

**Evraz Group S.A.**

Unaudited Interim Condensed  
Consolidated Financial Statements

*Six-month period ended June 30, 2009*

Evraz Group S.A.

Unaudited Interim Condensed Consolidated Financial Statements

Six-month period ended June 30, 2009

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## Report on Review of Interim Condensed Consolidated Financial Statements

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

### Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Evraz Group S.A. and its subsidiaries ("the Group") as at June 30, 2009 and the related interim condensed consolidated statements of operations, comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

### Scope of Review

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

### Conclusion

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

### Emphasis of Matter

Without qualifying our conclusion, we draw attention to Note 1, Going Concern, in the interim financial statements. The Group incurred a net loss of US\$999 million during the six-month period ended June 30, 2009 and, as of that date, the Group's current liabilities exceeded current assets by US\$1,463 million. These conditions, along with other matters as set forth in Note 1, Going Concern, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

*Ernst & Young LLC*

August 31, 2009

Evraz Group S.A.

Unaudited Interim Condensed Consolidated Statement of Operations

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

	<i>Notes</i>	<b>Six-month period ended June 30,</b>	
		<b>2009</b>	<b>2008*</b>
<b>Revenue</b>			
Sale of goods		\$ 4,485	\$ 10,512
Rendering of services		154	211
		<u>4,639</u>	<u>10,723</u>
Cost of revenue		<u>(4,297)</u>	<u>(6,616)</u>
<b>Gross profit</b>		<b>342</b>	<b>4,107</b>
Selling and distribution costs		(284)	(499)
General and administrative expenses		(311)	(461)
Social and social infrastructure maintenance expenses		(17)	(49)
Gain/(loss) on disposal of property, plant and equipment		(25)	5
Impairment of assets	5,7	(211)	(2)
Revaluation deficit on property, plant and equipment	7	(564)	–
Foreign exchange gains/(losses), net		68	(46)
Other operating income		13	24
Other operating expenses		(57)	(23)
<b>Profit/(loss) from operations</b>		<u>(1,046)</u>	<u>3,056</u>
Interest income		27	29
Interest expense		(335)	(294)
Share of profits/(losses) of joint ventures and associates	8	(7)	96
Gain/(loss) on financial assets and liabilities		110	2
Loss on disposal groups classified as held for sale		(3)	(9)
Other non-operating gains/(losses), net		(6)	9
<b>Profit/(loss) before tax</b>		<u>(1,260)</u>	<u>2,889</u>
Income tax benefit/(expense)	6	<u>261</u>	<u>(850)</u>
<b>Net profit/(loss)</b>		<u>\$ (999)</u>	<u>\$ 2,039</u>
Attributable to:			
Equity holders of the parent entity		\$ (987)	\$ 1,991
Minority interests		(12)	48
		<u>\$ (999)</u>	<u>\$ 2,039</u>
Earnings/(losses) per share:			
basic, for profit attributable to equity holders of the parent entity, US dollars	12	\$ (7.55)	\$ 16.12
diluted, for profit attributable to equity holders of the parent entity, US dollars	12	\$ (7.55)	\$ 16.03

\* The amounts shown here do not correspond to the financial statements for the six-month period ended June 30, 2008 and reflect adjustments made in connection with the completion of initial accounting as detailed in Note 4.

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

Evraz Group S.A.

Unaudited Interim Condensed Consolidated Statement of Comprehensive Income  
(In millions of US dollars)

	<i>Notes</i>	Six-month period ended June 30,	
		2009	2008*
<b>Net profit/(loss)</b>		(999)	2,039
<b>Other comprehensive income</b>			
Effect of translation to presentation currency		(465)	366
Net gains/(losses) on available-for-sale financial assets		20	(22)
Income tax effect		(2)	–
		<u>18</u>	<u>(22)</u>
Surplus on revaluation of property, plant and equipment of the Group's subsidiaries	7	7,901	–
Deficit on revaluation of property, plant and equipment recognised in other comprehensive income	7	(38)	
Decrease in revaluation surplus in connection with the impairment of property, plant and equipment		(45)	–
Income tax effect		(1,656)	–
		<u>6,162</u>	<u>–</u>
Surplus on revaluation of property, plant and equipment of the Group's joint ventures and associates	8	66	–
Effect of translation to presentation currency		(37)	28
Share of other comprehensive income of joint ventures and associates accounted for using the equity method		29	28
		<u>5,744</u>	<u>372</u>
<b>Total other comprehensive income</b>		<u>5,744</u>	<u>372</u>
<b>Total comprehensive income, net of tax</b>		<u>\$ 4,745</u>	<u>\$ 2,411</u>
Attributable to:			
Equity holders of the parent entity		\$ 4,680	\$ 2,382
Minority interests		65	29
		<u>\$ 4,745</u>	<u>\$ 2,411</u>

\* The amounts shown here reflect adjustments made in connection with the completion of initial accounting as detailed in Note 4.

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

Evraz Group S.A.

Unaudited Interim Condensed Consolidated Statement of Financial Position

(In millions of US dollars)

	<i>Notes</i>	June 30, 2009	December 31, 2008*
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	\$ 14,989	\$ 9,012
Intangible assets other than goodwill		1,097	1,108
Goodwill	5	2,077	2,167
Investments in joint ventures and associates	8	586	551
Deferred income tax assets		26	44
Other non-current assets	9	281	278
		<u>19,056</u>	13,160
<b>Current assets</b>			
Inventories		1,641	2,416
Trade and other receivables		925	1,369
Prepayments		86	76
Loans receivable		58	108
Receivables from related parties	11	98	137
Income tax receivable		147	262
Other taxes recoverable		263	397
Short-term investments		89	589
Restricted deposits at banks		47	-
Cash and cash equivalents	10	678	930
		<u>4,032</u>	6,284
Assets of disposal groups classified as held for sale		27	7
		<u>4,059</u>	6,291
<b>Total assets</b>		<u>\$ 23,115</u>	<u>\$ 19,451</u>
<b>EQUITY AND LIABILITIES</b>			
<b>Equity</b>			
Equity attributable to equity holders of the parent entity			
Issued capital	12	\$ 357	\$ 332
Treasury shares	12	-	(9)
Additional paid-in capital	12	1,249	1,054
Revaluation surplus	2	6,379	218
Legal reserve		32	30
Unrealised gains and losses		18	-
Accumulated profits		3,394	4,377
Translation difference		(1,854)	(1,330)
		<u>9,575</u>	4,672
Minority interests		309	245
		<u>9,884</u>	4,917
<b>Non-current liabilities</b>			
Long-term loans	13	4,545	6,064
Deferred income tax liabilities		2,611	1,389
Finance lease liabilities		42	40
Employee benefits		296	292
Provisions		156	153
Other long-term liabilities		59	58
		<u>7,709</u>	7,996
<b>Current liabilities</b>			
Trade and other payables		1,058	1,479
Advances from customers		60	107
Short-term loans and current portion of long-term loans	13	3,937	3,922
Payables to related parties	11	230	322
Income tax payable		52	156
Other taxes payable		122	154
Current portion of finance lease liabilities		16	15
Provisions		33	63
Dividends payable by the parent entity to its shareholders		-	309
Dividends payable by the Group's subsidiaries to minority shareholders		12	11
		<u>5,520</u>	6,538
Liabilities directly associated with disposal groups classified as held for sale		2	-
		<u>5,522</u>	6,538
<b>Total equity and liabilities</b>		<u>\$ 23,115</u>	<u>\$ 19,451</u>

\* The amounts shown here do not correspond to the financial statements as of December 31, 2008 and reflect adjustments made in connection with the completion of initial accounting as detailed in Note 4.

