JSC Chelyabinsk Zinc Plant

International Financial Reporting Standards Consolidated Financial Statements and Auditors’ Report

For the years ended 31 December 2005, 2004 and 2003

Contents

STATEMENT OF MANAGEMENT RESPONSIBILITIES

To the Shareholders of JSC "Chelyabinsk Zinc Plant":

International convention requires that management prepare financial statements, which present fairly, in all material respects, the state of affairs of JSC "Chelyabinsk Zinc Plant" and its subsidiaries (together referred to as the "Group") at the end of each financial period and of the Group's results and its cash flows for each financial period. Management is responsible for ensuring that the Group keeps accounting records, which disclose, with reasonable accuracy, the financial position and which enable them to ensure that the financial statements comply with International Financial Reporting Standards and that statutory accounting reports comply with Russian laws and regulations. They also have a general responsibility for taking such steps that are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Management considers that, in preparing the consolidated financial statements set out on pages 3 to 32, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that appropriate International Financial Reporting Standards have been followed.

The consolidated financial statements, which are based on the statutory accounting reports restated in accordance with International Financial Reporting Standards, are hereby approved on behalf of the Board of Directors.

For and on behalf of the Board of Directors

V.V. Gekhman

General Director

28 September 2006

PRICEWATERHOUSECOOPERS

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AUDITORS' REPORT

To the Board of Directors of JSC Chelyabinsk Zinc Plant:

We have audited the accompanying consolidated balance sheets of Open Joint Stock Company Chelyabinsk Zinc Plant and its subsidiaries (the "Group") as at 31 December 2005, 2004 and 2003 and the related consolidated statements of income, cash flows and changes in equity for the years then ended. These consolidated financial statements (as set out on pages 3 to 32) are the responsibility of the Group's Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2005, 2004 and 2003 and the consolidated results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

Moscow, Russian Federation
28 September 2006

In thousands of Russian Roubles	Note	31 December 2005	31 December 2004	31 December 2003
ASSETS				
Non-current assets				
Property, plant and equipment	8	3,311,755	3,632,077	3, 939,067
Advances for capital construction		5,199	5,443	26,789
Intangible assets	8	24,028	24,808	2,130
Available-for-sale investments		2,108	2,130	2,115
Other non-current assets		-	2,065	3,140
Total non-current assets		**3,343,090**	**3,666,523**	**3,973,241**
Current assets				
Inventories, net	9	1,478,985	538,843	727,142
Trade and other receivables, net	10	689,769	462,109	587,619
Loans receivable	7	26,000	169,009	-
Cash and cash equivalents	11	131,740	188,207	92,242
Restricted cash	11	4,073	5,293	-
Total current assets		**2,330,567**	**1,363,461**	**1,407,003**
TOTAL ASSETS		**5,673,657**	**5,029,984**	**5,380,244**
EQUITY				
Share capital	12	74,077	74,077	74,077
Share premium		48,192	48,192	48,192
Retained earnings		4,235,524	4,088,299	4,150,023
Legal reserve	12	397	397	397
TOTAL EQUITY		**4,358,190**	**4,210,965**	**4,272,689**
LIABILITIES				
Non-current liabilities				
Borrowings	13	-	260,144	474,954
Deferred income tax liability	20	181,264	181,155	199,950
Total non-current liabilities		**181,264**	**441,299**	**674,904**
Current liabilities				
Borrowings	13	269,836	187,304	166,674
Accounts payable, accrued expenses and advances from customers	14	808,933	148,110	249,750
Dividend payable		-	1,640	1,756
Current income tax payable		38,444	24,359	-
Other taxes payable	15	16,990	16,307	14,471
Total current liabilities		**1,134,203**	**377,720**	**432,651**
TOTAL LIABILITIES		**1,315,467**	**819,019**	**1,107,555**
TOTAL LIABILITIES AND EQUITY		**5,673,657**	**5,029,984**	**5,380,244**

Approved for issue and signed on behalf of the Board of Directors on 28 September 2006.

