Evraz were sold by NTMK and ZapSib to Ferrotrade & Co., an entity under common control with Evraz, which resold these products to export customers. As part of Evraz's restructuring, Ferrotrade & Co. started to transfer its trading activities to Ferrotrade Limited in October 2003, and this process was completed in 2004. See "Management's Discussion and Analysis of Financial Condition and Results of Operation—Summary of Acquisitions". Total sales to Ferrotrade & Co. amounted to U.S.$124.3 million, U.S.$484.7 million and U.S.$311.8 million for the years ended 31 December 2004, 2003 and 2002, respectively. From 2004 Evraz no longer sells steel products to Ferrotrade & Co., and Evraz's export sales are conducted by Ferrotrade Limited, which is consolidated into Evraz's consolidated financial statements.

Other

In addition to the transactions set forth above, Evraz sells its steel and mining products and services to related parties. Transactions with related parties for the years ended 31 December 2004, 2003 and 2002 are summarised below.

KMK-Energo purchased coke oven and blast furnace gas from Evraz amounting to U.S.$5.5 million and U.S.$1.1 million in 2004 and 2003, respectively, and Marteck Shipping made operating lease payments to Evraz for the use of vessels amounting to U.S.$7.2 million in 2004. See "—Purchases of Raw Materials" for a discussion of these entities.

OOO Evrazmetall-Centre ("Evrazmetall-Centre") and OOO Evrazmetall-Sibir ("Evrazmetall-Sibir"), entities that are under common control with Evraz, have purchased steel products from Evraz starting in 2004. Evrazmetall-Centre and Evrazmetall-Sibir resell these products to end customers at regional service centres. Total sales to Evrazmetall-Centre and Evrazmetall-Sibir in the year ended 31 December 2004 amounted to U.S.$105.7 million and U.S.$102.7 million, respectively. Purchases by these entities are expected to increase as they expand their networks of regional service centres in Russia.

In addition to supplying iron ore to Evraz, Evraz Ruda purchases steel products from Evraz. Total sales to Evraz Ruda amounted to U.S.$47.0 million, U.S.$2.9 million and U.S.$70,000 for the years ended 31 December 2004, 2003 and 2002, respectively. In March 2005, Evraz acquired a 100% interest in Evraz Ruda, as a result of which Evraz Ruda ceased to be classified as a related party. See "—Purchases of Raw Materials—Iron ore and coking coal".

During 2002, 2003 and the first part of 2004, Kuznetsk Coal Company, which was under common control with Evraz, purchased metal products, inventory and services from Evraz. In June 2004, Kuznetsk Coal Company ceased to be a related party with Evraz. Total sales to Kuznetsk Coal Company amounted to U.S.$10.4 million, U.S.$104.5 million and U.S.$630,000 for the years ended 31 December 2004 and 2003 and 2002, respectively.

During 2004, NKMK sold raw materials and pig iron to Steel of KMK, which used these materials to produce blanks and blooms. NKMK purchased blanks and blooms from Steel of KMK. See "—Purchases of Raw Materials—Other". Steel of KMK ceased to be a related party with Evraz in July 2004.

OOO PromKhimProduct ("PromKhimProduct"), an entity under common control with Evraz, purchased coke from Evraz during 2004. Total sales to PromKhimProduct for the year ended 31 December 2004 amounted to U.S.$83.9 million. In 2004, PromKhimProduct ceased to be a related party with Evraz.

During 2002, NTMK sold steel products to ZAO EAM Group ("EAM"), which is under common control with Evraz. Total sales to EAM in 2002 amounted to U.S.$51.9 million. As at 31 December 2003 and 2002, NTMK also owed EAM U.S.$7.7 million and U.S.$23.6 million, respectively, pursuant to the terms of the settlement agreement NTMK concluded with its creditors. These amounts had been discharged by the end of 2004.

During 2002 and 2003, ZapSib and NKMK sold metal products to Relsy KMK, which was under common control with Evraz. Total purchases by Relsy KMK amounted to U.S.$27.7 million and U.S.$233,000 for the years ended 31 December 2003 and 2002, respectively. Relsy KMK ceased to be a related party with Evraz during 2003.

In 2002 and 2003, OAO UK Kuznetskugol ("UK Kuznetskugol"), an entity under common control with Evraz, purchased metal products and services and leased equipment from Evraz. Total sales to UK Kuznetskugol amounted to U.S.$7.3 million and U.S.$5.5 million for the years ended 31 December 2003 and 2002, respectively.

Loans from Related Parties

Short-term loans due to related parties

Evraz has made certain short-term borrowings from parties under common control with Evraz. These borrowings have maturity within 12 months from the date of borrowing. As of 31 December 2004 the total amount due under such borrowings amounted to U.S.$10.4 million, and bore interest of from 2.0% to 7.7% annually. Other than amounts due to Marteck, which are dollar-denominated, these borrowings are rouble-denominated. Of the total amount due as of 31 December 2004, U.S.$25,000 was due to Marteck and U.S.$7.8 million to EvrazInvest.

Long-term loans due to related parties

In June 2003, Ferrotrade & Co., which is under common control with Evraz, granted a U.S.$120 million interest-free loan facility to Evraz that was due on 1 June 2006. In 2004, the loan agreement was revised and the facility became payable not later than 31 December 2004, bearing interest at the rate of 4.25% from 1 January 2004. In 2004, Evraz received a further U.S.$11.9 million under this loan agreement. In November 2004, Evraz repaid the entire outstanding loan amount, including accrued interest.

In April 2001, Marteck, which is under common control with Evraz, granted a U.S.$50,000 interest-free loan facility to Evraz due on 31 December 2007. In 2003 Evraz made additional borrowings of U.S.$9.6 million and repaid U.S.$8.3 million under this agreement. On June 30, 2003, Evraz partially repaid this loan by transferring Marteck promissory notes with a nominal value of U.S.$41 million, and in 2004 Evraz repaid in full its remaining liabilities.

In October 2002, Evraz entered into an agreement with Marteck, which is under common control with Evraz, for a loan of €9.1 million (U.S.$11.4 million as of 31 December 2003) at an interest rate of 3% per annum and due on 31 December 2010. Evraz repaid the loan in full in June 2004.

Loans receivable from related parties

Loans receivable from related parties include promissory notes due on demand and short-term loans receivable. Notes and loans receivable as of 31 December 2004 bear interest of between 1% and 12%

annually,; notes and loans receivable as of 31 December 2003 and 2002 did not bear interest. Loans receivable from related parties as of 31 December 2004, 2003 and 2002 were as follows:

	Year ended 31 December		
	2004	**2003**	**2002**
	(thousands of U.S. dollars)		
ZAO Yuzhkuzbassugol	2,763	—	—
OOO KMK-Energo	1,443	—	—
OOO Spetsmash-MT	—	13,148	—
Marteck International Ltd.	—	2,000	—
OAO Goroblagodatskoye Ore Mine	—	1,460	—
ZAO SEAR MF	—	350	10,611
Total	**4,206**	**16,958**	**10,611**

Guarantees of Debts of Related Parties

As of 31 December 2004, Evraz had guaranteed to Alfa-Bank liabilities of ZAO UK Yuzhkuzbassugol, an associate of an entity that is under common control with Evraz, under the credit line agreement between ZAO UK Yuzhkuzbassugol and Alfa-Bank. The borrowing facility of U.S.$15 million bears interest of 11.25% per annum and matured on 27 May 2005. Evraz pledged certain items of property, plant and equipment with a carrying value of U.S.$11.3 million as collateral under the credit line agreement.

As of 31 December 2004, Evraz provided guarantees to certain banks in respect of credit facilities provided to Evraz and Ferrotrade & Co., which is under common control with Evraz, up to but not exceeding U.S.$90 million.

As of December 31, 2004, Evraz had guaranteed to ZAO Raiffeisenbank Austria the repayment of liabilities of OOO EvrazInvest, which is an entity under common control with the Group, under a loan agreement between OOO EvrazInvest and ZAO Raiffeisenbank Austria. The loan amounts to $9.2 million, bears interest at a rate of LIBOR plus 2.95% per annum and matures on 1 September 2005.

As of December 31, 2004, Evraz had guaranteed the repayment of liabilities up to RUR385.9 million (U.S.$13.9 million at the exchange rate of 31 December 2004) of ZAO Raspadskaya Processing Plant ("RPP"), a subsidiary of Corber, under a loan agreement between RPP and Raspadskaya Financial and Industrial Company.

PRINCIPAL SHAREHOLDERS

The table below sets forth certain information regarding the ownership of the Shares (i) as of the date of this Offering Circular and (ii) as of the Closing Date, as adjusted to give effect to the sale of the Shares in the form of GDRs by the Company in the Offering. All information given in this section assumes that the Over-allotment Option is exercised in full. Information as to beneficial interests has been provided to the Company by Crosland Global Limited and its shareholders and, as noted below, could be subject to challenge in certain respects.

	Before the Offering		After the Offering	
Shareholder	**Number of Shares**	**Percentage of Share Capital**	**Number of Shares**	**Percentage of Share Capital**
Crosland Global Limited	107,204,325	100.0%	107,204,325	90.6%
Other	1	0.0%	11,155,001	9.4%
Total	**107,204,326**	**100.0%**	**118,359,326**	**100.0%**

Mr. Alexander Abramov, Evraz's Chief Executive Officer and Chairman of the Board of Directors, has a beneficial interest in 65.26% of Crosland Global Limited (which will represent a 59.11% beneficial interest in the Company after the Offering); Mr. Alexander Frolov, Evraz's Senior Executive Vice President and a member of the Board of Directors, has a beneficial interest in 31.11% (which will represent a 28.18% beneficial interest in the Company after the Offering); and Mr. Valery Khoroshkovsky, Evraz's Chief Operating Officer and a member of Board of Directors, has a beneficial interest in 2.08% (which will represent a 1.88% beneficial interest in the Company after the Offering). These interests in Crosland Global Limited are held directly and/or indirectly (through other companies and trusts).

The directors of the Company, including Messrs. Abramov, Frolov and Khoroshkovsky, have beneficial interests in 98.45% of the Company in aggregate (89.17% after the Offering), which represents an interest in approximately 105,542,659 shares. The directors of the Company and senior management of Evraz, other than Messrs. Abramov, Frolov and Khoroshkovsky, have (and will have after the Offering) beneficial interests in less than 1% of the Company in aggregate.

Messrs. Abramov and Frolov were members of the Original Group, and their beneficial interests in the Company increased over time as they acquired beneficial interests from other members of the Original Group. Mr. Khoroshkovsky acquired his beneficial interest in December 2004 in a privately negotiated transaction with shareholders in connection with his joining Evraz as chief operating officer.

Mr. Abramov controls the Company. There are no arrangements in place that could result in a change of control. There are no agreements between the Shareholders or beneficial owners in relation to the control of the Company or other matters. Certain individuals who hold indirect interests in Crosland Global Limited through one of the companies and trusts referred to above may claim to be entitled to greater indirect interests in Crosland Global Limited than the approximately 1% in aggregate that is reflected in the current documentation, but even if this were the case, these greater indirect interests would be below the level that could affect the ability of Mr. Abramov to control the Company.

On 17 May 2005, Crosland Global Limited entered into an agreement with an unrelated minority shareholder of NTMK who is selling 10.7% of NTMK to Evraz for $215 million in cash, as described under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions—Acquisitions prior to 2002—Nizhny Tagil Iron and Steel Plant". The selling shareholder has granted Crosland Global Limited a put right to transfer shares in the Company to it for an aggregate exercise price of up to U.S.$75 million, and Crosland Global Limited has granted the minority shareholder a call right over shares in the Company for an aggregate exercise price of up to U.S.$215 million. The number of shares in the Company that is subject to these options is determined by dividing the relevant exercise price by the price per share in this Offering, provided that in no event may the number of shares owned by the minority shareholder as a result of the exercise of the put or call right equal or exceed 3% of the shares in aggregate. Crosland Global Limited may exercise its put at any time through 30 November 2005, and the NTMK minority shareholder may exercise its call at any time through the date that is 17 business days following the listing of the GDRs on the Official List and admission to trading on the market for listed securities on the London Stock Exchange, in each case at an exercise price that is the same as the price per Share in the Offering. The NTMK minority shareholder may apply the proceeds to it of the agreed sale to Evraz of the 10.7% stake in NTMK to pay for the shares following the exercise of the put or call. Evraz's obligation to make installment payments to the NTMK minority shareholder for the 10.7% stake in NTMK may be accelerated, in part or in whole, if the put or call is exercised.

DIRECTORS AND MANAGEMENT

Directors

The Company's directors (together, the "Board of Directors") are:

Name	Year of Birth	Position
Alexander G. Abramov	1959	Chairman and Chief Executive Officer
Alexander V. Frolov	1964	Director and Senior Executive Vice President of Evraz
Valery I. Khoroshkovsky	1969	Director and Chief Operating Officer of Evraz
Otari I. Arshba	1955	Director
James W. Campbell	1950	Director
Lord Peter Daresbury	1954	Director
Terry Robinson	1945	Director

Alexander G. Abramov is Chairman of the Board of Directors and Chief Executive Officer. He has served in similar roles with Evraz or its predecessors since founding EvrazMetal, the predecessor of Evraz, in 1992, and was a member of the Original Group. Mr. Abramov is also a member of the boards of directors of NTMK and ZapSib. Mr. Abramov previously worked at the Institute of High Temperatures of the USSR Academy of Sciences. Mr. Abramov graduated from the Moscow Institute of Physics and Technology with a first-class honours degree in 1982, and he holds a Ph.D. in Physics and Mathematics. Mr. Abramov is a Bureau member of the Council of Entrepreneurs and a member of the Council of Entrepreneurs set up by the government of the Russian Federation.

Alexander V. Frolov is Evraz's Senior Executive Vice President responsible for financial and international activities and a member of the Board of Directors. Mr. Frolov joined the Original Group in 1994, and subsequently held various positions at EvrazMetal and Evraz. Mr. Frolov served as Evraz's Chief Financial Officer from 2002 through 2004. Prior to joining Evraz, Mr. Frolov worked as a research fellow at the I.V. Kurchatov Institute of Atomic Energy. Mr. Frolov graduated from the Moscow Institute of Physics and Technology with a first-class honours degree in 1987, and he received a Ph.D. in Physics and Mathematics in 1991 from the Moscow Institute of Physics and Technology.

Valery I. Khoroshkovsky is Evraz's Chief Operating Officer, responsible for current operations, industrial policy and international business and a member of the Board of Directors. Mr. Khoroshkovsky joined Evraz in 2004. Prior to joining Evraz, Mr. Khoroshkovsky served as Minister of Economics in Ukraine from 2002 until January 2004. Mr. Khoroshkovsky served in a number of other positions in the Ukrainian government from 1997 until 2002, and from 2000 was Chairman of the Supervisory Board of the Ukrainian Bank for Social Development. Mr. Khoroshkovsky graduated from Shevchenko Kiev State University with a degree in law, and received a Ph.D. in Economic Science in 2003 from Shevchenko Kiev State University.

Otari I. Arshba has been a member of the Board of Directors since April 2005. Mr. Arshba joined the Original Group in 1998, and until December 2003 served as Evraz's Senior Vice President for Development and External Relations. Mr. Arshba worked in the state security apparatus of the Russian Federation until 1994. Mr. Arshba graduated with distinction from the Felix Dzerzhinsky KGB Higher School, and holds a Ph.D. in political science from the Russian Academy of Government Service. In December 2003, Mr. Arshba was elected a deputy of the State Duma of the Russian Federation (the "Duma"). Russian law provides that a deputy of the Duma may not hold positions in the management bodies of business entities (such as the Company). Violations of this prohibition may result in the release of the individual by the Duma from his or her duties as a deputy. Mr. Arshba has received a letter from the Secretariat of the Head of the Duma stating that the Secretariat does not object to Mr. Arshba's participation in Evraz's Board of Directors on an unpaid basis.

James W. Campbell has been a member of the Board of Directors since April 2005. Mr. Campbell is currently the Chairman of Minara Resources Ltd. (formerly Anaconda Nickel) in Australia. From 1975 until 2002 he served in various positions with the Anglo-American group of companies, including in various positions with Amcoal, then the coal division of Anglo American, from 1984 through 2002. From 1999 through 2002 he served as Executive Director of Anglo American plc; Chairman of Anglocoal (formerly Amcoal) and AngloBase Divisions; and a non-executive director of Anglo Platinum, Anglogold and Anaconda Nickel Ltd. Mr. Campbell received a B.Sc. in Mathematical Physics from Queen's University, Belfast and an M.A. in Engineering Management from the University of Cambridge.

Lord Daresbury has been a member of the Board of Directors since April 2005. Lord Daresbury has served as Non-executive Chairman of De Vere Group plc (formerly The Greenalls Group plc), a hotel and leisure company, since 2000 and as a Senior Advisor to Fleming Family & Partners, a private investment house, since 2005. From 2002 to 2004, Lord Daresbury served as Executive Chairman of Highland Gold Mining Ltd., a gold mining company. Lord Daresbury previously served in various positions with The Greenalls Group plc, a pub, restaurant, hotel and leisure group, including serving as its Chief Executive from 1993 through 2000. Lord Daresbury received an M.A. in History from Magdalene College, Cambridge University, and also received a Sloan Fellowship from London Business School.

Terry Robinson has been a member of the Board of Directors since April 2005. Mr. Robinson also currently serves as Interim Managing Director of Ede's UK Ltd. From 2002 to 2004 he served as Non-executive Deputy Chairman of Chapada Diamonds plc, a diamond producer in Australia and Brazil; from 1998 to 2002 he served as Chief Executive and then Executive Chairman of The Albert Fisher Group plc; and from 1995 to 1998 he served as Chief Executive of Halstead Services Ltd. Mr. Robinson previously held various positions with Union International plc, a food production, processing and trading company, from 1992 to 1995; with Lonrho plc from 1972 to 1991; and with Donald Macpherson Group, a paint manufacturer, from 1967 to 1992. Mr. Robinson is a Fellow of the Institute of Chartered Accountants of England and Wales.

Senior Management

Members of Evraz's senior management, other than its executive directors, are:

Antonino Craparotta (1946) has been a Senior Vice President since joining Evraz in March 2005, responsible for Evraz's energy policies. He previously worked in managerial positions for multinational corporations including General Electric, ABB, Techint and, most recently, for Enel. Mr. Craparotta received a Ph.D. in Mechanical Engineering from the University of Genova (Italy).

Leonid M. Kachur (1961) is Senior Vice President and Director of the Security Department. He joined Evraz in 1993 and is responsible for the development and maintenance of anti-fraud systems, security, compliance and also coordination and cooperation with law enforcement agencies. Mr. Kachur holds a masters degree in engineering.

Alexander V. Karlashov (1953) is Vice President and Director of Corporate Communications. He joined Evraz in 2000. Mr. Karlashov previously worked as an Adviser to the General Director of OAO Aksept (TV Channel REN TV). He graduated from the Moscow Energy Institute in 1977 and holds a Ph.D. in Physics and Mathematics.

Sergey Kodyrev (1966) has been Managing Director of Evraz Ruda since March 2005. From 2002 to 2003, Mr. Kodyrev served as the Chief Operating Officer of Novosibirsk steelworks, and also served as adviser to the general director for production of SIBMETKOM. Mr. Kodyrev received a degree in economics from Leningrad Trade Institution in 1987.

Mikhail Krupin (1946) has been Managing Director of VGOK since 2003. Mr. Krupin previously served as Deputy Director for production of NTMK. Prior to joining Evraz in 1998, Mr. Krupin was First Deputy of the city executive in the Nizhny Tagil Administration. Mr. Krupin received a diploma from Urals Polytechnic University, in Sverdlovsk.

Alexei Kushnarev (1960) has been the Managing Director and Vice President of NTMK since 2004, and was previously a head of rolling at NTMK. Prior to joining Evraz in 2002, Mr. Kushnarev served as Head of Rolling at MMK. He graduated from the Magnitogorsk Mining and Smelting Institute in 1982, and holds a Ph.D. in engineering.

Sergei G. Litvin (1965) is a Senior Vice President and the Commercial Director of Evraz. Prior to joining Evraz in 2004, he worked at OOO Kuznetsk Metal. Mr. Litvin graduated from the Ordzhonikidze Moscow Management Institute with a degree in engineering-economics of organisational management.

Giuseppe Maninna (1952) is the General Director of East Metals S.A., the sales agent for Ferrotrade Limited, and joined Evraz in 2002. Prior to joining Evraz, he served with Duferco S.A. from 1989 to 2002, including as General Manager of the Moscow Representative Office, and with Siderius, Inc. He received a degree in Business Administration from the University of Palermo in 1975.

Andrey V. Mokrinsky (1960) is Managing Director of ZapSib and a member of the Board of Directors of ZapSib. Mr. Mokrinsky joined Evraz in 2003 as the Head of Production and Technological Policy

Department. Prior to joining Evraz, Mr. Mokrinsky held various positions at Chelyabinsk Integrated Iron and Steel Plant (now part of Mechel). He graduated from Moscow Institute of Steel and Alloys in 1982.

Vyacheslav V. Pavlov (1949) is Managing Director of NKMK, a position he has held since joining Evraz in 2003. Mr. Pavlov previously worked as Deputy General Director of KMK, and following the bankruptcy procedures and restructuring of KMK held several management positions with restructured subsidiaries of the former KMK. For over 13 years, prior to joining KMK, Mr. Pavlov held various management positions at Ural Steel (the former Orsk-Khalilovsky Integrated Iron and Steel Plant). He graduated from the Urals Technical Institute in 1972.

Andrey Sidelnik (1966) has been the General Director of KGOK since 2004. Mr. Sidelnik previously served as Commercial Director of NTMK, and has been with Evraz since 1998. Prior to joining Evraz, Mr. Sidelnik was a General Director of TC Kears Cable. He graduated from the Moscow Institute of Physics and Technology in 1986.

Pavel S. Tatyanin (1974) is Senior Vice President and Chief Financial Officer. Mr. Tatyanin is also a member of the boards of directors of NTMK and ZapSib. Mr. Tatyanin oversees trade financing, project finance and capital markets activities, mergers and acquisitions and corporate structuring of Evraz. Prior to joining Evraz in 2001, Mr. Tatyanin worked for OAO Financial Corporation Adamant. He graduated from the Economics Faculty of Moscow State University in 1995 and holds a masters degree in economics.

Andrey A. Teterkin (1969) is Director of Business Development. He joined Evraz in 2002. From 2001 to 2002 he worked as a General Director of ZAO Unikem. Mr. Teterkin graduated from the Academy of Finance in 1998, and also received an MBA in General Management from the Rotterdam School of Management in 2002.

Timur I. Yanbukhtin (1964) is Vice President and Director of Corporate Finance. He joined Evraz in 2002. Previously, he worked at OOO Yandex, Alfa Bank, Salomon Brothers and Pioneer Investments. He graduated from Moscow State University with a degree in economics and mathematics in 1986, and also received a masters degree from Yale University in economics in 1994.

The business address of all of the Company's directors and Evraz's senior managers is 1 Allee Scheffer, L-2520 Luxembourg.

Corporate Governance

Members of the Board of Directors are elected by a majority vote of shareholders at the annual general meeting. Directors are elected for one-year terms, and may be re-elected an unlimited number of times. The Board of Directors currently consists of seven members, three of whom are deemed to be independent pursuant to criteria adopted by the Board of Directors on 25 April 2005. See "Description of Share Capital and Corporate Structure—Board of directors". Lord Daresbury and Messrs. Campbell and Robinson serve on the Board of Directors pursuant to agreements. These agreements, each of which contains identical terms, have a duration of one year and provide for the payment of compensation and reimbursement of certain expenses. The agreements also provide that prior to the Offering, the Company shall grant the director options for the purchase of U.S.$800,000 of shares at the price per Share in the Offering, exercisable from one to three years after the date of the grant, and also that the Company shall use its best endeavours to provide that such director may, directly or indirectly, subscribe for or purchase up to U.S.$5 million of shares in the Company at the price per Share determined in the Offering. See "Subscription and Sale". The Company also undertakes to provide directors and officers' liability insurance to each such director prior to the completion of the Offering. These agreements do not provide for any benefits upon termination of the directorship.

On 25 April 2005, the Board of Directors adopted a number of resolutions that establish the general parameters of the Company's procedures for the management and conduct of its business. These include:

- Authorisation for the Chief Executive Officer to enter into any transaction on behalf of the Company up to a value of €30 million and for such purpose to execute relevant documents or to delegate powers as appropriate. See "Description of Share Capital and Corporate Structure—Board of Directors—Officers" for a description of the powers of the Chief Executive Officer under the Articles.
- So long as the Board of Directors is able to conclude that it has "Independent Directors" (having regard to Section A.3.1 of the 2003 Combined Code on Corporate Governance, as the same may be amended from time to time, or any successor provision), it is the intention of the

Board of Directors that any "transaction with a related party" by the Company or any of its consolidated subsidiaries with a value of more than €30 million shall require the affirmative vote of a majority of such Independent Directors. For these purposes, a "transaction with a related party" is defined by reference to Chapter 11 of the UK Listing Rules, as amended, which currently defines such a transaction as (i) a transaction (other than a transaction of a revenue nature in the ordinary course of business) between a company, or any of its subsidiary undertakings, and a related party; (ii) any arrangements pursuant to which a company, or any of its subsidiary undertakings, and a related party each invests in, or provides finance to, another undertaking or asset; or (iii) a transaction (other than a transaction of a revenue nature in the ordinary course of business) between a company, or any of its subsidiary undertakings and any person who, or other entity which, exercises significant influence over the company. For the avoidance of doubt, any transaction between members of the group comprising the Company and its consolidated subsidiaries or any transaction between any member of such group and any other person who would be a related party only because of an interest held in that person through one or more members of such group is not considered a "transaction with a related party" pursuant to the resolution of the Board of Directors.

- It is the intention of the Board of Directors to instruct consolidated subsidiaries of the Company that approval of the Board of Directors shall be required for any consolidated subsidiary of the Company to make any acquisition or disposal of assets or businesses valued at more than €30 million other than in the ordinary course of business; to undertake any borrowings from, loans to or guarantees or the granting of security in respect of the financial obligations of or obligations owed to any third party, valued at more than €30 million; and for any purchase of shares in any of the Company's consolidated subsidiaries. The Board of Directors resolved that the approval of the Board of Directors shall not be required for any transactions between members of Evraz's consolidated group.

The Board of Directors has also established criteria by which to assess whether a director is an independent director with consideration of the character and judgement of each member of the Board of Directors and whether there are relationships or circumstances which are likely to affect, or could appear to affect, any member's judgement. If the Board of Directors determines that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination, the Board of Directors has resolved to state the basis for its conclusion, including if the director has been an employee of Evraz within the last five years; has, or has had within the last three years, a material business relationship with the Company either directly, or as a partner, shareholder, director or senior employee of a body that has such a relationship with the company; has received or receives additional remuneration from the Company apart from a director's fee, participates in the Company's share option or a performance-related pay scheme, or is a member of the Company's pension scheme; has close family ties with any of the Company's advisers, directors or senior employees; holds cross-directorships or has significant links with other directors through involvement in other companies or bodies; represents a significant shareholder; or has served on the board for more than nine years from the date of such director's first election.

The Board of Directors may alter the foregoing procedures by passing an ordinary resolution, and the Company would expect to issue an explanatory press release if these procedures are altered in any material respect.

Remuneration Committee

The Remuneration Committee consists of Lord Daresbury, Mr. James Campbell and Mr. Alexander Frolov, and Mr. Antonio Craparotta has been appointed as secretary of the Remuneration Committee. The Remuneration Committee is authorised to carry out its functions as described or provided for in the Articles as well as any other functions as may, from time to time, be delegated to it by the Board of Directors. These responsibilities include consideration of the award and exercise of stock options by any member of the Board of Directors and all matters relating to the remuneration of the Chief Executive Officer. See "Description of Share Capital and Corporate Structure—Board of directors".

Audit Committee

The Audit Committee consists of Mr. Terry Robinson and Lord Daresbury. The members of the Board of Directors agreed on 25 April 2005 that a third member of the Audit Committee is to be appointed at a later date. The Audit Committee is authorised to carry out its functions as described or provided for in the Articles as well as any other functions as may, from time to time, be delegated to it by the Board of Directors relating to such matters as the oversight of audit functions, financial reporting and internal control principles and the appointment, compensation, retention and oversight of the Company's independent auditors. See "Description of Share Capital and Corporate Structure—Board of directors".

Management of Subsidiaries

In order to achieve integrated control over the activities of its operating facilities, Evraz established Evraz Holding as a centralised management company. Evraz Holding was appointed by the shareholders of NTMK and ZapSib in July 2002 and June 2002, as the management company for NTMK and ZapSib for periods of one and five years, respectively. Evraz Holding is consolidated into the Consolidated Financial Statements on the basis of a currently exercisable option agreement to acquire the shares in Evraz Holding. In June 2003 Evraz Holding was re-appointed as the management company for NTMK for an additional five years, and in November 2003 Evraz Holding was appointed as NKMK's management company for a period of five years. Evraz Holding was also appointed as the management company for KGOK, VGOK and Evraz Ruda from 1 April 2005 on an annual basis. The management contracts transfer all executive powers that are not under direct control of the relevant board of directors to Evraz Holding.

Evraz Holding exercises the managing powers of a sole executive body of the companies that it manages including entering into transactions on behalf of each company (within the limits provided for in the legislation), operating their bank accounts, and representing them before various state and judicial agencies. Management is exercised by an officer of Evraz Holding acting under a power of attorney. Payments received by Evraz Holding are applied fully against its operating expenses and reflected fully in the appropriate line item of Evraz's consolidated financial statements.

Although human resources have been historically managed by each operating company, this function is gradually being centralised with respect to the Company's Russian subsidiaries by Evraz Holding. The Company's human resources policy for its Russian subsidiaries is also managed by Evraz Holding. Evraz Holding seeks to create a team of highly-qualified, talented and hard-working personnel dedicated to the resolution of technical, social and economic challenges. These objectives form the basis for the criteria for Evraz's processes for hiring personnel, paying workers and motivating, training and developing personnel. The appointment of Evraz Holding as a management company serves to centralise all management functions in a single body, and facilitates the adoption of standard operating and financial management practices across all of Evraz's operations. The delegation of management functions to Evraz Holding also serves to improve the efficiency of management activities, by reducing the number of transactions entered into in the ordinary course of business that are subject to the approval of minority shareholders, for example under the Russian Joint Stock Companies law (in particular, transactions with other subsidiaries of the Company).

Prior to October 2002, a traditional reporting structure existed at each of NTMK and ZapSib, under which heads of departments reported to the managing director, appointed by the relevant board of directors. However, this management and reporting structure was not sufficiently flexible and did not allow for Evraz to realise maximum efficiencies, such as economies of scale. As part of the new management structure, senior managers of NTMK and ZapSib became employees of Evraz Holding. Upon signing of the management agreement between Evraz Holding and NKMK, part of the senior management of NKMK was also transferred to Evraz Holding, which effectively implemented at NKMK a similar reporting system. A similar structure had been adopted at the Company's other Russian subsidiaries that have appointed Evraz Holding as the management company.

The Board of Directors determines the strategies to be employed by Evraz, and Evraz Holding implements those strategies with respect to each company that it manages, subject to approval by the boards of directors of such companies. Decisions by Evraz Holding are subject to the corporate governance procedures that have been adopted by the Board of Directors, as discussed above. See "—Corporate Governance". For a discussion of revenues and expenses attributable to Evraz Holding, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for the Periods ended 31 December 2004, 2003 and 2002". Evraz Holding is also currently establishing standard procedures for the companies it manages, including procedures related to budgeting, the approval of investments and capital expenditures and management information systems.

Remuneration of Directors and Management

The aggregate amount of remuneration paid by Evraz to the Company's directors as a group (Messrs. Abramov, Frolov and Khoroshkovsky) during the year ended 31 December 2004 was approximately U.S.$5.9 million in salary and bonuses. Mr. Khoroshkovsky joined Evraz only in November 2004. The aggregate amount of remuneration paid by Evraz to its management, including the senior management of its subsidiaries, as a group (59 individuals, excluding Messrs. Abramov, Frolov and Khoroshkovsky) during the year ended 31 December 2004 was approximately U.S.$32.0 million in salary and bonuses. Substantially all of the remuneration to the directors and senior management was paid by Evraz Holding. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for the Periods ended 31 December 2004, 2003 and 2002—Cost of Revenues and gross profit—Other operations" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations for the Periods ended 31 December 2004, 2003 and 2002—General and administrative expenses—Other operations".

Share Option Plan

The Company has established a share option plan for its non-employee directors and selected other employees of Evraz. Grants of options to participants in the plan may be made at the discretion of the Board of Directors, which is authorised to issue options giving each holder of such options the right to subscribe for shares without reserving a preferential right of subscription to the existing shareholders. Grants of shares pursuant to the plan may be made from the Company's authorised but unissued share capital and from the shares that may be acquired by the Company from time to time. The Company intends that total grants of shares under the share option plan shall not exceed 5% of the Company's issued share capital for three years from the date of the Offering, and that the exercise price of such options shall be the price of Shares in the Offering.

Evraz does not have any stock option plans with respect to shares of any of its subsidiaries.

REGULATORY MATTERS

General

Russia has not enacted any specific legislation governing operation of the steel industry and activities of steel manufacturing companies. The production, sale and distribution of steel in the Russian Federation is regulated by general civil legislation and special legislation relating to quality standards, industrial safety rules, environmental and other issues.

At the federal level, the Ministry of Industry and Energy of the Russian Federation (to which powers were transferred from the Ministry of Industry, Science and Technology) is the principal agency supervising the operation of the steel sector. The Ministry is responsible for the development of the governmental policy in the industry (attraction of investments, foreign trade, taxation, support of scientific research, employment), however, it lacks direct regulatory authority. In October 2002, the Ministry of Industry and Energy published the Programme for Development of the Russian Steel Industry until 2010. This programme proposes measures supporting voluntarily certifications of steel products and promotion of innovations in the industry, reduction of import duties for high-tech machinery and funding of scientific researches and process design. The Ministry of Industry and Energy also sets and oversees compliance with obligatory general and industrial standards.

The Federal Service for Environment, Technology and Nuclear Supervision oversees compliance with mandatory safety rules for the steel industry elaborated by the Ministry of Industry and Energy. Safety procedures at installation, deployment and operation of technical devices and machinery used in the steel industry and the procedure for maintaining technological processes are covered by such rules.

The Federal Agency for Subsoil Use of the Russian Federation is the federal licencing authority for the use of natural resources.

The Federal Antimonopoly Service oversees the acquisition of controlling stakes in companies and dominant market positions.

The Federal Service for the Supervision of the Use of Natural Resources oversees compliance with the terms and conditions of licences issued by the Ministry of Natural Resources and environmental legislation.

The Ministry of Economic Development and Trade of the Russian Federation regulates Russian export and imports of steel products and coordinates intergovernmental negotiations relating to export/import activity.

Aside from the above federal executive bodies, which are directly involved in the regulation of and supervisions over the Russian steel industry, a number of other governmental bodies and agencies which authority over general issues connected with the steel industry such as defence, rail transport and tax enforcement.

Licencing

Evraz is required to obtain numerous licences, authorizations and permits from Russian governmental authorities in the conduct of its operations. The Federal Law "On Licencing of Certain Types of Activities" dated 8 August 2001, which came into force in January 2002 (the "Licencing Law"), established a list of activities which can only be performed on the basis of licences issued by the relevant Russian authorities. The Licencing Law removed certain licensing requirements which existed earlier and amended the previous list of licencing activities. The list of activities relating to the steel industry now includes, among other things, collection, processing and sale of scrap iron and base metals, activities connected with hazardous waste, operation of explosive and chemically hazardous production facilities, construction of building and other structures connected with steel production.