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

Evraz Group S.A.  
Unaudited Interim Condensed Consolidated Statement of Cash Flows

(In millions of US dollars)

	Six-month period ended June 30,	
	2009	2008*
<b>Cash flows from operating activities</b>		
Net profit/(loss)	\$ (999)	\$ 2,039
Adjustments to reconcile net profit to net cash flows from operating activities:		
Depreciation, depletion and amortisation	782	607
Deferred income tax benefit (Note 6)	(354)	(144)
(Gain)/loss on disposal of property, plant and equipment	25	(5)
Impairment of assets	211	2
Revaluation deficit on property, plant and equipment	564	–
Foreign exchange (gains)/losses, net	(68)	46
Share of (profits)/losses of joint ventures and associates	7	(96)
(Gain)/loss on financial assets and liabilities	(110)	(2)
Loss on disposal groups classified as held for sale	3	9
Other non-operating (gains)/losses, net	6	(9)
Interest income	(27)	(29)
Interest expense	335	294
Bad debt expense	26	2
Share-based payments	9	4
Changes in provisions, employee benefits and other long-term assets and liabilities	(25)	(7)
	<b>385</b>	<b>2,711</b>
Changes in working capital:		
Inventories	778	(332)
Trade and other receivables	411	(62)
Prepayments	(12)	12
Receivables from/payables to related parties	(99)	73
Taxes recoverable	214	(47)
Other assets	(48)	(10)
Trade and other payables	(338)	9
Advances from customers	(40)	(213)
Taxes payable	(126)	311
Other liabilities	(2)	(3)
<b>Net cash flows from operating activities</b>	<b>1,123</b>	<b>2,449</b>
<b>Cash flows from investing activities</b>		
Issuance of loans receivable	(28)	(59)
Proceeds from repayment of loans receivable, including interest	71	4
Proceeds from the transaction with a 49% ownership interest in NS Group	508	–
Purchases of subsidiaries, net of cash acquired	–	(1,997)
Purchases of minority interests	–	(48)
Purchases of other investments	(3)	(683)
Sale of other investments	2	–
Short-term deposits at banks, including interest	11	17
Purchases of property, plant and equipment	(203)	(528)
Proceeds from disposal of property, plant and equipment	5	23
Proceeds from sale of disposal groups classified as held for sale, net of transaction costs	17	55
Dividends and advances in respect of future dividends received	–	50
<b>Net cash flows from/(used) in investing activities</b>	<b>380</b>	<b>(3,166)</b>

\* The amounts shown here do not correspond to the financial statements for the six-month period ended June 30, 2008 and reflect adjustments made in connection with the completion of initial accounting as detailed in Note 4.

Continued on the next page

Evraz Group S.A.

Unaudited Interim Condensed Consolidated Statement of Cash Flows  
(continued)

(In millions of US dollars)

	Six-month period ended June 30,	
	2009	2008*
<b>Cash flows from financing activities</b>		
Repurchase of vested share options (Note 12)	\$ –	\$ (70)
Purchase of treasury shares (Note 12)	(3)	(74)
Sale of treasury shares (Note 12)	5	11
Distribution to a shareholder	–	(68)
Net proceeds from/(repayment of) bank overdrafts and credit lines, including interest	(727)	101
Proceeds from loans and promissory notes	763	3,018
Repayment of loans and promissory notes, including interest	(1,721)	(978)
Repayment of loans and promissory notes, including interest, to related parties	–	(20)
Restricted deposits at banks in respect of financing activities	1	–
Dividends paid by the parent entity to its shareholders	(90)	(443)
Dividends paid by the Group's subsidiaries to minority shareholders	(1)	(52)
Payments under finance leases, including interest	(12)	(11)
Payments of restructured liabilities, including interest	–	(110)
Proceeds from sale-leaseback	10	–
<b>Net cash flows from/(used) financing activities</b>	<b>(1,775)</b>	<b>1,304</b>
Effect of foreign exchange rate changes on cash and cash equivalents	20	(26)
Net increase/(decrease) in cash and cash equivalents	(252)	561
Cash and cash equivalents at beginning of period	930	327
<b>Cash and cash equivalents at end of period</b>	<b>\$ 678</b>	<b>\$ 888</b>
<b>Supplementary cash flow information:</b>		
Cash flows during the period:		
Interest paid	\$ (317)	\$ (217)
Interest received	15	22
Income taxes paid	(60)	(691)

\* The amounts shown here do not correspond to the financial statements for the six-month period ended June 30, 2008 and reflect adjustments made in connection with the completion of initial accounting as detailed in Note 4.

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



Evraz Group S.A.

Unaudited Interim Condensed Consolidated Statement of Changes in Equity

(In millions of US dollars)

	Attributable to equity holders of the parent entity										
	Issued capital	Treasury shares	Additional paid-in capital	Revaluation surplus	Legal reserve	Unrealised gains and losses	Accumulated profits	Translation difference	Total	Minority interests	Total Equity
<b>At December 31, 2008 (as previously reported)</b>	\$ 332	\$ (9)	\$ 1,054	\$ 218	\$ 30	\$ –	\$ 4,448	\$ (1,344)	\$ 4,729	\$ 245	\$ 4,974
Adjustments to provisional values (Note 4)	–	–	–	–	–	–	(71)	14	(57)	–	(57)
<b>At December 31, 2008 (as restated)</b>	<b>332</b>	<b>(9)</b>	<b>1,054</b>	<b>218</b>	<b>30</b>	<b>–</b>	<b>4,377</b>	<b>(1,330)</b>	<b>4,672</b>	<b>245</b>	<b>4,917</b>
Net loss	–	–	–	–	–	–	(987)	–	(987)	(12)	(999)
Other comprehensive income for the period	–	–	–	6,173	–	18	–	(524)	5,667	77	5,744
Reclassification of revaluation surplus to accumulated profits in respect of the disposed items of property, plant and equipment	–	–	–	(12)	–	–	12	–	–	–	–
Total comprehensive income for the period	–	–	–	6,161	–	18	(975)	(524)	4,680	65	4,745
Issue of share capital (Note 12)	25	–	195	–	–	–	–	–	220	–	220
Purchase of treasury shares (Note 12)	–	(3)	–	–	–	–	–	–	(3)	–	(3)
Sale of treasury shares (Note 12)	–	12	–	–	–	–	(6)	–	6	–	6
Appropriation of net profit to legal reserve	–	–	–	–	2	–	(2)	–	–	–	–
Dividends declared by the Group's subsidiaries to minority shareholders (Note 12)	–	–	–	–	–	–	–	–	–	(1)	(1)
<b>At June 30, 2009</b>	<b>\$ 357</b>	<b>\$ –</b>	<b>\$ 1,249</b>	<b>\$ 6,379</b>	<b>\$ 32</b>	<b>\$ 18</b>	<b>\$ 3,394</b>	<b>\$ (1,854)</b>	<b>\$ 9,575</b>	<b>\$ 309</b>	<b>\$ 9,884</b>

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

Evraz Group S.A.

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

(In millions of US dollars)

	Attributable to equity holders of the parent entity										Minority interests	Total Equity
	Issued capital	Treasury shares	Additional paid-in capital	Revaluation surplus	Legal reserve	Unrealised gains and losses	Accumulated profits	Translation difference	Total			
<b>At December 31, 2007</b>	\$ 320	\$ –	\$ 286	\$ 211	\$ 29	\$ –	\$ 4,108	\$ 996	\$ 5,950	\$ 406	\$ 6,356	
Net profit*	–	–	–	–	–	–	1,991	–	1,991	48	2,039	
Other comprehensive income for the period*	–	–	–	–	–	(22)	–	413	391	(19)	372	
Total comprehensive income for the period*	–	–	–	–	–	(22)	1,991	413	2,382	29	2,411	
Acquisition of minority interests in existing subsidiaries	–	–	–	–	–	–	(1)	–	(1)	(2)	(3)	
Distribution to a shareholder	–	–	–	–	–	–	(18)	–	(18)	–	(18)	
Change in the fair value of liability to a shareholder	–	–	–	–	–	–	(497)	–	(497)	–	(497)	
Share-based payments	–	–	4	–	–	–	–	–	4	–	4	
Purchase of treasury shares	–	(74)	–	–	–	–	–	–	(74)	–	(74)	
Exercise of share options	–	74	–	–	–	–	(133)	–	(59)	–	(59)	
Dividends declared by the parent entity to its shareholders	–	–	–	–	–	–	(497)	–	(497)	–	(497)	
Dividends declared by the Group's subsidiaries to minority shareholders	–	–	–	–	–	–	–	–	–	(53)	(53)	
<b>At June 30, 2008*</b>	\$ 320	\$ –	\$ 290	\$ 211	\$ 29	\$ (22)	\$ 4,953	\$ 1,409	\$ 7,190	\$ 380	\$ 7,570	

\* The amounts shown here do not correspond to the interim financial statements for the six-month period ended June 30, 2008 and reflect adjustments made in connection with the completion of initial accounting as detailed in Note 4.