V. V. Geikhman
General Director

B. D. Birman
Finance Director

In thousands of Russian Roubles	Note	2005	2004	2003
Revenue	16	4,791,159	3,972,454	4,101,492
Cost of sales	17	(4,044,103)	(3,365,462)	(3,409,529)
Gross profit		**747,056**	**606,992**	**691,963**
Distribution costs	18	(113,392)	(158,717)	(150,645)
General and administrative expenses	18	(382,976)	(479,404)	(245,747)
Operating profit/(loss)		**250,688**	**(31,129)**	**295,571**
Finance income and costs, net	19	(1,026)	(32,874)	(50,156)
Net foreign exchange (loss)/gain		(8,005)	24,549	38,256
Profit/(loss) before income tax		**241,657**	**(39,454)**	**283,671**
Income tax expense	20	(94,432)	(22,270)	(78,952)
Profit/(loss) for the year		**147,225**	**(61,724)**	**204,719**
Earnings/(loss) per share for profit/(loss), basic and diluted (expressed in RR per share)	21	**231**	**(97)**	**322**

Approved for issue and signed on behalf of the Board of Directors on 28 September 2006.

V. V. Geikhman
General Director

B. D. Birman
Finance Director

CHELYABINSK ZINC PLANT

In thousands of Russian Roubles	Note	2005	2004	2003
Cash flows from operating activities				
Profit/(loss) before income tax		241,657	(39,454)	283,671
Adjustments for:				
Depreciation and amortisation	8, 17	415,670	420,498	372,677
Net loss on disposal of property, plant and equipment		7,685	3,848	8,592
Impairment of trade and other receivables	18	(199)	(6,210)	3,234
Write down to net realizable value of inventory	9, 17	5,026	(10,084)	5,483
Financial income and costs, net	19	1,026	32,874	50,156
Precious metals revaluation	17	(5,764)	(1,928)	(14,057)
Unclaimed dividend write off		(1,640)	-	-
Unrealised foreign exchange losses less gains on non-operating items		7,638	(23,601)	(33,707)
Operating cash flows before working capital changes		**671,099**	**375,943**	**676,049**
(Increase)/decrease in trade and other receivables		(228,775)	133,345	(163,117)
(Increase)/decrease in inventories		(939,404)	200,311	(155,814)
Increase/(decrease) in trade and other payables		669,858	(95,983)	(17,980)
Increase/(decrease) in taxes payable		685	10,162	(29,323)
Decrease/(increase) in restricted cash		1,220	(5,293)	-
Cash generated from operations		**174,683**	**618,485**	**309,815**
Income taxes paid		(88,439)	(33,656)	-
Income taxes refunded		8,201	8,855	32,877
Interest paid		(29,312)	(33,134)	(33,546)
Net cash from operating activities		**65,133**	**560,550**	**309,146**
Cash flows from investing activities				
Purchase of property, plant and equipment		(106,169)	(121,466)	(431,058)
Proceeds from sale of property, plant and equipment		2,622	218	80,087
Loans provided	7	(662,000)	(199,009)	-
Receipts from repayment of loans	7	805,009	30,000	-
Interest received		24,276	7,992	5,294
Acquisition of intangible assets		-	(23,662)	-
Net cash from/(used in) investing activities		**63,738**	**(305,927)**	**(345,677)**
Cash flows from financing activities				
Proceeds from borrowings		90,452	1,492	231,575
Repayment of borrowings		(278,749)	(156,128)	(204,540)
Dividends paid net of withholding tax		-	(116)	(225)
Net cash used in financing activities		**(188,297)**	**(154,752)**	**26,810**
Effect of exchange rate changes on cash and cash equivalents		2,959	(3,906)	(3,399)
Net (decrease)/increase in cash and cash equivalents		**(56,467)**	**95,965**	**(13,120)**
Cash and cash equivalents at the beginning of the year (net of restricted cash)	11	**188,207**	**92,242**	**105,362**
Cash and cash equivalents at the end of the year (net of restricted cash)	11	**131,740**	**188,207**	**92,242**

Approved for issue and signed on behalf of the Board of Directors on 28 September 2006.

V. V. Geikhman
General Director

B. D. Birman
Finance Director

The accompanying notes on pages 7 to 32 are an integral part of these consolidated financial statements.