Under the Licencing Law, the minimum period for which a licence is issued is five years. These licences are usually issued for a period of five years and may be extended upon application by the licensee. Licences for the use of natural resources may be issued for shorter or longer periods. In particular, licences for the use of surface water resources may be issued for periods of up to 25 years. Upon the expiration of a licence, it may be extended upon application by the licensee. Certain types of licences may also have unlimited terms. A licence can be suspended if the licensee repeatedly conducts material breaches of the terms and conditions of such licence. If a licensee does not mitigate any breach of the licence granted to it within the period established by the licencing authority, that authority may apply to court for the cancellation of that licence. A court may also cancel the licence in certain other cases (for example, if the breach of the terms and conditions of a licence by the licensee damaged the rights, legal interests or health of individuals). The licencing authority may cancel a licence without a court order if the licensee does not pay a licencing commission within three months of the granting of the licence.

Subsoil Licencing

In Russia, mining minerals requires a subsoil licence from the state authorities with respect to an identified mineral deposit, as well as the right (through ownership, lease or other right) to use the land where such licenced mineral deposit is located. In addition, as discussed above, operating permits are required with respect to specific mining activities.

The primary law regulating subsoil licencing is the Law on Subsoil Resources of 21 February 1992, as amended (the "Subsoil Law"), and the regulations thereunder, which set out the regime for granting licences for the exploration and production of mineral resources. Important amendments to the Subsoil Law, passed in August 2004, significantly change the procedure for awarding exploration and production licenses, in particular abolishing the joint grant of licenses by federal and regional authorities. Under the 2004 amendments, production licences and combined exploration and production licences are awarded by tender or auction conducted by the Federal Agency for Subsoil Use. While the auction or tender commission may include a representative of the relevant region, the separate approval of regional authorities is no longer required in order to issue subsoil licenses. The winning bidder is expected to submit the most technically competent, financially attractive and environmentally sound proposal that meets published tender terms and conditions. Licences for geological exploration and production may also be issued without the holding of an auction or tender by the decision of the federal authorities to holders of exploration licenses that discover mineral resource deposits through exploration work conducted at their own expense. Regional authorities may issue production licenses for "common" mineral resources, such as clay, sand or limestone.

There are two major types of licences: (1) exploration licences, which are non-exclusive licences granting the right of geological exploration and assessment within the licence area, and (2) exploration and production licences, which grants the licensee an exclusive right to produce minerals from the licence area. In practice, many of the licences are issued as combined licences, which grant the right to explore, assess and produce minerals from the licence area. A subsoil licence defines the licence area in terms of latitude, longitude and depth.

Payments with respect to the exploration, evaluation and extraction of minerals include: (1) periodic payments for the use of subsoil under the Subsoil Law and (2) the minerals extraction tax under the Tax Code. Failure to make these payments could result in the suspension or termination of the subsoil licence. The minerals extraction tax is calculated as a percentage of the value of minerals extracted, and for 2005 is set at 4% for coal and 4.8% for iron ore.

The term of the licence is set forth in the licence. Prior to January 2000, exploration licences could have a maximum term of five years, production licences a maximum term of 20 years, and combined exploration, assessment and production licences a maximum term of 25 years. After amendment of the Subsoil Law in January 2000, exploration licences may still have a maximum term of five years; exploration and production licences are generally granted for a term of the expected operational life of the field based on a feasibility study, except under certain circumstances in which the license may be issued for a term of one year; and combined licences can be issued for the term of the expected operational life of the field based on a feasibility study. These amendments did not affect the terms of licences issued prior to January 2000, but permit licensees to apply for extensions of such licences for the term of the expected operational life of the field in accordance with the amended Subsoil Law. The term of a subsoil licence runs from the date the licence is registered with the Russian Federal Geological Fund.

Issuance of licences

Subsoil licences in Russia are generally issued by the Federal Agency for Subsoil Use. Most of the currently existing production licences owned by companies derive from (1) pre-existing rights granted during the Soviet era and up to the enactment of the Subsoil Law to state-owned enterprises that were subsequently reorganized in the course of post-Soviet privatisations or (2) tender or auction procedures held in the post-Soviet period. The Russian Civil Code, the Subsoil Law and the Licencing Regulation contain the major requirements relating to tenders and auctions. The Subsoil Law allows for production licences to be issued without a tender or auction procedure only in limited circumstances, such as instances when a mineral deposit is discovered by the holder of an exploration licence at its own expense during the exploration phase.

Extension of licences

The Subsoil Law permits a subsoil licensee to request an extension of a production licence in order to complete the production from the subsoil plot covered by the licence or the procedures necessary to vacate the land once the use of the subsoil is complete, provided the user complies with the terms and conditions of the licence and the relevant regulations.

In order to extend a subsoil licence, a company must file an application with the federal authorities to amend the licence.

The Order of the Ministry of Natural Resources No. 439-R, dated 31 October 2002, requires that the following issues be considered by the relevant governmental authorities when determining whether to approve an amendment: (1) the grounds for the amendments, with specific information as to how the amendments may impact payments by the licensee to the federal and local budgets; (2) compliance of the licensee with the conditions of the licence; and (3) the technical expertise and financial capabilities that would be required to implement the conditions of the amended licence.

The factors that may in practice, affect a company's ability to obtain the approval of licence amendments include (1) its compliance with the licence terms and conditions; (2) its management's experience and expertise relating to subsoil issues, including experience in amending licences; and (3) the relationship of its management with federal and/or local governmental authorities, as well as the local governments. For a description of additional factors that may affect Russian companies' ability to extend their licences, see "Risk Factors—Risks Relating to Evraz—Evraz's business could be adversely affected if it fails to obtain or renew necessary licences or fails to comply with the terms of its licences". See also "Risk Factors—Risks Relating to Evraz—Evraz's business could be adversely affected if it fails to obtain or renew necessary licenses or fails to comply with the terms of its licenses" and "Risk Factors—Risks Relating to the Russian Federation—Legislative and Legal Risks—Weaknesses relating to the Russian legal system and Russian legislation create an uncertain environment for investment and business activity in Russia and thus could have a material adverse effect on Evraz's business and the value of the GDRs".

Maintenance and termination of licences

A licence granted under the Subsoil Law is generally accompanied by a licencing agreement. The law provides that there be two parties to any subsoil licencing agreement: the federal authorities and the licensee. The licencing agreement sets out the terms and conditions for the use of the subsoil licence. Under a licencing agreement, the licensee makes certain environmental, safety and production commitments. For example, the licensee makes a production commitment to bring the field into production by a certain date and to extract an agreed-upon volume of natural resources each year. The licence agreement may also contain commitments with respect to social and economic development of the region. When the licence expires, the licensee must return the land to a condition which is adequate for future use. Although most of the conditions set out in a licence are based on mandatory rules contained in Russian law, certain provisions in a licencing agreement are left to the discretion of the licencing authorities and are often negotiated between the parties. However, commitments relating to safety and the environment are generally not negotiated.

The fulfillment of a licence's conditions is a major factor in the good standing of the licence. If the subsoil licensee fails to fulfill the licence's conditions, upon notice, the licence may be terminated by the licencing authorities. However, if a subsoil licensee cannot meet certain deadlines or achieve certain volumes of exploration work or production output as set forth in a licence, it may apply to amend the relevant licence conditions, though such amendments may be denied.

The Subsoil Law and other Russian legislation contain extensive provisions for licence termination. A licensee can be fined or the licence can be suspended or terminated for the reasons noted above, for repeated breaches of the law, upon the occurrence of a direct threat to the lives or health of people working or residing in the local area, or upon the occurrence of certain emergency situations. A licence may also be terminated for violations of "material" licence terms. Although the Subsoil Law does not specify which terms are material, failure to pay subsoil taxes and failure to commence operations in a timely manner have been common grounds for termination of licences. Consistent overproduction or underproduction and failure to meet obligations to finance a project would also likely constitute violations of material licence terms. In addition, certain licences provide that the violation by a subsoil licensee of any of its obligations may constitute grounds for terminating the licence.

If the licensee does not agree with a decision of the licencing authorities, including a decision relating to a licence termination or the refusal to re-issue an existing licence, the licensee may appeal the decision through administrative or judicial proceedings. In certain cases of termination, the licensee has the right to attempt to cure the violation within three months of its receipt of notice of the violation. If the issue has been resolved within such a three-month period, no termination or other action may be taken.

Governmental authorities may undertake periodic reviews for ensuring compliance by subsoil licence users with the terms of their licences and applicable legislation. A licensee can be fined for failing to comply with the subsoil production licence and the subsoil production licence can be revoked, suspended or limited in certain circumstances, including:

- a breach or violation by the licensee of material terms and conditions of the licence;
- repeated violation by the licensee of the subsoil regulations;
- the failure by the licensee to commence operations within a required period of time or to produce;
- required volumes, as specified in the licence;
- the occurrence of an emergency situation;
- upon the emergence of a direct threat to the life or health of people working or residing in the area;
- affected by the operations under the licence;
- the liquidation of the licensee; and
- the non-submission of reporting data in accordance with the legislation.

Land Use Rights

Russian legislation prohibits the carrying out of any commercial activity, including mineral extraction, on a land plot without appropriate land use rights. Land use rights are needed and obtained for only the portions of the licence area actually being used, including the plot being mined, access areas, and areas where other mining-related activity is occurring.

Under the Land Code of the Russian Federation of 25 October 2001, as amended, or the Land Code, companies generally have one of the following rights with regard to land in the Russian Federation: (1) ownership; (2) right of free use for a fixed term; or (3) lease.

A majority of land plots in the Russian Federation are owned by federal, regional or municipal authorities which, through public auctions or tenders or through private negotiations, can sell, lease or grant other use rights to the land to third parties.

Companies may also have a right of perpetual use of land that was obtained prior to the enactment of the Land Code; however, the Federal Law on Introduction of the Land Code of 25 October 2001, with certain exceptions, requires companies using land pursuant to rights of perpetual use either to purchase the land from, or to enter into a lease agreement relating to, the land with the relevant federal, regional or municipal authority owner of the land by 1 January 2006. Evraz has purchased most of the land relating to its steel making facilities, and it holds the balance pursuant to rights of perpetual use. Implementation by the Russian government of a law requiring Russian companies to purchase or lease the land on which they operate may have a material adverse effect on Evraz's financial condition.

Evraz's mining subsidiaries generally have a right of ownership or perpetual use of their plots or have entered into long-term lease agreements. A lessee generally has a priority right to enter into a new land lease agreement with a lessor upon the expiration of a land lease. In order to renew a land lease agreement, the lessee must apply to the lessor (usually state or municipal authorities) for a renewal prior to the expiration of the agreement. Any lease agreement for a period of longer than one year must be registered with the relevant state authorities.

Antimonopoly Regulation

Evraz is subject to regulation by the FAS, both in connection with some acquisitions that it makes as well as a result of its market position in certain market segments, namely rails, H-beams, channels, high-vanadium iron ore, sinter and pellets and its control of Nakhodka Sea Port.

The FAS is authorised by law to approve (i) acquisitions of more than 20% of the voting shares in a Russian business entity; (ii) acquisitions of more than 10% of the fixed and intangible assets of companies; and (iii) acquisition of control over companies, in each case if the combined assets of the target and acquirer's group of persons exceed 30 million statutory minimum wages, currently equivalent to RUR3 billion (approximately U.S.$108 million) or if the target, the acquirer or a company in the acquirer's group of persons is registered as having more than a 35% share of a particular commodity market. The FAS is also authorised to approve the merger or consolidation, and to monitor the appointment of certain members of the management, of Russian business entities.

As a condition to issuing such approvals, the FAS may impose certain conditions designed to promote competition, including restrictions on conducting business, such as limitations on prices, geographical expansion, associations and agreements with competitors. In addition, a company holding a market share in a particular commodity market that exceeds 65% is presumed to hold a dominant position in that market. Such company is prohibited from abusing such a position, which includes activities that are characterized as restraining or eliminating the competition. Companies holding such a dominant position may not (i) limit sales in order to create a deficit or to increase prices; (ii) impose unfavorable contractual terms on their contractors that are not justified by the subject of the contract (*e.g.*, unjustified demands for the transfer of assets or property rights); (iii) impose discriminatory terms on access of competitors to the market; (iv) create barriers to entry into or exit from the market; (v) violate legal or regulatory requirements relating to pricing; (vi) fix excessively high or excessively low prices; (vii) decrease or terminate production of goods that are in demand or that are ordered by consumers when there is a possibility of producing such goods without sustaining loss; or (viii) arbitrarily refuse to enter into a sales agreement with particular customers, if it is feasible to produce or deliver the relevant goods.

The FAS is authorised to issue binding orders on companies holding a dominant position (*e.g.*, requiring companies to treat customers equally or imposing pricing restrictions). In addition, the Federal Antimonopoly Service has the power to require a spin-off or split of business operations of a company which holds a dominant position when the following conditions are met: the company has repeatedly (*i.e.*, two times within three years) violated Russian antimonopoly regulations; the spin-off would increase competition; a structural unit of the company may be organizationally and territorially separated from the company; there is no tight technological interconnection between structural units of the company (in particular, less than 30% of the relevant structural unit's output is consummated internally); and the legal entities resulting from such spin-off may function autonomously.

Environmental Matters

Evraz is subject to laws, regulations and other legal requirements relating to the protection of the environment, including those governing the discharge of substances into the air and water, the management and disposal of hazardous substances and waste, the cleanup of contaminated sites, flora and fauna protection and wildlife protection. Issues of environmental protection in Russia are regulated primarily by the Federal Law on Environmental Protection of 10 January 2002, or the Environmental Protection Law, as well as by number of other federal and local legal acts.

Pay-to-pollute

The Environmental Protection Law establishes a "pay-to-pollute" regime administered by federal and local authorities. The Ministry of Natural Resources has established standards relating to the permissible impact on the environment and, in particular, limits for emissions and disposal of substances, waste disposal and resource extraction. A company may obtain approval for exceeding these statutory limits from the federal or regional authorities, depending on the type and scale of environmental impact. As a condition to such approval, a plan for the reduction of the emissions or disposals must be developed by the company and cleared with the appropriate governmental authority. Fees, as set forth in a governmental decree, are assessed on a sliding scale for both the statutory or individually approved limits on emissions and effluents and for pollution in excess of these limits: the lowest fees are imposed for pollution within the statutory limits, intermediate fees are imposed for pollution within the individually approved limits, and the highest fees are imposed for pollution exceeding such limits. Payments of such fees do not relieve a company from its responsibility to take environmental protection measures and undertake restoration and clean-up activities.

Ecological approval

Any activities that may affect the environment are subject to state ecological approval by federal authorities in accordance with the Federal Law on Ecological Expert Examination of 23 November 1995, as amended. Conducting operations that may cause damage to the environment without state ecological approval may result in the negative consequences described under "—Environmental liability".

Enforcement authorities

The Federal Service for the Supervision of the Use of Natural Resources, the Federal Service for Environmental, Technological and Nuclear Supervision, the Federal Service for Hydrometrology and Environmental Monitoring, the Federal Agency on Subsoil Use, the Federal Agency on Forestry and the Federal Agency on Water Resources (along with their regional branches) are involved in environmental control, implementation and enforcement of relevant laws and regulations. The federal government and Ministry of Natural Resources is responsible for coordinating the activities of the regulatory authorities in this area. Such regulatory authorities, along with other state authorities, individuals and public and non-governmental organizations, also have the right to initiate lawsuits for the compensation of damage caused to the environment. The statute of limitations for such lawsuits is 20 years.

Environmental liability

If the operations of a company violate environmental requirements or cause harm to the environment or any individual or legal entity, environmental authorities may suspend these operations or a court action may be brought to limit or ban these operations and require the company to remedy the effects of the violation. Any company or employees that fail to comply with environmental regulations may be subject to administrative and/or civil liability, and individuals may be held criminally liable. Courts may also impose clean-up obligations on violators in lieu of or in addition to imposing fines.

Subsoil licenses generally require certain environmental commitments. Although these commitments can be substantial, the penalties for failing to comply and the clean-up requirements are generally low.

Reclamation

Evraz conducts its reclamation activities in accordance with the Basic Regulation on Land Reclamation, Removal, Preservation, and Rational Use of the Fertile Soil Layer, approved by Order No. 525/67 of 22 December 1995, of the Ministry of Natural Resources. Russian environmental regulations do not require mines to achieve the approximate original contour (AOC) of the property as is required, for example, in the United States.

Environmental protection programs

Evraz has been developing and implementing environmental protection programs at all of its steel and mining subsidiaries. Such programs include measures to aid in adhering to the limits imposed on air and water pollution and storage of industrial waste, introduction of environmentally friendly industrial technologies, the construction of purification and filtering facilities, the repair and reconstruction of industrial water supply systems, the installation of metering systems, reforestation and the recycling of water and industrial waste.

Health and Safety

Due to the nature of Evraz's business, much of its activity is conducted at industrial sites by large numbers of workers, and workplace safety issues are of significant importance to the operation of these sites. The principal law regulating industrial safety is the Federal Law on Industrial Safety of Dangerous Industrial Facilities of 21 July 1997, as amended (the "Safety Law"). The Safety Law applies, in particular, to industrial facilities and sites where certain activities are conducted, including sites where lifting machines are used, where alloys of ferrous and non-ferrous metals are produced and where certain types of mining is done. The Safety Law also contains a comprehensive list of dangerous substances and their permitted concentration, and extends to facilities and sites where these substances are used. There are also regulations that address safety rules for coal mines, the production and processing of ore, the blast-furnace industry, steel smelting, alloy production and nickel production. Additional safety rules also apply to certain industries, including metallurgical and coke chemical enterprises, and the foundry industry.

Any construction, reconstruction, liquidation or other activities in relation to regulated industrial sites is subject to a state industrial safety review. Any deviation from project documentation in the process of construction, reconstruction and liquidation of industrial sites is prohibited unless reviewed by a licensed expert and approved by the Federal Service for Environmental, Technological and Nuclear Supervision. Companies that operate such industrial facilities and sites have a wide range of obligations under the Safety Law and the Labour Code of Russia effective 1 February 2002, as amended (the "Labour Code"). In particular, they must limit access to such sites to qualified specialists, maintain industrial safety controls and carry insurance for third-party liability for injuries caused in the course of operating industrial sites. The Safety Law also requires these companies to enter into contracts with professional wrecking companies or create their own wrecking services in certain cases, conduct personnel training programs, create systems to cope with and inform the Federal Service for Environmental, Technological and Nuclear Supervision of accidents and maintain these systems in good working order. In certain cases, companies operating industrial sites must also prepare declarations of industrial safety which summarize the risks associated with operating a particular industrial site and measures the company has taken and will take to mitigate such risks and use the site in accordance with applicable industrial safety requirements. Such declaration must be adopted by the chief executive officer of the company, who is personally responsible for the completeness and accuracy of the data contained therein. The industrial safety declaration, as well as a state industrial safety review, are required for the issuance of a licence permitting the operation of a dangerous industrial facility.

The Federal Service for Environmental, Technological and Nuclear Supervision has broad authority in the field of industrial safety. In case of an accident, a special commission led by a representative of the Federal Service for Environmental, Technological and Nuclear Supervision conducts a technical investigation of the cause. The company operating the hazardous industrial facility where the accident took place bears all costs of an investigation. The officials of the Federal Service for Environmental, Technological and Nuclear Supervision have the right to access industrial sites and may inspect documents to ensure a company's compliance with safety rules. The Federal Service for Environmental, Technological and Nuclear Supervision may suspend or terminate operations or impose administrative liability.

Any company or individual violating industrial safety rules may incur administrative and/or civil liability, and individuals may also incur criminal liability. A company that violates safety rules in a way that negatively impacts the health of an individual may also be obligated to compensate the individual for lost earnings, as well as health-related damages.

Employment and Labour

Labour matters in Russia are primarily governed by the Labour Code. In addition to this core legislation, relationships between employers and employees are regulated by various federal laws, such as the Federal Law on Collective Contracts and Agreements of 11 March 1992, as amended; the Federal Law on the Procedure of Settlement of Collective Labour Disputes of 23 November 1995, as amended; the Federal Law on Employment in the Russian Federation of 19 April 1991, as amended; the Federal Law on the Fundamentals of Protection of Labour in the Russian Federation of 17 July 1999, as amended.

Employment contracts

As a general rule, employment contracts for an indefinite term are concluded with all employees. Russian labour legislation expressly limits the possibility of entering into term employment contracts. However, an employment contract may be entered into for a fixed term of up to five years in certain cases where labour relations may not be established for an indefinite term due to the nature of the duties or the conditions of the performance of such duties as well as in other cases expressly identified by federal law.

An employer may terminate an employment contract only on the basis of the specific grounds enumerated in the Labour Code, including:

- liquidation of the enterprise or downsizing of staff;
- failure of the employee to comply with the position's requirements due to incompetence or health problems;
- systematic failure of the employee to fulfill his or her duties;

- any single gross violation by the employee of his or her duties; and
- provision by the employee of false documents or misleading information prior to entry into the employment contract.

An employee dismissed from an enterprise due to downsizing or liquidation is entitled to receive compensation including a severance payment and, depending on the circumstances, salary payments for a certain period of time.

The Labour Code also provides protections for specified categories of employees. For example, except in cases of liquidation of an enterprise, an employer cannot dismiss minors, expectant mothers, mothers with a child under the age of three, single mothers with a child under the age of fourteen or disabled child under the age of eighteen or other persons caring for a child under the age of 14 or disabled child under the age of eighteen without a mother.

Any termination by an employer that is inconsistent with the Labour Code requirements may be invalidated by a court, and the employee may be reinstated. Lawsuits resulting in the reinstatement of illegally dismissed employees and the payment of damages for wrongful dismissal are increasingly frequent, and Russian courts tend to support employees' rights in most cases. Where an employee is reinstated by a court, the employer must compensate the employee for unpaid salary for the period between the wrongful termination and reinstatement, as well as for mental distress.

Work time

The Labour Code generally sets the regular working week at 40 hours. Any time worked beyond 40 hours per week, as well as work on public holidays and weekends, must be compensated at a higher rate. Annual paid vacation leave under the law is generally 28 calendar days. Employees who perform underground and open-pit mining works or other work in harmful conditions may be entitled to additional paid vacation ranging from six to 36 working days.

The retirement age in the Russian Federation is 60 years for males and 55 years for females. However, the retirement age for male miners who have worked in underground mines for at least 10 years, and females who have worked in underground mines for at least seven years and six months, is 50 years and 45 years, respectively. Persons who have worked as miners in open-pit mines and/or underground mines for at least 25 years may also retire, regardless of age.

Salary

The minimum salary in Russia, as established by federal law, is calculated on a monthly basis and is RUR720 from 1 January 2005 (approximately U.S.$25.95). Although the law requires that the minimum wage be at or above a minimum subsistence level, the current minimum wage is generally considered to be less than a minimum subsistence level.

Strikes

The Labour Code defines a strike as the temporary and voluntary refusal of workers to fulfill their work duties with the intention of settling a collective labour dispute. Russian legislation contains several requirements for legal strikes. Participation in a legal strike may not be considered by an employer as grounds for terminating an employment contract, although employers are generally not required to pay wages to striking employees for the duration of the strike. Participation in an illegal strike may be adequate grounds for termination.

Trade Unions

Although recent Russian labour regulations have curtailed the authority of trade unions, they still retain significant influence over employees and, as such, may affect the operations of large industrial companies in Russia. In this regard, Evraz's management routinely interacts with trade unions in order to ensure the appropriate treatment of employees and the stability of its business.

The activities of trade unions are generally governed by the Federal Law on Trade Unions, Their Rights and Guaranties of Their Activity of 12 January 1996, as amended, or the Trade Union Law. Other applicable legal acts include the Labour Code of Russia, the Federal Law on Collective Contracts and Agreements of 11 March 1992, as amended, and the Federal Law on the Procedure for Settlement of

Collective Labour Disputes of 23 November 1995, as amended, which provide for more detailed regulations relating to activities of trade unions.

The Trade Union Law defines a trade union as a voluntary union of individuals with common professional and other interests that is incorporated for the purposes of representing and protecting the rights and interests of its members. National trade union associations, which coordinate activities of trade unions throughout Russia, are also permitted.

As part of their activities, trade unions may:

- negotiate collective contracts and agreements such as those between the trade unions and employers, federal, regional and local governmental authorities and other entities;
- monitor compliance with labour laws, collective contracts and other agreements;
- access work sites and offices, and request information relating to labour issues from the management of companies and state and municipal authorities;
- represent their members and other employees in individual and collective labour disputes with management;
- participate in strikes; and
- monitor redundancy of employees and seek action by municipal authorities to delay or suspend mass layoffs.

Russian laws require that companies cooperate with trade unions and do not interfere with their activities. Trade unions and their officers enjoy certain guarantees as well, such as:

- legal restrictions as to rendering redundant employees elected or appointed to the management of trade unions;
- protection from disciplinary punishment or dismissal on the initiative of the employer without prior consent of the management of the trade union and, in certain circumstances, the consent of the relevant trade union association;
- retention of job positions for those employees who stop working due to their election to the management of trade unions;
- protection from dismissal for employees who previously served in the management of a trade union for two years after the termination of the office term; and
- provision of the necessary equipment, premises and transportation vehicles by the employer for use by the trade union free of charge, if provided for by a collective bargaining contract or other agreement.

If a trade union discovers any violation of work condition requirements, notification is sent to the employer with a request to cure the violation and to suspend work if there is an immediate threat to the lives or health of employees. The trade union may also apply to state authorities and labour inspectors and prosecutors to ensure that an employer does not violate Russian labour laws. Trade unions may also initiate collective labour disputes, which may lead to strikes.

To initiate a collective labour dispute, trade unions present their demands to the employer. The employer is then obliged to consider the demands and notify the trade union of its decision. If the dispute remains unresolved, a reconciliation commission attempts to end the dispute. If this proves unsuccessful, collective labour disputes are generally referred to mediation or labour arbitration.

The Trade Union Law provides that those who violate the rights and guaranties provided to trade unions and their officers may be subject to disciplinary, administrative and criminal liability. Although neither the Code of the Russian Federation on Administrative Misdemeanors of 30 December 2001, nor the Criminal Code of the Russian Federation of 13 June 1996, currently has provisions specifically relating to the these violations, general provisions and sanctions may be applicable.

DESCRIPTION OF SHARE CAPITAL AND CORPORATE STRUCTURE

Set out below is a summary of material information concerning the share capital of the Company, including a description of certain rights of the holders thereof, and related material provisions of the Articles, as amended. This information is not exhaustive and reference should be made to the Articles and to the laws of Luxembourg.

General

Evraz Group S.A. was incorporated under the laws of the Grand Duchy of Luxembourg on 31 December 2004 as a société anonyme. Copies of its constitutional documents were filed with the Registry of Commerce in Luxembourg on 26 January 2005 and were published in the *Mémorial C*, No. 440, dated 12 May 2005. The registered office of the Company is at 1, Allée Scheffer, L-2520, Luxembourg. The Company is registered with the Registry of Commerce in Luxembourg under number B105615. The Articles were amended by general meetings of the Company's shareholders on 5 April 2005, 19 April 2005 and 17 May 2005.

The Articles are drafted in both the English and French languages. However, the English version is deemed to prevail where there are any inconsistencies between the two versions. Resolutions of the Board of Directors may be in English. Any resolution of the Board of Directors or of the shareholders resolving to increase the issued capital of the Company (and, in case of the shareholders resolving to amend the Articles in any other way) will be in both English and one of French or German.

Objects

The Company generally may engage in any business or activity which, in the judgment of the Board of Directors, is profitable or enhances the value of the Company's undertakings in any of its properties or assets and which is consistent with the objects as set forth in Article 4 of the Articles.

This Article 4 is set out in full below:

"The company shall have as its business purpose the holding of participations, in any form whatsoever, in Luxembourg and foreign companies, the acquisition by purchase, subscription, or in any other manner as well as the transfer by sale, exchange or otherwise of stock, bonds, debentures, notes and other securities of any kind, entering into leases, including financial leases, dealing in commodities that are not securities, acquisition of assets generally, selling assets generally, giving security, giving and receiving indemnities and security.

The company may participate in the establishment and development of any financial, industrial or commercial enterprises, including trusts and unincorporated associations, and may render any assistance by way of loans, guarantees, security or otherwise to subsidiaries, affiliated companies or parent companies. The company may borrow in any form and proceed to the issuance of bonds.

The company may carry on any business or activity whatsoever which may seem to the Board of Directors capable of being advantageously carried on in connection or in conjunction with or as ancillary to any of the foregoing or activities which the Board of Directors may consider expedient with a view to rendering profitable or enhancing directly or indirectly the value of the Company's undertaking in any of its properties or assets.

In general, it may take any controlling and supervisory measures and carry out any operation which it may deem useful in the accomplishment and development of its purpose".

Share capital

At the date of this Offering Circular, the Company's issued share capital amounts to two hundred fourteen million four hundred and eight thousand six hundred and fifty-two euro (€214,408,652), consisting of one hundred seven million two hundred four thousand three hundred twenty-six (107,204,326) ordinary shares with a nominal value of two euro (€2) per ordinary share. At its incorporation on 31 December 2004, the Company had a share capital of €31,000, constituting 15,500 shares, each with a par value of €2. On 5 April 2005 the general meeting of shareholders of the Company resolved to increase the share capital by €214,408,650, to €214,439,650, by the creation and the issue of 107,204,325 additional shares. These additional shares were fully subscribed for by Crosland Global Limited and paid for by a contribution in kind of all its assets and all its liabilities. Following this subscription the share capital was immediately reduced by an amount of €30,998 by the cancellation of 15,499 shares held by the Company in its portfolio. All of the Company's share capital is fully paid up. No preferred shares are authorised or outstanding. The Company does not have any treasury shares.

As of the date of this Offering Circular, the Company has an authorised share capital of three hundred fourteen million four hundred and eight thousand six hundred and fifty-two euro (€314,408,652) represented by one hundred and fifty seven million two hundred and four thousand three hundred and twenty six (157,204,326) shares with a nominal value of two euro (€2) each.

The share capital of the Company may be increased or reduced by resolution of the shareholders in general meeting acting in accordance with the conditions prescribed for the amendment of the Articles of the Company. The Board of Directors is authorised to issue further shares with or without an issue premium so as to bring the total capital of the company up to the total authorised share capital, in whole or in part, from time to time as it is in its discretion may determine, and to accept subscriptions for such shares within a period of five years as from the publication of the notarial deed of 17 May 2005 granting such power to it. The period or extent of this authority may be extended by resolution of the shareholders in general meeting from time to time, in the manner required for amendment of the Articles of the Company. The Board of Directors is authorised to determine the conditions attaching to any subscription for the new shares from time to time. The Board of Directors is also authorised to issue such shares without the shareholders having any preferential subscription rights.

Within the above limitations, the Board of Directors is also authorised to issue options giving each holder of such options the right to subscribe for one or more shares having a par value of two euro (€2) each without reserving to the existing shareholders a preferential right of subscription. The Board of Directors is authorised to issue said options, in whole or in part, from time to time, with or without an issue premium, within the limit of the authorised capital. The Board of Directors is authorised to determine the conditions under which the options will be granted. The Board of Directors may subject the exercise of the options to such conditions as it in its discretion may determine, including restrictions as to disposal of the shares issued upon exercise of the option by an optionholder. The Board of Directors may determine the subscription price subject to article 26-5(1) of the law on commercial companies, and the price to be paid in consideration of the option, if any.

The Company has adopted a share option plan for its non-employee directors and certain other employees. See "Directors and Management—Share option plan".

Form and transfer of shares

The shares of the Company may, in accordance with Article 5 of the Articles, be in registered or bearer form at the option of the shareholder. Ownership of registered shares is established by an entry into a register of the registered shares, which shall be maintained at the registered office of the Company.

The shares are not divisible. There are no provisions in the Articles limiting the transferability of the shares and the shares are, therefore, freely transferable.

In accordance with Luxembourg law, registered shares are transferred by a declaration of transfer into the register of registered shares. Bearer shares are transferred by delivery of the share certificate, which would not be printed from an engraved steel plate.

Repurchase by the Company of its own shares

According to Luxembourg law the Company may acquire its own shares subject to the following conditions:

- authorisation given by the general meeting of shareholders which shall determine the terms and conditions of the proposed acquisition;
- the nominal value of the shares acquired, including shares previously acquired by the Company and held by it in its portfolio as well as shares acquired by a person acting in its own name but on behalf of the Company may not exceed 10% of the subscribed capital of the Company;
- the acquisition must not have the effect of reducing the net assets below the aggregate of the subscribed capital and the reserves which may not be distributed under law or the Articles of Association; and
- only fully paid-up shares may be included in the transaction.

General meeting of shareholders

The general meetings of shareholders shall be held in the place specified in the convening notice. According to Article 15 of the Articles, the annual general meeting of shareholders is to be held on 20 June in each year (or where such day is a legal holiday on the next following business day) at twelve noon, except in 2005, and for the first time in 2005. The annual general meeting of shareholders for 2005 (in respect of the year ending on 31 December 2004) was held by unanimous consent of the shareholders on 31 May 2005.

The annual general meeting of shareholders shall hear the reports of the Board of Directors and of the statutory auditor(s) and shall discuss the balance sheet and the profit and loss account. After adoption of the annual accounts the annual general meeting shall vote specifically as to whether discharge is given to the directors and statutory auditor(s). Such discharge shall be valid only if the balance sheet contains no omission or false information concealing the true situation of the Company and, with regard to any acts carried out which fall outside the scope of the Articles, if they have been specifically indicated in the convening notice.

The Board of Directors as well as the statutory auditor(s) may convene general meetings. They shall be obliged to convene a general meeting to be held within one month where shareholders representing one-fifth of the corporate capital request it.

Convening notices for every general meeting of shareholders should contain the agenda and should take the form of announcements published twice, with a minimum interval of eight days, and at least eight days before the meeting, in the *"Mémorial, Recueil des Sociétés et Associations"* and in a Luxembourg newspaper. Notice by mail should be sent a minimum of eight days before the meeting to registered shareholders. Where all the shares are in registered form, the convening notice may be issued only by registered letter.

Shareholders are entitled to vote in person or by proxy.

Voting rights

Each share confers the right to cast one vote at the general meeting of shareholders. There are no restrictions, either under Luxembourg law or in the Articles, on the right of non-residents of Luxembourg or foreign owners to hold or vote the shares, other than those also imposed on residents. Depending on their subject matter, resolutions are passed by a simple or qualified majority.

Financial statements and the statutory auditor

According to Article 14 of the Articles, the financial year of the Company coincides with the calendar year. In accordance with the Luxembourg Companies Act, the Company is obliged to publish its accounts on an annual basis following the requisite holding of the annual meeting of shareholders

The Company will be supervised by one or several statutory auditor(s). The statutory auditor(s) are appointed by the general meeting of shareholders which will fix their number and their term of office, which may not exceed six years. The Company has one statutory auditor, Ernst & Young, with registered office at 7, Parc d'Activité Syrdall, L-5365, Munsbach, registered with the Registry of Commerce in Luxembourg under number B47771. The mandate of the statutory auditor will expire immediately after the annual general meeting to be held in 2010.

Each year at least 5% of the net profits shall be allocated to a special reserve; this allocation ceases to be compulsory when the reserve has reached an amount equal to one-tenth of the corporate capital, but again becomes compulsory if the reserve falls below this amount. The balance of the net profit is at the discretion of the general meeting of shareholders. The Board of Directors may, subject to certain legal restrictions, authorise the payment of interim dividends. See "—Dividends".

Amendment of Articles

An extraordinary general meeting of shareholders may amend the Articles of the Company. This meeting may only validly deliberate where at least half of the corporate capital is present or represented and the agenda indicates the proposed amendments to the Articles and where applicable, the text of those which concern the objects or the form of the Company. If the deliberation quorum is not met a second meeting may be convened in the manner foreseen by law and may deliberate validly regardless of the proportion of the capital present or represented. Resolutions, in order to be adopted, must be approved by two-thirds of the votes of the shareholders present or represented. However the nationality of the Company may only be changed or the commitments of its shareholders increased only with the unanimous consent of all shareholders.

Liquidation

A resolution to liquidate the Company may only occur pursuant to a resolution adopted by the general meeting of shareholders in accordance with the conditions set forth for amendment of the Articles. If the Company is dissolved, the liquidation will be carried out by one or more liquidators, who may be either physical or legal persons, appointed by the general meeting of shareholders. The general meeting of shareholders will also specify the powers and remuneration of the liquidators. After all of the debts and liabilities of the Company have been paid and any future debts and liabilities provided for, the balance is payable to shareholders in proportion to their shareholdings.