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

Evraz Group S.A.  
Selected Notes  
to the Unaudited Interim Condensed Consolidated Financial Statements  
Six-month period ended June 30, 2009

**1. Corporate Information**

These interim condensed consolidated financial statements were authorised for issue in accordance with a resolution of the Board of Directors on August 31, 2009.

Evraz Group S.A. (“Evraz Group”) is a joint stock company registered under the laws of Luxembourg on December 31, 2004. The registered address of Evraz Group is 1, Allee Scheffer L-2520, Luxembourg.

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

Evraz Group, together with its subsidiaries (the “Group”), is involved in production and distribution of steel and related products. In addition, the Group owns and operates certain mining assets. The Group is one of the largest steel producers globally.

*Going Concern*

These interim condensed consolidated financial statements have been prepared on a going concern basis that contemplates the realisation of assets and satisfaction of liabilities and commitments in the normal course of business. The Group’s activities in all of its operating segments have been adversely affected by uncertainty and instability in international financial, currency and commodity markets resulting from the global financial crisis. As a result, at June 30, 2009, the Group’s current liabilities were \$5,522 million (including loans and borrowings of \$3,937 million with maturities within 12 months after the reporting date) and exceeded current assets by \$1,463 million. The Group reported net loss of \$999 million for the six-month period ended June 30, 2009.

As of June 30, 2009, the Group had unutilised bank loans in the amount of \$1,170 million, including \$563 million of committed facilities and \$607 million of uncommitted facilities.

In the period from July 1, 2009 to the date of authorisation of issue of these interim condensed consolidated financial statements, the Group received \$851 million of new borrowings (including \$650 million under the convertible bonds issue – Note 15) and repaid \$912 million of current loans and borrowings. The remaining current maturities are expected to be covered by free cash flows and refinancing of current debts.

At June 30, 2009, the Group was in compliance with all of its financial covenants. A financial ratio maintenance covenant for the testing period ending June 30, 2009, applying under a syndicated loan agreement of one of the Group’s subsidiaries, could have been breached when tested, in accordance with that loan agreement, following the issuance of the subsidiary’s interim financial statements, which are due to be issued in November 2009. However, no event of default has occurred under the loan agreement, because that subsidiary obtained the syndicate’s consent to reset the covenant levels commencing with the testing period ended June 30, 2009. In August 2009, the loan agreement was amended to implement that consent. The amendments include an additional pledge of the borrower’s receivables and a guarantee of Evraz Group S.A. in respect of the loan. As of June 30, 2009, this loan in the amount of \$141 million was classified as current liabilities, because, at the end of the reporting period, the Group did not have an unconditional right to defer the settlement for at least twelve months after that date.

# Evraz Group S.A.

## Selected Notes

### to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

#### **1. Corporate Information (continued)**

##### *Going Concern (continued)*

Based on the current economic environment and the Board and the management's outlook, when the Group's consolidated financial statements for the year ended December 31, 2009 are published, the Group may not be in compliance with financial covenants in certain of its debt instruments, which, if not resolved, could also constitute a cross default under its other debt instruments. Such an event would permit the Group's lenders to demand immediate payment of the outstanding borrowings under the relevant debt instruments. The Board and the management are considering a number of alternatives to proactively address this situation, including a financial covenant reset and/or waiver from its lenders. The Group may incur additional costs related to these alternatives.

The Board and the management have concluded that the combination of the circumstances described above represents a material uncertainty related to events and conditions that may cast significant doubt upon the Group's ability to continue as a going concern. Nevertheless, after considering the uncertainties described above, the Board and the management have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, the Board and the management continue to adopt the going concern basis in preparing the consolidated financial statements.

#### **2. Significant Accounting Policies**

##### **Basis of Preparation**

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". Accordingly, the interim condensed consolidated financial statements do not include all the information and disclosures required for a complete set of financial statements, and should be read in conjunction with the Group's financial statements for the year ended December 31, 2008.

Operating results for the six-month period ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ended December 31, 2009.

##### *Completion of Initial Accounting*

In 2009, the Group finalised its purchase price allocation on the acquisition of control over IPSCO Inc. As a result, the Group recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities of the entity at the date of acquisition and restated consolidated statement of financial position at December 31, 2008 and consolidated statement of operations for the six-month period ended June 30, 2008 (Note 4).

In addition, the Group restated consolidated statement of operations for the six-month period ended June 30, 2008 in respect of Palmrose and its Ukrainian subsidiaries, for which the provisional accounting was completed at the end of 2008.

Selected Notes

to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

**2. Significant Accounting Policies (continued)**

**Changes in Accounting Policies**

In the preparation of the interim condensed consolidated financial statements, the Group followed the same accounting policies and methods of computation as compared with those applied in the complete consolidated financial statements for year ended December 31, 2008, except for:

- the change in accounting policy in respect of the subsequent measurement of property, plant and equipment, i.e. the adoption of a revaluation model under IAS 16 “Property, Plant and Equipment” as of January 1, 2009;
- the adoption of new standards and interpretations and revision of the existing IAS as of January 1, 2009.

*Property, Plant and Equipment*

Prior to January 1, 2009, the Group applied the cost model for the measurement of property, plant and equipment. The Group’s property, plant and equipment, except for the items acquired prior to January 1, 2002, were stated at purchase or construction cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any impairment in value. The items of property, plant and equipment acquired prior to January 1, 2002 were accounted for at deemed cost being their fair value at January 1, 2002, which is the date of the Group’s transition to IFRS.

The ongoing global financial crisis has resulted in a severe devaluation of the Russian rouble and Ukrainian hryvnia, the functional currencies of subsidiaries, which constitute a significant part of the Group’s business. As the assets and liabilities of these subsidiaries are translated into the US dollar, the presentation currency of the Group’s consolidated financial statements, at the rate of exchange ruling at the balance sheet date, this resulted in a significant deviation of the US dollar denominated carrying value of property, plant and equipment from its replacement cost. Under these circumstances, the revaluation model for the measurement of property, plant and equipment became a tool, which provides reliable and more relevant information about the Group's assets. The Group made a voluntarily change in the accounting policies to account for the selected classes of property, plant and equipment – land, buildings and constructions, machinery and equipment – under the revaluation model instead of the cost model. The Group continued to apply the cost model for other classes of property, plant and equipment.

As of January 1, 2009, the Group revalued the selected classes of assets based on valuation performed by an independent professionally qualified valuer. Since most of the assets subject to revaluation represent specialised items of property, plant and equipment that are rarely sold, except as part of a continuing business, the Group used the depreciated replacement cost approach as the main approach to valuation of buildings and constructions and machinery and equipment with the income approach used to support the results of the main approach. The Group used market based value approach as the main approach to valuation of land.

# Evraz Group S.A.

## Selected Notes

to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### Changes in Accounting Policies (continued)

##### *Property, Plant and Equipment (continued)*

The significant assumptions applied in estimating the items' fair values were as follows:

The replacement cost was determined as follows:

- land – based on indicative market transactions;
- buildings and constructions – based on the relevant price books adjusted for the subsequent price changes;
- machinery and equipment – based on the related item's weight, where the cost per mass unit was determined in terms of the cost of materials components, labour, engineering and other costs for each specific type of equipment.

The remaining useful lives were determined based on the linear-age life method using the independent valuer's experience and data provided by technical specialists of the Group. The maximum physical depreciation level for main equipment was limited at the level of 65-90% depending on a specific type of equipment.

Functional obsolescence of assets with the excess capital costs was determined by the independent valuer based on cost-to-capacity analysis. The cost-to-capacity factor applied was 0.7.