In thousands of Russian Roubles	Share capital	Share Premium	Legal reserve	Retained earnings	Total Equity
Balance at 1 January 2003	**74,077**	**48,192**	**397**	**3,945,304**	**4,067,970**
Profit for the year	-	-	-	204,719	204,719
Balance at 31 December 2003	**74,077**	**48,192**	**397**	**4,150,023**	**4,272,689**
Loss for the year	-	-	-	(61,724)	(61,724)
Balance at 31 December 2004	**74,077**	**48,192**	**397**	**4,088,299**	**4,210,965**
Profit for the year	-	-	-	147,225	147,225
Balance at 31 December 2005	**74,077**	**48,192**	**397**	**4,235,524**	**4,358,190**

Approved for issue and signed on behalf of the Board of Directors on 28 September 2006.

V. V. Geikhman
General Director

B. D. Birman
Finance Director

1 JSC Chelyabinsk Zinc Plant and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the years ended 31 December 2005, 2004 and 2003 for JSC Chelyabinsk Zinc Plant (the "Company") and its subsidiaries (together referred to as the "Group").

The Company was incorporated in May 1993 and is domiciled in the Russian Federation. The Company is an open joint stock company set up in accordance with Russian regulations.

At 1 January 2003 the parent company was Euromin Holdings Limited, incorporated in Cyprus, and the ultimate parent company was Vitol Holdings BV, incorporated in Netherlands. During the year ended 31 December 2003 the parent company was changed to Euromin Holdings BV subsequently renamed into NF Holdings BV, incorporated in Netherlands. Vitol Holdings BV concluded an agreement to sell 100% shares of Euromin Holdings BV, which owns 86,76% of the Company's shares, to Arkley Capital S.A.R.L., incorporated in Luxembourg, dated 19 June 2003 and in July 2003 Arkley Capital S.A.R.L. became a parent company, when the title for the shares of the Company passed to Arkley Capital S.A.R.L.

At 31 December 2005 the Group's immediate parent is NF Holdings BV. The Group is ultimately controlled by Arkley Capital S.A.R.L. incorporated in Luxembourg.

The Company enters into transactions with related parties. Such transactions entered between the Group and its related parties (Note 7) may not be on arms-length terms.

Principal activity. The Group's principal business activity is production and distribution of zinc, zinc alloys and by-products. The Group's manufacturing facilities are based in Chelyabinsk. All companies of the Group are incorporated under the Laws of the Russian Federation. At 31 December 2005 the Group employed approximately 1,799 employees (31 December 2004: 1,893 and 31 December 2003: 2,091).

Registered address and place of business. The Company's registered address is: Sverdlovsky trakt 24, Chelyabinsk, Russian Federation.

2 Basis of Preparation and Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention as modified by the revaluation of property, plant and equipment and available-for-sale investments. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented. Certain amounts in previously issued consolidated financial statements have been reclassified to conform to the current period presentation. Such reclassifications have no effect on net income or shareholders' equity.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

Presentation currency. All amounts in these consolidated financial statements are presented in thousands of Russian Roubles ("RR thousands"), unless otherwise stated.

Accounting for the effects of hyperinflation. The Russian Federation has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). 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 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these consolidated financial statements.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

The excess of the cost of acquisition over the fair value of the net assets of the acquiree at each exchange transaction represents goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

Minority interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Company. Minority interest forms a separate component of the Group's equity.

Property, plant and equipment. Property, plant and equipment are stated at historic acquisition or construction cost less accumulated depreciation and provision for impairment, where required. An independent appraisal company was engaged by the Group to estimate fair value of assets under construction and property, plant and equipment as of 1 January 1998, as historic information on cost of assets under construction and property, plant and equipment was not readily available. A remaining useful economic life of 5 years was designated to this property, plant and equipment, which were fully depreciated as of 31 December 2002. Assets under construction were subsequently commissioned into operation and are currently utilised by the Company as property, plant and equipment.

Subsequent additions to property, plant and equipment are accounted for at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired after 1 January 1998, but prior to 1 January 2003.

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

At each reporting date the management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals determined by comparing proceeds with carrying amount are recognised in profit or loss.