Board of directors

Pursuant to the Articles, the Board of Directors is vested with the broadest powers to perform all acts of administration and disposition in compliance with the corporate objects of the Company. All powers not expressly reserved by Luxembourg law or by the Articles to the general meeting of shareholders fall within the remit of the Board of Directors. The Board of Directors may, subject to certain legal restrictions, authorise the payment of interim dividends. See "—Dividends".

The Board of Directors shall consist of seven to nine members, as may be determined by the general meeting of shareholders. On 21 April 2005, the general meeting of shareholders set the number of members of the Board of Directors at seven. The members of the Board of Directors are elected by the general meeting of shareholders, and the general meeting of shareholders may revoke their mandate at any time. The Board of Directors may be appointed for a period not exceeding one year. In the event of a vacancy on the Board of Directors the remaining directors may fill the vacancy on a provisional basis, with the next general meeting of shareholders to make a permanent appointment.

The number, remuneration and the term of the directors is determined by the general meeting of shareholders.

Pursuant to the Article 9 of the Articles, the Company will be bound in any circumstances by (i) the signature of the Chief Executive Officer (as defined below) in case of delegation of powers or proxies given by the Board of Directors pursuant to articles 10 and 11 of the Articles, or (ii) the joint signatures of two directors (provided one of them is the Chief Executive Officer).

Directors may participate in a meeting of the Board of Directors by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear and speak to each other, and such participation in a meeting will constitute presence in person at the meeting, provided that all actions approved by the directors at any such meeting must be reduced to writing in the form of resolutions.

Resolutions signed by all members of the Board of Directors will be as valid and effectual as if passed at a meeting duly convened and held. Such signatures may appear on a single document or multiple copies of an identical resolution and may be evidenced by letter, telefax or similar communication.

Committees

The Board of Directors may designate a remuneration committee, an audit committee and one or more other committees. Each committee designated by the Board of Directors consists of such number of directors as from time to time may be fixed by the Board of Directors, and may also include individuals who are not directors. The Board of Directors may also designate one or more directors as alternate members of any such committee, who may replace any absent or disqualified member or members at any meeting of such committee. Thereafter, members (and alternate members, if any) of each such committee may be designated by the Board of Directors. Any such committee may be abolished or re-designated from time to time by the Board of Directors. Each member (and each alternate member) of any such committee shall hold office until his or her successor shall have been designated or until his or her earlier death, resignation or removal.

The Board of Directors has established a remuneration committee which shall perform such duties as may be assigned to it from time to time by the Board of Directors. These duties include a consultative role in all matters relating to the award and exercise of stock options by any member of the Board of Directors and all matters relating to the remuneration of the management and employees of the Company. The remuneration committee shall keep itself informed as to market levels of compensation and, based on its evaluations, recommends compensation levels and systems to the Board of Directors.

The Board of Directors has established an audit committee which shall perform such duties as may be assigned to it from time to time by the Board of Directors in its terms of reference relating to such matters as the oversight of audit functions, financial reporting and internal control principles. The committee shall have a consultative role in relation to the appointment, compensation, retention and oversight of the Company's independent auditors.

Any other committee formed by the Board of Directors, except as otherwise provided in the Articles, shall have and may exercise such powers of the Board of Directors as may be provided by resolution or resolutions of the Board of Directors.

The Board of Directors may from time to time request the members of the remuneration committee, the audit committee or any other committee to consider certain matters and report on their findings to the Board of Directors.

Any committee formed by the Board of Directors shall not have the power or authority: (a) to approve or adopt any action or matter expressly required by the applicable laws of Luxembourg to be submitted to the shareholders for approval; or (b) adopt, amend or repeal any provision of the Articles.

Each committee may fix its own rules of procedure and may meet at such place (within or outside Luxembourg), at such time and upon such notice, if any, as it shall determine from time to time. Each committee may keep minutes of its proceedings and shall report such proceedings to the Board of Directors at the meeting of the Board of Directors next following any such proceedings. Except as may be otherwise provided in the resolution creating such committee, at all meetings of any committee the presence of members (or alternate members) constituting a majority of the total membership of such committee shall constitute a quorum for the transaction of business. The act of the majority of the members present at any meeting at which a quorum is present shall be the act of such committee. Any action required or permitted to be taken at any meeting of any such committee may be taken without a meeting, if all members of such committee shall consent to such action in writing and such writing or writings are filed with the minutes of the proceedings of the committee. The members of any such committee shall act only as a committee, and the individual members of such committee shall have no power as such.

Members of any committee designated by the Board of Directors may participate in a meeting of such committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and participation in a meeting pursuant to this provision shall constitute presence in person at such meeting. In the event of the absence or disqualification of a member of any committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not he, she or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member.

Any member (and any alternate member) of any committee may resign at any time by delivering written notice of resignation, signed by such member, to the chairman of the Board of Directors. Unless otherwise specified therein such resignation shall take effect upon delivery. Any member (and any alternate member) of any committee may be removed from his or her position as a member (or alternate member, as the case may be) of such committee at any time, either for or without cause, by resolution adopted by the Board of Directors.

If any vacancy occurs in any committee, by reason of disqualification, death, resignation, removal or otherwise, the remaining members (and any alternate members) shall continue to act, and any such vacancy may be filled by the Board of Directors.

Officers

The Board of Directors may give special powers relating to the daily management of all or part of the business of the Company to one or more proxyholders (*fondés de pouvoir*). Any such proxyholder shall not be required to be a director or a shareholder. The granting of such special powers to a member of the Board of Directors is subject to the prior authorisation of a general meeting of the shareholders. The

Board of Directors shall determine the scope of the powers, the conditions for withdrawal and the remuneration attached to these delegations of authority including the authority to sub-delegate. In particular the Board of Directors shall designate the following:

(i) An "*administrateur délégué / délégué à la gestion journalière*" to whom the day-to-day management of the Company shall be entrusted and who is called the "Chief Executive Officer". The Chief Executive Officer is the primary operating officer of the Company and is responsible for the day-to-day general management of the Company's management. He shall see that all order and resolutions of the Board of Directors of the Company and of any committee established by the Board of Directors are carried into effect and shall perform all those duties incidental to the office of Chief Executive Officer as may be from time to time, prescribed by the Board of Directors.

(ii) A "Chief Financial Officer" who shall (a) provide for the custody of the funds or other property of the Company and shall keep a separate book account of the same to the credit of the Company; (b) collect and receive or provide for the collection and receipt of moneys earned by or in any manner due or received by the Company; (c) deposit all funds in his or her custody as Chief Financial Officer in such banks or places of deposit as the Board of Directors may from time to time designate; (d) whenever so required by the Board of Directors, render an account showing his or her transactions as Chief Financial Officer and the financial condition of the Company; and (e) in general discharge such other duties as may from time to time be assigned by the Board of Directors.

The Board of Directors has all powers to create new positions as it may from time to time deem appropriate.

Dividends

The payment of dividends is subject to compliance with the Luxembourg Companies Act and the Articles. Dividends may only be paid out of profits or retained earnings as shown in the adopted annual statutory financial statements. The profits must first be used to set up and maintain the legal reserve required by Article 72 of the Luxembourg Companies Act and must then be set off against certain financial losses. Thereafter, the General Meeting may determine to withhold profits as further reserves. In so far as any profits have not been allocated to reserves, they form part of the freely distributable reserves, which the General Meeting may elect to pay out in the form of a dividend.

No distribution can be made when, at the close of the preceding financial year, the net assets are, or after such distribution would fall, below the sum of the subscribed capital plus unavailable (i.e., non-distributable) reserves such as the legal reserve.

The Luxembourg Companies Act provides that an interim dividend may be paid provided that the articles of association authorise the board of directors to do so, which the Articles do. In addition, the Luxembourg Companies Act provides that any such payment shall be subject to the following conditions:

1. Interim accounts must be drawn up and show that sufficient funds are for distribution.
2. The amount to be distributed may not exceed the profits made since the end of the last financial year for which the annual accounts have been approved, plus any profits carried forward and sums withdrawn from reserves available for this purpose, less losses carried forward and any sums to be allocated to a reserve pursuant to the law or the articles of association.
3. The decision of the board of directors to pay an interim dividend may not be taken more that two months after the date of the relevant interim accounts, and no decision with respect to the payment of an interim dividend may be made less than six months after the end of the preceding financial year or before the approval of the annual accounts relating to such financial year. If a first interim dividend has been paid, the decision to pay a second interim dividend may not be made until at least three months after the date of the decision to pay the first interim dividend.
4. The statutory or independent auditor must verify that the amount of interim dividend does not exceed the amount of distributable profits and submit a report to this effect to the board of directors.

Should interim dividend payments exceed the total amount of the annual dividend subsequently decided by the general meeting, such dividends shall, to the extent of any overpayment, be considered as an advance on the next dividend payment.

Article 8 of the Articles of the Company provides that any interim dividend declared in July 2005 shall only be paid to the holders of record of shares in the share register of the company as at 31 May 2005.

When a dividend is declared a shareholder has a right to be paid that particular dividend either on the date fixed for the payment of the dividend or, if no date is fixed, immediately after its declaration.

Article 2277 of the Luxembourg civil code provides that claims that arise on a yearly or more frequent basis, which are generally considered to include dividends, are prescribed for a period of five years. As a result, five years following the date fixed for the payment of dividends, or, if no date has been fixed, five years after the dividends have been declared, any amounts not claimed revert to the Company.

Potential mandatory offer rules

The directive of the European Parliament and of the Council of the European Union (the "Council") on takeover bids (the "Take-Over Directive") was adopted by the Council on 30 March 2004 and became effective on 20 May 2004. The Directive applies to all companies governed by the laws of a European Union member state of which all or some securities are admitted to trading on a regulated market in one or more member states. Pursuant to the Take-Over Directive, when a person, together with any persons acting in concert with such person, acquires securities in a company such that, when added to any existing holdings and the holdings of persons acting in concert with him, directly or indirectly give such persons control of that company, the person acquiring such securities is required to make a public offer to all the holders of those securities for all their holdings at an equitable price. The laws of the member state in which the company has its registered office will determine what percentage of the voting rights in that company is regarded as conferring control over the company and the method of calculation of such percentage. It is currently not clear at what percentage of voting rights Luxembourg law will require that a public offer be made. The Take-Over Directive must be implemented into the laws of Luxembourg not later than 20 May 2006. The date for the Take-Over Directive to enter into force has not yet been determined. A preamble to the Directive provides that the obligation to make a public offer should not apply to controlling holdings in existence on the date on which national legislation implementing the Take-Over Directive comes into force. However, as the Take-Over Directive provides for minimum standards relating to public offers, Luxembourg implementing legislation may be more stringent than the Take-Over Directive.

Significant ownership of Shares

Holders of Shares or GDRs may be subject to reporting obligations under the Luxembourg law of 4 December 1992 on the information to be published when a major holding in a listed company is acquired or disposed of.

Pursuant to this law any person or legal entity who acquires or disposes of a holding in a company incorporated in Luxembourg, all or part of the shares of which are officially listed on a stock exchange or exchanges operating within one or more European Community member states, must inform the company and the Luxembourg Exchange Supervisory Authority where, following such acquisition or disposal, the proportion of voting rights held by that person or legal entity reaches or exceeds one of the thresholds of 10%, 20%, ⅓, 50% and ⅔ of the total voting rights existing when the situation giving rise to a declaration occurs, or falls below the said thresholds. The notification should occur within seven calendar days of the time when the natural person or legal entity owning a major holding learns of the acquisition or disposal, or from the time when, in view of the circumstances, it should have learned of it.

The Exchange Supervisory Authority sets forth the content, the form and the language of the information to be published.

A company that has received such a notice must in turn disclose it to the public in each of the EU member states in which its shares are listed on a stock exchange as soon as possible but not more then nine calendar days after the receipt of that notification.

Where the acquisition or disposal of any major holding is effected by means of certificates representing shares, such as GDRs, the law applies to the bearers of those certificates and not to the issuer.

TERMS AND CONDITIONS OF THE GLOBAL DEPOSITARY RECEIPTS

The following terms and conditions (subject to completion and amendment and excepting sentences in italics) will apply to the Global Depositary Receipts, and will be endorsed on each Global Depositary Receipt certificate:

The Global Depositary Receipts ("**GDRs**") represented by this certificate are each issued in respect of one third of an ordinary share of par value EUR2.00 each (the "**Shares**") in EVRAZ GROUP S.A. (the "**Company**") pursuant to and subject to an agreement to be dated on or about 7 June 2005, and made between the Company and The Bank of New York in its capacity as depositary (the "**Depositary**") for the "Regulation S Facility" and for the "Rule 144A Facility" (such agreement, as amended from time to time, being hereinafter referred to as the "**Deposit Agreement**"). Pursuant to the provisions of the Deposit Agreement, the Depositary has appointed BNY Nominees Limited as Custodian (the "**Custodian**") to receive and hold on its behalf any relevant documentation respecting certain Shares (the "**Deposited Shares**") and all rights, interests and other securities, property and cash deposited with the Custodian which are attributable to the Deposited Shares (together with the Deposited Shares, the "**Deposited Property**"). The Depositary shall hold Deposited Property for the benefit of the Holders (as defined below) as bare trustee in proportion to their holdings of GDRs. In these terms and conditions (the "**Conditions**"), references to the "Depositary" are to The Bank of New York and/or any other depositary which may from time to time be appointed under the Deposit Agreement, references to the "Custodian" are to BNY Nominees Limited or any other custodian from time to time appointed under the Deposit Agreement and references to the "Main Office" mean, in relation to the relevant Custodian, its head office in the city of London or such other location of the head office of the Custodian in the United Kingdom as may be designated by the Custodian with the approval of the Depositary (if outside the city of London) or the head office of any other custodian from time to time appointed under the Deposit Agreement.

The Offering comprises 29,100,000 GDRs, representing 9,700,000 Shares to be sold by the Company at an offer price of U.S.$14.50 per GDR. It is expected that listing of the GDRs will take place on or about 8 June 2005. Prior to listing, it is expected that conditional dealings will be permitted by the London Stock Exchange in accordance with its rules. It is expected that unconditional dealings in the GDRs will commence on or about 8 June 2005. Transactions will normally be effected for settlement in U.S. dollars and for delivery on the third working day after the date of the transaction.

The GDRs will upon issue be represented by interests in a Regulation S Master GDR, evidencing Regulation S GDRs, and by interests in a Rule 144A Master GDR, evidencing Rule 144A GDRs (as each such term is defined in the Deposit Agreement). The GDRs are exchangeable in the circumstances set out in "Summary of Provisions Relating to the GDRs while in Master Form" for a certificate in definitive registered form in respect of GDRs representing all or part of the interest of the Holder in the relevant Master GDR.

References in these Conditions to the "Holder" of any GDR shall mean the person or persons registered on the books of the Depositary maintained for such purpose (the "**Register**") as holder. These Conditions include summaries of, and are subject to, the detailed provisions of the Deposit Agreement, which includes the forms of the certificates in respect of the GDRs. Copies of the Deposit Agreement are available for inspection at the specified office of the Depositary and each Agent (as defined in Condition 17) and at the Main Office of the Custodian. Terms used in these Conditions and not defined herein but which are defined in the Deposit Agreement have the meanings ascribed to them in the Deposit Agreement. **Holders of GDRs are not party to the Deposit Agreement which specifically disallows application of the Contracts (Rights of Third Parties) Act 1999 and thus, under English Law, have no contractual rights against, or obligations to, the Company or Depositary. However, the Deed Poll executed by the Company in favour of the Holders provides that, if the Company fails to perform the obligations imposed on it by certain specified provisions of the Deposit Agreement, any Holder may enforce the relevant provisions of the Deposit Agreement as if it were a party to the Deposit Agreement and was the "Depositary" in respect of that number of Deposited Shares to which the GDRs of which he is the Holder relate. The Depositary is under no duty to enforce any of the provisions of the Deposit Agreement on behalf of any Holder of a GDR or any other person.**

1. Withdrawal of Deposited Property and Further Issues of GDRs

1.1 Any Holder may request withdrawal of, and the Depositary shall thereupon relinquish, the Deposited Property attributable to any GDR upon production of such evidence of the entitlement of the Holder to the relative GDR as the Depositary may reasonably require, at the specified office of the Depositary or any Agent accompanied by:

(i) a duly executed order (in a form approved by the Depositary) requesting the Depositary to cause the Deposited Property being withdrawn to be delivered at the Main Office of the Custodian, or (at the request, risk and expense of the Holder, and only if permitted by applicable law from time to time) at the specified office located in New York, London or Luxembourg of the Depositary or any Agent, or to the order in writing of, the person or persons designated in such order;

(ii) the payment of such fees, taxes, duties, charges and expenses as may be required under these Conditions or the Deposit Agreement;

(iii) the surrender (if appropriate) of GDR certificates in definitive registered form properly endorsed in blank or accompanied by proper instruments of transfer satisfactory to the Depositary to which the Deposited Property being withdrawn is attributable; and

(iv) the delivery to the Depositary of a duly executed and completed certificate substantially in the form set out in Schedule 4, Part B, to the Deposit Agreement, if Deposited Property is to be withdrawn or delivered in respect of surrendered Rule 144A GDRs.

The Deposit Agreement is entered into by the Company and The Bank of New York which will act as Depositary for the Regulation S Facility and the Rule 144A Facility. Deposited Property means and includes the Deposited Shares and all and any rights, interests and other securities, property and cash for the time being held by the Custodian or the Depositary or their respective agents and attributable to the Deposited Shares pursuant to the provisions of the Deposit Agreement together with any right of the Depositary or the Custodian to receive Deposited Shares or any such rights, interests and securities, property and cash as aforesaid other than any right of the Depositary or the Custodian against any Pre-Releasee (as defined in Clause 3.9 of the Deposit Agreement) to receive any Shares, cash or GDRs pursuant to the contract governing the Pre-Release.

1.2 Upon production of such documentation and the making of such payment as aforesaid for withdrawal of the Deposited Property in accordance with Condition 1.1, the Depositary will direct the Custodian, by tested telex, facsimile or SWIFT message, within a reasonable time after receiving such direction from such Holder, to deliver at its Main Office to, or to the order in writing of, the person or persons designated in the accompanying order:

(i) a certificate (if any) for, or other appropriate instrument of title (if any) to or evidence of a book-entry transfer in respect of the relevant Deposited Shares, registered in the name of the Depositary or its nominee and accompanied by such instruments of transfer in blank or to the person or persons specified in the order for withdrawal and such other documents, if any, as are required by law for the transfer thereof; and

(ii) all other property forming part of the Deposited Property attributable to such GDR, accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof; provided however that the Depositary may make delivery at its specified office in New York of any Deposited Property which is in the form of cash;

PROVIDED THAT the Depositary (at the request, risk and expense of any Holder so surrendering a GDR):

(a) will direct the Custodian to deliver the certificates for, or other instruments of title to, or book-entry transfer in respect of, the relevant Deposited Shares and any document relative thereto and any other documents referred to in sub-paragraphs 1.2(i) and (ii) of this Condition (together with any other property forming part of the Deposited Property which may be held by the Custodian or its agent and is attributable to such Deposited Shares); and/or

(b) will deliver any other property forming part of the Deposited Property which may be held by the Depositary and is attributable to such GDR (accompanied, if required by law, by one or more duly executed endorsements or instruments of transfer in respect thereof);

in each case to the specified office located in New York or London of the Depositary (if permitted by applicable law from time to time) or at the specified office in Luxembourg of any Agent as designated by the surrendering Holder in the order accompanying such GDR.

1.3 Delivery by the Depositary, any Agent and the Custodian of all certificates, instruments, dividends or other property forming part of the Deposited Property as specified in this Condition will be made subject to any laws or regulations applicable thereto.

1.4 The Depositary may, in accordance with the terms of the Deposit Agreement and upon delivery of a duly executed order (in a form reasonably approved by the Depositary) and a duly executed certificate substantially in the form of (a) Schedule 3 of the Deposit Agreement by or on behalf of any investor who is to become the beneficial owner of the Regulation S GDRs or (b) Schedule 4, Part A of the Deposit Agreement by or on behalf of any investor who is to become the beneficial owner of Rule 144A GDRs from time to time execute and deliver further GDRs having the same terms and conditions as the GDRs which are then outstanding in all respects (or the same in all respects except for the first dividend payment on the Shares corresponding to such further GDRs) and, subject to the terms of the Deposit Agreement, the Depositary shall accept for deposit any further Shares in connection therewith, so that such further GDRs shall form a single series with the already outstanding GDRs. References in these Conditions to the GDRs include (unless the context requires otherwise) any further GDRs issued pursuant to this Condition and forming a single series with the already outstanding GDRs.

The certificate to be provided in the form of Schedule 3 of the Deposit Agreement certifies among other things that the person providing such certificate is located outside the United States. The certificate to be provided in the form of Schedule 4, Part A, of the Deposit Agreement certifies among other things that the person providing such certificate is a qualified institutional buyer (as defined in Rule 144A under the Securities Act (a "QIB")) or is acting for the account of another person and such person is a QIB and in either case will comply with restrictions on transfer set forth under "Subscription and Sale—Transfer Restriction".

1.5 Any further GDRs issued pursuant to Condition 1.4 which correspond to Shares which have different dividend rights from the Shares corresponding to the outstanding GDRs will correspond to a separate temporary global Regulation S GDR and/or Rule 144A GDR. Upon becoming fungible with outstanding GDRs, such further GDRs shall be evidenced by a Master Regulation S GDR and a Master Rule 144A GDR (by increasing the total number of GDRs evidenced by the relevant Master Regulation S GDR and the Master Rule 144A GDR by the number of such further GDRs, as applicable).

1.6 The Depositary may issue GDRs against rights to receive Shares from the Company (or any agent of the Company recording Share ownership). No such issue of GDRs will be deemed a "Pre-Release" as defined in Condition 1.7.

1.7 Unless requested in writing by the Company to cease doing so, and notwithstanding the provisions of Condition 1.4, the Depositary may execute and deliver GDRs or issue interests in a Master Regulation S GDR or a Master Rule 144A GDR, as the case may be, prior to the receipt of Shares (a "**Pre-Release**"). The Depositary may, pursuant to Condition 1.1, deliver Shares upon the receipt and cancellation of GDRs, which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDR has been Pre-Released. The Depositary may receive GDRs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release will be (a) preceded or accompanied by a written representation from the person to whom GDRs or Deposited Property are to be delivered (the "**Pre-Releasee**") that such person, or its customer, (i) owns or represents the owner of the corresponding Deposited Property or GDRs to be remitted (as the case may be), (ii) assigns all beneficial right, title and interest in such Deposited Property or GDRs (as the case may be) to the Depositary in its capacity as such and for the benefit of the Holders, (iii) will not take any action with respect to such GDRs or Deposited Property (as the case may be) that is inconsistent with the transfer of beneficial ownership (including without the consent of the Depositary, disposing of such Deposited Property or GDRs, as the case may be), other than in satisfaction of such Pre-Release, (b) at all times fully collateralised with cash or such other collateral as the Depositary determines in good faith will provide substantially similar liquidity and security, (c) terminable by the Depositary on not more than five (5) business days' notice, and (d) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The number of GDRs which are outstanding at any time as a result of Pre-Release will not normally represent more than 30 per cent. of the total number of GDRs then outstanding; provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate and may, with the prior written consent of the Company, change such limits for the purpose of general application. The Depositary will also set dollar limits with respect to such transactions hereunder with any particular Pre-Releasee hereunder on a case by case basis as the Depositary deems appropriate. The collateral referred to in sub-paragraph (b) above shall be held by the Depositary as security for the performance of the Pre-Releasee's obligations in connection herewith, including the Pre-Releasee's obligation to deliver Shares and/or other securities or GDRs upon termination of a transaction anticipated hereunder (and shall not, for the avoidance of doubt, constitute Deposited Property hereunder).

The Depositary may retain for its own account any compensation received by it in connection with the foregoing including, without limitation, earnings on the collateral.

The person to whom a Pre-Release of Rule 144A GDRs or Rule 144A Shares is to be made pursuant to this Condition 1.7 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 4 Part A of the Deposit Agreement. The person to whom any Pre-Release of Regulation S GDRs or Regulation S Shares is to be made pursuant to this Condition 1.7 shall be required to deliver to the Depositary a duly executed and completed certificate substantially in the form set out in Schedule 3 of the Deposit Agreement.

2. Suspension of Issue of GDRs and of Withdrawal of Deposited Property

The Depositary shall be entitled, at its reasonable discretion, at such times as it shall determine, to suspend the issue or transfer of GDRs (and the deposit of Shares) generally or in respect of particular Shares. In particular, to the extent that it is in its opinion practicable for it to do so, the Depositary will refuse to accept Shares for deposit, to execute and deliver GDRs or to register transfers of GDRs if it has been notified by the Company in writing that the Deposited Shares or GDRs or any depositary receipts corresponding to Shares are listed on a U.S. Securities Exchange or quoted on a U.S. automated inter dealer quotation system unless accompanied by evidence satisfactory to the Depositary that any such Shares are eligible for resale pursuant to Rule 144A. Further, the Depositary may suspend the withdrawal of Deposited Property during any period when the Register, or the register of shareholders of the Company is closed or, generally or in one or more localities, suspend the withdrawal of Deposited Property or deposit of Shares if deemed necessary or desirable or advisable by the Depositary in good faith at any time or from time to time, in order to comply with any applicable law or governmental or stock exchange regulations or any provision of the Deposit Agreement or for any other reason. The Depositary shall (unless otherwise notified by the Company) restrict the withdrawal of Deposited Shares where the Company notifies the Depositary in writing that such withdrawal would result in ownership of Shares exceeding any limit under any applicable law, government resolution or the Company's constitutive documents or would otherwise violate any applicable laws. The Depositary is entitled to refuse to allow the cancellation of one or more GDRs and the withdrawal of the Deposited Shares represented by such GDRs if such cancellation and withdrawal would require the Depositary to transfer from the GDR facility a fraction of a Share.

3. Transfer and Ownership

The GDRs are in registered form, each corresponding to one third of one Share. Title to the GDRs passes by registration in the Register and accordingly, transfer of title to a GDR is effective only upon such registration. The Depositary will refuse to accept for transfer any GDRs if it reasonably believes that such transfer would result in violation of any applicable laws. The Holder of any GDR will (except as otherwise required by law) be treated by the Depositary and the Company as its beneficial owner for all purposes (whether or not any payment or other distribution in respect of such GDR is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or theft or loss of any certificate issued in respect of it) and no person will be liable for so treating the Holder.

So long as Rule 144A GDRs are "restricted securities" within the meaning of Rule 144 under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**"), interests in such Rule 144A GDRs corresponding to the Master Rule 144A GDR may be transferred to a person whose interest in such Rule 144A GDRs is to be represented by the Master Regulation S GDR only upon receipt by the Depositary of written certifications (in the forms provided in the Deposit Agreement) from the transferor and the transferee to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**"). Issuance of Rule 144A GDRs, including in connection with the transfer of an interest in Regulation S GDRs to a person whose interest is to be represented by the Master Rule 144A GDR, shall be subject to the terms and conditions of the Deposit Agreement, including delivery of the duly executed and completed written certificate and agreement required under the Deposit Agreement by or on behalf of each person who will be the beneficial owner of such Rule 144A GDRs certifying that such person is a QIB and agreeing that it will comply with the restrictions on transfer set forth therein and to payment of the fees, charges and taxes provided therein.

4. Cash Distributions

Whenever the Depositary shall receive from the Company any cash dividend or other cash distribution on or in respect of the Deposited Shares (including any amounts received in the liquidation of the Company) or otherwise in connection with the Deposited Property, the Depositary shall, as soon as practicable, convert the same into United States dollars in accordance with Condition 8. The Depositary shall, if practicable in the opinion of the Depositary, give notice to the Holders of its receipt of such payment in accordance with Condition 23, specifying the amount per Deposited Share payable in respect of such dividend or distribution and the earliest date, determined by the Depositary, for transmission of such payment to Holders and shall as soon as practicable distribute any such amounts to the Holders in proportion to the number of Deposited Shares corresponding to the GDRs so held by them respectively, subject to and in accordance with the provisions of Conditions 9 and 11; PROVIDED THAT:—

(a) in the event that the Depositary is aware that any Deposited Shares are not entitled, by reason of the date of issue or transfer or otherwise, to such full proportionate amount, the amount so distributed to the relative Holders shall be adjusted accordingly; and

(b) the Depositary will distribute only such amounts of cash dividends and other distributions as may be distributed without attributing to any GDR a fraction of the lowest integral unit of currency in which the distribution is made by the Depositary, and any balance remaining shall be retained by the Depositary beneficially as an additional fee under Condition 16.1(iv).

5. Distributions of Shares

Whenever the Depositary shall receive from the Company any distribution in respect of Deposited Shares which consists of a dividend or free distribution of Shares, the Depositary shall cause to be distributed to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, additional GDRs corresponding to an aggregate number of Shares received pursuant to such distribution. Such additional GDRs shall be distributed by an increase in the number of GDRs corresponding to the Master GDRs or by an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) sell such Shares so received and distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

6. Distributions other than in Cash or Shares

Whenever the Depositary shall receive from the Company any dividend or distribution in securities (other than Shares) or in other property (other than cash) on or in respect of the Deposited Property, the Depositary shall distribute or cause to be distributed such securities or other property to the Holders entitled thereto, in proportion to the number of Deposited Shares corresponding to the GDRs held by them respectively, in any manner that the Depositary may deem equitable and practicable for effecting such distribution; PROVIDED THAT, if and in so far as the Depositary deems any such distribution to all or any Holders not to be reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary shall deal with the securities or property so received, or any part thereof, in such way as the Depositary may determine to be equitable and practicable, including, without limitation, by way of sale (either by public or private sale and otherwise at its discretion, subject to all applicable laws and regulations) and shall (in the case of a sale) distribute the resulting net proceeds as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

7. Rights Issues

If and whenever the Company announces its intention to make any offer or invitation to the holders of Shares to subscribe for or to acquire Shares, securities or other assets by way of rights, the Depositary shall as soon as practicable give notice to the Holders, in accordance with Condition 23, of such offer or invitation, specifying, if applicable, the earliest date established for acceptance thereof, the last date established for acceptance thereof and the manner by which and time during which Holders may request the Depositary to exercise such rights as provided below or, if such be the case, specifying details of how the Depositary proposes to distribute the rights or the proceeds of any sale thereof. The Depositary will deal with such rights in the manner described below:—

(i) if and to the extent that the Depositary shall, at its discretion, deem it to be lawful and reasonably practicable, the Depositary shall make arrangements whereby the Holders may, upon payment of the subscription price in euro or other relevant currency together with such fees, taxes, duties, charges, costs and expenses as may be required under the Deposit Agreement and completion of such undertakings, declarations, certifications and other documents as the Depositary may reasonably require, request the Depositary to exercise such rights on their behalf with respect to the Deposited Shares and to distribute the Shares, securities or other assets so subscribed or acquired to the Holders entitled thereto by an increase in the numbers of GDRs corresponding to the Master GDRs or an issue of certificates in definitive registered form in respect of GDRs, according to the manner in which the Holders hold their GDRs; or

(ii) if and to the extent that the Depositary shall at its discretion, deem it to be lawful and reasonably practicable, the Depositary will distribute such rights to the Holders entitled thereto in such manner as the Depositary may at its discretion determine; or

(iii) if and to the extent that the Depositary deems any such arrangement and distribution as is referred to in paragraphs (i) and (ii) above to all or any Holders not to be lawful and reasonably practicable (including, without limitation, due to the fractions which would otherwise result or to any requirement that the Company, the Custodian or the Depositary withhold an amount on account of taxes or other governmental charges) or to be unlawful, the Depositary (a) will, PROVIDED THAT Holders have not taken up rights through the Depositary as provided in (i) above, sell such rights (either by public or private sale and otherwise at its discretion subject to all applicable laws and regulations) or (b) may, if such rights are not transferable, in its discretion, arrange for such rights to be exercised and the resulting Shares or securities sold and, in each case, distribute the net proceeds of such sale as a cash distribution pursuant to Condition 4 to the Holders entitled thereto.

(iv) (a) Notwithstanding the foregoing, in the event that the Depositary offers rights pursuant to Condition 7(i) (the "**Primary GDR Rights Offering**"), if authorised by the Company to do so, the Depositary may, in its discretion, make arrangements whereby in addition to instructions given by a Holder to the Depositary to exercise rights on its behalf pursuant to Condition 7(i), such Holder is permitted to instruct the Depositary to subscribe on its behalf for additional rights which are not attributable to the Deposited Shares represented by such Holder's GDRs ("**Additional GDR Rights**") if at the date and time specified by the Depositary for the conclusion of the Primary GDR Offering (the "**Instruction Date**") instructions to exercise rights have not been received by the Depositary from the Holders in respect of all their initial entitlements. Any Holder's instructions to subscribe for such Additional GDR Rights ("**Additional GDR Rights Requests**") shall specify the maximum number of Additional GDR Rights that such Holder is prepared to accept (the "**Maximum Additional Subscription**") and must be received by the Depositary by the Instruction Date. If by the Instruction Date any rights offered in the Primary GDR Rights Offering have not been subscribed by the Holders initially entitled thereto ("**Unsubscribed Rights**"), subject to Condition 7(iv)(c) and receipt of the relevant subscription price in euro or other relevant currency, together with such fees, taxes, duties, charges, costs and expenses as it may deem necessary, the Depositary shall make arrangements for the allocation and distribution of Additional GDR Rights in accordance with Condition 7(iv)(b).

(b) Holders submitting Additional GDR Rights Requests shall be bound to accept the Maximum Additional Subscription specified in such Additional GDR Request but the Depositary shall not be bound to arrange for a Holder to receive the Maximum

Additional Subscription so specified but may make arrangements whereby the Unsubscribed Rights are allocated *pro rata* on the basis of the extent of the Maximum Additional Subscription specified in each Holder's Additional GDR Rights Request.

(c) In order to proceed in the manner contemplated in this Condition 7(iv), the Depositary shall be entitled to receive such opinions from Luxembourg counsel and US counsel as in its discretion it deems necessary which opinions shall be in a form and provided by counsel satisfactory to the Depositary and at the expense of the Company and may be requested in addition to any other opinions and/or certifications which the Depositary shall be entitled to receive under the Deposit Agreement and these Conditions. For the avoidance of doubt, save as provided in these Conditions and the Deposit Agreement, the Depositary shall have no liability to the Company or any Holder in respect of its actions or omissions to act under this Condition 7(iv) and, in particular, the Depositary will not be regarded as being negligent, acting in bad faith, or in wilful default if it elects not to make the arrangements referred to in Condition 7(iv)(a).

The Company has agreed in the Deposit Agreement that it will, unless prohibited by applicable law or regulation, give its consent to, and if requested use all reasonable endeavours (subject to the next paragraph) to facilitate, any such distribution, sale or subscription by the Depositary or the Holders, as the case may be, pursuant to Conditions 4, 5, 6, 7 or 10 (including the obtaining of legal opinions from counsel reasonably satisfactory to the Depositary concerning such matters as the Depositary may reasonably specify).

If the Company notifies the Depositary that registration is required in any jurisdiction under any applicable law of the rights, securities or other property to be distributed under Condition 4, 5, 6, 7 or 10 or the securities to which such rights relate in order for the Company to offer such rights or distribute such securities or other property to the Holders or owners of GDRs and to sell the securities corresponding to such rights, the Depositary will not offer such rights or distribute such securities or other property to the Holders or sell such securities unless and until the Company procures the receipt by the Depositary of an opinion from counsel reasonably satisfactory to the Depositary that a registration statement is in effect or that the offering and sale of such rights or securities to such Holders or owners of GDRs are exempt from registration under the provisions of such law. Neither the Company nor the Depositary shall be liable to register such rights, securities or other property or the securities to which such rights relate and they shall not be liable for any losses, damages or expenses resulting from any failure to do so.