The assumptions used for the income approach were as follows:

	<b>Period of forecast, years</b>	<b>After-tax discount rate, %</b>	<b>Commodity</b>	<b>Average price of the commodity per ton in 2009</b>
Russia				
<i>Steel</i>	5	12.86	steel products	\$465-\$544
<i>Iron ore</i>	12-19	14.75	iron ore	\$59-\$74
<i>Coal</i>	27	14.39	coal	\$60-\$82
<i>Other</i>	4	11.97	services	–
Ukraine				
<i>Steel</i>	5	13.12	steel products	\$522
<i>Coke</i>	5	13.92	coke	\$149-\$174
<i>Iron ore</i>	26	15.20	iron ore	\$43
Europe				
<i>Steel</i>	5	9.93- 10.27	steel products	\$510-\$810
South Africa				
<i>Steel</i>	6	11.94	steel products	\$593
<i>Vanadium</i>	6	11.94	vanadium products	\$23,000- \$28,000
North America				
<i>Steel</i>	8	9.3-10.7	steel products	\$727-\$2,266
<i>Vanadium</i>	6	9.69	vanadium products	\$37,000

# Evraz Group S.A.

## Selected Notes

to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### Changes in Accounting Policies (continued)

##### *Property, Plant and Equipment (continued)*

For the periods not covered by the forecasts cash flow projections have been estimated by extrapolating the respective business plans results using a zero real growth rate.

The following accounting policy was adopted for revalued classes of property, plant and equipment:

After recognition as an asset, an item of property, plant and equipment is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. If an item of property, plant and equipment is revalued, the entire class of property, plant and equipment to which that asset belongs is revalued.

If an asset's carrying amount is increased as a result of a revaluation, the increase is recognised in other comprehensive income and accumulated in equity under the heading of revaluation surplus. However, the increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss.

If an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in profit or loss. However, the decrease is recognised in other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset. The decrease recognised in other comprehensive income reduces the amount accumulated in equity under the heading of revaluation surplus.

The revaluation surplus included in equity in respect of an item of property, plant and equipment is transferred directly to retained earnings when the asset is retired or disposed of.

Deferred income taxes are charged or credited to other comprehensive income if they relate to revaluation of property, plant and equipment credited or charged to other comprehensive income. Deferred income taxes are charged or credited to profit or loss if they relate to revaluation of property, plant and equipment credited or charged to profit or loss.

# Evraz Group S.A.

## Selected Notes

to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### Changes in Accounting Policies (continued)

##### *Property, Plant and Equipment (continued)*

The application of the revaluation model under IAS 16 has been accounted for prospectively. The adoption of the revaluation model resulted in additional charges recognised in the consolidated statement of operations for the six-month period ended June 30, 2009:

- revaluation deficit in the amount of \$420 million (net of income tax effect of \$144 million),
- additional depreciation expense of \$262 million (net of income tax effect of \$77 million),
- impairment loss recognised as of the date of revaluation in respect of goodwill in the amount of \$76 million, and
- impairment loss recognised as of the date of revaluation in respect of classes of property, plant and equipment that were not subject to revaluation in the amount of \$75 million (net of income tax effect of \$21 million).

The revaluation surplus arising on revaluation of property, plant and equipment of \$6,231 million, net of income tax effect of \$1,670 million, cannot be distributed to shareholders.

##### *New/Revised Standards and Interpretations Adopted in 2009:*

- IFRS 8 “Operating Segments”

This Standard requires disclosure of information about the Group’s operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The adoption of this Standard did not have any effect on the financial position or performance of the Group.

The Group determined operating segments based on information that is regularly reviewed by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance. As the comparative segment information is not available and the cost to develop it would be excessive, the segment information for the current period was presented on both the old basis and the new basis of segmentation. Segment disclosures are shown in Note 3.

- IAS 1 (revised) “Presentation of Financial Statements”

The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present two statements.



# Evraz Group S.A.

## Selected Notes

to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### Changes in Accounting Policies (continued)

*New/Revised Standards and Interpretations Adopted in 2009 (continued)*

- Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” and IAS 27 “Consolidated Financial Statements” – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

The amendments to IFRS 1 allows an entity to determine the cost of investments in subsidiaries, jointly controlled entities or associates in its opening IFRS financial statements in accordance with IAS 27 or using a deemed cost. The amendment to IAS 27 requires all dividends from a subsidiary, jointly controlled entity or associate to be recognised in the statement of operations in the separate financial statements. The new requirements affect only separate financial statements and do not have any impact on the consolidated financial statements.

- Amendments to IFRS 2 “Share-based Payments” – Vesting Conditions and Cancellation

The Standard has been amended to clarify the definition of vesting conditions and to prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied. The adoption of this amendment did not have any impact on the financial position or performance of the Group.

- Amendments to IFRS 7 “Improving Disclosures about Financial Instruments”

The amended Standard requires additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. As these additional disclosures are not material for an understanding of the Group’s interim condensed financial statements, they were not presented.

- Amendments to IAS 32 “Financial Instruments: Presentation” and IAS 1 (revised) “Presentation of Financial Statements” – Puttable instruments and obligations arising on liquidation

The Standards have been amended to allow a limited scope exception for puttable financial instruments to be classified as equity if they fulfill a number of specified criteria. The adoption of these amendments did not have any effect on the financial position or performance of the Group.

# Evraz Group S.A.

## Selected Notes

to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### Changes in Accounting Policies (continued)

*New/Revised Standards and Interpretations Adopted in 2009 (continued)*

- IFRIC 13 “Customer Loyalty Programmes”

This interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognised as revenue over the period that the award credits are redeemed. The adoption of this interpretation did not have any effect on the financial position or performance of the Group.

- IFRIC 16 “Hedges of a Net Investment in a Foreign Operation”

This interpretation provides guidance on the accounting for a hedge of a net investment. As such, it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the group of the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. The adoption of this interpretation did not have any effect on the financial position or performance of the Group.

- Certain amendments to standards following the 2007 “improvement to IFRSs” project

These amendments clarify wording and remove inconsistencies in the standards. There are separate transitional provisions for each standard.

### 3. Segment Information

The Group adopted IFRS 8 “Operating segments” starting from January 1, 2009. The Group did not restate the segment information for prior periods reported as comparative information in these interim condensed consolidated financial statements, because the necessary information is not available and the cost to develop it would be excessive.

Consequently, the Group disclosed segment information for the current period on both the new basis of segmentation in accordance with IFRS 8 “Operating Segments” and the basis used in previous periods in accordance with IAS 14 “Segment Reporting”. The adoption of IFRS 8 did not result in a change in reportable segments previously disclosed by the Group.

# Evraz Group S.A.

## Selected Notes

### to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

#### 3. Segment Information (continued)

For management purposes, the Group is organised into business units based on their products and services, and has four reportable operating segments:

- *Steel production* segment includes production of steel and related products at eleven steel mills.
- *Mining* segment includes iron ore and coal mining and enrichment.
- *Vanadium products* segment includes extraction of vanadium ore and production of vanadium products. Vanadium slag arising in steel-making process is also allocated to vanadium segment.
- *Other operations* include energy generating companies, sea ports, shipping and railway transportation companies.

Management and investment companies were not allocated to any of the segments.

No operating segments have been aggregated to form the above reportable segments.

Transfer prices between operating segments are on an arm's-length basis in a manner similar to transactions with third parties.

Management monitors the operating results of the business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on EBITDA. This performance indicator is calculated based on management accounts that differ from the IFRS consolidated financial statements for the following reasons:

- 1) for the last month of the reporting period, the statement of operations for each operating segment is prepared using a forecast for that month;
- 2) the statement of operations is based on local GAAP figures with the exception of depreciation expense which approximates the amount under IFRS.

*Segment revenue* is revenue reported in the Group's statement of operations that is directly attributable to a segment and the relevant portion of the Group's revenue that can be allocated on a reasonable basis to a segment, whether from sales to external customers or from transactions with other segments.

