



Audit Committee Report

(as of 6 April 2009)

The Audit Committee report to the shareholders of Evraz Group S.A. encompasses the committee's activities from the date of the last report as at 31 January 2008 to 6th April 2009.

During 2008 and into 2009, Evraz Group, as with the majority of global metal and mining corporations, experienced some extreme business challenges and trauma. The challenges initially related to materially increased volume activity accompanied by increases in input prices and selling prices, a situation complicated by major strategic acquisitions in North America and the Ukraine and the assimilation of these companies into the Group's business control structure. In the latter part of 2008, the severity of the global recession added to the business and operational strain.

This difficult scenario tested internal business controls, reporting and forecasting procedures, risk management effectiveness and business and human resource structures and skill sets.

While business performance has been negatively affected, almost entirely due to the global recession and its particular impact on the metals and mining sector, Evraz Group's internal controls have demonstrated significant resilience and reliability.

Against this background, the Audit Committee has been vigilant in exercising its oversight role and has been greatly assisted in its work by the competence of the Group's internal audit function particularly with regard to the department's risk management expertise in relation to internal controls and its approach to the internal audit programme.

Role of the Committee

The Board has delegated to the committee the responsibility for oversight of Evraz Group's financial controls and reporting. Such responsibilities include overseeing the planning and process of appropriate reviews and reports of the Group's financial and operational internal controls and risk management systems conducted by a wholly, management independent, internal audit function reporting to the Audit Committee as provided within the Group's internal audit charter.

Further, the committee has responsibility for managing the Company's relationship with its external auditor.

In relation to these responsibilities the committee has:

- Reviewed its Board mandate and the internal audit charter.
- Reviewed the form, content and integrity of the Company's and Group's published financial statements (within the period of this report the audited consolidated

Financial Statements for 2007 and the Interim results to 30 June 2008) including the related press releases.

- Monitored and reviewed arrangements to ensure the objectivity, scope and effectiveness of both the external and internal audit functions, including the proposed and respective programmes of audit work and the quality and independence of the respective audit functions. Costs, skill sets and available man-hours of the internal audit function have been reviewed and accepted as appropriate.
- During 2008, the committee conducted an open tender for the Group audit for the years 2009 and 2010. Based on a pre-determined service and cost points award basis, Ernst and Young, the existing external auditors, were awarded the audit mandate on a fixed price for the aforementioned two years.
- The committee established the terms of reference of the Group's Risk Committee. The Risk Committee is largely an executive committee, chaired by the Chairman of the Audit Committee with the Group Chief Executive representing a key member of the committee. A Group risk matrix has been developed and management action and accountability for risk exposure has been appropriately delegated. The Board has duly reviewed the Group's risk register.

Composition of the Committee

The composition of the Audit Committee during the period was:

- Terry Robinson, (Chairman) a financially qualified independent non-executive director.
- Olga Pokrovskaya, a financially qualified non-executive director.
- John Heywood, a financially qualified, Board-nominated (not being a director of Evraz) member of the committee. In addition to the audit committee papers, Mr Heywood receives copies of all Board minutes and has access to all Board papers.

Alexey Melnikov, Head of Group internal audit, served as the Committee's Secretary

The composition of the Audit Committee is not compliant with the Combined Code in that membership of the committee is not drawn wholly from the Board's resource of independent non-executive directors. The Board continues to ensure the Audit Committee's independence through a rigorous regard of the committee's mandate and its independent authority.

Report of the Committee's Activity in 2008

Meetings and attendance: seven meetings of the Audit Committee, attended by all members, were held during the 14-month period. A further two meetings were held in respect of the short list regarding the external audit tender.

The external auditor, Ernst and Young, the internal auditors and the Group's Senior Vice President and Chief Financial Officer, attended all 14 regular meetings. At various additional meetings the committee received presentations from senior members of the Group's finance team, the Group Vice President Vanadium division, the Group IT Vice President, the Group Vice President of Corporate Affairs and Investor Relations, Head of Group security, Head of Group procurement and the Chairman of the Rapsadskaya Audit Committee.

Principal issues considered during the period from 31 January 2008 to 6 April 2009 were:

- Review of the external auditor's management letter following their full year 2007 audit, together with the Company's management response and intended action.
- Review of the interim financial results and accounts presentation.
- In connection with the review of the 2007 full year and 2008 interim accounts, the committee carefully enquired as to related party transactions. With the exception of raw material purchases from an associate enterprise, Rapsadskaya, and Yuzhny Gok, an enterprise in which Lanebrook holds a 46% beneficial interest but does not have management control, such transactions have been materially reduced.
- The Ukraine transaction acquired via Lanebrook, the major shareholder in Evraz Group SA., represented a significant related party transaction and was carefully reviewed. The audit committee found this transaction to be at arms length. Olga Pokrovskaya, a Millhouse executive and an Evraz Audit Committee member, exempted herself from these discussions and the decision taking process.
- Reviewed internal audit reports, discussed deficiencies and agreed management action and corrective action timelines.
- Review of the Group's tax and treasury management processes.
- Review of the Group's incidence of fraud and activity in hand to manage and reduce such future incidence. The instigation of a Group Fraud and Security Committee with agreed terms of reference.
- Review the actions involved in the instigation of the Group's 'whistleblowing' facility and the reports made via the whistleblowing facility.
- Review of revised manning, organisation and the internal audit function's internal audit programme to increase the scope to accommodate the expansion of the Group's operations through acquisitions.
- Review of the internal audit report on the effectiveness and process in delivering the monthly management information and Board reports.
- Reviewed plans for the consolidation and rationalisation of the Group's IT infrastructure; given the numerous legacy IT platforms in existence through acquisitions.
- Reviewed the consolidation of the Group's vanadium activities and improvements in operational internal controls.
- Reviewed the regulatory correctness of the Group's transfer pricing policies.
- Reviewed the impairment considerations of the Group's cash generating units and investments.
- Reviewed the Group's Going Concern assumptions, sensitivities and stress testing.

In addition, the Audit Committee reviewed and discussed all the programmed internal audit reports concerned with the business and financial internal controls and processes together with initial reviews of the functional internal controls in respect of the acquired subsidiaries.

The committee has met with the external auditors, Evraz's management and with the internal audit team separately for individual discussions.

Non-Audit Services

As reported in previous years, it is Group policy to engage accountancy firms for due diligence work in connection with acquisitions and for tax advice. The committee has given prior written approval to all such engagements and mandate fees where such engagements have involved the Company's external auditor.

In 2008, the interim review and year-end audit fees totalled US\$8,558,000; other audit-related services amounted to US\$872,000, while non-audit fees were US\$1,187,000.

Audit Committee Self-Assessment

The Audit Committee has prepared a self-assessment questionnaire and conducted assessments with the external auditors, the internal audit function and with Evraz's management.