Depreciation. Land is not depreciated. Assets under construction are not depreciated before transfer into operation. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives:

	Useful lives in years
Buildings and infrastructure	20 to 50
Plant, machinery and equipment	10 to 30
Other	3 to 20

2 Basis of Preparation and Significant Accounting Policies (Continued)

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Intangible assets. All of the Group's intangible assets have definite useful lives and include capitalised cost of obtaining "CZP SHG" (Chelyabinsk Zink Plant Special High Grade) certification, computer software and licences. Cost of obtaining CZP SHG certification and acquired computer software and licences are capitalised on the basis of the costs incurred to obtain or acquire these intangible assets and bring them to use.

Intangible assets are amortised using the straight-line method over their useful lives:

	Useful lives in years
Cost of obtaining CZP SHG certification	30
Computer software and licences	3 to 5

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and, when impaired, the asset is written down to the higher of value in use and fair value less costs to sell.

Classification of financial assets. The Group classifies its financial assets into the following measurement categories: trading, available-for-sale, held to maturity and loans and receivables.

Trading investments are securities or other financial assets, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are included in a portfolio in which a pattern of short-term trading exists. The Group classifies financial assets into trading investments if it has an intention to sell them within a short period after acquisition, i.e. within 1 to 3 months. The Group did not hold any trading investments during the reported periods.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Held to maturity classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. The Group did not hold any held-to-maturity investments during the reported periods.

All other financial assets are included in the available-for-sale category.

Initial recognition of financial instruments. Trading investments and derivatives are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading investments; and recognised in equity for assets classified as available for sale.

Derecognition of financial assets. The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Available-for-sale investments. Available-for-sale investments are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from equity to profit or loss.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with Russian legislation enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated income statement unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

Trade and other receivables. Trade and other receivables are carried at original invoice amount less provision made for impairment of these receivables. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The amount of the provision is recognised in the income statement.

Cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the cashflow statement.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as a share premium.

Treasury shares. Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

2 Basis of Preparation and Significant Accounting Policies (Continued)

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.

Value added tax. Value added tax related to sales is payable to tax authorities upon collection of receivables from customers. Input VAT is generally reclaimable against sales VAT upon payment for purchases except for export sales related input VAT which is reclaimable upon confirmation of export and input VAT on construction in progress which can be reclaimed only upon transfer of a constructed asset into operation. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. 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.

Borrowings. Borrowings are carried at amortised cost using the effective interest method. Borrowing costs are recognised as an expense on a time proportion basis using the effective interest method. The Group does not capitalise borrowing costs.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost using the effective interest method.

Provisions for liabilities and charges. Provisions for liabilities and charges are recognised when the Group has a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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.

Foreign currency translation. Functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Company's functional currency and the Company's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into functional currency at the official exchange rate of the Central Bank of the Russian Federation at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the Central Bank of the Russian Federation are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

At 31 December 2005 the principal rate of exchange used for translating foreign currency balances was US$ 1 = RR 28.7825 (31 December 2004: US$ 1 = RR 27.7487 and 31 December 2003: US$ 1 = RR 29.4545). The official Euro to RR exchange rate at 31 December 2005, as determined by the Central Bank of the Russian Federation, was 34.1850 (31 December 2004: 37.8104 and 31 December 2003: 36.8240). As at 31 December 2005 exchange restrictions and controls existed relating to converting Russian Roubles into other currencies. Prior to July 2006 the Russian Rouble was not a freely convertible currency in most countries outside of the Russian Federation. Further, all transactions within the Russian Federation were required to be settled in Russian Roubles and 10% prior to July 2006 (25% prior to 27 December 2004 and 50% prior to 10 July 2003) of foreign currency receipts from transactions with foreign entities were required to be converted into Russian Roubles.

Revenue recognition. Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point. Revenues are measured at the fair value of the consideration received or receivable.

Sales are shown net of VAT and discounts. Interest income is recognised on a time-proportion basis using the effective interest method.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. These amounts principally represent an implicit cost of employing production workers and, accordingly, have been charged to the statement of income as cost of sales.

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.

Segment reporting**.** A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments with a majority of revenue earned from sales to external customers and whose revenue, result or assets are ten percent or more of all the segments are reported separately.

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current year.

3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 22.