Segment revenue does not include:

- gain on disposal of property, plant and equipment;
- foreign exchange gains;
- other operating income;
- interest income;
- dividend income;
- Group's share of losses of associates, joint ventures, or other investments accounted for under the equity method;
- gain on financial assets and liabilities;
- gain on disposal groups classified as held for sale;
- gains on sales of investments or gains on extinguishment of debt.

# Evraz Group S.A.

## Selected Notes

to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

### 3. Segment Information (continued)

*Segment expense* is expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to sales to external customers and expenses relating to transactions with other segments. Segment expense does not include:

- loss on disposal of property, plant and equipment;
- impairment of assets;
- depreciation and amortisation;
- foreign exchange losses;
- interest expense;
- losses on sales of investments or losses on extinguishment of debt;
- Group's share of losses of associates, joint ventures, or other investments accounted for under the equity method;
- loss on financial assets and liabilities;
- loss on disposal groups classified as held for sale;
- losses on sales of investments or losses on extinguishment of debt;
- income tax expense.

*Segment result* is segment earnings before interest, tax and depreciation and amortisation ("EBITDA").

*Segment EBITDA* is determined as segment's profit/(loss) from operations less impairment of assets, profit/(loss) on disposal of property, plant and equipment and intangible assets, foreign exchange gains/(losses), depreciation, depletion and amortisation expense and revaluation deficit on property, plant and equipment.

*Segment assets* are those operating assets that are employed by a segment in its operating activities and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment assets are calculated based on IFRS carrying amounts.

The following table presents measures of segment profit or loss for the six-month period ended June 30, 2009 in accordance with the new accounting policies in respect of segment information.

*Six-month period ended June 30, 2009*

<i>US\$ million</i>	<b>Steel production</b>	<b>Mining</b>	<b>Vanadium products</b>	<b>Other operations</b>	<b>Eliminations</b>	<b>Total</b>
<b>Revenue</b>						
Sales to external customers	\$ 4,327	\$ 78	\$ 142	\$ 59	\$ –	\$ 4,606
Inter-segment sales	35	516	–	194	(745)	–
Total revenue	<b>4,362</b>	<b>594</b>	<b>142</b>	<b>253</b>	<b>(745)</b>	<b>4,606</b>
<b>Segment result – EBITDA</b>	<b>\$ 320</b>	<b>\$ 43</b>	<b>\$ 27</b>	<b>\$ 49</b>	<b>\$ –</b>	<b>\$ 439</b>

Evraz Group S.A.

Selected Notes

to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

**3. Segment Information (continued)**

The following table shows a reconciliation of revenue and EBITDA used by the management for decision making and revenue and profit or loss before tax per the consolidated financial statements prepared under IFRS.

*Six-month period ended June 30, 2009*

<i>US\$ million</i>	<b>Steel production</b>	<b>Mining</b>	<b>Vanadium products</b>	<b>Other operations</b>	<b>Eliminations</b>	<b>Total</b>
<b>Revenue</b>	\$ 4,362	\$ 594	\$ 142	\$ 253	\$ (745)	\$ 4,606
Forecasted vs. actual revenue	(12)	58	(54)	90	(40)	42
Sales of vanadium slag reallocation	(50)	–	50	–	–	–
Other adjustments	(9)	–	–	–	–	(9)
<b>Revenue per IFRS financial statement</b>	<b>\$ 4,291</b>	<b>\$ 652</b>	<b>\$ 138</b>	<b>\$ 343</b>	<b>\$ (785)</b>	<b>\$ 4,639</b>
<b>EBITDA</b>	\$ 320	\$ 43	\$ 27	\$ 49	\$ –	\$ 439
Exclusion of management services from segment result	24	15	–	2	–	41
Vanadium slag sales and costs reallocation	67	–	(67)	–	–	–
Unrealised profits adjustment	(32)	1	–	–	22	(9)
Other adjustments	10	35	6	19	–	70
	69	51	(61)	21	22	102
<b>EBITDA based on IFRS financial statements</b>	<b>\$ 389</b>	<b>\$ 94</b>	<b>\$ (34)</b>	<b>\$ 70</b>	<b>\$ 22</b>	<b>\$ 541</b>
Unallocated subsidiaries						(73)
						<b>\$ 468</b>
Depreciation, depletion and amortisation expense	(571)	(187)	(8)	(15)	–	(781)
Impairment of goodwill	(128)	–	–	(1)	–	(129)
Impairment of property, plant and equipment	(93)	11	–	–	–	(82)
Gain/(loss) on disposal of property, plant and equipment and intangible assets	(15)	(7)	–	(3)	–	(25)
Revaluation deficit on property, plant and equipment	(424)	(112)	(4)	(24)	–	(564)
Foreign exchange gains/(losses), net	(40)	(1)	(2)	(2)	–	(45)
	\$ (882)	\$ (202)	\$ (48)	\$ 25	\$ 22	(1,085)
Unallocated income/(expenses), net						39
<b>Profit/(loss) from operations</b>						<b>\$ (1,046)</b>
Interest income/(expense), net						(308)
Share of profits/(losses) of joint ventures and associates						(7)
Gain/(loss) on financial assets and liabilities						110
Loss on disposal groups classified as held for sale						(3)
Other non-operating gains/(losses), net						(6)
<b>Profit/(loss) before tax</b>						<b>\$ (1,260)</b>

Evraz Group S.A.

Selected Notes

to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

**3. Segment Information (continued)**

The total assets by segments were as follows:

<i>US\$ million</i>	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Steel production	\$ 16,747	\$ 12,794
Mining	3,908	3,684
Vanadium products	470	478
Other operations	836	547
Unallocated	1,154	1,948
	<b>\$ 23,115</b>	<b>\$ 19,451</b>

The following tables present revenue and profit information regarding business segments for the six-month periods ended June 30, 2009 and 2008 in accordance with the previous accounting policies in respect of segment information:

*Six-month period ended June 30, 2009*

<i>US\$ million</i>	<b>Steel production</b>	<b>Mining</b>	<b>Vanadium products</b>	<b>Other operations</b>	<b>Eliminations</b>	<b>Total</b>
<b>Revenue</b>						
Sales to external customers	\$ 4,243	\$ 194	\$ 138	\$ 64	\$ –	\$ 4,639
Inter-segment sales	48	458	–	279	(785)	–
Total revenue	<b>4,291</b>	<b>652</b>	<b>138</b>	<b>343</b>	<b>(785)</b>	<b>4,639</b>
<b>Result</b>						
Segment result	\$ (882)	\$ (202)	\$ (48)	\$ 25	\$ 22	\$ (1,085)
Unallocated income/(expenses), net						39
<b>Profit from operations</b>						<b>\$ (1,046)</b>
Share of profits/(losses) of joint ventures and associates						(7)
Other income/(expenses), net						(207)
Income tax benefit						261
<b>Net loss</b>						<b>\$ (999)</b>

*Six-month period ended June 30, 2008*

<i>US\$ million</i>	<b>Steel production</b>	<b>Mining</b>	<b>Vanadium products</b>	<b>Other operations</b>	<b>Eliminations</b>	<b>Total</b>
<b>Revenue</b>						
Sales to external customers	\$ 9,090	\$ 746	\$ 739	\$ 148	\$ –	\$ 10,723
Inter-segment sales	145	1,266	1	434	(1,846)	–
Total revenue	<b>9,235</b>	<b>2,012</b>	<b>740</b>	<b>582</b>	<b>(1,846)</b>	<b>10,723</b>
<b>Result</b>						
Segment result	\$ 2,314	\$ 620	\$ 179	\$ 67	\$ (20)	\$ 3,160
Unallocated income/(expenses), net						(104)
<b>Profit from operations</b>						<b>\$ 3,056</b>
Share of profits/(losses) of joint ventures and associates						96
Other income/(expenses), net						(263)
Income tax expense						(850)
<b>Net profit</b>						<b>\$ 2,039</b>

# Evraz Group S.A.

## Selected Notes

to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

### 3. Segment Information (continued)

In 2009, the amount of a write-down of inventories recognised as expense was \$159 million.