If at the time of the offering of any rights, at its discretion, the Depositary shall be satisfied that it is not lawful or practicable (for reasons outside its control) to dispose of the rights in any manner provided in paragraphs (i), (ii), (iii) and (iv) above, the Depositary shall permit the rights to lapse. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Holders or owners of GDRs in general or to any Holder or owner of a GDR or Holders or owners of GDRs in particular.

8. Conversion of Foreign Currency

Whenever the Depositary shall receive any currency other than United States dollars by way of dividend or other distribution or as the net proceeds from the sale of securities, other property or rights, and if at the time of the receipt thereof the currency so received can in the judgement of the Depositary be converted on a reasonable basis into United States dollars and distributed to the Holders entitled thereto, the Depositary shall as soon as practicable itself convert or cause to be converted by another bank or other financial institution, by sale or in any other manner that it may reasonably determine, the currency so received into United States dollars. If such conversion or distribution can be effected only with the approval or licence of any government or agency thereof, the Depositary shall make reasonable efforts to apply, or procure that an application be made, for such approval or licence, if any, as it may deem desirable. If at any time the Depositary shall determine that in its judgement any currency other than United States dollars is not convertible on a reasonable basis into United States dollars and distributable to the Holders entitled thereto, or if any approval or licence of any government or agency thereof which is required for such conversion is denied or, in the opinion of the Depositary, is not obtainable, or if any such approval or licence is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute such other currency received by it (or an appropriate document evidencing the right to receive such other currency) to the Holders entitled thereto to the extent permitted under applicable law, or the Depositary may in its discretion hold such other currency for the benefit of the Holders entitled thereto. If any conversion of any such currency can be effected in whole or in part for distribution to some (but not all) Holders entitled thereto, the Depositary may at its discretion make such conversion and distribution in United States dollars to the extent possible to the Holders entitled thereto and may distribute the balance of such other currency received by the Depositary to, or hold such balance for the account of, the Holders entitled thereto, and notify the Holders accordingly.

9. Distribution of any Payments

9.1 Any distribution of cash under Condition 4, 5, 6, 7 or 10 will be made by the Depositary to Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable) and, if practicable in the opinion of the Depositary, notice shall be given promptly to Holders in accordance with Condition 23, in each case subject to any laws or regulations applicable thereto and (subject to the provisions of Condition 8) distributions will be made in United States dollars by cheque drawn upon a bank in New York City or, in the case of the Master GDRs, according to usual practice between the Depositary and Clearstream, Euroclear or DTC, as the case may be. The Depositary or the Agent, as the case may be, may deduct and retain from all moneys due in respect of such GDR in accordance with the Deposit Agreement all fees, taxes, duties, charges, costs and expenses which may become or have become payable under the Deposit Agreement or under applicable law or regulation in respect of such GDR or the relevant Deposited Property.

9.2 Delivery of any securities or other property or rights other than cash shall be made as soon as practicable to the Holders on the record date established by the Depositary for that purpose (such date to be as close to the record date set by the Company as is reasonably practicable), subject to any laws or regulations applicable thereto. If any distribution made by the Company with respect to the Deposited Property and received by the Depositary shall remain unclaimed at the end of three years from the first date upon which such distribution is made available to Holders in accordance with the Deposit Agreement, all rights of the Holders to such distribution or the proceeds of the sale thereof shall be extinguished and the Depositary shall (except for any distribution upon the liquidation of the Company when the Depositary shall retain the same) return the same to the Company for its own use and benefit subject, in all cases, to the provisions of applicable law or regulation.

10. Capital Reorganisation

Upon any change in the nominal or par value, sub-division, consolidation or other reclassification of Deposited Shares or any other part of the Deposited Property or upon any reduction of capital, or upon any reorganisation, merger or consolidation of the Company or to which it is a party (except where the Company is the continuing corporation), the Depositary shall as soon as practicable give notice of such event to the Holders and at its discretion may treat such event as a distribution and comply with the relevant provisions of Conditions 4, 5, 6 and 9 with respect thereto, or may execute and deliver additional GDRs in respect of Shares or may require the exchange of existing GDRs for new GDRs which reflect the effect of such change.

11. Withholding Taxes and Applicable Laws

11.1 Payments to Holders of dividends or other distributions on or in respect of the Deposited Shares will be subject to deduction of Luxembourg and other withholding taxes, if any, at the applicable rates.

11.2 If any governmental or administrative authorisation, consent, registration or permit or any report to any governmental or administrative authority is required under any applicable law in Luxembourg in order for the Depositary to receive from the Company Shares or other securities to be deposited under these Conditions, or in order for Shares, other securities or other property to be distributed under Condition 4, 5, 6 or 10 or to be subscribed under Condition 7 or to offer any rights or sell any securities represented by such rights relevant to any Deposited Shares, the Company has agreed to apply for such authorisation, consent, registration or permit or file such report on behalf of the Holders within the time required under such laws. In this connection, the Company has undertaken in the Deposit Agreement to the extent reasonably practicable to take such action as may be required in obtaining or filing the same. The Depositary shall not be obliged to distribute GDRs representing such Shares, Shares, other securities or other property deposited under these Conditions or make any offer of any such rights or sell any securities corresponding to any such rights with respect to which such authorisation, consent, registration or permit or such report has not been obtained or filed, as the case may be, and shall have no duties to obtain (but shall, where assistance is reasonably requested by the Company, and such assistance does not require the Depositary to take any action in conflict with market practice or in a capacity other than its capacity as Depositary, at the expense of the Company make reasonable endeavours to assist the Company to obtain) any such authorisation, consent, registration or permit, or to file any such report.

12. Voting Rights

12.1 Holders will have the right to instruct the Depositary with respect to the exercise of voting rights with respect to the Deposited Shares, but not in relation to any fraction of a Deposited Share. The Company has agreed to notify the Depositary of any resolution to be proposed at a General Meeting of the Company and the Depositary will vote or cause to be voted the Deposited Shares in the manner set out in this Condition 12.

The Company has agreed with the Depositary that it will promptly provide to the Depositary sufficient copies, as the Depositary may reasonably request, of notices of meetings of the shareholders of the Company and the agenda therefor as well as written requests containing voting instructions by which each Holder may give instructions to the Depositary to vote for or against each and any resolution specified in the agenda for the meeting, which the Depositary shall send to any person who is a Holder on the record date established by the Depositary for that purpose (which shall be the same as the corresponding record date set by the Company for the Shares or as near as practicable thereto) as soon as practicable after receipt of the same by the Depositary in accordance with Condition 23. The Company has also agreed to provide to the Depositary appropriate proxy forms to enable the Depositary to appoint a representative to attend the relevant meeting and vote on behalf of the Depositary.

12.2 In order for each voting instruction to be valid, the voting instructions form must be completed and duly signed by the respective Holder (or in the case of instructions received from the clearing systems should be received by authenticated SWIFT message) in accordance with the written request containing voting instructions and returned to the Depositary by such record date as the Depositary may specify.

12.3 The Depositary will exercise or cause to be exercised the voting rights in respect of the Deposited Shares in accordance with the voting instructions it has received, so that, as appropriate, all Deposited Shares will be voted for or against, or the relevant portion of the Deposited Shares will be voted for and the relevant portion of the Deposited Shares will be voted against, any resolution specified in the agenda for the relevant meeting.

12.4 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permitted by Luxembourg law to exercise the voting rights in respect of the Deposited Shares differently (so that a portion of the Deposited Shares may be voted for a resolution and a portion of the Deposited Shares may be voted against a resolution) the Depositary shall, if the opinion referred to in Condition 12.7 below confirms it to be permissible under Luxembourg law, calculate from the voting instructions that it has received from all Holders (x) the aggregate number of votes in favour of a particular resolution and (y) the aggregate number of votes opposed to such resolution and cast or cause to be cast in favour of or opposed to such resolution the number of votes representing the net positive difference between such aggregate number of votes in favour of such resolution and such aggregate number of votes opposed to such resolution.

12.5 The Depositary will only endeavour to vote or cause to be voted the votes attaching to Shares in respect of which voting instructions have been received, except that if no voting instructions are received by the Depositary from a Holder (either because no voting instructions are returned to the Depositary by such Holder or because the voting instructions are incomplete, illegible or unclear) with respect to any or all of the Deposited Shares represented by such Holder's GDRs on or before the record date specified by the Depositary, such Holder shall be deemed to have instructed the Depositary to give a discretionary proxy to a person designated by the Company with respect to such Deposited Shares, and the Depositary shall give a discretionary proxy to a person designated by the Company to vote such Deposited Shares, PROVIDED THAT no such instruction shall be deemed given, and no such discretionary proxy shall be given, with respect to any matter as to which the Company informs the Depositary (and the Company has agreed to provide such information in writing as soon as practicable) that (i) the Company does not wish such proxy to be given, or (ii) such matter materially and adversely affects the rights of holders of Shares.

12.6 If the Depositary is advised in the opinion referred to in Condition 12.7 below that it is not permissible under Luxembourg law or the Depositary determines that it is not reasonably practicable to vote or cause to be voted such Deposited Shares in accordance with Conditions 12.3, 12.4 or 12.5 the Depositary shall not vote or cause to be voted such Deposited Shares.

12.7 Where the Depositary is to vote in respect of each and any resolution in the manner described in Conditions 12.3, 12.4 or 12.5 above the Depositary shall notify the chairman of the board of directors of the Company (the "Chairman") and appoint a person designated by the Chairman as a representative of the Depositary to attend such meeting and vote the Deposited Shares in the manner required by this Condition. The Depositary shall not be required to take any action required by this Condition 12 if it has requested but not received prior to taking such action an opinion from the Company's legal counsel (such counsel being reasonably acceptable to the Depositary) at the expense of the Company to the effect that the voting arrangements contemplated in this Condition are valid and binding on Holders under Luxembourg law and the statutes of the Company and that the Depositary is permitted to exercise votes in accordance with the provisions of this Condition 12 and that in doing so the Depositary will not be deemed to be exercising voting discretion.

12.8 By continuing to hold GDRs, all Holders shall be deemed to have agreed to the provisions of this Condition as it may be amended from time to time in order to comply with applicable Luxembourg law.

12.9 The Depositary shall not, and the Depositary shall ensure that the Custodian and its nominee, if any, do not, vote or attempt to exercise any right to vote that attaches to the Deposited Shares, other than in accordance with instructions given in accordance with this Condition.

13. Recovery of Taxes, Duties and Other Charges

The Depositary shall not be liable for any taxes, duties, charges, costs or expenses which may become payable in respect of the Deposited Shares or other Deposited Property or the GDRs, whether under any present or future fiscal or other laws or regulations, and such part thereof as is proportionate or referable to a GDR shall be payable by the Holder thereof to the Depositary at any time on request or may be deducted from any amount due or becoming due on such GDR in respect of any dividend or other distribution. In default thereof, the Depositary may for the account of the Holder discharge the same out of the proceeds of sale on any Stock Exchange on which the Shares may from time to time be listed, and subject to all applicable laws and regulations, of any appropriate number of Deposited Shares or other Deposited Property and subsequently pay any surplus to the Holder. Any such request shall be made by giving notice pursuant to Condition 23.

14. Liability

14.1 In acting hereunder the Depositary shall have only those duties, obligations and responsibilities expressly specified in the Deposit Agreement and these Conditions and, other than holding the Deposited Property for the benefit of Holders as bare trustee, does not assume any relationship of trust for or with the Holders or owners of GDRs or any other person.

14.2 Neither the Depositary, the Custodian, the Company, any Agent, nor any of their agents, officers, directors or employees shall incur any liability to any other of them or to any Holder or owner of a GDR or any other person with an interest in any GDRs if, by reason of any provision of any present or future law or regulation of Luxembourg or any other country or of any relevant governmental authority, or by reason of the interpretation or application of any such present or future law or regulation or any change therein, or by reason of any other circumstances beyond their control, or in the case of the Depositary, the Custodian, the Agent or any of their agents, officers, directors or employees, by reason of any provision, present or future, of the constitutive documents of the Company, any of them shall be prevented, delayed or forbidden from doing or performing any act or thing which the terms of the Deposit Agreement or these Conditions provide shall or may be done or performed; nor shall any of them incur any liability to any Holder or owner of GDRs or any other person with an interest in any GDRs by reason of any exercise of, or failure to exercise, any voting rights attached to the Deposited Shares or any of them or any other discretion or power provided for in the Deposit Agreement. Any such party may rely on, and shall be protected in acting upon, any written notice, request, direction or other document believed by it to be genuine and to have been duly signed or presented (including a translation which is made by a translator believed by it to be competent or which appears to be authentic).

14.3 Neither the Depositary nor any Agent shall be liable (except for its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) to the Company or any Holder or owner of GDRs or any other person, by reason of having accepted as valid or not having rejected any certificate for Shares or GDRs or any signature on any transfer or instruction purporting to be such and subsequently found to be forged or not authentic or for its failure to perform any obligations under the Deposit Agreement or these Conditions.

14.4 The Depositary and its agents may engage or be interested in any financial or other business transactions with the Company or any of its subsidiaries or affiliates, or in relation to the Deposited Property (including without prejudice to the generality of the foregoing, the conversion of any part of the Deposited Property from one currency to another), may at any time hold or be interested in GDRs for its own account, and shall be entitled to charge and be paid all usual fees, commissions and other charges for business transacted and acts done by it as a bank, and not in the capacity of Depositary, in relation to matters arising under the Deposit Agreement (including, without prejudice to the generality of the foregoing, charges on the conversion of any part of the Deposited Property from one currency to another and on any sales of property) without accounting to Holders or any other person for any profit arising therefrom.

14.5 The Depositary shall endeavour to effect any such sale as is referred to or contemplated in Conditions 5, 6, 7, 10, 13 or 21 or any such conversion as is referred to in Condition 8 in accordance with the Depositary's normal practices and procedures but shall have no liability (in the absence of its own wilful default, negligence or bad faith or that of its agents, officers, directors or employees) with respect to the terms of such sale or conversion or if such sale or conversion shall not be reasonably practicable.

14.6 The Depositary shall not be required or obliged to monitor, supervise or enforce the observance and performance by the Company of its obligations under or in connection with the Deposit Agreement or these Conditions.

14.7 The Depositary shall have no responsibility whatsoever to the Company, any Holders or any owner of GDRs or any other person as regards any deficiency which might arise because the Depositary is subject to any tax in respect of the Deposited Property or any part thereof or any income therefrom or any proceeds thereof.

14.8 In connection with any proposed modification, waiver, authorisation or determination permitted by the terms of the Deposit Agreement, the Depositary shall not, except as otherwise expressly provided in Condition 22, be obliged to have regard to the consequence thereof for the Holders or the owners of GDRs or any other person.

14.9 Notwithstanding anything else contained in the Deposit Agreement or these Conditions, the Depositary may refrain from doing anything which could or might, in its opinion, be contrary to any law of any jurisdiction or any directive or regulation of any agency or state or which would or might otherwise render it liable to any person and the Depositary may do anything which is, in its opinion, necessary to comply with any such law, directive or regulation.

14.10 The Depositary may, in relation to the Deposit Agreement and these Conditions, act or take no action on the advice or opinion of, or any certificate or information obtained from, any lawyer, valuer, accountant, banker, broker, securities company or other expert whether obtained by the Company, the Depositary or otherwise, and (subject to Condition 14.13 below) shall not be responsible or liable for any loss or liability occasioned by so acting or refraining from acting or relying on information from persons presenting Shares for deposit or GDRs for surrender or requesting transfers thereof.

14.11 Any such advice, opinion, certificate or information (as discussed in Condition 14.10 above) may be sent or obtained by letter, telex, facsimile transmission, telegram or cable and (subject to Condition 14.13 below) the Depositary shall not be liable for acting on any advice, opinion, certificate or information purported to be conveyed by any such letter, telex or facsimile transmission although (without the Depositary's knowledge) the same shall contain some error or shall not be authentic.

14.12 The Depositary may call for and shall be at liberty to accept as sufficient evidence of any fact or matter or the expediency of any transaction or thing, a certificate, letter or other communication, whether oral or written, signed or otherwise communicated on behalf of the Company by a director of the Company or by a person duly authorised by a Director of the Company or such other certificate from persons specified in Condition 14.10 above which the Depositary considers appropriate and the Depositary shall not be bound in any such case to call for further evidence or be responsible for any loss or liability that may be occasioned by the Depositary acting on such certificate.

14.13 The Depositary shall have no obligation under the Deposit Agreement except to perform its obligations as are specifically set out therein without wilful default, negligence or bad faith.

14.14 The Depositary may delegate by power of attorney or otherwise to any person or persons or fluctuating body of persons, whether being a joint Depositary of the Deposit Agreement or not and not being a person to whom the Company may reasonably object, all or any of the powers, authorities and discretions vested in the Depositary by the Deposit Agreement and such delegation may be made upon such terms and subject to such conditions, including power to sub-delegate and subject to such regulations as the Depositary may in the interests of the Holders think fit, provided that no objection from the Company to any such delegation as aforesaid may be made to a person whose financial statements are consolidated with those of the Depositary's ultimate holding company. Any delegation by the Depositary shall be on the basis that the Depositary is acting on behalf of the Holders and the Company in making such delegation. The Company shall not in any circumstances and the Depositary shall not (provided that it shall have exercised reasonable care in the selection of such delegate) be bound to supervise the proceedings or be in any way responsible for any loss, liability, cost, claim, action, demand or expense incurred by reason of any misconduct or default on the part of any such delegate or sub-delegate. However, the Depositary shall, if practicable and if so requested by the Company, pursue (at the Company's expense and subject to receipt by the Depositary of such indemnity and security for costs as the Depositary may reasonably require) any legal action it may have against such delegate or sub-delegate arising out of any such loss caused by reason of any such misconduct or default. The Depositary shall, within a reasonable time of any such delegation or any renewal, extension or termination thereof, give notice thereof to the Company. Any delegation under this Condition which includes the power to sub-delegate shall provide that the sub-delegate shall be required to provide the services sub-delegated in substantially the same manner as such services are required to be provided under the Deposit Agreement and the delegate shall, within a specified time of any sub-delegation or amendment, extension or termination thereof, give notice thereof to the Company and the Depositary.

14.15 The Depositary may, in the performance of its obligations hereunder, instead of acting personally, employ and pay an agent, whether a solicitor or other person, to transact or concur in transacting any business and do or concur in doing all acts required to be done by such party, including the receipt and payment of money.

14.16 The Depositary shall be at liberty to hold or to deposit the Deposit Agreement and any deed or document relating thereto in any part of the world with any banking company or companies (including itself) whose business includes undertaking the safe custody of deeds or documents or with any lawyer or firm of lawyers of good repute, and the Depositary shall not (in the case of deposit with itself, in the absence of its own negligence, wilful default, or bad faith or that of its agents, directors, officers or employees) be responsible for any losses, liability or expenses incurred in connection with any such deposit.

14.17 Notwithstanding anything to the contrary contained in the Deposit Agreement or these Conditions, the Depositary shall not be liable in respect of any loss or damage which arises out of or in connection with its performance or non-performance or the exercise or attempted exercise of, or the failure to exercise any of, its powers or discretions under the Deposit Agreement except to the extent that such loss or damage arises from the wilful default, negligence or bad faith of the Depositary or that of its agents, officers, directors or employees.

14.18 No provision of the Deposit Agreement or these Conditions shall require the Depositary to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity and security against such risk of liability is not assured to it.

14.19 For the avoidance of doubt, the Depositary shall be under no obligation to check, monitor or enforce compliance with any ownership restrictions in respect of GDRs or Shares under any applicable Luxembourg law as the same may be amended from time to time. Notwithstanding the generality of Condition 3, the Depositary shall refuse to register any transfer of GDRs or any deposit of Shares against issuance of GDRs if notified by the Company, or the Depositary becomes aware of the fact, that such transfer or issuance would result in a violation of the limitations set forth above.

14.20 No disclaimer of liability under the Securities Act is intended by any provision of the Deposit Agreement.

15. Issue and Delivery of Replacement GDRs and Exchange of GDRs

Subject to the payment of the relevant fees, taxes, duties, charges, costs and expenses and such terms as to evidence and indemnity as the Depositary may require, replacement GDRs will be issued by the Depositary and will be delivered in exchange for or replacement of outstanding lost, stolen, mutilated, defaced or destroyed GDRs upon surrender thereof (except in the case of the destruction, loss or theft) at the specified office of the Depositary or (at the request, risk and expense of the Holder) at the specified office of any Agent.

16. Depositary's Fees, Costs and Expenses

16.1 The Depositary shall be entitled to charge the following remuneration and receive the following remuneration and reimbursement (such remuneration and reimbursement being payable on demand) from the Holders in respect of its services under the Deposit Agreement:

(i) for the issue of GDRs (other than upon the issue of GDRs pursuant to the Offering) or the cancellation of GDRs upon the withdrawal of Deposited Property: U.S.$5.00 or less per 100 GDRs (or portion thereof) issued or cancelled;

(ii) for issuing GDR certificates in definitive registered form in replacement for mutilated, defaced, lost, stolen or destroyed GDR certificates: a sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work, costs and expenses involved;

(iii) for issuing GDR certificates in definitive registered form (other than pursuant to (ii) above): the greater of U.S.$1.50 per GDR certificate (plus printing costs) or such other sum per GDR certificate which is determined by the Depositary to be a reasonable charge to reflect the work plus costs (including but not limited to printing costs) and expenses involved;

(iv) for receiving and paying any cash dividend or other cash distribution on or in respect of the Deposited Shares: a fee of U.S.$0.02 or less per GDR for each such dividend or distribution;

(v) in respect of any issue of rights or distribution of Shares (whether or not evidenced by GDRs) or other securities or other property (other than cash) upon exercise of any rights, any free distribution, stock dividend or other distribution: U.S.$5.00 or less per 100 outstanding GDRs (or portion thereof) for each such issue of rights, dividend or distribution;

(vi) for transferring interests from and between the Regulation S Master GDR and the Rule 144A Master GDR: a fee of U.S.$0.05 or less per GDR;

(vii) a fee of U.S.$0.02 or less per GDR for depositary services, which shall accrue on the last day of each calendar year and shall be payable as provided in paragraph (viii) below, *provided however* that no fee will be assessed under this provision to the extent a fee of U.S.$0.02 per GDR was charged in such calendar year pursuant to sub-paragraph (iv) above; and

(viii) any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents, in connection with the servicing of Deposited Shares or other Deposited Property (which charge shall be assessed against

Holders as of the date or dates set by the Depositary and shall be payable at the sole discretion of the Depositary by billing such Holders for such charge or deducting such charge from one or more cash dividends or other cash distributions,

together with all expenses (including currency conversion expenses), transfer and registration fees, taxes, duties and charges payable by the Depositary, any Agent or the Custodian, or any of their agents, in connection with any of the above.

16.2 The Depositary is entitled to receive from the Company the fees, taxes, duties, charges costs and expenses as specified in a separate agreement between the Company and the Depositary.

17. Agents

17.1 The Depositary shall be entitled to appoint one or more agents (the "**Agents**") for the purpose, *inter alia*, of making distributions to the Holders.

17.2 Notice of appointment or removal of any Agent or of any change in the specified office of the Depositary or any Agent will be duly given by the Depositary to the Holders.

18. Listing

The Company has undertaken in the Deposit Agreement to use its best endeavours to maintain, so long as any GDR is outstanding, a listing for the GDRs on the Official List of the UK Listing Authority and admission to trading on the market for listed securities of the London Stock Exchange.

For that purpose the Company will pay all fees and sign and deliver all undertakings required by the UK Listing Authority or the London Stock Exchange in connection with such listings. In the event that the listing on the Official List of the UK Listing Authority and admission to trading on the market for listed securities of the London Stock Exchange is not maintained, the Company has undertaken in the Deposit Agreement to use its best endeavours with the reasonable assistance of the Depositary (provided at the Company's expense) to obtain and maintain a listing of the GDRs on any other internationally recognised stock exchange in Europe.

19. The Custodian

The Depositary has agreed with the Custodian that the Custodian will receive and hold (or appoint agents approved by the Depositary to receive and hold) all Deposited Property for the account and to the order of the Depositary in accordance with the applicable terms of the Deposit Agreement which include a requirement to segregate the Deposited Property from the other property of, or held by, the Custodian PROVIDED THAT the Custodian shall not be obliged to segregate cash comprised in the Deposited Property from cash otherwise held by the Custodian. The Custodian shall be responsible solely to the Depositary PROVIDED THAT, if and so long as the Depositary and the Custodian are the same legal entity, references to them separately in these Conditions and the Deposit Agreement are for convenience only and that legal entity shall be responsible for discharging both functions directly to the Holders and the Company. The Custodian may resign or be removed by the Depositary by giving 90 days' prior notice, except that if a replacement Custodian is appointed which is a branch or affiliate of the Depositary, the Custodian's resignation or discharge may take effect immediately on the appointment of such replacement Custodian. Upon the removal of or receiving notice of the resignation of the Custodian, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Luxembourg, if any), which shall, upon acceptance of such appointment, and the expiry of any applicable notice period, become the Custodian. Whenever the Depositary in its discretion determines that it is in the best interests of the Holders to do so, it may, after prior consultation with the Company, terminate the appointment of the Custodian and, in the event of any such termination, the Depositary shall promptly appoint a successor Custodian (approved (i) by the Company, such approval not to be unreasonably withheld or delayed, and (ii) by the relevant authority in Luxembourg, if any), which shall, upon acceptance of such appointment, become the Custodian under the Deposit Agreement on the effective date of such termination. The Depositary shall notify Holders of such change immediately upon such change taking effect in accordance with Condition 23. Notwithstanding the foregoing, the Depositary may temporarily deposit the Deposited Property in a manner or a place other than as therein specified; PROVIDED THAT, in the case of such temporary deposit in another place, the Company shall have consented to such deposit, and such consent of the Company shall have been delivered to the Custodian. In case of transportation of the Deposited Property under this Condition, the Depositary shall obtain appropriate insurance at the expense of the

Company if and to the extent that the obtaining of such insurance is reasonably practicable and the premiums payable are of a reasonable amount.

20. Resignation and Termination of Appointment of the Depositary

20.1 The Company may terminate the appointment of the Depositary under the Deposit Agreement by giving at least 120 days' prior notice in writing to the Depositary and the Custodian, and the Depositary may resign as Depositary by giving at least 120 days' prior notice in writing to the Company and the Custodian. Within 30 days after the giving of either such notice, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 and to the UK Listing Authority and the London Stock Exchange.

The termination of the appointment or the resignation of the Depositary shall take effect on the date specified in such notice; PROVIDED THAT no such termination of appointment or resignation shall take effect until the appointment by the Company of a successor depositary under the Deposit Agreement and the acceptance of such appointment to act in accordance with the terms thereof and of these Conditions, by the successor depositary. The Company has undertaken in the Deposit Agreement to use its best endeavours to procure the appointment of a successor depositary with effect from the date of termination specified in such notice as soon as reasonably possible following notice of such termination or resignation. Upon any such appointment and acceptance, notice thereof shall be duly given by the Depositary to the Holders in accordance with Condition 23 and to the UK Listing Authority and the London Stock Exchange.

20.2 Upon the termination of appointment or resignation of the Depositary and against payment of all fees and expenses due to the Depositary from the Company under the Deposit Agreement, the Depositary shall deliver to its successor as depositary sufficient information and records to enable such successor efficiently to perform its obligations under the Deposit Agreement and shall deliver and pay to such successor depositary all property and cash held by it under the Deposit Agreement. The Deposit Agreement provides that, upon the date when such termination of appointment or resignation takes effect, the Custodian shall be deemed to be the Custodian thereunder for such successor depositary, and the resigning Depositary shall thereafter have no obligation under the Deposit Agreement or the Conditions (other than liabilities accrued prior to the date of termination of appointment or resignation or any liabilities stipulated in relevant laws or regulations).

21. Termination of Deposit Agreement

21.1 Either the Company or the Depositary but, in the case of the Depositary, only if the Company has failed to appoint a replacement Depositary within 90 days of the date on which the Depositary has given notice pursuant to Condition 20 and Clause 11 of the Deposit Agreement that it wishes to resign, may terminate the Deposit Agreement by giving 90 days' prior notice to the other and to the Custodian. Within 30 days after the giving of such notice, notice of such termination shall be duly given by the Depositary to Holders of all GDRs then outstanding in accordance with Condition 23.

21.2 During the period beginning on the date of the giving of such notice by the Depositary to the Holders and ending on the date on which such termination takes effect, each Holder shall be entitled to obtain delivery of the Deposited Property relative to each GDR held by it, subject to (i) the provisions of Condition 1.1 and compliance by it with Condition 1, (ii) payment by the Holder of the charge specified in Condition 16.1(i) and Clause 10.1.1(a) for such delivery and surrender, and (iii) payment by the Holder of any sums payable by the Depositary and/or any other expenses incurred by the Depositary (together with all amounts which the Depositary is obliged to pay to the Custodian) in connection with such delivery and surrender, and otherwise in accordance with the Deposit Agreement.

21.3 If any GDRs remain outstanding after the date of termination, the Depositary shall as soon as reasonably practicable sell the Deposited Property then held by it under the Deposit Agreement and shall not register transfers, shall not pass on dividends or distributions or take any other action, except that it will deliver the net proceeds of any such sale, together with any other cash then held by it under the Deposit Agreement, *pro rata* to Holders of GDRs which have not previously been so surrendered by reference to that proportion of the Deposited Property which is represented by the GDRs of which they were the Holders prior to such sale. After making such sale, the Depositary shall be discharged from all obligations under the Deposit Agreement and these Conditions, except its obligation to account to Holders for such net proceeds of sale and other cash comprising the Deposited Property without interest.

22. Amendment of Deposit Agreement and Conditions

All and any of the provisions of the Deposit Agreement and these Conditions (other than this Condition 22) may at any time and from time to time be amended by agreement between the Company and the Depositary in any respect which they may deem necessary or desirable. Notice of any amendment of these Conditions (except to correct a manifest error) shall be duly given to the Holders by the Depositary, and any amendment (except as aforesaid) which shall increase or impose fees payable by Holders or which shall otherwise, in the opinion of the Depositary, be materially prejudicial to the interests of the Holders (as a class) shall not become effective so as to impose any obligation on the Holders until the expiration of three months after such notice shall have been given. During such period of three months, each Holder shall be entitled to obtain, subject to and upon compliance with Condition 1, delivery of the Deposited Property relative to each GDR held by it upon surrender thereof, payment of the charge specified in Condition 16.1(i) for such delivery and surrender and otherwise in accordance with the Deposit Agreement and these Conditions. Each Holder at the time when such amendment so becomes effective shall be deemed, by continuing to hold a GDR, to approve such amendment and to be bound by the terms thereof in so far as they affect the rights of the Holders. In no event shall any amendment impair the right of any Holder to receive, subject to and upon compliance with Condition 1, the Deposited Property attributable to the relevant GDR.

For the purposes of this Condition 22, an amendment shall not be regarded as being materially prejudicial to the interests of Holders if its principal effect is to permit the creation of GDRs in respect of additional Shares to be held by the Depositary which are or will become fully consolidated as a single series with the other Deposited Shares PROVIDED THAT temporary GDRs will represent such Shares until they are so consolidated.

23. Notices

23.1 Any and all notices to be given to any Holder shall be duly given if personally delivered, or sent by mail (if domestic, first class, if overseas, first class airmail) or air courier, or by telex or facsimile transmission confirmed by letter sent by mail or air courier, addressed to such Holder at the address of such Holder as it appears on the transfer books for GDRs of the Depositary, or, if such Holder shall have filed with the Depositary a written request that notices intended for such Holder be mailed to some other address, at the address specified in such request.

23.2 Delivery of a notice sent by mail or air courier shall be effective three days (in the case of domestic mail or air courier) or seven days (in the case of overseas mail) after despatch, and any notice sent by telex transmission, as provided in this Condition, shall be effective when the sender receives the answerback from the addressee at the end of the telex and any notice sent by facsimile transmission, as provided in this Condition, shall be effective when the intended recipient has confirmed by telephone to the transmitter thereof that the recipient has received such facsimile in complete and legible form. The Depositary or the Company may, however, act upon any telex or facsimile transmission received by it from the other or from any Holder, notwithstanding that such telex or facsimile transmission shall not subsequently be confirmed as aforesaid.

23.3 So long as GDRs are listed on the Official List of the UK Listing Authority and admitted to trading on the market for listed securities of the London Stock Exchange and the rules of the UK Listing Authority or the London Stock Exchange so require, all notices to be given to Holders generally will also be published in a leading daily newspaper having general circulation in the UK (which is expected to be the *Financial Times*).

24. Reports and Information on the Company

24.1 The Company has undertaken in the Deposit Agreement (so long as any GDR is outstanding) to furnish the Depositary with six copies in the English language (and to make available to the Depositary, the Custodian and each Agent as many further copies as they may reasonably require to satisfy requests from Holders) of those communications that it makes generally available to its shareholders, including but not limited to any communications that may be required by law or regulation or in order to maintain a listing for the GDRs on the Official List of the UK Listing Authority and admission to trading on the market for listed securities of the London Stock

Exchange, or another stock exchange, in accordance with Condition 18, as soon as practicable following the publication or availability of such communications. For the avoidance of doubt, such communications shall include any financial statements prepared in respect of the maintenance of such listing. If such communication is not furnished to the Depositary in English, the Depositary shall, at the Company's expense, arrange for an English translation thereof to be prepared.

24.2 The Depositary shall upon receipt thereof give due notice to the Holders that such copies are available upon request at its specified office and the specified office of any Agent.

24.3 For so long as any Shares or GDRs representing such Shares are "**restricted securities**" within the meaning of Rule 144(a)(3) under the Securities Act, during any period in which it is neither a reporting company under, and in compliance with the requirements of, Section 13 or 15(d) of the Exchange Act nor exempt from the reporting requirements of the Exchange Act by complying with the information furnishing requirements of Rule 12g3-2(b) thereunder, the Company has agreed in the Deposit Agreement and the Deed Poll to provide, at its expense, to any Holder, owner of GDRs or of the Master GDRs or the beneficial owner of an interest in such GDRs, and to any prospective purchaser of GDRs or Shares designated by such person, upon request of such owner, beneficial owner, Holder or prospective purchaser, the information required by Rule 144A(d)(4)(i) and otherwise to comply with Rule 144A(d)(4). If at any time the Company is neither subject to and in compliance with Section 13 or 15(d) of the Exchange Act nor exempt pursuant to Rule 12g3-2(b) under the Exchange Act, the Company shall immediately so notify the Depositary and the Depositary may so notify Holders in writing at the Company's expense. The Company has authorised the Depositary to deliver such information as furnished by the Company to the Depositary during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144A(d)(4) to any such Holder, owner of GDRs, beneficial owner of an interest in GDRs or holder of Shares or prospective purchaser at the request of such person. The Company has agreed to reimburse the Depositary for its reasonable expenses in connection with such deliveries and to provide the Depositary with such information in such quantities as the Depositary may from time to time reasonably request. Subject to receipt, the Depositary will deliver such information, during any period in which the Company informs the Depositary it is subject to the information delivery requirements of Rule 144(A)(d)(4), to any such holder, beneficial owner or prospective purchaser but in no event shall the Depositary have any liability for the contents of any such information.

25. Copies of Company Notices

The Company has undertaken in the Deposit Agreement to transmit to the Custodian and the Depositary on or before the day when the Company first gives notice, by mail, publication or otherwise, to holders of any Shares or other Deposited Property, whether in relation to the taking of any action in respect thereof or in respect of any dividend or other distribution thereon or of any meeting or adjourned meeting of such holders or otherwise, such number of copies of such notice and any other material (which contains information having a material bearing on the interests of the Holders) furnished to such holders by the Company (or such number of copies of an English translation of the originals if the originals were prepared in a language other than English) in connection therewith as the Depositary may reasonably request. If such notice is not furnished to the Depositary in English, either by the Company or the Custodian, the Depositary shall, at the Company's expense, arrange for an English translation thereof (which may be in such summarised form as the Depositary may deem adequate to provide sufficient information) to be prepared. Except as provided below, the Depositary shall, as soon as practicable after receiving notice of such transmission or (where appropriate) upon completion of translation thereof, give due notice to the Holders which notice may be given together with a notice pursuant to Condition 9.1, and shall make the same available to Holders in such manner as it may determine.