### 4. Acquisitions of and Changes in Ownership Interests in Subsidiaries

#### *Adjustments to Provisional Values*

At December 31, 2008, the acquisition of IPSCO Inc. was accounted for based on provisional values as the Group, at the date of authorisation of issue of the financial statements for the year ended December 31, 2008, did not complete purchase price allocation in accordance with IFRS 3 “Business Combinations”.

In 2009, the Group finalised its purchase price allocation on the acquisition of IPSCO Inc. As a result, the Group recognised adjustments to the provisional values of identifiable assets, liabilities and contingent liabilities at the date of acquisition. The table below sets forth the fair values of IPSCO Inc.’s consolidated identifiable assets, liabilities and contingent liabilities at June 12, 2008:

<i>US\$ million</i>	<b>Provisional fair values</b>	<b>Final estimation of fair values</b>
Property, plant and equipment	\$ 726	\$ 726
Intangible assets	362	607
Other non-current assets	18	18
Inventories	432	551
Accounts and notes receivable	184	186
Cash	2	2
<b>Total assets</b>	<b>1,724</b>	<b>2,090</b>
Non-current liabilities	4	4
Deferred income tax liabilities	221	319
Current liabilities	167	169
<b>Total liabilities</b>	<b>392</b>	<b>492</b>
<b>Net assets</b>	<b>\$ 1,332</b>	<b>\$ 1,598</b>
<b>Purchase consideration</b>	<b>\$ 2,450</b>	<b>\$ 2,450</b>
<b>Goodwill</b>	<b>\$ 1,118</b>	<b>\$ 852</b>

#### *Sale of Mine 12*

On June 1, 2009, the Group entered into a contractual agreement to sell a 100% ownership interest in Mine 12, the coal mine located in Russia, for cash consideration of \$2 million. Under the terms of the agreement control over Mine 12 was transferred to the purchaser at the date of the agreement and the Group ceased to consolidate Mine 12 from that date. In accordance with the Russian legislation, the purchaser should obtain regulatory approvals for the acquisition of Mine 12. At June 30, 2009, the regulatory approval had not been obtained and the transfer of ownership interest had not been completed.

Loss from the sale of Mine 12 in the amount of \$12 million was included in the consolidated statement of operations for the six-month period ended June 30, 2009. In July 2009, the regulatory approval was received and the transaction was completed.

# Evraz Group S.A.

## Selected Notes

to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

### 5. Goodwill

The table below presents movement in the carrying amount of goodwill during the six-month period ended June 30, 2009.

<i>US\$ million</i>	<b>Carrying amount</b>
<b>At December 31, 2008 (as previously reported)</b>	\$ 2,387
Adjustments to provisional values (Note 4)	(220)
<b>At December 31, 2008 (as adjusted)</b>	<u>2,167</u>
Impairment	(129)
<i>Palmrose:</i>	
<i>Dnepropetrovsk Iron and Steel Works</i>	(25)
<i>Coking plants</i>	(75)
<i>Evraz Inc. N.A.:</i>	
<i>Claymont Steel</i>	(13)
<i>OSM Tubular – Camrose</i>	(9)
<i>Evraz Inc. N.A. Canada:</i>	
<i>Surrey</i>	(7)
Translation difference	39
<b>At June 30, 2009</b>	<u><u>\$ 2,077</u></u>

Goodwill was tested for impairment as of June 30, 2009. Events and circumstances that led to recognition of impairment are disclosed in Note 14, *Operating Environment of the Group*.

For the purpose of goodwill impairment testing the Group assessed the recoverable amount of each cash generating unit to which the goodwill relates. The recoverable amount has been determined based on value in use calculation using cash flows projections based on the actual operating results and business plans approved by the management and appropriate discount rates reflecting time value of money and risks associated with respective cash generating units. For the periods not covered by the forecasts, cash flow projections have been estimated by extrapolating the respective business plans results using a zero real growth rate. For mining operations management business plans cover the full life of mines.

The key assumptions used by the management in value in use calculation are presented in the table below.



## Evraz Group S.A.

### Selected Notes

to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

#### 5. Goodwill (continued)

	<b>Period of forecast, years</b>	<b>Pre-tax discount rate, %</b>	<b>Commodity</b>	<b>Average price of the commodity per ton in the second half of 2009</b>
Evraz Inc. N.A.:				
Claymont	8.5	14.01	steel products	\$669
OSM Tubular - Camrose	8.5	13.94	steel products	\$1,607
Evraz Inc. N.A. Canada	8.5	12.68	steel products	\$548
Palmrose:				
Dnepropetrovsk Iron and Steel Works	8.5	16.48	steel products	\$343
Coking plants	8.5	17.46 - 17.79	coke	\$115

The calculations of value-in-use are most sensitive to the following assumptions:

#### *Discount Rates*

Discount rates reflect the current market assessment of the risks specific to each cash generating unit. The discount rates have been determined using the Capital Asset Pricing Model and analysis of industry peers.

Reasonable changes in discounts rates could lead to further impairment of goodwill at Palmrose and Evraz Inc. N.A. cash generating units. A 10% increase in the discount rates would lead to an additional impairment of \$190 million.

#### *Sales Prices*

The prices of the products sold by the Group were estimated using industry research. Average prices for the second half of 2009 are assumed to be the level of actual June 2009 prices. The Group expects that the nominal prices will grow by 10%-24% in 2010, by 8%-15% in 2011, by 5% in 2012 and 2013, and thereafter – by 3% with a lower increase related to lower value added products. Reasonable changes in the assumptions for products prices could lead to an additional impairment at Evraz Inc. N.A. cash generating units. If the prices assumed for the second half of 2009 and 2010 in the impairment test were 10% lower, this would lead to an additional impairment of \$27 million.

# Evraz Group S.A.

## Selected Notes

to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

### 5. Goodwill (continued)

#### *Sales Volumes*

The management assumed that the sales volumes would grow on average by 20% during the following years to reach normal asset capacity thereafter. Reasonable changes in sales volumes could lead to an additional impairment at Evraz Inc. N.A. cash generating units. If the sales volumes were 10% lower than those assumed for the second half of 2009 and 2010 in the impairment test, this would lead to an additional impairment of \$2 million.

#### *Cost Control Measures*

The recoverable amounts of cash generating units are based on the business plans approved by the management. The reasonable deviation of costs from these plans could lead to an additional impairment at Evraz Inc. N.A. cash generating units. If the actual costs were 10% higher than those assumed for the second half of 2009 and 2010 in the impairment test, this would lead to an additional impairment of \$29 million.

### 6. Income Taxes

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

<i>US\$ million</i>	<b>2009</b>	<b>2008</b>
Current income tax expense	\$ (90)	\$ (994)
Adjustment in respect of income tax of previous years	(3)	–
Deferred income tax benefit relating to origination and reversal of temporary differences	(1,304)	144
Less: deferred income tax recognised directly in other comprehensive income	1,658	–
Income tax benefit/(expense) reported in the consolidated statement of operations	\$ 261	\$ (850)

Evraz Group S.A.

Selected Notes

to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

**7. Property, Plant and Equipment**

The movement in property, plant and equipment for the six-month period ended June 30, 2009 was as follows:

<i>US\$ million</i>	<b>Land</b>	<b>Buildings and constructions</b>	<b>Machinery and equipment</b>	<b>Transport and motor vehicles</b>	<b>Mining assets</b>	<b>Other assets</b>	<b>Assets under construction</b>	<b>Total</b>
At December 31, 2008, cost, net of accumulated depreciation and government grants (as previously reported)	\$ 159	\$ 1,808	\$ 3,747	\$ 296	\$ 2,244	\$ 67	\$ 691	\$ 9,012
Adjustments to provisional values	(2)	5	–	1	–	(4)	–	–
At December 31, 2008 (as adjusted)	<b>157</b>	<b>1,813</b>	<b>3,747</b>	<b>297</b>	<b>2,244</b>	<b>63</b>	<b>691</b>	<b>9,012</b>
Change in accounting policies: revaluation surplus (Note 2)	135	2,804	4,962	–	–	–	–	7,901
Change in accounting policies: revaluation deficit (Note 2)	(21)	(315)	(265)	–	–	–	–	(601)
Additions	–	2	3	–	7	–	160	172
Assets put into operation	–	22	104	14	29	9	(178)	–
Disposals	–	(12)	(14)	(2)	–	(1)	(3)	(32)
Depreciation and depletion charge	–	(174)	(453)	(20)	(78)	(7)	–	(732)
Impairment loss	–	(36)	(86)	(2)	15	–	(9)	(118)
Disposal of assets due to sale of a subsidiary	–	(1)	–	–	(10)	–	–	(11)
Transfer to assets held for sale	(1)	(17)	–	–	–	(2)	(2)	(22)
Change in site restoration and decommissioning provision	–	–	–	–	(3)	–	–	(3)
Translation difference	3	(198)	(257)	(12)	(105)	–	(8)	(577)
At June 30, 2009, revalued amount or cost, net of accumulated depreciation and government grants	\$ 273	\$ 3,888	\$ 7,741	\$ 275	\$ 2,099	\$ 62	\$ 651	\$ 14,989
At June 30, 2009, the carrying amount that would have been recognised had the assets been carried under the cost model	\$ 154	\$ 1,680	\$ 3,598	\$ 275	\$ 2,099	\$ 62	\$ 651	\$ 8,519

Evraz Group S.A.

Selected Notes

to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

**8. Investments in Joint Ventures and Associates**

The movement in investments in joint ventures and associates during the six-month period ended June 30, 2009 was as follows:

<i>US\$ million</i>	<b>Corber</b>	<b>Other associates</b>	<b>Total</b>
<b>At December 31, 2008</b>	<b>\$ 541</b>	<b>\$ 10</b>	<b>\$ 551</b>
Additional investments	–	13	13
Share of profit/(loss)	(7)	–	(7)
Surplus on revaluation of property, plant and equipment	66	–	66
Translation difference	(36)	(1)	(37)
<b>At June 30, 2009</b>	<b>\$ 564</b>	<b>\$ 22</b>	<b>\$ 586</b>

**9. Other Non-Current Assets**

Other non-current assets were as follows:

<i>US\$ million</i>	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Deposit to secure put option for the shares of OAO Vanady	<b>\$ 99</b>	<b>\$ 105</b>
Investments in Delong Holdings Limited	<b>37</b>	<b>23</b>
Investments in Cape Lambert Iron Ore	<b>16</b>	<b>10</b>
Prepayments for a contribution to newly established joint ventures	<b>20</b>	<b>28</b>
Restricted deposits at banks	<b>2</b>	<b>2</b>
Long-term input VAT	<b>2</b>	<b>2</b>
Loans issued to related parties	<b>37</b>	<b>38</b>
Loans receivable	<b>4</b>	<b>5</b>
Trade and other receivables	<b>40</b>	<b>40</b>
Defined benefit plan asset	<b>4</b>	<b>4</b>
Other	<b>20</b>	<b>21</b>
	<b>\$ 281</b>	<b>\$ 278</b>

Evraz Group S.A.

Selected Notes

to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

**10. Cash and Cash Equivalents**

Cash and cash equivalents were denominated in the following currencies:

<i>US\$ million</i>	<b>June 30, 2009</b>	<b>December 31, 2008</b>
US dollar	\$ 354	\$ 550
South African rand	99	177
Russian rouble	91	124
Euro	86	45
Ukrainian hryvnia	14	12
Czech koruna	12	7
Canadian dollar	9	13
Other	13	2
	<b>\$ 678</b>	<b>\$ 930</b>

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

**11. Related Party Disclosures**

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

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

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

Amounts owed by/to related parties were as follows:

<i>US\$ million</i>	<b>Amounts due from related parties</b>		<b>Amounts due to related parties</b>	
	<b>June 30, 2009</b>	<b>December 31, 2008</b>	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Lanebrook Limited	\$ 52	\$ 81	\$ –	\$ –
Raspadsky Ugol	2	1	54	56
Sojitz Noble Alloys Corp.	–	–	8	23
Yuzhny GOK	21	37	158	231
Other entities	26	21	10	12
	<b>101</b>	<b>140</b>	<b>230</b>	<b>322</b>
Less: allowance for doubtful accounts	(3)	(3)	–	–
	<b>\$ 98</b>	<b>\$ 137</b>	<b>\$ 230</b>	<b>\$ 322</b>

# Evraz Group S.A.

## Selected Notes

to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

### 11. Related Party Disclosures (continued)

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

<i>US\$ million</i>	<b>Sales to related parties</b>		<b>Purchases from related parties</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Raspadsky Ugol	\$ 5	\$ –	\$ 39	\$ 162
Sojitz Noble Alloys Corp.	–	32	1	3
Yuzhny GOK	3	37	23	357
Other entities	6	10	26	29
	<b>\$ 14</b>	<b>\$ 79</b>	<b>\$ 89</b>	<b>\$ 551</b>

As described in Note 15, subsequent to the balance sheet date, the Group's controlling shareholder participated in bonds and equity offerings and stock lending transactions.

#### *Compensation to Key Management Personnel*

Key management personnel totalled 57 and 58 persons as at June 30, 2009 and 2008, respectively. Total compensation to key management personnel was included in general and administrative expenses and consisted of the following in the six-month periods ended June 30:

<i>US\$ million</i>	<b>2009</b>	<b>2008</b>
Salary	\$ 9	\$ 12
Performance bonuses	8	16
Social security taxes	1	1
Share-based payments	5	2
	<b>\$ 23</b>	<b>\$ 31</b>

### 12. Equity

#### *Share Capital*

<b>Number of shares</b>	<b>June 30, 2009</b>	<b>December 31, 2008</b>
<i>Authorised</i>		
Ordinary shares of €2 each	<b>157,204,326</b>	157,204,326
<i>Issued and fully paid</i>		
Ordinary shares of €2 each	<b>132,260,150</b>	122,504,803

#### *Scrip Dividends*

On January 30, 2009, the Extraordinary General Meeting approved the modification of the method of payment of the 2008 interim dividends: euro equivalent of the outstanding dividends of \$2.25 per share could be either exchanged for new shares of Evraz Group S.A. or paid in cash to the shareholders who voted against or abstained from voting.

## Evraz Group S.A.

### Selected Notes

to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

#### **12. Equity (continued)**

##### *Scrip Dividends (continued)*

The voluntary partial scrip dividend alternative was voted for in respect of 97,553,473 shares, representing 79.62% of the Company's share capital, entitling the holders to subscribe to 9,755,347 new shares issued at a price of \$22.50 per share. The new shares are ranked pari passu with the existing ordinary shares of Evraz Group S.A. The Company's major shareholder, Lanebrook Limited, subscribed to 9,193,477 shares, and its holding of the Company's voting shares after the subscription became 77.60%.

##### *Share-based Payment Transactions*

During the six-month period ended June 30, 2009, 3,159 share options have been repurchased after vesting. These transactions had no significant effect on the Group's equity.

##### *Treasury Shares*

As of December 31, 2008, the Group had 67,431 treasury shares.

During the six-month period ended June 30, 2009, the Group purchased 39,667 treasury shares and sold 107,098 treasury shares. The excess of the purchase cost of treasury shares over the proceeds from their sale amounting to \$6 million was charged to accumulated profits.

##### *Earnings per Share*

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

In 2008, share options granted to participants of the Company's Incentive Plans had a dilutive effect. In the six-month period ended June 30, 2009, the average market price of global depository receipts of Evraz Group S.A. was lower than the exercise price of the share options. Consequently, the options ceased to have a dilutive effect. The Group has no other potential dilutive ordinary shares.