26. Moneys held by the Depositary

The Depositary shall be entitled to deal with moneys paid to it by the Company for the purposes of the Deposit Agreement in the same manner as other moneys paid to it as a banker by its customers and shall not be liable to account to the Company or any Holder or any other person for any interest thereon, except as otherwise agreed and shall not be obliged to segregate such moneys from other moneys belonging to the Depositary.

27. Severability

If any one or more of the provisions contained in the Deposit Agreement or in these Conditions shall be or become invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained therein or herein shall in no way be affected, prejudiced or otherwise disturbed thereby.

28. Governing Law

28.1 The Deposit Agreement and the GDRs are governed by, and shall be construed in accordance with, English law except that the certifications set forth in Schedules 3 and 4 to the Deposit Agreement and any provisions relating thereto shall be governed by and construed in accordance with the laws of the State of New York. The rights and obligations attaching to the Deposited Shares will be governed by Luxembourg law. The Company has submitted in respect of the Deposit Agreement and the Deed Poll to the jurisdiction of the English courts and the courts of the State of New York and any United States Federal Court sitting in the Borough of Manhattan, New York City and has appointed an agent for service of process in London and the Borough of Manhattan, New York City.

28.2 The Company has irrevocably appointed Law Debenture Corporate Services Limited as its agent in England to receive service of process in any Proceedings in England based on the Deed Poll and appointed the Corporation Service Company as its agent in New York to receive service of process in any Proceedings in New York. If for any reason the Company does not have such an agent in England or New York, as the case may be, it will promptly appoint a substitute process agent and notify the Holders and the Depositary of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

28.3 The courts of England are to have jurisdiction to settle any disputes (each a "**Dispute**") which may arise out of or in connection with the GDRs and accordingly any legal action or proceedings arising out of or in connection with the GDRs ("**Proceedings**") may be brought in such courts. Without prejudice to the foregoing, the Depositary further irrevocably agrees that any Proceedings may be brought in any New York State or United States Federal Court sitting in the Borough of Manhattan, New York City. The Depositary irrevocably submits to the non-exclusive jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum.

28.4 These submissions are made for the benefit of each of the Holders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdictions (whether concurrently or not).

28.5 In the event that the Depositary is made a party to, or is otherwise required to participate in, any litigation, arbitration, or Proceeding (whether judicial or administrative) which arises from or is related to or is based upon any act or failure to act by the Company, or which contains allegations to such effect, upon notice from the Depositary, the Company has agreed to fully cooperate with the Depositary in connection with such litigation, arbitration or Proceeding.

28.6 The Depositary irrevocably appoints The Bank of New York, London Branch, (Attention: The Manager) of 48th Floor, One Canada Square, London E14 5AL as its agent in England to receive service of process in any Proceedings in England based on any of the GDRs. If for any reason the Depositary does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Holders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

SUMMARY OF PROVISIONS RELATING TO THE GDRs WHILE IN MASTER FORM

The GDRs will initially be evidenced by (i) a single Master Regulation S GDR in registered form and (ii) a single Master Rule 144A GDR in registered form. The Master Regulation S GDR will be deposited with The Bank of New York, London branch as common depositary for Euroclear and Clearstream, Luxembourg and registered in the name of The Bank of New York Depositary (Nominees) Limited. The Master Rule 144A GDR will be registered in the name of Cede & Co., as nominee for DTC, and will be held by The Bank of New York as Custodian for DTC. The Master Regulation S GDR and the Master Rule 144A GDR (collectively the "Master GDRs") contain provisions which apply to the GDRs while they are in master form, some of which modify the effect of the Conditions of the Global Depositary Receipts set out in this Offering Circular. The following is a summary of certain of those provisions. Unless otherwise defined herein, the terms defined in the Conditions shall have the same meaning herein.

The Master GDRs will only be exchanged for certificates in definitive registered form representing GDRs in the circumstances described in (i), (ii), (iii) or (iv) below in whole but not in part. The Depositary will irrevocably undertake in the Master GDRs to deliver certificates evidencing GDRs in definitive registered form in exchange for the relevant Master GDR to the Holders within 60 days in the event that:

(i) Euroclear or Clearstream, Luxembourg, in the case of the Master Regulations GDR, or DTC (or any successor to DTC), in the case of the Master Rule 144A GDR advises the Company in writing that it is unwilling or unable to continue as depositary and a successor depositary is not appointed within 90 calendar days; or

(ii) Euroclear or Clearstream, Luxembourg, in the case of the Master Regulation S GDR, or DTC, in the case of the Master Rule 144A GDR, is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, and, in each case, no alternative clearing system satisfactory to the Depositary is available within 45 days; or

(iii) in the case of Master Rule 144A GDR, DTC or any successor ceases to be a "clearing agency" registered under the Exchange Act; or

(iv) the Depositary has determined that, on the occasion of the next payment in respect of the GDRs, the Depositary or its agent would be required to make any deduction or withholding from any payment in respect of the GDRs which would not be required were the GDRs represented by certificates in definitive registered form, provided that the Depositary shall have no obligation to so determine or to attempt to so determine.

Any exchange shall be at the expense (including printing costs) of the relevant GDR holder.

A GDR evidenced by an individual definitive certificate will not be eligible for clearing and settlement through DTC, Euroclear or Clearstream, Luxembourg.

Upon any exchange of a Master GDR for certificates in definitive registered form, or any exchange of interests between the Master Rule 144A GDR and the Master Regulation S GDR pursuant to Condition 3, or any distribution of GDRs pursuant to Conditions 5, 7 or 10 or any reduction in the number of GDRs represented thereby following any withdrawal of Deposited Property pursuant to Condition 1, the relevant details shall be entered by the Depositary on the register maintained by the Depositary whereupon the number of GDRs represented by the Master GDR shall be reduced or increased (as the case may be) for all purposes by the amount so exchanged and entered on the register, provided always that, if the number of GDRs represented by a Master GDR is reduced to zero, such Master GDR shall continue in existence until the obligations of the Company under the Deposit Agreement and the obligations of the Depositary pursuant to the Deposit Agreement and the Conditions have terminated.

Payments, Distributions and Voting Rights

Payments of cash dividends and other amounts (including cash distributions) will, in the case of GDRs represented by the Master Regulation S GDR, be made by the Depositary through Euroclear and Clearstream, Luxembourg and, in the case of GDRs represented by the Master Rule 144A GDR, will be made by the Depositary through DTC, on behalf of persons entitled thereto upon receipt of funds therefore from the Company. A free distribution or rights issue of Shares to the Depositary on behalf of the Holders will result in the record maintained by the Depositary being marked up to reflect the enlarged number of GDRs represented by the relevant Master GDR.

Holders of GDRs will have voting rights as set out in the Terms and Conditions of the GDRs.

Surrender of GDRs

Any requirement in the Terms and Conditions of the GDRs relating to the surrender of a Regulation S GDR to the Depositary shall be satisfied by the production by Euroclear or Clearstream, Luxembourg, and relating to the surrender of a Rule 144A GDR to the Depositary shall be satisfied by the production by DTC, on behalf of a person entitled to an interest therein, of such evidence of entitlement of such person as the Depositary may reasonably require, which is expected to be a certificate or other documents issued by Euroclear or Clearstream, Luxembourg, in the case of the Master Regulation S GDR, or by DTC in the case of the Master Rule 144A GDR. The delivery or production of any such evidence shall be sufficient evidence, in favour of the Depositary, any Agent and the Custodian of the title of such person to receive (or to issue instructions for the receipt of) all money or other property payable or distributable in respect of the Deposited Property represented by such GDRs.

Notices

For as long as the Master Regulation S GDR is registered in the name of the common depositary for Euroclear and Clearstream, Luxembourg and the Master Rule 144A GDR is registered in the name of DTC (or its nominee), notices to Holders may be given by the Depositary by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg with respect to the Master Regulation S GDR and to DTC with respect to the Master Rule 144A GDR for communication to persons entitled thereto in substitution for delivery of notices in accordance with Condition 23. So long as GDRs are listed on the Official List maintained by the UKLA and admitted for trading on the London Stock Exchange, and the UKLA or the London Stock Exchange so requires, notices shall also be published in a leading newspaper having general circulation in the United Kingdom (which is expected to be the *Financial Times*).

The Master GDRs shall be governed by and construed in accordance with English law.

TAXATION

The following summary of material U.S. federal income, United Kingdom and Luxembourg tax consequences of ownership of Shares and GDRs is based upon laws, regulations, decrees, rulings, income tax conventions (treaties), administrative practice and judicial decisions in effect at the date of this Offering Circular. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the Shares and holders of GDRs. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of Shares or GDRs. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the ownership and disposition of Shares or GDRs, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of the date of this Offering Circular, and of any actual changes in applicable tax laws after such date.

United States Federal Income Tax Considerations

U.S. Holders

This summary describes principal U.S. federal income tax consequences for a U.S. Holder (as defined below) of acquiring, owning and disposing of the GDRs. This summary applies only to U.S. Holders that will hold the GDRs as capital assets for U.S. federal income tax purposes. This summary does not apply to a U.S. Holder subject to special rules, such as:

- a dealer in securities or currencies;
- a trader in securities that elects to use a mark-to-market method of accounting for securities holdings;
- a bank;
- a life-insurance company;
- a tax-exempt organization;
- a person that holds GDRs as part of a hedge, straddle or conversion transaction for tax purposes;
- a person whose functional currency for tax purposes is not the U.S. dollar; or
- a person that owns or is deemed to own 10% or more of any class of Evraz's stock.

This summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, existing and proposed regulations promulgated thereunder, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

Prospective holders should consult their own tax advisers concerning the U.S. federal, state, local and other national tax consequences of purchasing, owning and disposing of the GDRs in light of their particular circumstances.

For purposes of this summary, a "U.S. Holder" is a beneficial owner of a GDR that is:

- a citizen or resident of the United States;
- a U.S. domestic corporation; or
- otherwise subject to U.S. federal income tax on a net income basis with respect to income from the GDRs.

For U.S. tax consequences to a holder that is not a U.S. Holder (a "non-U.S. Holder"), see the discussion below under "—Non-U.S. Holders".

Generally, holders of GDRs will be treated for U.S. federal income tax purposes as holding the Shares represented by the GDRs. No gain or loss will be recognised upon the exchange of Shares for GDRs or an exchange of GDRs for Shares.

Distributions

Distributions paid with respect to the GDRs to the extent of our current and accumulated earnings and profits as determined under U.S. federal income tax principles ("Taxable Dividends") will be taxed as ordinary income at the time of the receipt of such amounts by the U.S. Holder. Taxable Dividends will be foreign source income and will not be eligible for the dividends-received deduction available to domestic corporations. To the extent amounts paid as distributions on GDRs exceed the Company's current and accumulated earnings and profits, these amounts will not be Taxable Dividends but instead will be treated first as a tax-free return of capital reducing the U.S. Holder's basis in the GDRs until such basis is reduced to zero, and then as gain from the sale of the U.S. Holder's GDRs treated as described below under "—Taxable Dispositions". This reduction in a U.S. Holder's basis in the GDRs would increase any capital gain, or reduce any capital loss, realized by the U.S. Holder upon the subsequent sale, redemption or other taxable disposition of the GDRs. Evraz does not intend to compute (or to provide U.S. Holders with information necessary to compute) earnings and profits under U.S. federal income tax principles. Accordingly, U.S. Holders should expect to treat distributions as Taxable Dividends.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual U.S. Holder prior to 1 January 2009 with respect to the GDRs will be subject to taxation at a maximum rate of 15% if the dividends are "qualified dividends". Dividends paid on the GDRs will be treated as qualified dividends if (i) the Company is eligible for the benefits of a comprehensive income tax treaty with the United States that the United States Internal Revenue Service has approved for the purposes of the qualified dividend rules and (ii) the Company was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a passive foreign investment company ("PFIC"). The income tax treaty between Luxembourg and the United States has been approved for the purposes of the qualified dividend rules. The Company believes that it would not have been treated as a PFIC for U.S. federal income tax purposes with respect to the 2004 taxable year. In addition, it does not anticipate becoming a PFIC for the 2005 taxable year. Potential investors should consult their own tax advisers regarding the availability of the reduced dividend rate in light of their own particular circumstances.

Taxable Dispositions

Upon a sale, exchange, or other taxable disposition of GDRs, a U.S. Holder will generally recognise gain or loss for U.S. federal income tax purposes in an amount equal to the difference between (1) the sum of the amount of cash and the fair market value of any property received and (2) the U.S. Holder's tax basis in the GDRs that are disposed of. Such gain or loss generally will be long-term capital gain or loss if the U.S. Holder has held the GDRs for more than one year. The net amount of long-term capital gain recognised by an individual U.S. Holder generally is subject to taxation at a maximum rate of 20%; however, net long-term capital gain recognised by an individual U.S. Holder before 1 January 2009 generally is subject to taxation at a maximum rate of 15%. The deductibility of capital losses is subject to limitations. Any gain or loss generally will be treated as arising from U.S. sources.

Non-U.S. Holders

Any dividends received on GDRs and any gain realized on sale or exchange of GDRs by a non-U.S. Holder generally will be exempt from U.S. federal income tax, including withholding tax. However, to avoid withholding with respect to dividends on the GDRs and payments of the proceeds of a sale of GDRs paid within the United States or through certain U.S. related financial intermediaries, a non-U.S. Holder may be required to satisfy certain certification requirements of the Internal Revenue Service to establish that it is not a U.S. Person. See "—Information Reporting and Backup Withholding" below.

A non-U.S. Holder may be subject to U.S. federal income taxes on any dividends received on GDRs and on any gain realized on the sale or exchange of GDRs if it has an office, fixed place of business, or a tax home in the United States or certain other conditions exist. Each potential investor that would be a non-U.S. Holder should consult its own tax adviser regarding the U.S. tax consequences of the ownership and disposition of GDRs.

Information Reporting and Backup Withholding

Dividends on the GDRs and payments of the proceeds of a sale of GDRs paid within the United States or through certain U.S. related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (i) is a corporation or other exempt recipient or

(ii) provides a taxpayer identification number and certifies that no loss or exemption from backup withholding has occurred. Non-U.S. Holders generally are not subject to information reporting or backup withholding. However, a non-U.S. Holder may be required to provide a certification as to its non-U.S. status in connection with payments received within the United States or through certain U.S. related financial intermediaries.

United Kingdom Tax Considerations

The comments below are of a general nature and are based on current U.K. law and published H.M. Revenue & Customs practise, both of which are subject to change, possibly with retrospective effect. The summary only covers the principal U.K. tax consequences for the absolute beneficial owners of Shares or GDRs and any dividends paid in respect of them, in circumstances where the dividends paid are regarded for U.K. tax purposes as that person's own income (and not the income of some other person), and who are resident (or, in the case of individuals only, ordinarily resident) in the U.K. for tax purposes. In addition, the summary (a) only addresses the tax consequences for holders who hold the Shares or GDRs as capital assets and does not address the tax consequences which may be relevant to certain other categories of holders, for example, dealers; (b) does not address the tax consequences for holders that are insurance companies, collective investment schemes or persons connected with the Company; (c) assumes that the holder does not control or hold, either alone or together with one or more associated or connected persons, directly or indirectly, 10.0% or more of the shares and/or voting power of the Company; (d) assumes that there will be no register in the U.K. in respect of the Shares or GDRs; (e) assumes that the Shares will not be held by, and that the GDRs will not be issued by, a depositary incorporated in the U.K.; and (f) assumes that neither the Shares nor the GDRs will be paired with shares issued by a company incorporated in the U.K.

The following is intended only as a general guide and is not intended to be, nor should it be considered to be, legal or tax advice to any particular holder. Potential investors should satisfy themselves as to the overall tax consequences, including, specifically, the consequences under U.K. law and H.M. Revenue & Customs practise, of acquisition, ownership and disposition of Shares or GDRs in their own particular circumstances, by consulting their own tax advisors.

Taxation of Dividends

Income Tax and Corporation Tax

Holders who are resident (or, in the case of individuals only, ordinarily resident) in the U.K. will, in general, be subject to income tax or corporation tax on the total of the dividends received on their Shares or GDRs plus any withholding tax deducted in Luxembourg.

Withholding Tax and Tax Credits

When the Company pays dividends it is generally required for Luxembourg tax purposes to withhold 20.0% of the gross amount of the dividend paid to U.K. resident holders. See "—Luxembourg Tax Considerations—Taxation of dividend income—Withholding tax". Holders who are resident (or, in the case of individuals only, ordinarily resident) in the U.K. will generally be able to obtain relief at source or a refund from the Luxembourg tax authorities in respect of an amount equal to 5.0% of the gross amount of the dividend under the U.K./Luxembourg Tax Treaty. The remaining 15.0% Luxembourg withholding tax is generally allowed as a credit against the U.K. tax liability of a U.K. resident holder but any excess of such Luxembourg withholding tax over the U.K. tax payable on the aggregate amount of the dividend and the Luxembourg withholding tax is generally not refundable.

The Company is not required to make any deduction from payments of dividends for or on account of U.K. tax.

Tax Liability for Individual Holders

For an individual holder who is liable to U.K. tax on the dividend at the dividend ordinary rate (currently 10.0%), the credits for Luxembourg tax deducted at source will exceed his U.K. income tax liability in respect of the dividend and he will have no further U.K. tax to pay. For an individual holder who is liable to U.K. tax on the dividend at the dividend upper rate (currently 32.5%), the U.K. tax will be chargeable on the gross dividend with credit for Luxembourg tax deducted at source at up to 15.0% In appropriate cases, a holder will be entitled to relief at source or a refund of Luxembourg tax as described above.

Tax Liability for Corporate Shareholders

A holder within the charge to U.K. corporation tax and resident (for tax purposes) in the U.K. will be liable for U.K. corporation tax on the receipt of the gross dividend with credit for the Luxembourg tax deducted at source at up to 15.0%. In appropriate cases, a holder will be entitled to relief at source or a refund of Luxembourg tax as described above.

Taxation of Capital Gains

The disposal or deemed disposal of the Shares or GDRs by a holder who is resident (or, in the case of individuals only, ordinarily resident) in the U.K. for tax purposes may give rise to a chargeable gain or an allowable loss for the purposes of U.K. taxation of capital gains, depending on the holder's circumstances and subject to any available exemption or relief. In addition, holders who are individuals and who dispose of their Shares or GDRs while they are temporarily non-resident may be treated as disposing of them in the tax year in which they again become resident or ordinarily resident in the U.K.

As regards a holder who is an individual, the principal factors that will determine the extent to which such gain will be subject to capital gains tax ("CGT") are the extent to which the holder realises any other capital gains in that year, the extent to which the holder has incurred capital losses in that or any earlier year, the level of the annual allowance of tax-free gains in the tax year in which the disposal takes place (the "annual exemption") and the level of available taper relief.

Taper relief will reduce the proportion of any gain realised on the disposal of the Shares or GDRs that is brought into the charge to CGT if (in the case of non-business assets) the Shares or GDRs are held by the holder for at least three years. A reduction of 5.0% of the gain is made for each whole year for which the Shares or GDRs have been held in excess of two years. In the case of non-business assets, the maximum reduction available is 40.0% after ten complete years of holding.

The annual exemption for individuals is £8,500 for the 2005-2006 tax year and, under current legislation, this exemption is, unless the U.K. Parliament decides otherwise, increased annually in line with the rate of increase in the retail price index. Holders should be aware that the U.K. Parliament is entitled to withdraw this link between the level of the annual exemption and the retail price index or even to reduce the level of the annual exemption for future tax years below its current level.

A holder which is a U.K. resident company is entitled to an indexation allowance which applies to reduce capital gains to the extent that they arise due to inflation. Indexation allowance may reduce a chargeable gain but not create any allowable loss.

Stamp Duty and Stamp Duty Reserve Tax

No U.K. stamp duty will be payable on the issue of the Shares or GDRs, and no U.K. stamp duty will be payable on the transfer of the Shares or GDRs provided that any instrument of transfer is not executed in the U.K. and does not relate to any property situated or to any matter or thing done or to be done, in the U.K. No U.K. stamp duty reserve tax will be payable on the issue or transfer of Shares or GDRs.

Luxembourg Tax Considerations

The following is a general discussion of certain Luxembourg tax consequences of the acquisition, ownership and disposal of GDRs by purchasers resident or non-resident in Luxembourg. The discussion is based on laws currently in force and as applied in practise on the date of this document, all of which are subject to change, possibly with retroactive effect. The information provided below does not purport to be a complete or exhaustive summary of the tax laws and practise currently applicable in Luxembourg. Prospective investors should therefore consult their own tax advisers regarding the tax consequences of investing in the GDRs in their own particular circumstances.

The discussion is based on an assessment of the Deposit Agreement and a conclusion that the GDRs will be treated as equity/shares for Luxembourg tax purposes. Investors are nonetheless urged to consult their own legal and tax advisors regarding the specific legal treatment of the GDRs and for confirmation that the GDRs qualify as equity/shares.

Taxation of dividend income

Withholding tax

Dividends paid by the Company to individuals or corporate holders are subject to a withholding tax at a rate of 20% of the gross dividend. The withholding tax rate may be reduced pursuant to a double tax treaty existing between Luxembourg and the country of residence of the relevant GDR holder or under the Luxembourg participation exemption rules. The beneficial owner of a dividend may be required to account for the withholding tax if it is not withheld by the Company at source.

Luxembourg tax treatment of dividends

Luxembourg resident GDR holders

Corporate GDR holders. Dividend income received on the GDRs by Luxembourg resident companies (joint-stock companies and other similar entities) will, in principle, be fully subject to corporate income tax and municipal business tax at the aggregate rate of 30.38%. Dividends received by a Luxembourg joint stock company may be tax exempt to the extent the requirements of article 166 of the Luxembourg Income Tax Law ("LITL") are met. Certain Luxembourg joint-stock companies which do not benefit from the participation exemption may benefit from a 50% exemption of dividend income from tax under article 115(15)a of the LITL. Expenses relating to dividends (e.g. interest charges incurred in financing the acquisition of the GDRs) are generally deductible from total dividend and interest income received during the tax year only to the extent they exceed the exempted income, subject to recapture rules.

Individual GDR holders. Dividends received on the GDRs by Luxembourg resident individuals will, in principle, be fully subject to personal income tax. However, they may benefit from a 50% exemption from tax under article 115(15)a of the LITL. In addition, a total lump-sum of €1,500 (which is doubled for married taxpayers who are taxable jointly) is deductible from total dividend and interest income received during the tax year.

Non-Luxembourg resident GDR holders

Non-resident GDR holders (whether individuals or joint stock companies) who receive dividends will not be subject to Luxembourg taxation, unless such dividend income is attributable to an enterprise or part thereof which is carried on through a permanent establishment or a permanent representative in Luxembourg.

Taxation of capital gains realized upon disposal of GDRs

Luxembourg resident GDR holders

Corporate GDR holders. Subject to the exemptions described below, capital gains realized upon the disposal of GDRs by Luxembourg resident companies (joint-stock companies and other similar entities) will be fully subject to corporate income tax and municipal business tax at the aggregate rate of 30.38%.

Capital gains realized upon the disposal of GDRs may be tax exempt if, at the time of the disposal, the transferor holds or undertakes to hold the qualifying stake for an uninterrupted period of at least twelve months (this stake may not be lower than a 10% threshold or below an acquisition price of €6 million during this twelve-month period) and the GDR holder is a fully taxable resident limited company, a domestic permanent establishment of a company resident in another EU Member State such that it is covered by article 2 of the EU Council Directive of 23 July 1990 on the common tax treatment applicable to parent companies and subsidiaries of different Member States or a domestic permanent establishment of a limited company that is resident in a state with which Luxembourg has concluded a double taxation treaty. For purposes of this exemption a shareholding held through a tax transparent entity (as understood for Luxembourg tax purposes) is considered as a direct shareholding in proportion to the fraction held in the assets of this entity. The exempt amount of the capital gain realized upon a disposal of GDRs is reduced by the sum of the excess expenses and capital losses deducted from the company's taxable basis over previous years.

Individual GDR holders. Capital gains arising from the disposal of shares less than six months after acquisition (speculative gains) are taxable as miscellaneous income, and consequently added to other income of the taxpayer in determining their taxable basis. These speculative gains are subject to the progressive income tax table (up to a maximum of 38.95%). Yearly speculative gains less than €500 are exempt. In the case of a substantial shareholding (*i.e.* at least 10%) in a limited liability or co-operative company, capital gains arising from the disposal of shares are always subject to tax in Luxembourg, even if the disposal of the shares occurs more than six months after the acquisition date. Such capital gains exceeding €250 are taxed at a reduced tax rate (half the ordinary rate, *i.e.*, a maximum of 19.475%) to the extent that the shares are disposed of more than six months after the acquisition date. In both cases (speculative capital gains/capital gains derived from a substantial shareholding), a tax deduction of up to €50,000 available for a ten-year period (doubled for married tax payers taxable jointly) may be claimed on the capital gain.

Non-Luxembourg resident GDR holders

Non-resident individuals or joint-stock companies which do not have a permanent establishment in Luxembourg to which their GDRs are connected will not be subject to Luxembourg taxation on capital gains realised upon the disposal of the GDRs. Capital gains realised upon the disposal of GDRs may be taxed in Luxembourg, if the capital gain is realised within a six-month period following the acquisition date of the GDRs issued by the Company and the non-resident shareholder (individual or joint-stock company) holds a substantial shareholding (*i.e.*, at least 10% direct or indirect interest in the share capital of the Company). Certain double tax treaties with Luxembourg provide relief from this tax in cases where the exclusive right to tax capital gains realized on the sale of shares is provided to the country of residence of the GDR holder.

Net wealth tax

Luxembourg resident individuals and Luxembourg joint-stock companies must include the GDRs held on 1 January each year in their net assets, as determined in accordance with the Property and Securities Valuation Act. This rule also applies for non-resident individuals or non-resident companies which have a permanent establishment in Luxembourg to which their GDRs are connected. GDRs may be excluded from the net assets of corporate holders if a direct participation of least 10% of share capital or €1,200,000 as at 1 January of each year is held and the holding company is a resident limited company fully subject to tax, a domestic permanent establishment of a company which is resident in another EU Member State covered by article 2 of the EU Council Directive of 23 July 1990 on the common tax treatment applicable to parent companies and subsidiaries of different Member States or a domestic permanent establishment of a company that is resident in a state with which Luxembourg has concluded a double taxation treaty.

Holding companies subject to the law of 31 July 1929

Dividends paid to holding companies subject to the law of 31 July 1929 ("1929 holding companies") are subject to a withholding tax at a rate of 20% of the gross dividend. Neither capital gains realised by 1929 holding companies upon the disposal of GDRs, nor the net amount of dividends after deduction of withholding tax, are subject to Luxembourg corporate income tax, municipal business tax or net wealth tax. 1929 holding companies are liable to the so-called subscription tax at the rate of 0.2%. In principle, the tax basis is composed of the average capital market value (for listed 1929 holding companies) or paid-up capital and share premium (for non-listed 1929 holding companies). However, if dividends paid exceed 10% of the paid-up capital and share premium, the tax basis will be equal to 10 times the amount of dividends distributed.

Luxembourg undertakings for collective investment

Dividends paid to Luxembourg undertakings for collective investment are subject to a withholding tax at a rate of 20% of the gross dividend. Neither capital gains realised by Luxembourg undertakings for collective investment upon the disposal of GDRs, nor the net amount of the dividend after operation of the withholding tax, are subject to Luxembourg corporate income tax, municipal business tax or net wealth tax. However, Luxembourg undertakings for collective investment are liable to the so-called subscription tax at the general rate of 0.05% (under certain conditions, lower tax rates may apply). In principle, the tax basis is composed of the total net assets as determined at the end of each quarter.

Registration Taxes

No registration tax will be payable by GDR holders upon the disposal of GDRs by sale or exchange.

SUBSCRIPTION AND SALE

Under the terms of, and subject to the conditions contained in, an Underwriting Agreement dated 2 June 2005 (the "Underwriting Agreement") entered into between the Company and the Managers, the Managers have severally agreed to procure purchasers for, or failing which, themselves to purchase, at the Offer Price, the number of Shares, in the form of GDRs, indicated below. The Company has agreed to make available, at the Offer Price, to the Managers, the number of Shares in the form of GDRs indicated below:

Manager	Number of Shares
Morgan Stanley & Co. International Limited	3,880,000
Credit Suisse First Boston (Europe) Limited	3,880,000
Renaissance Securities (Cyprus) Limited	1,940,000
Total	9,700,000

The Underwriting Agreement contains, among others, the following further provisions:

- The Company has granted to Morgan Stanley & Co. International Limited, on behalf of the Managers, the Over-allotment Option to acquire up to 1,455,000 additional Shares in the form of GDRs at the Offer Price for the purposes of meeting over-allotments in connection with the Offering. The Over-allotment Option is exercisable upon written notice to the Company by Morgan Stanley & Co. International Limited, on behalf of the Managers, given not later than 30 days following the Closing Date.
- The Managers will deduct from the proceeds of the Offering:
  - (i) costs and expenses incurred by the Managers in connection with the Offering up to a cap of U.S.$800,000; and
  - (ii) certain commissions payable by the Company of 2.75% to 3.75% of an amount equal to the Offer Price multiplied by the number of GDRs representing Shares. Such commissions will equate to a total of up to U.S.$15.8 million with respect to the number of Shares in the form of GDRs indicated in the table above and, with respect to any additional Shares acquired by the Managers as a result of the exercise of the Over-allotment Option, a total of up to U.S.$18.2 million (assuming that the Over-allotment Option is exercised in full).
- The obligations of the parties to the Underwriting Agreement are subject to certain conditions that are typical for an agreement of this nature. These conditions include, amongst others, the accuracy of the representations and warranties under the Underwriting Agreement and the application for Admission having been approved on or prior to the Closing Date. Any two of the Managers may terminate the Underwriting Agreement prior to Admission in certain specified circumstances that are typical for an agreement of this nature. These include the occurrence of certain material changes in the business, financial condition, prospects or results of operations of the Group and certain changes in financial, political or economic conditions (as more fully set out in the Underwriting Agreement). If any of the above-mentioned conditions are not satisfied (or waived, where capable of being waived) by, or the Underwriting Agreement is terminated prior to, Admission, then the Offering will lapse.
- The Company has given customary representations and warranties to the Managers, including in relation to the business, the accounting records and the legal compliance of the Company, in relation to the Shares and GDRs and in relation to the contents of this Offering Circular.
- The Company has given customary indemnities to the Managers in connection with the Offering.

Each of the Company and the Principal Shareholder has also agreed with the Managers that, during the period beginning with the date of the Underwriting Agreement and continuing to, and including, the date 180 days after the Closing Date (the "Lock-Up Period"), it will not offer, issue, sell, contract to sell, pledge (or charge in respect of the Principal Shareholder), grant options over or otherwise dispose (or publicly announce any such issuance, offer, sale or disposal) of the Shares or GDRs or of any securities of the Company that are substantially similar to the Shares or GDRs, or enter into any transaction with the same economic effect as any of the foregoing (the "Lock-Up"), without the prior written consent of the

Joint Lead Managers, except for (a) in relation to the Company the grant of options by the Company under its stock, incentive and other employee ownership or benefit plans substantially in the form approved by the board of directors of the Company prior to the date hereof and as disclosed in the Offering Circular; provided that such options granted by the Company under such plans are over a number of shares that does not exceed 5% of the aggregate issued and outstanding share capital of the Company on the date of the closing of the Offering and provided further that no such options will be exercisable during the Lock-Up Period and (b) in relation to the Principal Shareholder the transfer by the Principal Shareholder of shares in the Company or GDRs representing such shares or options over such securities in connection with the acquisition by Mastercroft Limited of a minority interest of 10.7% of the shares of NTMK as disclosed in the Offering Circular; provided that the recipient of any such shares in the Company or GDRs representing such shares shall enter into an agreement stating that such holder will be subject to substantially similar restrictions on transfer of the shares and GDRs as those described above. The minority shareholder of NTMK who has entered into an agreement with the Principal Shareholder providing for a put and a call over less than 3% of the Shares in aggregate has agreed with the Principal Shareholder to substantially similar restrictions on the transfer of any Shares it acquires pursuant to the exercise of the put or call. See "Principal Shareholders".

Mr. James W. Campbell, Lord Daresbury and Mr. Terry Robinson, non-executive directors of the Company, may each purchase up to U.S.$5 million of GDRs in the Offering. See "Directors and Management—Corporate Governance". It is a condition to the closing of the Offering that each of these three non-executive directors enters into an agreement with the Managers with similar restrictions on transferring Shares or GDRs or similar securities to the Lock-Up provisions described above.

The Managers and their affiliates have engaged in and performed, and may from time to time engage in and perform, other investment banking, commercial dealing and advisory services in the ordinary course of business with the Company and/or other members of the consolidated Evraz group. They have received customary fees and commissions for these transactions.

In connection with the Offering, each of the Managers and any affiliate acting as an investor for its own account may take up the Shares and in that capacity may retain, purchase or sell the Shares, in the form of GDRs (or related investments), for its own account and may offer or sell such securities (or other investments) otherwise than in connection with the Offering. The Managers do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

SELLING AND TRANSFER RESTRICTIONS

Selling Restrictions

Except to the extent indicated under "United Kingdom" below, no action has been taken or will be taken in any jurisdiction by the Managers or the Company that would permit a public offering of the Shares or GDRs, or possession or distribution of this document or any amendment or supplement thereto or any other offering or publicity material relating to the Shares or GDRs, in any country or jurisdiction where action for that purpose is required.

United States

The Shares and the GDRs have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States except in certain transactions exempt from the registration requirements of the Securities Act. GDRs are being offered to institutional investors outside the United States in reliance on Regulation S. The Underwriting Agreement provides that the Managers may directly or through their respective U.S. broker-dealer affiliates arrange for the offer and resale of GDRs within the United States only to QIBs in reliance on Rule 144A or another exemption from, or transaction not subject to, registration under the Securities Act.

In addition, until 40 days after the commencement of the offering of the Shares and the GDRs, an offer or sale of GDRs within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

Each Manager has represented, warranted and agreed that:

(i) it has not offered or sold and, prior to the expiry of a period of six months from the Closing Date, will not offer or sell any GDRs to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995;

(ii) it has only communicated and caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any GDRs in circumstances in which section 21(1) of the FSMA does not apply to the Company; and

(iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the GDRs in, from or otherwise involving the United Kingdom.

Russia

Each Manager has represented, warranted and agreed that it has not offered or sold and will not offer or sell any Shares or GDRs to or for the benefit of any persons resident, incorporated, established or having their usual residence in Russia or to any person located within the territory of Russia unless and to the extent otherwise permitted under Russian law.

Luxembourg

The Offering should not be considered a public offering in the Luxembourg. This Offering Circular may not be reproduced or used for any purpose in Luxembourg other than the Offering, nor provided to any person in Luxembourg other than the recipient thereof. The securities are offered in Luxembourg to a limited number of sophisticated investors in all cases under circumstances designed to preclude a distribution, which would be other than a private placement. All public solicitations in Luxembourg are banned and the Offering may not be publicly advertised nor may the Offering Circular be circulated to the general public in Luxembourg.

The Netherlands

The Shares and GDRs (including rights representing an interest in a Master GDR) may not be offered, have not been offered and will not be offered, directly or indirectly, in the Netherlands, as part of their initial distribution or as part of any re-offering, other than to persons who trade or invest in securities in the conduct of their profession or business (which includes banks, securities firms, investment institutions, insurance companies, pension funds, other institutional investors and treasury departments and finance companies of large enterprises).

Transfer Restrictions

Rule 144A GDRs

Each purchaser of Rule 144A GDRs in the Offering, by its acceptance thereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used therein as defined therein):

1. The purchaser (i) is a QIB, (ii) is aware, and each beneficial owner of such Rule 144A GDRs has been advised, that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring such Rule 144A GDRs for its own account or for the account of a QIB.

2. The purchaser is aware that the Rule 144A GDRs and the Shares represented thereby have not been and will not be registered under the Securities Act and are being offered in the United States in reliance on Rule 144A only in a transaction not involving any public offering in the United States within the meaning of the Securities Act.

3. If in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Rule 144A GDRs or the Shares represented thereby, such Rule 144A GDRs and Shares may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, which the Rule 144A GDRs will bear unless otherwise determined by the Company and the Depositary in accordance with applicable law:

   THIS RULE 144A GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF EVRAZ GROUP S.A. REPRESENTED HEREBY ("THE SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) TO A PERSON WHOM THE SELLER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER ("QIB") (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES. THE BENEFICIAL OWNER OF ORDINARY SHARES RECEIVED UPON CANCELLATION OF ANY RULE 144A GLOBAL DEPOSITARY RECEIPT MAY NOT DEPOSIT OR CAUSE TO BE DEPOSITED SUCH ORDINARY SHARES INTO ANY DEPOSITARY RECEIPT FACILITY IN RESPECT OF SHARES ESTABLISHED OR MAINTAINED BY A DEPOSITARY BANK (INCLUDING ANY SUCH FACILITY MAINTAINED FOR THE RULE 144A GDRS), OTHER THAN A RESTRICTED DEPOSITARY RECEIPT FACILITY, SO LONG AS SUCH SHARES ARE "RESTRICTED SECURITIES" WITHIN THE MEANING OF RULE 144(a)(3) UNDER THE SECURITIES ACT. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR RESALE OF THE SHARES OR ANY RULE 144A GLOBAL DEPOSITARY RECEIPTS.

Prospective purchasers are hereby notified that sellers of the Rule 144A GDRs may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Regulation S GDRs

Each purchaser of Regulation S GDRs in the Offering, by its acceptance thereof, will be deemed to have represented and agreed as follows (terms used in this paragraph that are defined in Rule 144A or Regulation S are used herein as defined therein):

1. The purchaser (i) is, and the person, if any, for whose account it is acquiring the Regulation S GDRs is, outside the United States, (ii) is not an affiliate of the Company or a person acting on behalf of such an affiliate and (iii) is not a securities dealer or, if it is a securities dealer, it did not acquire the Regulation S GDRs or the Shares represented thereby from the Company or an affiliate thereof in the initial distribution of Regulation S GDRs.

2. The purchaser is aware that the Regulation S GDRs and the Shares represented thereby have not been and will not be registered under the Securities Act and are being offered outside the United States in reliance on Regulation S.

3. The purchaser will not offer, resell, pledge or otherwise transfer such Regulation S GDRs, except in accordance with the Securities Act and all applicable securities laws of each relevant state of the United States.

4. If in the future the purchaser decides to offer, resell, pledge or otherwise transfer such Regulation S GDRs or the Shares represented thereby, such Regulation S GDRs and Shares may be offered, sold, pledged or otherwise transferred only in accordance with the following legend, which the Regulation S GDRs will bear unless otherwise determined by the Company and the Depositary in accordance with applicable law.

   THIS REGULATION S GLOBAL DEPOSITARY RECEIPT AND THE ORDINARY SHARES OF EVRAZ GROUP S.A. REPRESENTED HEREBY (THE "SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE SECURITIES ACT AND ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES.

SETTLEMENT AND TRANSFER

Clearing and Settlement of GDRs

Custodial and depositary links have been established between Euroclear, Clearstream, Luxembourg and DTC to facilitate the initial issue of the GDRs and cross-market transfers of the GDRs associated with secondary market trading.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream, Luxembourg provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally-traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Indirect access to Euroclear or Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream, Luxembourg participant, either directly or indirectly.

Distributions of dividends and other payments with respect to book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Depositary, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

DTC

DTC is a limited-purpose trust company organised under the laws of the State of New York, a "banking organisation" within the meaning of the New York Banking Law, a member of the United States Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of securities transactions between DTC participants through electronic computerised book-entry changes in DTC participants' accounts. DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. Indirect access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a DTC participant, either directly or indirectly.

Holders of book-entry interests in the GDRs holding through DTC will receive, to the extent received by the Depositary, all distributions of dividends or other payments with respect to book-entry interests in the GDRs from the Depositary through DTC and DTC participants. Distributions in the United States will be subject to relevant U.S. tax laws and regulations. See "Taxation—United States Federal Income Tax Considerations".

As DTC can act on behalf of DTC direct participants only, who in turn act on behalf of DTC indirect participants, the ability of beneficial owners who are indirect participants to pledge book-entry interests in the GDRs to persons or entities that do not participate in DTC, or otherwise take actions with respect to book-entry interests in the GDRs, may be limited.

Registration and Form

Book-entry interests in the GDRs held through Euroclear and Clearstream, Luxembourg will be represented by the Master Regulation S GDR registered in the name of The Bank of New York Depositary (Nominees) Limited as nominee for The Bank of New York, London Branch, as common depositary for Euroclear and Clearstream, Luxembourg. Book-entry interests in the GDRs held through DTC will be represented by the Master Rule 144A GDR registered in the name of Cede & Co, as nominee for DTC, which will be held by The Bank of New York as custodian for DTC. As necessary, the Depositary will adjust the amounts of GDRs on the relevant register to reflect the amounts of GDRs held through

Euroclear, Clearstream, Luxembourg and DTC, respectively. Beneficial ownership in the GDRs will be held through financial institutions as direct and indirect participants in Euroclear, Clearstream, Luxembourg and DTC.

The aggregate holdings of book-entry interests in the GDRs in Euroclear, Clearstream, Luxembourg and DTC will be reflected in the book-entry accounts of each such institution. Euroclear, Clearstream, Luxembourg and DTC, as the case may be, and every other intermediate holder in the chain to the beneficial owner of book-entry interest in the GDRs, will be responsible for establishing and maintaining accounts for their participants and customers having interests in the book-entry interests in the GDRs. The Depositary will be responsible for maintaining a record of the aggregate holdings of GDRs registered in the name of the common depositary for Euroclear and Clearstream, Luxembourg and the nominee for DTC. The Depositary will be responsible for ensuring that payments received by it from the Company for holders holding through Euroclear or Clearstream, Luxembourg are credited to Euroclear or Clearstream, Luxembourg as the case may be, and the Depositary will also be responsible for ensuring that payments received by it from the Company for holders holding through DTC are received by DTC.

The Company will not impose any fees in respect of the GDRs; however, holders of book-entry interests in the GDRs may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear, Clearstream, Luxembourg or DTC and certain fees and expenses payable to the Depositary in accordance with the terms of the Deposit Agreement. See "Terms and Conditions of the Global Depositary Receipts".

Global Clearance and Settlement Procedures

Initial Settlement

The GDRs will be in global form evidenced by the two Master GDRs. Purchasers electing to hold book-entry interests in GDRs through Euroclear or Clearstream, Luxembourg accounts will follow the settlement procedures applicable to depositary receipts. DTC participants acting on behalf of purchasers electing to hold book-entry interests in the GDRs through DTC will follow the delivery practices applicable to depositary receipts.

Secondary Market Trading

For a description of the transfer restrictions relating to the GDRs, see "Selling and Transfer Restrictions—Transfer Restrictions".

Trading between Euroclear and Clearstream, Luxembourg participants

Secondary market sales of book-entry interests in the GDRs held through Euroclear or Clearstream, Luxembourg to purchasers of book-entry interests in the GDRs through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear or Clearstream, Luxembourg and will be settled using the normal procedures applicable to depositary receipts.

Trading between DTC participants

Secondary market sales of book-entry interests in the GDRs held through DTC will occur in the ordinary way in accordance with DTC rules and will be settled using the procedures applicable to depositary receipts, if payment is effected in U.S. dollars, or free of payment, if payment is not effected in U.S. dollars. Where payment is not effected in U.S. dollars, separate payment arrangements outside DTC are required to be made between the DTC participants.

Trading between DTC seller and Euroclear/Clearstream, Luxembourg purchaser

When book-entry interests in the GDRs are to be transferred from the account of a DTC participant to the account of a Euroclear or Clearstream, Luxembourg participant, the DTC participant must send to DTC a delivery free of payment instruction at least two business days prior to the settlement date. DTC will in turn transmit such instruction to Euroclear or Clearstream, Luxembourg, as the case may be, on the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant. On the settlement date, DTC will debit the account of its DTC participant and will instruct the Depositary to instruct Euroclear or Clearstream, Luxembourg, as the case may be, to credit the relevant account of the Euroclear or

Clearstream, Luxembourg participant, as the case may be. In addition, on the settlement date, DTC will instruct the Depositary to (i) decrease the amount of book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR and (ii) increase the amount of book-entry interests in the GDRs registered in the name of the common nominee for Euroclear and Clearstream and represented by the Master Regulation S GDR.

Trading between Clearstream, Luxembourg/Euroclear seller and DTC purchaser

When book-entry interests in the GDRs are to be transferred from the account of a Euroclear or Clearstream, Luxembourg participant to the account of a DTC participant, the Euroclear or Clearstream, Luxembourg participant must send to Euroclear or Clearstream, Luxembourg a delivery free of payment instruction at least one business day prior to the settlement date. Separate payment arrangements are required to be made between the DTC participant and the relevant Euroclear or Clearstream, Luxembourg participant, as the case may be. On the settlement date, Euroclear or Clearstream, Luxembourg, as the case may be, will debit the account of its participant and will instruct the Depositary to instruct DTC to credit the relevant account of Euroclear or Clearstream, Luxembourg, as the case may be, and will deliver such book-entry interests in the GDRs free of payment to the relevant account of the DTC participant. In addition, Euroclear or Clearstream, Luxembourg, as the case may be, shall on the settlement date instruct the Depositary to (i) decrease the amount of the book-entry interests in the GDRs registered in the name of the common nominee and evidenced by the Master Regulation S GDR and (ii) increase the amount of the book-entry interests in the GDRs registered in the name of a nominee for DTC and represented by the Master Rule 144A GDR.

General

Although the foregoing sets out the procedures of Euroclear, Clearstream, Luxembourg and DTC in order to facilitate the transfers of interests in the GDRs among participants of Euroclear, Clearstream, Luxembourg and DTC, none of Euroclear, Clearstream, Luxembourg or DTC are under any obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time.

None of the Company, the Managers, the Depositary, the Custodian or their respective agents will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective participants of their respective obligations under the rules and procedures governing their operations.

INFORMATION RELATING TO THE DEPOSITARY

The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. The Depositary was constituted in 1784 in the State of New York. It is a wholly owned subsidiary of The Bank of New York Company, Inc., a New York bank holding company. The principal office of the Depositary is located at One Wall Street, New York, New York 10286, United States of America. Its principal administrative offices are located at 101 Barclay Street, 22 floor West, New York, New York 10286, United States of America. A copy of the Depositary's Articles of Association, as amended, together with copies of The Bank of New York Company, Inc.'s most recent financial statements and annual report are available for inspection at the Corporate Trust Office of the Depositary located at 101 Barclay Street, New York, NY 10286, United States of America and at The Bank of New York, One Canada Square, London E14 5AL, United Kingdom. Holders of the GDRs can contact the Depositary at 101 Barclay Street, 22nd Floor, New York, New York 10286, USA (telephone +1 212 815-4493) or through The Bank of New York, London branch, One Canada Square, London E14 5AL, UK (telephone +44 207 964 6355).

LEGAL MATTERS

Certain legal matters in connection with the Offering will be passed upon for the Company with respect to U.S., English and Russian laws by Cleary Gottlieb Steen & Hamilton LLP. Certain legal matters with respect to Luxembourg law will be passed upon for the Company by Bonn Schmitt Steichen. Certain legal matters in connection with the Offering will be passed upon for the Managers with respect to U.S., English and Russian laws by Freshfields Bruckhaus Deringer.

INDEPENDENT AUDITORS

The Consolidated Financial Statements and related notes as at and for the years ended 31 December 2004, 2003 and 2002 have been audited by Ernst & Young (CIS) Limited ("Ernst & Young"), independent auditors, of Sadovnicheskaya Naberezhnaya 77/1, Moscow 115035, Russian Federation. The report of Ernst & Young is included in the Listing Particulars, in the form and context in which it is included, with the consent of Ernst & Young, who have authorised the contents of that part of the Listing Particulars for the purposes of Regulation 6(1)(e) of the Financial Services and Markets Act 2000 (Official Listing of Securities) Regulations 2001.

The audit report referred to above was without qualification or reference to a matter of fundamental uncertainty but did contain a statement stating "Without qualifying our opinion, we draw attention to Note 1 to the Consolidated Financial Statements. A significant part of the Group's revenues and purchases were generated or made in transactions with related parties".

GENERAL INFORMATION

1. All consents, approval, authorisations or other orders required for the issue of the Shares and the GDRs under the prevailing laws of Luxembourg have been given or obtained.

2. The issue of the Shares is to be duly authorised by the Board of Directors on 7 June 2005 in accordance with the Articles. The issue of the GDRs and their offer, sale and listing was approved by the Board of Directors of the Company on 10 May 2005.

3. It is expected that listing of the GDRs will take place on 8 June 2005. Prior to listing, it is expected that conditional dealings will be permitted by the London Stock Exchange in accordance with its rules. It is expected that unconditional dealings in the GDRs will commence on or about 8 June 2005. Transactions will normally be effected for settlement in U.S. dollars and for delivery on the third working day after the day of the transaction. Listing of the GDRs on the London Stock Exchange is conditional upon the issuance of the GDRs by the Depositary.

4. Except as disclosed in this Offering Circular, there has been no significant change in the financial or trading position of Evraz since 31 December 2004, and no material adverse change in the financial position or prospects of Evraz since 31 December 2004, such date being the date of the latest audited financial statements.

5. In the event that certificates in definitive form are issued in respect of the GDRs, the Company will appoint an agent in the United Kingdom for so long as the GDRs are listed on the London Stock Exchange.

6. Copies in English of the following documents may be inspected at the offices of Cleary Gottlieb Steen & Hamilton LLP, City Place House, 55 Basinghall Street, London EC2V 5EH, United Kingdom, during usual business hours on any weekday (Saturday, Sunday and public holidays excepted) for 14 days from the date of this Offering Circular:

   (a) the Articles in effect upon completion of the Offering;

   (b) the Consolidated Financial Statements audited in accordance with IFRS for the years ended 31 December 2004, 2003 and 2002, together with the report of Ernst & Young (CIS) Limited contained therein and the consent of Ernst & Young to the inclusion of the audit report herein;

   (c) the Deposit Agreement (or a draft pending execution);

   (d) the Deed Poll (or a draft pending execution); and

   (e) the Underwriting Agreement.

7. The Company prepares annual and interim consolidated financial statements in accordance with IFRS.

8. There are no temporary documents of title issued in respect of the GDRs. There is no premium and there are no expenses specifically charged to any purchaser of GDRs in the Offering. The Offering is an institutional offering only in which payment for the GDRs by investors will be arranged with the Managers. Holders may inspect the rules governing the issue of the certificates at the offices of the Depositary from the Closing Date.

9. The following table sets forth the registered offices of certain of the Company's subsidiaries:

Company	Effective interest as at 31 December 2004[1]	Effective interest subsequent to the elimination of the minority interest in Mastercroft[2]	Registered office
Steel segment			
NTMK	77.1%	80.4%[3]	1, Ul. Metallurgov, Nizhny Tagil, Sverdlovsk Region, 622025 Russian Federation
ZapSib	90.7%	95.1%[4]	16, Kosmicheskoe shosse, Novokuznetsk, Kemerovo region, 654043, Russian Federation
NKMK	90.0%	94.0%	1, Ploschad Pobed, Novokuznetsk, Kemerovo Region, 654010, Russian Federation
Ferrotrade Limited	95.8%	100.0%	10/8 International Commercial Centre, Casemates Square, Gibraltar
Mining segment			
KGOK	80.7%	84.4%	2, Ul. Sverdlova, Kachkanar, Sverdlovsk Region, 624356, Russian Federation
Evraz Ruda	-[5]	100.0%	21, Ul. Lenina, Tashtagol, Kemerovo Region, 652990, Russian Federation
VGOK	78.5%	82.0%	17, Ul. Frunze, Nizhny Tagil, Sverdlovsk Region, 622002, Russian Federation
Mine 12	-[6]	100.0%	2a, Ul. Chumova, Kiselevsk, Kemerovo Region, 652705, Russian Federation
Neryungri Ugol	95.8%	100.0%	10, Ul. Karl Marx, Neryungri, Republic of Sakha (Yakulia), 678922, Russian Federation
Other			
Nakhodka Sea Port	82.2%	85.9%	22, Ul. Portovaya, Nakhodka, Primorsky Territory, 692904, Russian Federation

Notes:

(1) Represents the Company's proportionate ownership of the relevant entity through its consolidated subsidiaries as of 31 December 2004.

(2) Represent the Company's effective interest subsequent to the acquisition of the 4.17% minority stake in Mastercroft Limited, which, subject to the completion of corporate formalities, is expected to be completed on 2 June 2005. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Reorganisation and Formation of the Company".

(3) On 17 May 2005, Evraz agreed to acquire a further 10.7% of the shares in NTMK from an unrelated minority shareholder of NTMK for U.S.$215 million, payable in installments through November 2005 (subject to acceleration in certain circumstances described under "Principal Shareholders"). The acquisition of this minority interest will increase Evraz's effective ownership interest in NTMK to 91.14%.

(4) Evraz purchased a further 0.48% of the shares in ZapSib through May 2005, which is also reflected here.

(5) Evraz Ruda was acquired in March 2004. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions".

(6) Mine 12 was acquired in March 2005. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Summary of Acquisitions".

10. The GDRs have no nominal or par value. The offer price was determined based on the results of the book building exercise conducted by the Managers.

11. The production facilities of NTMK, ZapSib and NKMK are all owned by Evraz.

GLOSSARY

Angle	Angle-shaped section for construction.
Billet	A usually square, semi-finished product obtained by continuous casting or rolling of blooms. Sections, rails, wire rod and other rolled products are made from billets.
Bloom	A usually square, semi-finished product obtained by continuous casting or rolling of ingots. Blooms are used to make billets and in the manufacture of structural steel products.
Channel	U-shaped section for construction.
Converter shop	The shop where pig iron is processed into steel using basic oxygen furnaces.
Ferroalloy	A metal product commonly used as a raw material feed in steelmaking, usually containing iron and other metals, to aid various stages of the steelmaking process such as deoxidation, desulfurisation, and adding strength. Examples: ferrochrome, ferromanganese, and ferrosilicon.
Flat products	Category of steel that includes sheet, strip and tin plate, among others.
Grinding balls	Grinding balls for mining and cement industry.
H-beam	H-shaped section for construction.
Long products	Classification of steel products that includes bars, rods and structural products that are "long" rather than "flat" and that are produced from blooms or billets.
Mine upright	V-shaped section for underground working reinforcement.
Pellets	An enriched form of iron ore shaped into small balls or pellets. Pellets are used as raw material in the steel making process.
Pig iron	Product of blast furnace production used in production of steel.
Pipe blank	A round-shaped semi-finished product used in pipe manufacturing industry.
Railcar upright	Section for carriage-building industry.
Rails	A steel bar laid on the ground, forming a railway track.
Rail fasteners	Metal devices used to link rails on railway lines.
Rebar (Reinforcing bar)	A commodity-grade steel used to strengthen concrete in highway and building construction.
Rounds	A round-shaped, semi-finished product normally with diameter exceeding 10 mm used in various applications of hardware & engineering sector.
Scrap	Scrap iron containing material (mainly industrial or household waste) that generally is remelted and recast into new steel.
Sections	Sections are manufactured by rolling reheated concast billets and blooms to produce particular product shapes. Sections are used in the constructions, engineering, hardware and mining industries and railways.

Semi-finished products	A product category that includes pig iron, slabs, blooms and billets. Slabs, blooms and billets are the first solid forms in the steel making process. These usable shapes are further processed to become more finished products-rebars and shapes, structural steel and wire rod.
Sinter	An iron rich clinker formed by heating iron ore fines and coke in a sinter line.
Slabs	The most common type of semi-finished steel. Subsequent to casting, slabs are sent to the hot-strip mill to be rolled into coiled sheet and plate products.
Slag	Slag is a byproduct generated when non-ferrous substances in iron ore, limestone and coke are separated from the hot metal. Slag is used in cement and fertiliser production as well as for base course material in road construction.
Strips	Strips are delivered as coil, sheet and narrow strip in a wide range of alloys, widths and thicknesses and are mostly delivered to specific customer specifications.
Walking beam furnace	The walking beam furnace is an advanced, heavy-load, continuous-processing system that is designed to provide accurate, stable and consistent reheating of the semi-finished products before the rolling process.
Wire	A broad range of products produced by cold and hot reducing, or drawing, wire rod through a series of dies to reduce the diameter, improve surface finish, dimensional accuracy, and physical properties. Typical applications include nets, screws, rivets, upholstery springs, furniture wire, concrete wire, electrical conductors, rope wire and structural cables.
Wire rod	Formed from billets, wire rod in coils is an intermediate product of uniform round cross-section dimension.

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INDEX TO FINANCIAL STATEMENTS

ERNST & YOUNG

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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 sheets of Evraz Group S.A. (the "Group") as of December 31, 2004, 2003 and 2002 and the related consolidated statements of income, changes in equity and cash flows for the years 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 audits.

We conducted our audits in accordance with International Standards on Auditing issued by the International Federation of Accountants. 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above give a true and fair view of the consolidated financial position of the Group as of December 31, 2004, 2003 and 2002, and of the consolidated results of its operations and its cash flows for the years 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 revenues and purchases were generated or made in transactions with related parties.

Ernst & Young (CIS) Limited

April 25, 2005
except for note 33, as to which the date is
June 1, 2005

Evraz Group S.A.

Consolidated Income Statements

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

	Notes	Year ended December 31, 2004	2003	2002
Revenue				
Sale of goods		**$ 5,774,084**	$ 2,004,111	$ 1,466,766
Rendering of services		**150,564**	128,528	64,961
		5,924,648	2,132,639	1,531,727
Cost of revenue	5	**(3,512,987)**	(1,583,415)	(1,334,281)
Amortisation of negative goodwill	4	**22,292**	22,312	16,149
Gross profit		**2,433,953**	571,536	213,595
Selling and distribution costs	5	**(219,149)**	(41,761)	(54,527)
General and administrative expenses	5	**(324,863)**	(163,369)	(109,564)
Social and social infrastructure maintenance expenses		**(44,456)**	(25,975)	(28,574)
Loss on disposal of property, plant and equipment		**(10,901)**	(15,447)	(15,079)
Impairment of assets		**(1,366)**	(5,499)	(1,919)
Foreign exchange gains/(losses), net		**3,023**	7,910	(14,984)
Gain on net monetary position		**—**	—	62,681
Other operating income/(expenses), net		**(5,563)**	10,446	839
Profit from operations		**1,830,678**	337,841	52,468
Interest income		**9,639**	9,245	1,712
Interest expense		**(103,795)**	(55,219)	(57,356)
Share of profits/(losses) of associates and a joint venture	8	**42,658**	(121)	(663)
(Loss)/gain on extinguishment of debts	14,20,22,26	**(139,362)**	12,065	16,302
Net trading gain from a related party	14	**—**	24,433	—
Gain on financial assets	5	**57,189**	—	—
Loss on sale of minority interest	18	**(34,885)**	—	—
Other non-operating gain, net		**1,965**	2,751	—
Profit before tax		**1,664,087**	330,995	12,463
Income tax expense	6	**(415,843)**	(75,107)	(11,151)
Net profit		**$ 1,248,244**	$ 255,888	$ 1,312
Attributable to:				
Equity holders of the parent entity		**$ 1,083,810**	$ 207,926	$ 5,876
Minority interests		**164,434**	47,962	(4,564)
		$ 1,248,244	$ 255,888	$ 1,312
Earnings per share attributable to equity holders of the parent entity, basic and diluted, US dollars	18	**$ 10.11**	$ $1.94	$ 0.06
Dividends per share, US dollars		**0.54**	—	—

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

Evraz Group S.A.

Consolidated Balance Sheets
(In thousands of US dollars)

	Notes	December 31, 2004	2003	2002
ASSETS				
Non-current assets				
Property, plant and equipment, net	7	**$ 2,104,338**	$ 1,247,643	$ 1,077,621
Negative goodwill, net	4	**(249,852)**	(272,144)	(265,780)
Investment in a joint venture	8	**195,641**	—	—
Other long-term investments	9	**8,644**	9,869	36,390
Restricted deposits at banks	10	**8,570**	18,122	—
Receivables from related parties		**406**	—	1,011
Other non-current assets	11	**9,245**	14,916	4,828
		2,076,992	1,018,406	854,070
Current assets				
Inventories	12	**780,561**	481,014	119,062
Trade and other receivables, net	13	**278,964**	76,169	37,935
Prepayments		**73,944**	39,936	20,574
Loans receivable		**7,959**	2,474	2,680
Receivables from related parties	14	**106,541**	104,879	31,209
Loans receivable from related parties	15	**4,206**	16,958	10,611
Taxes receivable	16	**379,738**	139,161	62,009
Short-term investments and notes receivable	17	**21,804**	71,713	11,037
Restricted deposits at banks	10	**12,441**	4,850	—
Cash and cash equivalents	10	**291,312**	195,532	42,415
		1,957,470	1,132,686	337,532
Total assets		**$ 4,034,462**	$ 2,151,092	$ 1,191,602
EQUITY AND LIABILITIES				
Equity				
Parent shareholders' equity				
Issued capital	18	**$ 42**	$ 138,935	$ —
Additional paid-in capital		**319,076**	47	47
Unrealised gain on financial assets		**—**	948	—
Accumulated profits		**1,061,339**	187,126	3,558
Translation difference		**161,576**	69,627	19,688
		1,542,033	396,683	23,293
Minority interests		**356,745**	192,540	223,214
		1,898,778	589,223	246,507
Non-current liabilities				
Long-term loans	19	**788,093**	354,046	34,257
Liabilities under the Settlement Agreements	20	**4,224**	39,413	58,098
Restructured taxes payable	21	**23,259**	26,000	29,064
Promissory notes payable		**20,220**	576	5,353
Loans payable to related parties	22	**—**	92,521	49,555
Deferred income tax liabilities	6	**194,316**	133,829	159,356
Finance lease liabilities	23	**25,661**	14,434	11,489
Post-employment benefits	24	**48,204**	30,144	19,922
Provisions	25	**18,480**	13,230	15,145
Other long-term liabilities	26	**988**	34,840	34,091
		1,123,445	739,033	416,330
Current liabilities				
Trade and other payables	27	**194,701**	176,270	109,203
Advances from customers		**54,906**	26,206	21,735
Short-term loans and current portion of long-term loans	19	**524,696**	224,082	87,038
Payables to related parties	14	**37,392**	228,834	159,023
Short-term loans from related parties	28	**10,400**	35,113	16,958
Taxes payable	29	**182,996**	87,589	85,210
Current portion of liabilities under the Settlement Agreements	20	**—**	19,583	29,697
Current portion of finance lease liabilities	23	**4,688**	5,251	2,000
Current portion of other long-term liabilities	26	**44**	19,908	17,901
Dividends payable		**2,416**	—	—
		1,012,239	822,836	528,765
Total equity and liabilities		**$ 4,034,462**	$ 2,151,092	$ 1,191,602

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

Evraz Group S.A.

Consolidated Cash Flow Statements
(In thousands of US dollars)

	Year ended December 31,		
	2004	**2003**	**2002**
Cash flows from operating activities			
Net profit	**$ 1,248,244**	$ 255,888	$ 1,312
Adjustments to reconcile net profit to net cash provided by operating activities:			
Amortisation of negative goodwill *(Note 4)*	**(22,292)**	(22,312)	(16,149)
Depreciation, depletion and amortisation *(Note 5)*	**183,203**	141,000	154,903
Deferred income tax benefit *(Note 6)*	**(22,921)**	(35,737)	(9,661)
Loss on disposal of property, plant and equipment	**10,901**	15,447	15,079
Impairment of assets	**1,366**	5,499	1,919
Loss/(gain) on extinguishment of debts *(Notes 14, 20, 22, 26)*	**139,362**	(12,065)	(16,302)
Loss on sale of minority interest *(Note 18)*	**34,885**	—	—
Foreign exchange (gains)/losses	**(3,023)**	(7,910)	14,984
Share of (profits)/losses from associates and a joint venture	**(42,658)**	121	663
Gain on financial assets *(Note 5)*	**(57,189)**	—	—
Other non-operating gain	**(1,965)**	(2,751)	—
Interest income	**(9,639)**	(9,245)	(1,712)
Interest expense	**103,795**	55,219	57,356
Net trading gain from a related party	**—**	(24,433)	—
Gain on net monetary position	**—**	—	(62,681)
Bad debt expense	**21,656**	2,159	11,243
	1,583,725	360,880	150,954
Changes in operating assets and liabilities:			
Inventories	**(258,637)**	(321,574)	18,663
Trade and other receivables	**(222,139)**	(66,995)	(13,967)
Prepayments	**(27,663)**	(23,024)	(11,885)
Receivables from / payables to related parties	**(5,593)**	98,816	9,977
Taxes receivable	**(197,050)**	(68,445)	(27,412)
Other assets	**302**	(11,222)	—
Trade and other payables	**(8,093)**	55,425	(43,780)
Advances from customers	**26,577**	3,840	19,429
Taxes payable	**59,041**	6,397	15,205
Other liabilities	**6,703**	8,713	1,091
Net cash flows from operating activities	**957,173**	42,811	118,275
Cash flows from investing activities			
Issuance of short-term loans receivable to related parties	**(4,553)**	(20,184)	(6,098)
Proceeds from repayment of short-term loans issued to related parties	**14,833**	—	2,339
Issuance of long-term loans receivable to related parties	**(1,177)**	—	—
Issuance of short-term loans receivable	**(2,921)**	(431)	(20,810)
Proceeds from repayment of short-term loans receivable	**4,585**	634	16,922
Issuance of long-term loans receivable	**(1,057)**	—	—
Purchases of shares in subsidiaries	**(258,173)**	(90,030)	(13,197)
Purchase of interest in a joint venture	**(61,800)**	—	—
Restricted deposits at banks	**5,601**	(21,979)	—
Short-term deposits at banks	**6,867**	(10,719)	(9,307)
Purchases of property, plant and equipment	**(523,605)**	(216,889)	(75,075)
Proceeds from disposal of property, plant and equipment	**3,577**	1,122	1,277
Payments to acquire equity of other companies	**(2,120)**	(4,921)	(17,054)
Proceeds from sales of equity of other companies	**1,608**	19,690	6,569
Payments to acquire debt instruments of other companies	**(9,246)**	(52,773)	(19,074)
Proceeds from sale/redemption of debt instruments of other companies	**35,223**	40,288	16,427
Net cash flows used in investing activities	**(792,358)**	(356,192)	(117,081)

Continued on the next page

Evraz Group S.A.

Consolidated Cash Flow Statements (continued)
(In thousands of US dollars)

	Year ended December 31,		
	2004	**2003**	**2002**
Cash flows from financing activities			
Proceeds from issuance of share capital, net of issuance costs of $65 *(Note 18)*	**$ 30,042**	$ 52,935	$ —
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	**(60,847)**	(9,273)	(8,021)
Proceeds from long-term loans provided by related parties	**—**	105,346	56,657
Repayment of long-term loans provided by related parties	**(11,863)**	(8,253)	—
Proceeds from short-term loans provided by related parties	**417,574**	63,381	15,009
Repayment of short-term loans provided by related parties	**(634,870)**	(37,167)	(14,598)
Proceeds from bank overdrafts, net	**202,661**	89,896	—
Proceeds from short-term loans	**1,961,056**	351,262	469,326
Repayment of short-term loans, including interest	**(2,098,813)**	(319,683)	(483,652)
Proceeds from long-term loans and promissory notes	**508,048**	296,602	33,294
Repayment of long-term loans and promissory notes, including interest	**(78,020)**	(11,621)	(4,268)
Dividends of consolidated subsidiary paid to minority shareholders	**(55,584)**	(31)	—
Payments under finance leases, including interest	**(10,459)**	(4,601)	(2,340)
Proceeds from sale-leaseback	**21,717**	—	—
Payments under Settlement Agreements, including interest, and purchases of debts in subsidiaries	**(243,470)**	(93,091)	(44,017)
Payments of restructured taxes, including interest	**(20,572)**	(17,592)	(11,617)
Net cash flows (used in) from financing activities	**(73,400)**	459,894	5,773
Effect of foreign exchange rate changes on cash and cash equivalents	**4,365**	6,604	274
Effect of hyperinflation on cash and cash equivalents	**—**	—	(5,113)
Net increase in cash and cash equivalents	**95,780**	153,117	2,128
Cash and cash equivalents at beginning of year	**195,532**	42,415	40,287
Cash and cash equivalents at end of year	**$ 291,312**	$ 195,532	$ 42,415
Supplementary cash flow information:			
Cash flows during the year:			
Interest paid	**$ 84,846**	$ 36,303	$ 37,149
Income taxes paid	**434,184**	95,917	12,203

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

Evraz Group S.A.

Consolidated Statements of Changes in Equity
Years ended December 31, 2004, 2003 and 2002
(In thousands of US dollars)

	Issued capital	Additional paid-in capital	Unrealised gain on financial assets	Accumulated profits (losses)	Translation difference	Parent shareholders' equity	Minority interests	Total
At December 31, 2001	$ —	$ 47	$ —	$ (2,318)	$ —	$ (2,271)	$ 318,072	$ 315,801
Minority interest arising on acquisition of a subsidiary	—	—	—	—	—	—	6,210	6,210
Purchases of minority interests	—	—	—	—	—	—	(135,668)	(135,668)
Net profit	—	—	—	5,876	—	5,876	(4,564)	1,312
Effect of exchange rate changes	—	—	—	—	19,688	19,688	39,164	58,852
At December 31, 2002	—	47	—	3,558	19,688	23,293	223,214	246,507
Issue of share capital, net of issuance costs of $65 (*Note 18*)	138,935	—	—	—	—	138,935	—	138,935
Net gains on available-for-sale financial assets	—	—	948	—	—	948	—	948
Minority interest arising on acquisition of a subsidiary	—	—	—	—	—	—	11,595	11,595
Purchases of minority interests	—	—	—	—	—	—	(111,499)	(111,499)
Distributions to entities under common control (*Note 18*)	—	—	—	(24,358)	—	(24,358)	—	(24,358)
Net profit	—	—	—	207,926	—	207,926	47,962	255,888
Effect of exchange rate changes	—	—	—	—	49,939	49,939	21,268	71,207
At December 31, 2003	138,935	47	948	187,126	69,627	396,683	192,540	589,223
Issue of share capital (*Note 18*)	**30,042**	**—**	**—**	**—**	**—**	**30,042**	**—**	**30,042**
Decrease in share capital due to the Group's reorganisation (*Note 18*)	**(168,935)**	**292,046**	**—**	**(123,111)**	**—**	**—**	**—**	**—**
Net gains on available-for-sale financial assets removed from equity recognised in net profit	**—**	**—**	**(948)**	**—**	**—**	**(948)**	**—**	**(948)**
Acquisition of minority interests in subsidiaries (*Note 18*)	**—**	**20,611**	**—**	**(12,128)**	**—**	**8,483**	**(103,179)**	**(94,696)**
Acquisition of minority interest by a joint venture (*Note 8*)	**—**	**6,372**	**—**	**—**	**—**	**6,372**	**—**	**6,372**
Minority interest arising on acquisition of a subsidiary	**—**	**—**	**—**	**—**	**—**	**—**	**35,600**	**35,600**
Sale of minority interest (*Note 18*)	**—**	**—**	**—**	**(12,500)**	**—**	**(12,500)**	**47,385**	**34,885**
Distributions to entities under common control (*Note 18*)	**—**	**—**	**—**	**(3,858)**	**—**	**(3,858)**	**—**	**(3,858)**
Net profit	**—**	**—**	**—**	**1,083,810**	**—**	**1,083,810**	**164,434**	**1,248,244**
Dividends (*Note 18*)	**—**	**—**	**—**	**(58,000)**	**—**	**(58,000)**	**—**	**(58,000)**
Effect of exchange rate changes	**—**	**—**	**—**	**—**	**91,949**	**91,949**	**19,965**	**111,914**
At December 31, 2004	**$ 42**	**$ 319,076**	**$ —**	**$ 1,061,339**	**$ 161,576**	**$ 1,542,033**	**$ 356,745**	**$ 1,898,778**

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 25, 2005.