# Evraz Group S.A.

## Selected Notes

to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

### 12. Equity (continued)

#### *Earnings per Share (continued)*

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

	<b>Six-month period ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
Weighted average number of ordinary shares for basic earnings per share	<b>130,814,892</b>	123,537,706
Effect of dilution: share options	–	634,119
Weighted average number of ordinary shares adjusted for the effect of dilution	<b>130,814,892</b>	124,171,825
Profit/(loss) for the period attributable to equity holders of the parent entity, US\$ million	\$ (987)	\$ 1,991
Basic earnings/(losses) per share	\$ (7.55)	\$ 16.12
Diluted earnings/(losses) per share	\$ (7.55)	\$ 16.03

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

The fair value of shares issued as a scrip alternative on January 30, 2009 exceeded the cash alternative, thus giving rise to a bonus element in the issue of shares. The per share figures for all the periods presented have been restated to include a bonus element of 1,045,216 shares in the calculation of basic earnings per share from the beginning of the earliest period presented.

#### *Dividends*

The shareholders meeting held May 15, 2009 resolved not to declare final dividends for 2008.

In the six-month period ended June 30, 2009, certain subsidiaries of the Group declared dividends. The share of minority shareholders in those dividends was \$1 million.



## Evraz Group S.A.

### Selected Notes

to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

#### 13. Loans and Borrowings

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

<i>US\$ million</i>	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Bank loans	\$ <b>6,070</b>	\$ 7,163
8.875 per cent notes due 2013	<b>1,156</b>	1,245
8.25 per cent notes due 2015	<b>577</b>	725
9.5 per cent notes due 2018	<b>509</b>	560
10.875 per cent notes due 2009	<b>176</b>	300
Unamortised debt issue costs	<b>(72)</b>	(94)
Interest payable	<b>66</b>	87
	<b>\$ 8,482</b>	\$ 9,986

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

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

At June 30, 2009 and December 31, 2008, the Group had equipment with a carrying value of \$424 million and \$1,131 million, respectively, pledged as collateral under the loan agreements. In addition, the Group pledged inventory with a carrying value of \$72 million and \$648 million as of June 30, 2009 and December 31, 2008, respectively. In addition, 100% of shares of Evraz Inc. N.A. Canada and West-Siberian Iron and Steel Plant were pledged as collateral under bank loans.

In 2009, the Group re-purchased notes due 2009, 2013, 2015 and 2018 with the nominal amount of \$412 million for cash consideration of \$297 million. As a result, the Group recognised a gain on extinguishment of debts in the amount of \$115 million within gain/(loss) on financial assets and liabilities caption of the consolidated statement of operations for the six-month period ended June 30, 2009.

# Evraz Group S.A.

## Selected Notes

to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

### **14. Commitments and Contingencies**

#### *Operating Environment of the Group*

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

The ongoing global financial crisis has resulted in capital markets instability, significant deterioration of liquidity in the banking sector, and tighter credit conditions within Russia and Ukraine. The volatile global economic climate is having significant negative effects on the Group's business in North America and Europe.

The Group sells its products to shipping, pipe-making, railway transportation, construction, oil and gas industries, all of which have reported substantially lower customer demand due to the financial crisis and the slowing global economy. The duration of the crisis and the recovery of these industries will have a significant impact on the Group.

While the stabilisation measures aimed at providing liquidity and supporting debt refinancing have been introduced by the governments, there continues to be uncertainty regarding the access to capital and cost of capital for the Group and its counterparties, which could affect the Group's financial position, results of operations and business prospects. The unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

#### *Taxation*

Russian and Ukrainian 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. As such, significant additional taxes, penalties and interest may be assessed.

Management believes that it has paid or accrued all taxes that are applicable. Where uncertainty exists, the Group has accrued tax liabilities based on the management's best estimate of the probable outflow of resources embodying economic benefits, which will be required to settle these liabilities. Possible liabilities, which were identified by management at the statement of financial position date as those that can be subject to different interpretations of the tax laws and other regulations and are not accrued in the accompanying financial statements could be up to approximately \$28 million.

#### *Contractual Commitments*

The Group signed contracts for the purchase of production equipment and construction works for an approximate amount of \$332 million as of June 30, 2009.

# Evraz Group S.A.

## Selected Notes

### to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

#### **14. Commitments and Contingencies (continued)**

##### *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 the second half of 2009, the Group plans to spend approximately \$40 million under these programmes.

##### *Environmental Protection*

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

The Group has a constructive obligation to reduce environmental pollution and contaminations in the future in accordance with an environmental protection programme. In the period from 2009 to 2013, the Group is committed to spend approximately \$184 million under this programme.

##### *Legal Proceedings*

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

#### **15. Subsequent Events**

##### *Borrowings*

Subsequent to June 30, 2009, the Group signed bank loan agreements for \$281 million with maturity dates in 2010. No disbursements have been made to the date of authorisation of issue of these interim condensed consolidated financial statements.

##### *Bonds and Equity Offerings*

On July 13, 2009, Evraz Group S.A. completed the offering of \$600 million unsecured convertible bonds (the "Bonds Offering") and \$300 million in the form of global depository receipts ("GDRs") listed on the London Stock Exchange, representing ordinary shares of Evraz Group S.A. (the "Equity Offering").

The bonds were issued at 100% of their principal amount. They bear interest of 7.25% per annum payable on a quarterly basis and mature on July 13, 2014.

# Evraz Group S.A.

## Selected Notes

### to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

#### **15. Subsequent Events (continued)**

##### *Bond and Equity Offerings (continued)*

The conversion can be exercised at the option of bondholders on any date during the period from September 11, 2009 till July 6, 2014. The bonds will be convertible into GDRs at an initial conversion price of \$21.20 per GDR. The conversion price represents a 28% premium to the equity offering placement price of \$16.50 per GDR, which is the reference price for the convertible bond. Lanebrook, the Company's parent, and its affiliate, subscribed for \$200 million of the bonds.

The issuer can early redeem the bonds at their principal amount plus accrued interest if 15% or less of the bonds remain outstanding.

In the equity offering, on July 17, 2009, 6,060,608 new shares were issued as GDRs at an issue price of \$16.50 per GDR. The newly issued shares represent approximately 4.4% of the Company's issued share capital after the issue.

The Company has granted to Goldman Sachs and Morgan Stanley (the "Joint Bookrunners") in the bonds offering an over-allotment option to subscribe to additional bonds for up to \$50 million, which was exercised in full on July 27, 2009 and resulted in an increase in the aggregate principal amount of the bonds to \$650 million.

The Company has granted to the Joint Bookrunners in the equity offering an over-allotment option to subscribe to up to 909,090 additional GDRs, represented by 303,030 additional new shares, corresponding to additional gross proceeds of \$15 million. This option was exercised in full on July 27, 2009.

The proceeds from the offerings are intended to be used to refinance existing debt and for general corporate purposes.

##### *Increase of Authorised Share Capital*

On July 31, 2009, Evraz Group S.A. increased its authorised share capital by 100,000,000 shares with par value of €2 each. In addition, in connection with the issue of the bonds, the shareholders resolved to extend the authority of the Board of Directors to issue new shares for another five years as well as the right of the Company to acquire up to 10% of its own shares (including the shares represented by GDRs).

##### *Stock Lending Transactions*

In order to facilitate the issuance of the bonds, Morgan Stanley has offered to certain institutional investors an opportunity to borrow ordinary shares of Evraz Group S.A., represented by GDRs, during the term of the bonds by means of a stock loan of GDRs beneficially owned by Lanebrook (the "Borrowed GDRs").

On August 4, 2009, the Board of Directors approved the issue of the new ordinary shares to Lanebrook in an amount equal to the number of shares underlying the borrowed GDRs and effect a novation of the stock lending arrangements, whereby the Company will be substituted for Lanebrook as a lender of the borrowed GDRs. As a result, on August 12, 2009, 7,333,333 new shares were issued to Lanebrook at the price of \$21.20 per GDR or \$63.60 per share.

Evraz Group S.A.

Selected Notes

to the Unaudited Interim Condensed Consolidated Financial Statements (continued)

**15. Subsequent Events (continued)**

*Lapse of Options in Respect of Delong Holdings Limited*

On August 18, 2009, the call and the put options under the agreement to acquire up to 51% of Delong Holdings Limited entered in 2008 (Note 9) have lapsed and ceased to have any further effect.

*Repayment of Notes Due 2009*

In August 2009, the Group fully repaid its liabilities under 10.875 per cent notes due 2009.