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 Limited ("Crosland" or the "Parent").

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, were contributed into Evraz Group. Although legally binding agreements for this reorganisation were in place at December 31, 2004, the legal title to the shares in Mastercroft had not been transferred to Evraz Group until April 5, 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 interest method and, as such, the financial statements have been presented as if the transfers of the Group interests in Mastercroft had occurred from the date 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 Mastercroft. In 2004, additional three entities were transferred into Mastercroft by entities under common control as described further below. The Group also applied the pooling of interest method in accounting for these business combinations.

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

In the years ended December 31, 2004, 2003 and 2002, approximately 10%, 34% and 40%, 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 14.

At December 31, 2004, the Group employed approximately 95,600 employees.

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
	2004	2004	2003	2002		
OAO Nizhny Tagil Iron & Steel Plant	80.44	77.09	74.35	61.10	Steel production	Russia
OAO West-Siberian Iron & Steel Plant	94.59	90.65	93.36	77.39	Steel production	Russia
OAO Novokuznetsk Iron & Steel Plant	100.00	89.97	90.09	—	Steel production	Russia
OAO Kachkanarsky Mining-and-Processing Integrated Works	97.64	80.68	—	—	Ore mining and processing	Russia
OAO Vysokogorsky Mining-and-Processing Integrated Works	87.38	78.50	80.32	80.00	Ore mining and processing	Russia
OOO Abakan Mining Company	100.00	90.65	93.36	77.39	Ore mining	Russia
OOO Mundybash Processing Plant	100.00	90.65	93.36	77.39	Ore processing	Russia

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

1. Corporate Information (continued)

Subsidiary	Actual ownership interest, %	Effective ownership interest, %			Business activity	Location
	2004	2004	2003	2002		
OOO GBRU-Yuzhnaya	100.00	78.50	80.32	61.10	Ore mining	Russia
OAO UK Neryungriugol	100.00	95.83	—	—	Coal mining	Russia
Ferrotrade Limited	100.00	95.83	100.00	—	Trading	Gibraltar
OOO Trade House EvrazHolding	100.00	95.83	98.00	98.00	Trading	Russia
OOO Trade House EvrazResource	100.00	95.83	—	—	Trading	Russia
East Metals S.A.	100.00	95.83	100.00	—	Trading	Switzerland
OAO Nakhodka Commercial Sea Port	91.51	82.21	84.12	30.01	Seaport services	Russia
Aino Dake Maritime Limited	100.00	95.83	—	—	Shipping	Malta
Kita Dake Maritime Limited	100.00	95.83	—	—	Shipping	Malta
Mae Dake Maritime Limited	100.00	95.83	—	—	Shipping	Malta
Sinano Shipmanagement Limited	100.00	95.83	—	—	Shipping	Cyprus
Korten Corporation	100.00	95.83	—	—	Shipping	Panama
Mastercroft Limited	95.83	95.83	100.00	100.00	Holding entity	Cyprus
OOO Sibmetinvest	100.00	89.85	91.93	—	Holding entity	Russia
Mastercroft Mining Limited	100.00	95.83	100.00	100.00	Holding entity	Cyprus
Mastercroft Pipe Projects Limited	—	—	100.00	100.00	Holding entity	Cyprus
Steeltrade Limited	100.00	95.83	100.00	—	Holding entity	Cyprus
Coke Oven Overseas Contribution Limited	100.00	95.83	—	—	Holding entity	Cyprus
East Metals Limited	100.00	95.83	100.00	—	Management services	Cyprus
Mastercroft Finance Limited	100.00	95.83	100.00	—	Financing	Cyprus
OOO Financial Company EvrazHolding	100.00	77.09	74.35	61.10	Financing	Russia
Consolidated Subsidiaries with Ownership Less Than 50%						
OAO Large-Diameter Pipe Plant(1)	25.00	19.27	18.59	15.28	Pipe manufacturing	Russia
OOO EvrazHolding(2)	—	—	—	—	Management services	Russia
Caplink Limited(2)	—	—	—	—	Holding entity	Cyprus
Velcast Limited(2)	—	—	—	—	Holding entity	Cyprus
OOO Slab Continuous Casting Machine(2)	—	—	—	—	Steel production	Russia
EvrazSecurities S.A.(3)	—	—	—	—	Financing	Luxembourg
Controlling Interests in Subsidiaries Transferred to the Group in 2004 by Entities under Common Control						
Pamplune S.A.	99.68	95.52	99.68	99.68	Holding entity	Luxembourg
Dufin Caster Project S.A.	99.84	95.37	99.52	99.52	Holding entity	Luxembourg
OOO Continuous Casting Machine No.4	100.00	95.37	99.52	99.52	Steel production	Russia
OOO Metallenergofinance	100.00	95.83	—	—	Utilities supply	Russia
ZAO Evraztrans	76.00	72.83	100.00	—	Freight-forwarding	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.

Subsidiaries Consolidated with Ownership of Less Than 50%

(1) OAO Large-Diameter Pipe Plant ("LDPP") is an entity which is in development stage. As of December 31, 2004, the Group owned 25% plus one share in LDPP and had signed a legally binding agreement to acquire an additional 30.1% of the shares in LDPP. Before the agreement was signed, an

1. Corporate Information (continued)

entity under common control with the Group had an option to acquire that additional interest. The option was exercisable at any time and, therefore, represented potential voting rights which require consolidation under Interpretation SIC-33, Consolidation and Equity Method—Potential Voting Rights and Allocation of Voting Interests. The Group consolidates LDPP under the provisions of IAS 27, Consolidated Financial Statements and Accounting for Investments in Subsidiaries, as the Group controlled LDPP in 2004.

(2) 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 Interpretation SIC-33, Consolidation and Equity Method—Potential Voting Rights and Allocation of Voting Interests. The Group holds options to acquire all the ownership interests in EvrazHolding, Caplink and Velcast for $1,000, €100 ($0.136 at the exchange rate as of December 31, 2004) and €100 ($0.136 at the exchange rate as of December 31, 2004), respectively. These options are currently exercisable and, therefore, represent potential voting rights which require consolidation under Interpretation SIC-33.

(3) 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 During 2004

The Group applied the pooling of interests method with respect to those acquisitions and presented its consolidated financial statements as if the transfers of controlling interests in Pamplune, MEF, LDPP and EvrazTrans had occurred from the date of the earliest period presented or, if later, the date of acquisition of the subsidiary by the transferring entity.

As a result, the Group (formerly Mastercroft) has re-presented its financial position, results of operations and cash flows for the years ended December 31, 2003 and 2002.

2. Significant Accounting Policies

Basis of Presentation

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, (6) business combinations and (7) restatement of financial statements to reflect the effect of hyperinflation.

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 Presentation (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 December 31, 2001. 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

IFRS 3, Business Combinations, IAS 36, Impairment of Assets, and IAS 38, Intangible Assets

IFRS 3 applies to accounting for business combinations where the agreement date is on or after March 31, 2004. Upon acquisition the Group initially measures the identifiable assets, liabilities and contingent liabilities acquired at their fair values as at the acquisition date hence causing any minority interest in the acquiree to be stated at the minority proportion of the net fair values of those items. For business combination for which the agreement date is before March 31, 2004, minority interest in the acquiree was stated at the minority proportion of the pre-acquisition carrying amounts of the identifiable assets and liabilities.

Additionally, for business combinations where the agreement date is on or after March 31, 2004, goodwill is not amortised but rather tested for impairment annually at the cash generating unit level unless an event occurs during the year which requires the goodwill to be tested more frequently. Intangibles with indefinite useful lives acquired in those business combinations are reviewed annually to ensure the carrying value does not exceed the recoverable amount regardless of whether an indicator of impairment is present.

IAS 36 and 38 will be applied prospectively from January 1, 2005.

IAS 27, Consolidated and Separate Financial Statements

The Group early adopted IAS 27, Consolidated and Separate Financial Statements, which requires to present minority interests within equity, separately from the parent shareholders' equity.

Accounting for 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 Presentation (continued)

Accounting for the Effect of Inflation

Prior to January 1, 2003, the adjustments and reclassifications made to the statutory records of the Russian subsidiaries of the Group for the purpose of IFRS presentation included the restatement of balances and transactions for the changes in the general purchasing power of the Russian rouble in accordance with IAS 29 ("Financial Reporting in Hyperinflationary Economies"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from January 1, 2003 the Group ceased applying IAS 29 to current periods and only recognises the cumulative impact of inflation indexing on non-monetary elements of the financial statements through December 31, 2002.

Non-monetary assets and liabilities acquired prior to December 31, 2002 have been restated by applying the relevant conversion factors to the historical cost ("restated cost") through December 31, 2002. Gains or losses on subsequent disposal are recognised based on the restated cost of the non-monetary assets and liabilities.

Management Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates with regard to these financial statements relate to the estimated useful lives of long lived assets, fair value of property, plant and equipment at the date of transition to IFRS, fair values of assets and liabilities acquired in business combinations, site restoration costs, post-employment benefits, allowances for doubtful accounts receivable, allowances for net realisable value and obsolescence of inventories, and deferred income taxes.

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 measurement currency of the Group's subsidiaries located in the Russian Federation is the Russian rouble (the "rouble"). The measurement currency of the subsidiaries located in other countries is the US dollar or euro. As at the reporting date, the assets and liabilities of the subsidiaries with the rouble or euro, as measurement currency, 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 foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Transactions in foreign currencies in each subsidiary of the Group are initially recorded in the measurement currency at the rate ruling at the date of 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 measurement 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 its 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.

In the period from January 1, 2002 to March 30, 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.

The excess of purchase consideration over the fair value of the Group's share of identifiable net assets is recorded as goodwill. If the cost of the acquisition is less than the fair value of the Group's share of identifiable net assets of the subsidiary acquired the difference is either recorded on the balance sheet as negative goodwill (for business combinations for which the agreement date is prior to March 31, 2004) or recognised directly in the income statement (for business combinations for which the agreement date is on or after March 31, 2004).

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.

2. Significant Accounting Policies (continued)

Basis of Consolidation (continued)

Acquisition of Subsidiaries (continued)

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.

Purchases of Subsidiaries from Entities under Common Control

Purchases of subsidiaries from entities under common control are accounted for using the uniting of interest 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 by 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. 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 ventures. 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 historical cost less accumulated depreciation and any impairment in value. Land is not depreciated. As described under Basis of Presentation above, the items of property, plant and equipment acquired prior to December 31, 2001 were accounted for at deemed cost being their fair value at December 31, 2001.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and constructions	15-60 years
Machinery and equipment	4-45 years
Transport and motor vehicles	7-20 years
Other assets	3-15 years

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

Maintenance costs relating to items of property, plant and equipment are expensed as incurred.

The Group has the title to certain non-production and social assets, primarily buildings and facilities of social infrastructure, which 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 at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to interest expense.

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

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

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated undertaking 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 investment in associate.

Goodwill arising from business combinations where the agreement date is prior to March 31, 2004 is amortised using the straight-line method over its estimated useful life of ten years. Goodwill relating to business combinations where the agreement date is on or after March 31, 2004 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.

2. Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

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

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

Negative goodwill arising from business combinations where the agreement date is prior to March 31, 2004 is presented in the same balance sheet classification as goodwill. To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities, that portion of negative goodwill is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is 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 is recognised in the income statement immediately.

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

Investments

The Group classified its investments into the following categories: trading, held-to-maturity and available-for-sale. Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets. Investments with fixed maturity that the management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets. 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.

All purchases and sales of investments are recognised on the settlement date, which is the date that the investment is delivered to or by the Group. All investments are initially recognised at cost, being the fair value of the consideration given and including transaction costs. Trading and available-for-sale investments are subsequently carried at fair value, whilst held-to-maturity investments are carried at amortised cost using the effective yield method. Gains or losses on trading investments are recorded in the income statement in the period in which they arise. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, 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.

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 quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

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

2. Significant Accounting Policies (continued)

Impairment of Assets

An assessment is made at each balance sheet date to determine whether there is objective evidence that an asset or a group of assets may be impaired. When there is an indication that an asset may be impaired, the asset is measured at its estimated recoverable amount, which is the higher of the net selling price and value in use.

Net selling price is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, after deducting any direct incremental disposal costs. Value in use is the present value of estimated future cash flows expected to arise from continuing use of an asset and from its disposal at the end of its useful life.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Impairment loss is recognised for the difference between the estimated recoverable amount and the carrying value. The carrying amount of the asset is reduced to its estimated recoverable amount either directly or through the use of an allowance account and the amount of the loss is included in the net profit and loss for the period.

An impairment loss is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. An impairment loss is only reversed to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

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 have 30-180 day terms, are recognised and carried at 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 payable represents VAT related to sales payable to tax authorities upon collection of receivables from customers net of VAT on purchases which have been settled at the balance sheet date. 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.

2. Significant Accounting Policies (continued)

Value Added Tax (continued)

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 sales VAT upon payment for the purchases and putting property, plant and equipment into operation.

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 cost, being the fair value of the consideration received, net of transaction costs incurred. In subsequent periods, borrowings are measured at amortised cost using the effective interest rate method; any difference between the fair value of the consideration received (net of transaction costs) 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 a share premium.

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)

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 34%), 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.

Employee Benefits

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 pension scheme. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age, the completion of a minimum service period and the amount of the benefits 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. These gains or losses 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 employing production workers and, accordingly, have been charged to cost of sales.

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 reliably measured.

2. Significant Accounting Policies (continued)

Revenue (continued)

Rendering of services

Revenue is recognised when services are rendered.

Interest

Revenue is recognised as the interest accrues.

Dividends

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

Rental Income

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

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 goodwill amortisation or the initial recognition 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 plants. Mining segment includes ore mining and enrichment. The mining segment does not meet the criteria of a reportable segment under IFRS, because the majority of revenues of the mining segment are earned in inter-segment transactions. Despite this fact, management has designated the mining segment as a reportable segment based on the future plans to develop this business segment. The following table presents revenue and

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

3. Segment Information (continued)

profit information and certain asset and liability information regarding business segments for the years ended December 31, 2004, 2003 and 2002:

Year ended December 31, 2004

	Steel production	Mining	Other operations	Eliminations	Total
Revenue					
Sales to external customers	$ 5,754,754	$ 60,965	$ 108,929	$ —	$ 5,924,648
Inter-segment sales	54,287	279,856	235,909	(570,052)	—
Total revenue	5,809,041	340,821	344,838	(570,052)	5,924,648
Result					
Segment result	$ 1,742,283	$ 85,862	$ 6,368		1,834,513
Unallocated expenses					(3,835)
Profit from operations					**$ 1,830,678**
Assets and liabilities					
Segment assets	$ 3,052,877	$ 542,811	$ 170,942		$ 3,766,630
Investment in associates	1,237	195,946	396		197,579
Unallocated assets					70,253
Total assets					**$ 4,034,462**
Segment liabilities	$ 1,263,041	$ 192,921	$ 127,316		$ 1,583,278
Unallocated liabilities					552,406
Total liabilities					**$ 2,135,684**
Other segment information					
Additions to property, plant and equipment	$ 487,924	$ 32,581	$ 97,099		$ 617,604
Assets acquired in business combination	—	355,986	—		355,986
Depreciation, depletion and amortisation	(163,734)	(17,406)	(6,878)		(188,018)
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	$ 2,052,409	$ 14,774	$ 65,456	$ —	$ 2,132,639
Inter-segment sales	7,680	83,702	31,973	(123,355)	—
Total revenue	$ 2,060,089	$ 98,476	$ 97,429	$ (123,355)	$ 2,132,639
Result					
Segment result	$ 335,261	$ 6,865	$ (1,922)		$ 340,204
Unallocated expenses					(2,363)
Profit from operations					$ 337,841
Assets and liabilities					
Segment assets	$ 1,870,715	$ 87,654	$ 51,967		$ 2,010,336
Investment in associates	1,413	—	2,210		3,623
Unallocated assets					137,133
Total assets					$ 2,151,092
Segment liabilities	$ 488,332	$ 23,745	$ 28,070		$ 540,147
Unallocated liabilities					1,021,722
Total liabilities					$ 1,561,869
Other segment information					
Additions to property, plant and equipment	$ 234,150	$ 11,009	$ 5,420		$ 250,579
Assets acquired in business combination	—	—	22,673		22,673
Depreciation, depletion and amortisation	(158,335)	(4,128)	(3,507)		(165,970)
Impairment of assets	(5,068)	—	(431)		(5,499)

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

3. Segment Information (continued)

Year ended December 31, 2002

	Steel production	Mining	Other operations	Eliminations	Total
Revenue					
Sales to external customers	$ 1,512,077	$ 4,980	$ 14,670	$ —	$ 1,531,727
Inter-segment sales	4,142	16,194		(20,336)	—
Total revenue	$ 1,516,219	$ 21,174	$ 14,670	$ (20,336)	$ 1,531,727
Result					
Segment result	$ 52,500	$ (1,111)	$ 3,411		$ 54,800
Unallocated expenses					(2,332)
Profit from operations					$ 52,468
Assets and liabilities					
Segment assets	$ 1,051,826	$ 58,919	$ 4,279		$ 1,115,024
Investment in associates	167	—	—		167
Unallocated assets					76,411
Total assets					$ 1,191,602
Segment liabilities	$ 386,817	$ 18,797	$ 11,431		$ 417,045
Unallocated liabilities					528,050
Total liabilities					$ 945,095
Other segment information					
Additions to property, plant and equipment	$ 84,698	$ 10,522	$ 1,794		$ 97,014
Assets acquired in business combination	—	73,602	—		73,602
Depreciation, depletion and amortisation	(153,080)	(1,543)	(280)		(154,903)
Impairment of assets	(1,493)	—	(426)		(1,919)

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

	2004	2003	2002
Russia	**$ 3,279,650**	$ 1,526,439	$ 964,650
Taiwan	**806,674**	95,935	83,536
Thailand	**457,574**	53,136	50,612
Philippines	**214,655**	69,957	62,021
Korea	**213,292**	45,095	33,889
Vietnam	**213,000**	37,873	84,589
Iran	**195,456**	47,320	—
Hong Kong	**178,148**	57,709	50,437
China	**160,873**	120,647	105,738
Other countries	**205,326**	78,528	96,255
	$ 5,924,648	$ 2,132,639	$ 1,531,727

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

3. Segment Information (continued)

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

	2004	2003	2002
Russia	**$ 3,221,094**	$ 1,656,109	$ 1,153,989
Other countries	**813,368**	494,983	37,613
	$ 4,034,462	$ 2,151,092	$ 1,191,602

In 2004, 2003 and 2002, 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

As of December 31, 2001, the Group owned 41.71% of ordinary shares in Nizhny Tagil Iron & Steel Plant ("NTMK") and, through agreements with agents, had the power to cast the majority of the votes at shareholders' and board of directors meetings and had the power to appoint or remove the majority of members of the board of directors. The financial position and results of operations of NTMK were included in the Group's consolidated financial statements beginning December 31, 2001.

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. In the year ended December 31, 2004, the Group acquired additional minority interests in NTMK (6.09% ownership interest) for cash consideration of $47,980. As a result of the change in accounting policy (Note 2), the excess of the amount of consideration over the carrying value of minority interest amounting to $8,466 was charged to accumulated profits.

The amount of negative goodwill is being recognised as income over the remaining average useful life of the identifiable depreciable assets acquired (13.5-15.5 years).

ZapSib

As of December 31, 2001, the Group owned 36.78% of ordinary shares in West-Siberian Iron & Steel Plant ("ZapSib") and, through agreements with agents, had the power to cast the majority of the votes at shareholders' and board of directors meetings and had the power to appoint or remove the majority of members of the board of directors. The financial position and results of operations of ZapSib were included in the Group's consolidated financial statements beginning December 31, 2001.

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. In the year ended December 31, 2004, the Group acquired additional minority interest in ZapSib (1.23% ownership interest) for cash consideration of $9,323. As a result of the change in accounting policy (Note 2), the excess of the amount of consideration over the carrying value of minority interest amounting to $3,662 was charged to accumulated profits, the excess of the carrying value of minority interest over consideration amounting to $587 was included in additional paid-in capital.

The amount of negative goodwill is being recognised as income over the remaining average useful life of the identifiable depreciable assets acquired (10-12 years).

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

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

VGOK

As at October 3, 2002, the Group acquired an additional 38.61% ownership interest in OAO Vysokogorsky Mining-and-Processing Integrated Works (“VGOK”) for $402. Prior to this date, the Group had accumulated a 48.76% ownership interest in VGOK for an aggregate consideration of $1,738, resulting in negative goodwill of $21,418.

The acquisition on October 3, 2002 provided the Group a controlling interest and, as a result, the financial position and the results of operations of VGOK have been included in the Group’s consolidated financial statements as of this date.

Prior to October 3, 2002, VGOK was accounted for under the equity method.

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

	October 3, 2002
Property, plant and equipment	$73,949
Other non-current assets	3,058
Inventories	2,622
Accounts and notes receivable, net	8,303
Cash	99
Total assets	**88,031**
Non-current liabilities	20,215
Current liabilities	17,607
Total liabilities	**37,822**
Net assets	**$50,209**
Fair value of net assets attributable to 38.61% ownership interest	$19,386
Less: consideration paid	(402)
Negative goodwill on acquisition of 38.61% ownership interest	18,984
Negative goodwill recognised on acquisitions prior to October 3, 2002	21,418
Total negative goodwill	**$40,402**

VGOK’s net profit/(loss) for the years ended December 31, 2004 and 2003 and for the period from October 3, 2002 to December 31, 2002 amounted to $6,246, $4,074 and $(2,773), respectively.

The amount of negative goodwill is being recognised as income over the remaining average useful life of the identifiable depreciable assets acquired (16-17 years).

NMTP

As at February 15, 2003, the Group acquired an additional 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. In the period from February 11, 2002 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)

NMTP (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, net	4,805
Other current assets	3,830
Cash	1,852
Total assets	**37,967**
Non-current liabilities	710
Deferred income 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: consideration paid	(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 year ended December 31, 2004 and for the period from February 15, 2003 to December 31, 2003 amounted to $2,793 and $2,562, respectively.

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.

The amount of negative goodwill is being recognised as income over the remaining average useful life of the identifiable depreciable assets acquired (9 years).

KGOK

On May 21, 2004, the Group acquired 83.59% of the ordinary shares in Kachkanarsky Mining-and-Processing Integrated Works ("KGOK") for 5,519,647,048 roubles ($190,311 at the exchange rate as of the dates of transactions). In addition, as part of the acquisition cost, the Group purchased restructured debts of KGOK with a fair value of 596,957,000 roubles ($20,595 at the exchange rate as of the date of transaction) for 1,283,000,000 roubles ($44,264 at the exchange rate as of the date of transaction). 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.

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

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

KGOK (continued)

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, net	66,342
Cash	2,271
Total assets	**$ 426,789**
Non-current liabilities	35,722
Deferred income 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**
Consideration paid	**$ 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, the Group acquired an additional 14.04% ownership interest in KGOK for 896,155,736 roubles ($31,256 at the exchange rate as of the dates of transactions). 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.

Neryungriugol

In April 2004, the Group acquired 100% of the shares in OAO UK Neryungriugol ("Neryungriugol") for 100,000 roubles ($4 at the exchange rate as of the date of transaction).

As of the date of the acquisition, Neryungriugol was at the development stage applying for certain mining licenses.

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

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

Negative Goodwill

The table below presents a reconciliation of the carrying amount of negative goodwill at December 31, 2004, 2003 and 2002:

	Gross book value	Accumulated amortisation	Total
At December 31, 2001	$ (132,135)	$ —	$ (132,135)
Negative goodwill previously recognised in investments under the equity method	(21,418)	—	(21,418)
Negative goodwill recognised on acquisitions	(128,376)	—	(128,376)
Amortisation	—	16,149	16,149
At December 31, 2002	(281,929)	16,149	(265,780)
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	—	22,312	22,312
At December 31, 2003	(310,948)	38,804	(272,144)
Amortisation	**—**	**22,292**	**22,292**
At December 31, 2004	**$ (310,948)**	**$ 61,096**	**$ (249,852)**

5. Revenues and Expenses

Revenue from sales of goods and cost of revenues included non-monetary exchanges of dissimilar goods for $0, $239,165 and $238,159 for the years ended December 31, 2004, 2003 and 2002, respectively.

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

	2004	2003	2002
Cost of inventories recognised as expense	**$ 2,268,060**	$ 851,133	$ 835,859
Staff costs	**553,383**	281,372	246,340
Depreciation, depletion and amortisation	**183,203**	141,000	154,903

Gain on Financial Assets

Gain on financial assets 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)

6. Income Taxes

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

	2004	2003	2002
Current income tax expense	**$ 438,764**	$ 110,844	$ 20,812
Deferred income tax benefit			
Relating to origination and reversal of temporary differences	**(22,921)**	(35,737)	(9,661)
Income tax expense reported in the consolidated income statement	**$ 415,843**	$ 75,107	$ 11,151

In the years ended December 31, 2004, 2003 and 2002, 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.

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:

	2004	2003	2002
Profit before income tax	**$ 1,664,087**	$ 330,995	$ 12,463
At the Russian statutory income tax rate of 24%	**399,381**	79,439	2,991
Effect of non-deductible expenses and other non-temporary differences	**4,404**	7,234	8,187
Effect of the difference in tax rates in countries other than the Russian Federation	**(4,279)**	(11,566)	(27)
Deferred income tax provided for undistributed earnings of the Group's subsidiaries	**16,337**	—	—
Income tax expense reported in the consolidated income statement	**$ 415,843**	$ 75,107	$ 11,151

(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:

	2004	Change recognised in income statement	Change due to business combinations	Translation difference	2003	Change recognised in income statement	Change due to business combinations	Translation difference	2002
Deferred income tax liabilities:									
Property, plant and equipment	$169,229	$ (12,515)	$ 65,307	$ 9,031	$107,406	$ (26,498)	$ 342	$ 7,569	$125,993
Liabilities under the Settlement Agreements	14,586	(31,722)	8,669	1,395	36,244	(11,558)	—	3,053	44,749
Undistributed earnings of subsidiaries	16,337	16,337	—	—	—	—	—	—	—
Other	27,399	21,036	679	3,106	2,578	(771)	155	215	2,979
	227,551	(6,864)	74,655	13,532	146,228	(38,827)	497	10,837	173,721
Deferred income tax assets:									
Tax losses available for offset	—	—	—	—	—	(6,368)	—	218	6,150
Accrued liabilities	18,091	7,730	1,629	854	7,878	117	—	573	7,188
Accounts receivable	9,398	1,352	4,739	439	2,868	2,434	—	127	307
Other	9,136	6,975	132	376	1,653	727	110	96	720
	36,625	16,057	6,500	1,669	12,399	(3,090)	110	1,014	14,365
Net deferred income tax asset	3,390	3,465	—	(75)	—	—	—	—	—
Net deferred income tax liability	$194,316	$ (19,456)	$ 68,155	$ 11,788	$133,829	$ (35,737)	$ 387	$ 9,823	$159,356

For Russian income tax purposes, ZapSib had unused tax losses incurred in 1997 and 1998. As of December 31, 2002, the unused tax losses carry forward approximated $25,623. In 2003, these tax losses were fully utilised.

As of December 31, 2004, deferred income taxes have been provided for undistributed earnings of the Group's subsidiaries amounting to $273,268 as management intends to dividend this amount. As of December 31, 2004, the amount of undistributed earnings for which deferred income taxes have not been provided was $1,712,717. Management does not intend on distributing those earnings in the foreseeable future.

The current tax rate for dividends income in respect of the Group's subsidiaries varies from 5% to 10%.

(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:

	2004	2003	2002
Cost:			
Land	**$ 50,537**	$ 26,239	$ 15,844
Buildings and constructions	**570,630**	251,557	212,034
Machinery and equipment	**1,257,973**	932,025	803,500
Transport and motor vehicles	**133,099**	15,928	7,153
Mining assets	**121,365**	93,288	76,346
Other assets	**42,290**	29,008	19,804
Assets under construction	**481,401**	241,920	106,367
	$2,657,295	1,589,965	1,241,048
Accumulated depreciation, depletion and amortisation:			
Buildings and constructions	**(66,658)**	(37,876)	(17,248)
Machinery and equipment	**(438,206)**	(276,068)	(129,472)
Transport and motor vehicles	**(12,062)**	(4,313)	(2,028)
Mining assets	**(8,215)**	(3,574)	(616)
Other assets	**(18,439)**	(10,863)	(4,405)
	(543,580)	(332,694)	(153,769)
Government grants:			
Machinery and equipment, net	**(9,377)**	(9,628)	(9,658)
	$2,104,338	$1,247,643	$1,077,621

Assets under construction include prepayments to constructors and suppliers of property, plant and equipment in the amount of $137,489, $74,027 and $19,986 as of December 31, 2004, 2003 and 2002, respectively.

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	$ 213,681	$ 646,329	$ 11,615	$ 89,714	$ 18,145	$ 241,920	$1,247,643
Additions	21,214	5,467	5,581	84,612	9,555	3,228	487,947	617,604
Assets acquired in business combination	1,349	256,718	41,603	21,273	13,807	136	21,100	355,986
Assets put into operation	61	31,978	218,794	8,639	—	8,751	(268,223)	—
Disposals	(4)	(2,846)	(3,598)	(608)	—	(893)	(21,967)	(29,916)
Depreciation & depletion charge	—	(25,911)	(144,343)	(7,733)	(4,081)	(6,761)	—	(188,829)
Amortisation of government grants	—	—	811	—	—	—	—	811
Impairment loss	—	—	—	—	(1,701)	—	(127)	(1,828)
Translation difference	1,678	24,885	45,213	3,239	5,856	1,245	20,751	102,867
At December 31, 2004, cost, net of accumulated depreciation and government grants	**$ 50,537**	**$ 503,972**	**$ 810,390**	**$ 121,037**	**$ 113,150**	**$ 23,851**	**$ 481,401**	**$2,104,338**

(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	$ 194,786	$ 664,370	$ 5,125	$ 75,730	$ 15,399	$ 106,367	$1,077,621
Additions	7,863	11,797	25,345	2,708	10,627	4,186	188,053	250,579
Assets acquired in business combination	1,059	4,001	15,449	1,860	—	134	170	22,673
Assets put into operation	34	6,611	30,936	3,106	—	3,411	(44,098)	—
Disposals	—	(553)	(2,712)	(48)	—	(349)	(19,213)	(22,875)
Depreciation & depletion charge	—	(18,366)	(137,690)	(1,845)	(2,957)	(5,873)	—	(166,731)
Amortisation of government grants	—	—	761	—	—	—	—	761
Impairment loss	—	—	—	—	—	—	(4,094)	(4,094)
Translation difference	1,439	15,405	49,870	709	6,314	1,237	14,735	89,709
At December 31, 2003, cost, net of accumulated depreciation and government grants	$ 26,239	$ 213,681	$ 646,329	$ 11,615	$ 89,714	$ 18,145	$ 241,920	$1,247,643

The movement in property, plant and equipment for the year ended December 31, 2002 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, 2001, cost, net of accumulated depreciation and government grants	$ —	$ 206,639	$ 749,118	$ 5,679	$ —	$ 14,583	$ 104,704	$1,080,723
Additions	15,844	21	3,923	292	2,744	3,000	71,190	97,014
Assets acquired in business combination	—	—	—	—	73,602	—	—	73,602
Assets put into operation	—	5,630	47,821	1,190	—	2,275	(56,916)	—
Disposals	—	(244)	(5,918)	(4)	—	(38)	(12,611)	(18,815)
Depreciation & depletion charge	—	(17,260)	(131,309)	(2,032)	(616)	(4,421)	—	(155,638)
Amortisation of government grants	—	—	735	—	—	—	—	735
At December 31, 2002, cost, net of accumulated depreciation and government grants	$ 15,844	$ 194,786	$ 664,370	$ 5,125	$ 75,730	$ 15,399	$ 106,367	$1,077,621

As of December 31, 2004, 2003 and 2002, certain items of production equipment with an approximate carrying value of $95,802, $103,172 and $431,748, respectively, were pledged to banks as collateral against loans to the Group (Notes 19).

In addition, the Group pledged property, plant and equipment with an approximate carrying value of $0, $12,752 and $1,121 as of December 31, 2004, 2003 and 2002, respectively, in respect of loans received by the Group's related parties.

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

7. Property, Plant and Equipment (continued)

Government grants represent the reduction in ecological tax payable by the Group in 2001. Such reductions were granted to the Group for the amount of actual expenditures on the acquisition of certain assets qualified for ecological purposes.

8. Investment in a Joint Venture

On March 10, 2004, as a part of a joint venture agreement, the Group acquired a 50% ownership interest in Corber Enterprises Limited ("Corber"), a joint venture created for the purpose of exercising joint control over economic activities of Raspadskaya Mining Group and other Corber's subsidiaries. At the date of acquisition, Corber owned 72.03% of ordinary shares in ZAO Raspadskaya, one of the largest coal mines in the Russian Federation. The Group's consideration in exchange for the ownership interest in Corber was $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
Property, plant and equipment	$176,723
Mineral reserves	246,819
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	**475,992**
Non-current liabilities	16,564
Deferred income tax liabilities	17,955
Current liabilities	27,387
Total liabilities	**61,906**
Minority interests	**40,631**
Net assets	**$373,455**
Fair value of net assets attributable to 50% effective interest	186,728
Negative goodwill	(47,077)
Consideration paid	**$139,651**

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

The acquisition of Corber was accounted for based on provisional values as Corber has not completed preparation of financial statements in accordance with IFRS.

Subsequent to the acquisition date, Corber acquired additional 4.20% ownership interest in Raspadskaya Mining Group for $5,522. The 50% of excess of the carrying value of acquired minority interest over the amount of consideration paid by the joint venture amounting to $6,372 is recorded in additional paid-in capital.

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

8. Investment in a Joint Venture (continued)

The table below sets forth Corber's assets and liabilities as of December 31, 2004:

Property, plant and equipment	$ 233,016
Mineral reserves	244,118
Other non-current assets	612
Inventories	12,681
Accounts and notes receivable, net	62,267
Cash	48,066
Total assets	**600,760**
Non-current liabilities	43,243
Deferred income tax liabilities	15,008
Current liabilities	34,758
Total liabilities	**93,009**
Minority interests	**25,847**
Net assets	**$ 481,904**

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

The table below sets forth Corber's income and expenses for the period from March 10, 2004 to December 31, 2004:

Revenue	$ 396,984
Cost of revenue	(246,892)
Other expenses, including income taxes	(65,010)
Minority interests	(3,089)
Net profit	**$ 81,993**
Share of profits attributable to the Group	$ 40,997
Amortisation of negative goodwill	1,765
Share of profits/(losses) of a joint venture	**$ 42,762**
Investment at March 10, 2004	$ 139,651
Share of profit of a joint venture	42,762
Translation difference	6,856
Additional paid-in capital in respect of acquisition of minority interests	6,372
Investment at December 31, 2004	**$ 195,641**

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

9. Other Long-Term Investments

Long-term investments were as follows as of December 31:

Name	Business activity	Percentage holding	2004	2003	2002
Investments in associates:					
OAO Nakhodka Commercial Sea Port	seaport services	35.47%	**$ —**	$ —	$ 4,917
OOO Mecona	seaport services	50.00%	**—**	1,683	—
OOO Plant of Metallurgical Reagents	production of metallurgical reagents	50.00%	**708**	679	—
OAO TagilBank	banking	37.91%	**615**	579	536
Other associates			**615**	527	167
Investments in other companies:					
OAO Ugolnaya Kompaniya Kuznetskugol	coal mining	20%	**—**	—	7,822
Novosibirsk Steel Plant	steel making, pipe manufacturing	0.20%	**—**	29	12,443
OAO Ugolnaya Kompaniya Kuzbassugol	coal mining	3.91%	**—**	—	8,869
OAO Rossiiskie Kommunalnye Systemy	electricity, heating and other public utilities	10.00%	**2,395**	3,395	—
ZAO Raspadskaya	coal mining	19.09%	**—**	1,310	1,214
Other investments			**615**	612	422
Held-to-maturity financial assets:					
OGVZ bonds			**1,172**	1,055	—
Other bonds and promissory notes			**2,524**	—	—
			$ 8,644	$ 9,869	$ 36,390

10. Cash and Cash Equivalents and Restricted Deposits at Banks

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

	2004	2003	2002
Roubles	**$ 62,997**	$ 41,618	$ 40,297
US dollars	**227,194**	150,327	2,086
Euros	**1,121**	3,587	32
	$ 291,312	$ 195,532	$ 42,415

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

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

10. Cash and Cash Equivalents and Restricted Deposits at Banks (continued)

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

	2004	2003	2002
Deposits to secure bank loans	**$ 17,570**	$ 22,972	$ —
Deposits for repayment of Settlement Agreements (Note 20)	**3,441**	—	—
	21,011	22,972	—
Less: deposits with current maturities	**(12,441)**	(4,850)	—
	$ 8,570	$ 18,122	$ —

The deposits earned interest in the range from 0.98% to 8.50% per annum. The deposits to secure bank loans are denominated in US dollars.

11. Other Non-Current Assets

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

	2004	2003	2002
Prepaid contributions to pension plans	**$ —**	$ 8,031	$ —
Long-term VAT relating to Settlement Agreements	**197**	3,978	4,320
Long-term input VAT	**3,980**	1,990	304
Deferred income tax assets (Note 6)	**3,390**	—	—
Other	**1,678**	917	204
	$ 9,245	$ 14,916	$ 4,828

12. Inventories

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

	2004	2003	2002
Raw materials and spare parts	**$ 365,202**	$ 185,988	$ 99,273
Work-in-progress	**61,003**	34,537	19,808
Finished goods:			
—at cost	**326,575**	265,690	4,255
—at net realisable value	**35,510**	—	—
	788,290	486,215	123,336
Allowance for obsolete and slow-moving items	**(7,729)**	(5,201)	(4,274)
	$ 780,561	$ 481,014	$ 119,062

As of December 31, 2004, 2003 and 2002, certain items of inventory with an approximate carrying amount of $336,348, $178,597 and $30,219, respectively, were pledged to banks as collateral against loans provided to the Group (Note 19).

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

13. Trade and Other Receivables

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

	2004	2003	2002
Trade accounts receivable	**$ 270,350**	$ 71,122	$ 39,944
Other receivables	**34,836**	17,693	13,934
	305,186	$ 88,815	53,878
Allowance for doubtful accounts	**(26,222)**	(12,646)	(15,943)
	$ 278,964	$ 76,169	$ 37,935

14. Related Party Disclosures

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

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

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

	Amounts due from related parties			Amounts due to related parties		
	2004	2003	2002	2004	2003	2002
EAM Group	**$ —**	$ —	$ 401	**$ —**	$ 7,709	$ 23,559
Evrazmetall-Centre	**20,930**	—	—	**—**	—	—
Evrazmetall-Sibir	**21,721**	—	—	**21**	—	—
Evraz-Ruda	**21,847**	—	—	**5,047**	—	—
Ferrotrade & Co.	**—**	62,247	8,850	**—**	116,514	74,480
Ferrotranstrade	**25,453**	—	—	**4,005**	—	—
Fletcher Holdings International Corp.	**—**	—	—	**—**	20,766	20,699
Goroblagodatskoye Ore Mine	**7,778**	8,679	6,975	**2,456**	—	6
KMK-Energo	**—**	867	—	**—**	5,530	—
Kuzbassuglepostavka	**—**	—	—	**—**	19,408	—
Marteck Shipping	**—**	—	—	**7,708**	—	—
Relsy KMK	**—**	2,277	4,327	**—**	7,629	196
SEAR MF	**—**	9,028	21	**—**	1,766	5,278
Shareteam	**—**	3	—	**—**	32,047	—
Sibirskaya Gornaya Company	**—**	—	6	**—**	11	5,530
Steel of KMK	**—**	5,551	2,227	**—**	5,574	36
Other entities	**13,665**	24,453	19,255	**18,155**	24,591	12,788
Liabilities to entities under common control for transfers of ownership interests in subsidiaries	**—**	—	—	**—**	618	47,277
	111,394	113,105	42,062	**37,392**	242,163	189,849
Less: allowance for doubtful accounts	**(4,853)**	(8,226)	(10,853)	**—**	—	—
Less: amounts due to related parties under Settlement Agreements (Note 20)	**—**	—	—	**—**	(13,329)	(30,826)
	$106,541	$104,879	$ 31,209	**$ 37,392**	$228,834	$159,023

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

14. Related Party Disclosures (continued)

In addition to the balances and transactions disclosed in this note, loans due to and from related parties presented separately in the accompanying consolidated balance sheets and in Notes 15, 22 and 28.

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

	Sales to related parties			Purchases from related parties		
	2004	**2003**	**2002**	**2004**	**2003**	**2002**
D.E.Metals	**$ 637**	$ —	$ 369	**$ 12,423**	$ 24,629	$ —
Duferco S.A.	**—**	—	22,317	**—**	—	—
EAM Group	**—**	—	51,868	**—**	377	223
Evrazmetall-Centre	**105,654**	—	—	**—**	—	—
Evrazmetall-Sibir	**102,660**	—	—	**—**	—	—
Evraz-Ruda	**46,971**	2,929	70	**203,725**	87,930	11,094
Ferrotrade & Co.	**124,258**	484,669	311,829	**—**	—	—
Ferrotranstrade	**45,585**	7,377	499	**3,483**	1,745	—
KMK- Energo	**5,538**	1,145	—	**58,192**	14,213	—
Kuzbassuglepostavka	**—**	6,822	—	**—**	229,280	—
Kuznetsk Coal Company	**10,435**	104,471	630	**73**	142,738	—
Kuznetskuglesbyt	**—**	—	151,880	**—**	94	18,251
UK Kuznetskugol	**—**	7,271	5,463	**—**	—	—
Marteck Shipping	**7,238**	—	—	**97,528**	1,263	—
PromKhimProduct	**83,866**	—	—	**532**	—	—
Raspadsky Ugol	**—**	—	—	**79,504**	—	—
Relsy KMK	**—**	27,668	233	**—**	51,451	214
Sibirskaya Gornaya Company	**—**	—	472	**—**	—	40,274
Steel of KMK	**21,651**	18,042	25,903	**69,814**	13,368	17,485
UK Yuzhkuzbassugol	**209**	14,609	—	**29,582**	6,122	—
ZAO Yuzhkuzbassugol	**13**	—	—	**257,676**	—	—
Other entities	**25,885**	5,312	49,072	**46,732**	23,787	16,281
	$580,600	$680,315	$620,605	**$859,264**	$596,997	$103,822

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.

Duferco S.A. is an entity under control of Duferco Participation Holdings Limited ("Duferco"), a shareholder of NTMK. In 2002, Duferco sold its shares in NTMK to the Group and ceased to be a related party. Duferco S.A. was a customer of the Group.

ZAO EAM Group ("EAM") is an entity under common control with the Group. At December 31, 2003 and 2002, the Group owed $7,661 and $20,963, respectively, to EAM under the Settlement Agreement (Note 20). In 2002, EAM purchased the Group's steel products.

OOO Evrazmetall-Centre and OOO Evrazmetall-Sibir, the entities under common control with the Group, purchase steel products from the Group.

OAO Evraz-Ruda ("Evraz-Ruda"), an entity under common control with the Group, sells iron ore to and purchased metal products from the Group.

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

14. Related Party Disclosures (continued)

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. The Group also sells its products to Ferrotranstrade.

Fletcher Holdings International Corp. ("Fletcher") was an entity under common control with the Group. At December 31, 2003 and 2002, the Group's accounts payable to Fletcher mainly comprised of the amounts due for the purchase of shares in the Group's subsidiaries. In 2004, the Group repaid all its liabilities to Fletcher.

KMK-Energo, an entity under common control, supplies 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.

ZAO Kuznetskuglesbyt ("Kuznetskuglesbyt"), an entity under control of a shareholder of ZapSib, sold spare parts and provided transportation services to ZapSib and purchased metal products from ZapSib.

OAO UK "Kuznetskugol" ("Kuznetskugol") is an entity under common control with the Group. In 2003 and 2004, the Group sold metal products and raw materials and rendered services to Kuznetskugol.

Marteck Shipping Limited ("Marteck Shipping"), an entity under common control with the Group, provides freight services to the Group.

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, a subsidiary of the Group's joint venture, sells coal to the Group.

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.

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 (Note 20). 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.

Shareteam Investments Limited ("Shareteam") is an entity under common control with the Group. At December 31, 2003, amounts due to Shareteam represented accounts payable for 41,055,936 common shares of NMTP purchased by the Group. In 2004, the Group repaid all its liabilities to Shareteam.

ZAO Sibirskaya Gornaya Company ("SGC"), an entity under common control with the Group, was liquidated in 2003. In 2002, the Group purchased raw materials from and sold metal products to SGC.

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

14. Related Party Disclosures (continued)

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.

OAO OUK Yuzhkuzbassugol and ZAO UK Yuzhkuzbassugol, associates of the entity under common control with the Group, sell coal to the Group.

The balances of amounts due to related parties as of December 31, 2003 and 2002 include liabilities to entities under common control for transfers of ownership interests in subsidiaries. As described in Notes 1 and 18, 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, 2002, and the results of operations of such subsidiaries have been included in the accompanying consolidated financial statements from the dates earlier than December 31, 2002, 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, 2003 and 2002.

Compensation to Key Management Personnel

Key management personnel totalled 62, 49 and 38 persons as at December 31, 2004, 2003 and 2002, respectively. Total compensation to key management personnel included in general and administrative expenses in the accompanying income statement amounted to $37,818, $2,925 and $1,406 for the years ended December 31, 2004, 2003 and 2002, respectively. Compensation to key management personnel consists of contractual salary and performance bonus depending on operating results.

15. Loans Receivable from Related Parties

Loans receivable from related parties as of December 31 were as follows:

	2004	2003	2002
ZAO Yuzhkuzbassugol	**$ 2,763**	$ —	$ —
OOO KMK-Energo	**1,443**	—	—
OOO Spetsmash-MT	**—**	13,148	—
Marteck International Ltd.	**—**	2,000	—
OAO Goroblagodatskoye Ore Mine	**—**	1,460	—
ZAO SEAR MF	**—**	350	10,611
	$ 4,206	$ 16,958	$ 10,611

As of December 31, 2004, 2003 and 2002, loans receivable from related parties include promissory notes due on demand and short-term loans receivable. Notes and loans receivable as of December 31, 2004 bear interest in the range between 1% and 12% per annum. Notes and loans receivable as of December 31, 2003 and 2002 bore no interest.

Loans receivable from related parties are mainly denominated in roubles.

16. Taxes Receivable

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

	2004	2003	2002
Input VAT	**$ 310,415**	$ 115,958	$ 51,374
Other taxes	**69,323**	23,203	10,635
	$ 379,738	$ 139,161	$ 62,009

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

16. Taxes Receivable (continued)

As of December 31, 2004, 2003 and 2002, input VAT included the current portion of input VAT related to the restructured liabilities under the Settlement Agreements of $143, $1,606 and $2,477, respectively (Note 20).

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.

17. Short-Term Investments and Notes Receivable

Short-term investments and notes receivable as of December 31 were as follows:

	2004	2003	2002
Promissory notes	**$ 170**	$ 35,987	$ 441
Alfa-bank—deposit accounts	**19,573**	24,445	10,571
Nomos bank—deposit certificates	**—**	9,430	—
Other investments	**2,061**	1,851	25
	$ 21,804	$ 71,713	$ 11,037

In 2002-2004, subsidiaries had deposit accounts with Alfa-bank. The deposits earned interest in the range from 2.75% to 11% per annum. The certificates of Nomos bank earned interest of 9.5% per annum.

Short-term investments and notes receivable are mainly denominated in roubles.

18. Equity

Share Capital

As described in Note 1, Evraz Group was formed through 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.

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

18. Equity (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, 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 ($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 shares with a 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.

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

Earnings per Share

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

	2004	2003	2002
Net profit attributable to equity holders of the parent entity	**$ 1,083,810**	$ 207,926	$ 5,876
Weighted average number of ordinary shares outstanding	**107,204,326**	107,204,326	107,204,326
Earnings per share attributable to equity holders of the parent entity, basic and diluted (US dollars)	**$ 10.11**	$ 1.94	$ 0.06

As the number of shares has increased as a result of the capitalisation subsequent to year end but prior to issuing these financial statements, earnings per share calculations for the years ended December 31, 2004, 2003 and 2002 have been based on the number of shares in issue at April 5, 2005.

The Group has no dilutive potential ordinary shares; therefore, the diluted earnings per share equal basic earnings per share.

Sale of Minority Interest

On August 6, 2004, Crosland Limited 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.

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

18. Equity (continued)

Acquisitions of Minority Interests in Subsidiaries

In 2004, in addition to acquisitions of minority interests in subsidiaries described in Note 4, the Group acquired minority interests in certain other subsidiaries. The excess of acquired minority interests over the consideration amounting to $20,611 is recorded as additional paid-in capital and the excess of consideration over the minority interests amounting to $12,128 is 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.

On January 13, 2005, directors of Mastercroft approved distribution of dividends in the amount of $131,000 to Crosland and other shareholders registered as of December 31, 2004.

19. Loans and Borrowings

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

	2004	2003	2002
Russian banks	**$ 104,806**	$ 157,527	$ 72,417
International banks	**688,983**	207,990	—
10.875 per cent notes due 2009	**300,000**	—	—
8.875 per cent notes due 2006	**175,000**	175,000	—
Bearer coupon debt securities	**36,038**	33,951	31,794
Loans provided by other companies	**859**	9,407	17,053
Unamortised debt issue costs	**(11,669)**	(10,109)	—
Interest payable	**18,772**	4,362	31
	$ 1,312,789	$ 578,128	$ 121,295

As of December 31, 2004, 2003 and 2002, total interest bearing loans and borrowings consisted of short-term loans and borrowings in the amount of $373,328, $213,718 and $87,007, respectively, and long-term loans and borrowings in the amount of $932,358, $370,157 and $34,257, respectively, including the current portion of long-term liabilities of $132,596, $6,002 and $0, 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.

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

19. Loans and Borrowings (continued)

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.

In 2002, average annual interest rates were 17.4% and 8.8% for short-term loans denominated in roubles and US dollars, respectively, and 17.7% and 9.4% for long-term loans denominated in roubles and euros, respectively.

The liabilities are denominated in the following currencies:

	2004	2003	2002
Roubles	**$ 73,573**	$ 84,954	$ 52,782
US dollars	**1,094,087**	463,097	67,521
Euros	**156,798**	40,186	992
Unamortised debt issue costs	**(11,669)**	(10,109)	—
	$ 1,312,789	$ 578,128	$ 121,295

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

	2004	2003	2002
Less than one year	**$ 524,696**	$ 224,082	$ 87,038
Between one year and two years	**290,209**	87,439	2,023
Between two years and five years	**467,002**	266,831	32,123
After five years	**42,551**	9,885	111
Unamortised debt issue costs	**(11,669)**	(10,109)	—
	$ 1,312,789	$ 578,128	$ 121,295

Some of the loan agreements provide for certain covenants in respect of Mastercroft 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, 2004, 2003 and 2002, the Group had equipment with a carrying value of $95,802, $103,172 and $431,748, respectively, pledged as collateral under the loan agreements. In addition, the Group pledged finished goods with a carrying value of $336,348, $178,597 and $30,219 as of December 31, 2004, 2003 and 2002, respectively.

Bonds and 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.

On August 3, 2004 and September 30, 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.

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

19. Loans and Borrowings (continued)

Bonds and Notes (continued)

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 mature on December 5, 2005. Interest payments on the coupons are due semi-annually from the date of issuance. First coupon bears interest of 17.70% per annum; second coupon bears 16.50% per annum; third and fourth coupons bear 15.00% per annum; fifth and sixth coupons bear 12.50% per annum. NTMK guaranteed all of the liabilities of FC EvrazHolding under the bonds. The liabilities under the bonds were accounted for at amortised cost in the accompanying consolidated financial statements.

Unamortised Debt Issue Costs

Unamortised debt issue costs represent agent commission and arrangement costs paid by subsidiaries in relation to the arrangement of long-term loans and issue of notes.

Unutilised Borrowing Facilities

As of December 31, 2004, the Group had unutilised borrowing facilities in the amount of $367,687.

20. Liabilities under the Settlement Agreements

Liabilities under the Settlement Agreements, at carrying amounts, consisted of the following as of December 31:

	2004	2003	2002
Entities under common control	$ —	$ 13,329	$ 30,826
Others	**4,224**	45,667	56,969
	4,224	58,996	87,795
Less current portion:			
Entities under common control	—	(1,680)	(6,360)
Others	—	(17,903)	(23,337)
	—	(19,583)	(29,697)
	$ 4,224	$ 39,413	$ 58,098

In 1997, under the decision of the Arbitration Court of the Kemerovo Region, ZapSib was placed under external management in connection with the bankruptcy proceedings against ZapSib. On November 14, 2001, ZapSib entered into a restructuring agreement with its creditors (the "Settlement Agreement"). On November 29, 2001, the court approved the Settlement Agreement and ceased the bankruptcy proceedings against ZapSib. Under the Settlement Agreement, ZapSib's liabilities to the creditors were rescheduled for repayment during the period from 2002 to 2026.

In 1999, creditors of NTMK initiated bankruptcy proceedings against NTMK and filed a suit with the Sverdlovsk region Arbitration court. On November 26, 1999, the NTMK entered into a restructuring agreement with its creditors, which was approved by the court in December 1999 (the "Settlement Agreement"). Under the Settlement Agreement, NTMK's liabilities to the creditors were rescheduled for repayment during the period from 2001 to 2008.

In 2000, under the decision of the Arbitration Court of the Sverdlovsk Region, KGOK was placed under external management in connection with the bankruptcy proceedings against KGOK. On March 11, 2001, KGOK entered into a restructuring agreement with its creditors (the "Settlement Agreement"). On April 19, 2001, the court approved the Settlement Agreement and ceased the bankruptcy proceedings against KGOK. Under the Settlement Agreement, KGOK's liabilities to the creditors were rescheduled for repayment during the period from 2006 to 2014.

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

20. Liabilities under the Settlement Agreements (continued)

The restructuring of the liabilities under the Settlement Agreements was accounted for as extinguishments of the old financial liabilities and recognition of the new financial liabilities with substantially different terms.

The liabilities under the Settlement Agreements were measured at amortised cost in the accompanying consolidated balance sheets. The cost of liabilities of NTMK and ZapSib as of the dates of restructurings was determined based on the future cash payments discounted at the annual rates of 20% for the liabilities denominated in roubles and 12%, for the liabilities denominated in US dollars and euros. The cost of liabilities of KGOK as of the date of restructuring was determined based on the future cash payments discounted at the annual rate of 13% for the liabilities denominated in roubles.

In 2004, the Boards of Directors of NTMK and ZapSib resolved to repay the liabilities of the companies ahead of schedule. In November and December 2004, the subsidiaries repaid most of the liabilities under the Settlement Agreements. As of December 31, 2004, the unpaid current portion of liabilities under the Settlement Agreements in the amount of $17,844 was included in other accounts payable in the accompanying consolidated balance sheet (Note 27).

Loss arising from the repayment of liabilities under the Settlement Agreements was included in loss extinguishment of debts in the amount of $41,212 in the accompanying consolidated income statement for year ended December 31, 2004.

In March 2005, the Board of Directors of KGOK resolved to repay the all of KGOK's liabilities under the Settlement Agreement ahead of schedule. As of December 31, 2004, the nominal amount of the liabilities was 259,881,288 roubles ($9,358 at the exchange rate as of December 31, 2004).

In April 2005, KGOK repaid 200,004,541 roubles ($7,208 at the exchange rate as of December 31, 2004) of its liabilities under the Settlement Agreement.

21. Restructured Taxes Payable

Restructured taxes payable as of December 31 were as follows:

	2004	2003	2002
Social insurance taxes	**$ 16,655**	$ 21,714	$ 29,274
Road users tax	**14,833**	13,301	12,546
Tax-related fines and penalties	**4,161**	3,029	2,226
Other taxes	**652**	1,402	1,735
	36,301	39,446	45,781
Less current portion (Note 29):			
Social insurance taxes	**(8,685)**	(9,646)	(12,884)
Road users tax	**(4,093)**	(2,744)	(2,290)
Tax-related fines and penalties	**(119)**	(303)	(814)
Other taxes	**(145)**	(753)	(729)
	(13,042)	(13,446)	(16,717)
	$ 23,259	$ 26,000	$ 29,064

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.

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

21. Restructured Taxes Payable (continued)

As of December 31, 2004, the amount of $49,373, which is denominated in roubles, should be paid in quarterly installments through 2011 as follows:

2005	$ 14,323
2006	15,057
2007	5,784
2008	5,921
2009	5,921
2010	1,996
2011	371

The restructured taxes and related fines and penalties are carried at amortised cost which was determined at the dates of respective restructurings based on the present value of future cash outflows using discount rates of 13% in KGOK and 20% in NTMK and ZapSib per annum.

Further, tax fines and penalties in the amount of $101,498 to be forgiven under the restructuring terms, if all the other payments are made on a timely basis, were derecognised as of December 31, 2001, because management believes that it was 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, $2,259 and $12,804 in the years ended December 31, 2004, 2003 and 2002, respectively, and included in the accompanying consolidated income statements.

22. Long-Term Loans due to Related Parties

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

	2004	2003	2002
Entities under common control:			
Ferrotrade & Co.	$ —	$ 91,887	$ —
Marteck International Ltd.	—	11,686	49,555
Melandra Marketing	—	321	—
	—	$ 103,894	49,555
Less: current portion	—	(11,373)	—
	$ —	$ 92,521	$ 49,555

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.

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

22. Long-Term Loans due to Related Parties (continued)

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 and $9,485 at the exchange rates as of December 31, 2003 and 2002, respectively). 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.

23. Finance Lease Liabilities

In 2000-2004, the Group entered into lease agreements under which they have 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 5 to 22 years.

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

	2004	2003	2002
Machinery and equipment	**$ 4,811**	$ 18,537	$ 13,251
Transport and motor vehicles	**29,369**	—	—
Other assets	**52**	—	—
	$ 34,232	$ 18,537	$ 13,251

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, 2004:

	Principal	Interest	Total
2005	**$ 4,688**	$ 2,828	$ 7,516
2006–2009	**21,319**	5,879	27,198
2010	**4,342**	428	4,770
	30,349	9,135	39,484
Less: current portion	**(4,688)**	(2,828)	(7,516)
	$ 25,661	**$ 6,307**	**$ 31,968**

In the years ended December 31, 2004, 2003, 2002, the average interest rates under the finance lease liabilities were 9.3%, 14.8% and 10.0%.

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

	2004	2003	2002
Roubles	**$ 17,098**	$ 5,392	$ 5,026
US dollars	**13,041**	14,293	8,463
Euros	**210**	—	—
	$ 30,349	$ 19,685	$ 13,489

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

24. 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.

The components of net benefit expense recognised in the consolidated income statement for the years ended December 31, 2004, 2003 and 2002 and amounts recognised in the consolidated balance sheet as of December 31, 2004, 2003 and 2002 for the post-employment benefits are as follows:

Net benefit expense (recognised in cost of sales)

	2004	2003	2002
Current service cost	**$ 4,682**	$ 1,204	$ 1,126
Interest cost on benefit obligation	**2,508**	1,850	1,602
Expected return on plan assets	**(50)**	(25)	—
Net actuarial loss recognised in the year	**—**	(1)	—
Past service cost	**4,840**	6,230	—
Net benefit expense	**$ 11,980**	$ 9,258	$ 2,728

Benefit liability

	2004	2003	2002
Benefit obligation	**$ 48,680**	$ 30,552	$ 19,922
Plan assets	**(476)**	(408)	—
	48,204	30,144	19,922
Unrecognised net actuarial gains	**(3,101)**	(1,816)	(884)
Benefit liability—non-current	**$ 45,103**	$ 28,328	$ 19,038

Movements in benefit liability

	2004	2003	2002
At January 1	**$ 30,144**	$ 19,922	$ 22,187
Benefit expense	**11,980**	9,258	2,728
Change in liability due to business combination	**6,865**	655	—
Benefits paid	**(2,317)**	(1,494)	(1,082)
Contributions	**—**	(95)	—
Reduction in liability due transfer of employees to an entity under common control	**(959)**	—	—
Hyperinflation gain	**—**	—	(2,764)
Translation difference	**2,491**	1,898	(1,147)
At December 31	**$ 48,204**	$ 30,144	$ 19,922

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

24. Post-Employment Benefits (continued)

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

	2004	2003	2002
Discount rate	**8.0%**	8.0%	8.0%
Future benefits increases	**4.2%**	4.2%	4.2%

25. Provisions

In the years ended December 31, 2004, 2003 and 2002, the movement in provisions was as follows:

	Site restoration costs	Legal claims	Total
Balance at December 31, 2001	$ 242	$ —	$ 242
Additional provisions	—	5,000	5,000
Increase from passage of time	456	—	456
Change in provisions due to business combination	9,504	—	9,504
Translation difference	(57)	—	(57)
Balance at December 31, 2002	$ 10,145	$ 5,000	$ 15,145
Additional provisions	—	—	—
Increase from passage of time	1,987	—	1,987
Change in provisions due to business combination	—	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	13,018	212	13,230
Additional provisions	**72**	**1,196**	**1,268**
Increase from passage of time	**115**	**—**	**115**
Change in provisions due to business combination	**2,997**	**—**	**2,997**
Utilised in the year	**—**	**(71)**	**(71)**
Translation difference	**941**	**—**	**941**
Balance at December 31, 2004	**$ 17,143**	**$ 1,337**	**$ 18,480**

Site Restoration Costs

Under the Russian legislation, mining companies have obligations to restore mining sites. As of December 31, 2004, 2003 and 2002, the Group accrued a provision for site restoration costs in the amount of $16,662, $12,688 and $9,880, 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 of 19.0% and 18.6%.

In addition to mining sites, the Group has constructive obligations to restore certain parcels of land at steel mills. The related provisions were measured at the present value of expenditures expected to be incurred in the future discounted at the annual rate of 15.54% and amounted to $481, $330 and $265 as of December 31, 2004, 2003 and 2002, respectively.

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

26. Other Long-Term Liabilities

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

	2004	2003	2002
Ocstar Holding, Inc.	**$ —**	$ 35,866	$ —
City Capital, Inc.	**—**	15,965	49,918
Other liabilities	**1,032**	2,917	2,074
	1,032	54,748	51,992
Less: current portion	**(44)**	(19,908)	(17,901)
	$ 988	$ 34,840	$ 34,091

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

	2004	2003	2002
Roubles	**$ —**	$ 3,129	$ 8,604
US dollars	**—**	40,696	43,388
Euros	**—**	10,923	—
Yens	**1,032**	—	—
	$ 1,032	$ 54,748	$ 51,992

Amounts payable to City Capital, Inc. ("City Capital") represented the Group's long-term obligations maturing in the period from 2004 to 2026. On July 1, 2003, in accordance with an assignment agreement between City Capital and Ocstar Holding, Inc. ("Ocstar"), the Group's long-term accounts payable to City Capital became payable to Ocstar.

Long-term accounts payable to City Capital and Ocstar were recognised at amortised cost which was determined as of the dates the amounts became payable to City Capital and Ocstar based on the expected amounts to be paid to City Capital and Ocstar, their expected timing and applicable discount rates.

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.

27. Trade and Other Payables

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

	2004	2003	2002
Trade accounts payable	**$ 104,016**	$ 121,877	$ 55,093
Long-term promissory notes with current maturities	**—**	7,986	—
Promissory notes payable on demand	**2,173**	4,971	7,738
Accrued payroll	**52,386**	30,843	20,030
Other payables	**36,126**	10,593	26,342
	$ 194,701	$ 176,270	$ 109,203

As of December 31, 2004, other payables included $17,844 of unpaid current portion of liabilities under the Settlement Agreements (Note 20).

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

28. Short-Term Loans due to Related Parties

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

	2004	2003	2002
Marteck	**$ 25**	$ 27,113	$ 16,958
EvrazInvest	**7,806**	—	—
Ferrotrade & Co.	**—**	7,623	—
Other	**2,569**	377	—
	$ 10,400	$ 35,113	$ 16,958

Short-term loans due to related parties represent borrowings made from entities under common control with the Group. These loans bore interest from 2.0% to 7.7% per annum and had a maturity within 12 months from the date of respective borrowing.

Short-term loans due to Marteck and Ferrotrade & Co. are denominated in US dollars, and the other loans are denominated in roubles.

29. Taxes Payable

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

	2004	2003	2002
Income tax	**$ 54,517**	$ 25,150	$ 10,048
Social insurance taxes	**18,416**	14,284	9,803
VAT and related fines and penalties	**74,123**	12,521	6,077
Road users tax	**1,900**	1,721	30,701
Current portion of restructured taxes	**13,042**	13,446	16,717
Property tax	**4,701**	2,562	1,303
Land tax	**38**	4,092	3,771
Personal income tax	**5,396**	3,686	2,097
Other taxes, fines and penalties	**10,863**	10,127	4,693
	$ 182,996	$ 87,589	$ 85,210

30. 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.

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.

30. Commitments and Contingencies (continued)

Taxation (continued)

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 $25,000.

Contractual Commitments

The Group signed contracts for the purchase of production equipment and construction works for an approximate amount of $385,680.

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 2005, the Group plans to spend $20,000 under these programmes.

Environmental Protection

The Group has a constructive obligation to the government of Kemerovo Region to reduce environmental polutions and contiminations in the future in accordance with environmental protection program. In the period from 2005 to 2015, the Group is obligated to spend approximately $54,000 for replacement of old machinery and equipment which will result in reduction of polution.

Guarantees of Debts of Related Parties

As of December 31, 2004, the Group guaranteed to Alfa-Bank the repayment of liabilities of ZAO UK Yuzhkuzbassugol, an associate of entity under common control, under the credit line agreement between ZAO UK Yuzhkuzbassugol and Alfa-Bank. The borrowing facility of $15,000 bears interest of 11.25% per annum, and matures on May 27, 2005. The Group pledged certain items of property, plant and equipment with a carrying value of $11,299 as collateral under the credit line agreement.

As of December 31, 2004, the Group guarantees to certain banks repayment of credit facilities provided to the Group and Ferrotrade & Co., as joint borrowers Bank, up to but not exceeding $90,000 in total.

As of December 31, 2004, the Group guaranteed to ZAO Raiffeisenbank Austria the repayment of liabilities of OOO EvrazInvest, an entity under common control with the Group, under a loan agreement between OOO EvrazInvest and ZAO Raiffeisenbank Austria. The loan amounting to $9,200 bore interest at a rate of LIBOR plus margin of 2.95% per annum and mature on September 1, 2005.

As of December 31, 2004, the Group guaranteed the repayment of liabilities up to 385,940,959 roubles ($13,908 at the exchange rate as of December 31, 2004) of ZAO Raspadskaya Processing Plant ("RPP"), subsidiary of a joint venture, under the loan agreement between RPP and Raspadskaya Financial and Industrial Company.

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.

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

30. Commitments and Contingencies (continued)

Legal Proceedings (continued)

The Group, together with several other corporations and individuals, acts as a defendant in a civil action related to bankruptcy proceedings at KGOK that occurred between 1999 and 2003, prior to the Group's acquistion of KGOK. This law suit was filed in November 2004 and is now pending before the United States District Court for the District of Delaware. The plaintiffs seek damages in excess of $500,000. Management believes that the risks that the ultimate resolution of the suit case will have a significant impact on the financial position of the Group is remote. Therefore, no provision is recognised in the accompanying financial statements in respect of this case.

31. 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, 2004:

Fixed-rate debt	$ 618,219
Variable-rate debt	714,468
	$ 1,332,687

The table below summarises the Group's outstanding variable-rate debt by the year of repayment as of December 31, 2004:

2005	$ 457,192
2006	100,997
2007	40,285
2008	39,138
2009	40,967
2010	20,577
2011	4,775
2012	4,775
2013	5,762
	$ 714,468

Credit Risk

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

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

31. Financial Risks (continued)

Credit Risk (continued)

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

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

Fair Value of Financial Instruments

The carrying amounts of financial instruments, consisting of cash, short-term and long-term investments, short-term accounts receivable and payable, short-term and long-term loans receivable and payable, and long-term obligations under the Settlement Agreements and promissory notes approximate their fair value.

The fair value of restructured taxes with a carrying amount of $36,301 is equal to $38,168 as of December 31, 2004. The fair value of long-term obligations under restructured taxes as of December 31, 2004 was determined based on the future payments discounted at the annual rate of 13%.

The fair value of the notes issued by EvrazSecurities with a carrying amount of $490,365 is equal to $500,124. The fair value of the bonds issued by FC EvrazHolding with a carrying amount of $36,038 is equal to $37,209. The fair value of the notes and bonds was determined based on market quotations.

32. 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:

	2004	2003	2002
Liabilities for purchases of property, plant and equipment	**$ 15,234**	$ 2,083	$ 6,092
Liabilities for purchases of shares in subsidiaries and other entities	**43,532**	46,206	19,267
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 a joint venture	**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	**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	904
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	—
Repayment of loans receivable by promissory notes	**—**	—	3,890

33. Subsequent Events

Business Combinations

In January 2005, the Group, together with shareholders of Zestafoni Ferroalloy Plant ("Zestafoni"), won a tender for the sale of certain assets of JSC Chiaturmanganum, a manganese producer, and JSC Vartsikhe GES, a hydroelectric power plant, both located in Georgia, for $132,000. On May 5, 2005, the Government of Georgia, the Group and shareholders of Zestafoni entered into an agreement under which the assets of JSC Chiaturmanganum and JSC Vartsikhe GES will be acquired by the Group and Zestafoni's shareholders from the Government of Georgia and contributed into their newly established joint venture. In addition, the shareholders of Zestafoni will contribute 70.81% of the shares of Zestafoni into the joint venture. Both the Group and shareholders of Zestafoni have paid advances of $10,000 each. The remaining portion of $112,000 is planned to be paid by the Group in accordance with the established schedule, including $105,000 payable by the end of July 2005, subject to the transfer of assets into the joint venture and ownership rights in the joint venture to the Group, and $7,000 by April 1, 2006.

In accordance with the agreement dated May 5, 2005, asset purchase transactions and formation of the joint venture should be completed in July 2005. After completion of these transactions, the Group's interest in the joint venture will be 63.08%. In addition, pursuant to the terms of the joint venture agreement, Zestafoni's shareholders have a call option to acquire an additional 13.07% ownership interest in the joint venture by contributing $13,737 and an additional 25.5% of the shares of Zestafoni. The call option expires on April 1, 2007.

In March 2005, the Group acquired a 100% stake in OAO Evrazruda, the Group's supplier of iron ore, from an entity under common control with the Group for the consideration of 897,261 thousand roubles ($32,335 at the exchange rate as of the date of the transaction).

In addition to the information disclosed in respect of these acquisitions, IFRS 3, Business Combinations, requires the Group to disclose the amounts to be recognised at the acquisition date for each class of the acquiree's assets, liabilities and contingent liabilities. It is impracticable for the Group to disclose this information because the acquired subsidiaries have not prepared their financial statements in accordance with IFRS and independent appraisers have not completed their valuations.

Increase in Authorised Share Capital

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.

Purchase of Minority Interests

On May 11, 2005, the Group resolved to acquire a 4.17% interest in Mastercroft for $124,000. On June 1, 2004, the Group made a prepayment of $124,000 for these shares.

Legal Proceedings

On April 26, 2005, the plaintiffs in the civil action related to bankruptcy proceedings at KGOK (Note 30) filed another suit with Delaware Chancery Court against the same defendants, including the Group, based on the same factual allegations. The plaintiffs seek the return of shares in KGOK. Management believes that the risk that the ultimate resolution of the matter will have a significant impact on the financial position of the Group is remote, and, therefore, no provision is required to be recognised in the accompanying financial statements in respect of this case.

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