Slow-moving and obsolete inventory. The Group has accumulated significant stock of zinc cakes (a by-product with approximately 20% zinc content, which requires substantial processing to extract zinc) due to the limited capacity of certain workshops. No slow-moving provision has been created against this stock, as there is a valid expectation that resumed construction of Waelz-kiln N 5 will allow the Group to process the accumulated stock of zinc cakes in 2007-2008. The Group records zinc cakes at historic production cost, which is substantially lower than its potential resale value and cost of zinc content (Note 9).

4 Adoption of New or Revised Standards and Interpretations

Certain new IFRSs became effective for the Group from 1 January 2005. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies. All changes in accounting policies were applied retrospectively with adjustments made to retained earnings at 1 January 2003, unless otherwise described below.

IAS 1 (revised 2003), Presentation of Financial Statements. The Group now classifies as current all financial liabilities for which the Group does not have an unconditional right to defer their settlement for at least twelve months after the balance sheet date. Minority interest is now presented as equity and the Group discloses on the face of the income statement profit or loss for the period and the allocation of that amount between 'profit or loss attributable to minority interest' and 'profit or loss attributable to equity holders of the parent'. Certain new disclosures and changes in presentation required by the revised standard were made in these consolidated financial statements.

IAS 2 (revised 2000) Inventories. Inventories of the Group's subsidiaries are measured at net realisable value where such measurement is in accordance with well-established industry practices.

4 Adoption of New or Revised Standards and Interpretations (Continued)

IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors. The Group now applies all voluntary changes in accounting policies retrospectively. Comparatives are amended in accordance with the new policies. All material errors are now corrected retrospectively in the first set of financial statements after their discovery. The Group has not discovered any material error in its prior period financial statements.

IAS 16 (revised 2003) Property, Plant and Equipment. The residual value is now defined as the amount that the Group estimates it would receive currently for the asset if the asset was already of the age and in the condition expected at the end of its useful life. The Group now derecognises the carrying amount of a component of property, plant and equipment which has been replaced and capitalises the cost of the replacement. The previous version of IAS 16 did not extend its derecognition principle to components; rather, its recognition principle for subsequent expenditures effectively precluded the cost of a replacement from being capitalised. All changes to accounting policies as a result of the revised IAS 16 were accounted for retrospectively and did not result in a significant effect on the carrying amount of the Group's assets.

IAS 17 (revised 2003) Leases. Finance leases are now recognised at commencement based on values measured at inception. Commencement is when the lessee can start using the leased asset. Inception is the earlier of the date of the lease agreement and the date of commitment to the principal provisions of the lease. The revised IAS 17 has no impact on these consolidated financial statements.

IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates. The term 'functional currency' replaced 'measurement currency', but has essentially the same meaning. Only one translation method is now applied to all foreign operations - namely that described in the previous version of IAS 21 as applying to foreign entities. Goodwill and fair value adjustments to assets and liabilities that arise on the acquisitions are now treated as part of the assets and liabilities of the acquired entity and translated at the closing rate. Accounting for goodwill and fair value adjustments of foreign operations is applied prospectively from 1 January 2005 in accordance with the transitional provisions of the standard. All other effects of the revised IAS 21 are applied retrospectively. The revised IAS 21 has no impact on these consolidated financial statements.

IAS 24 (revised 2003) Related Party Disclosures. The definition of related parties was extended and additional disclosures required by the revised standard were made in these consolidated financial statements.

IAS 27 (revised 2003) Consolidated and Separate Financial Statements. The Group's policies were changed to remove limited exceptions from consolidation. IAS 27 now requires consolidation of all subsidiaries of the parent.

IAS 28 (revised 2003) Investments in Associates. An investor must now consider the carrying amount of its investment in the equity of the associate and its other long-term interests in the associate when recognising its share of losses of the associate. Previously, SIC-20 limited the recognition of the investor's share of losses to the carrying amount of its investment in the equity of the associate. The revised IAS 28 has no impact on these consolidated financial statements.

IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation. The Group amended its policies to classify as liabilities puttable shares and similar instruments previously classified as equity or compound instruments. Additional disclosures required by the revised Standard were made in these consolidated financial statements.

IAS 33 (revised 2003) Earnings per Share. IAS 33 was revised to provide additional guidance and illustrative examples on selected complex matters. The additional guidance did not affect the Group's accounting policies.

IAS 36 (revised 2004) Impairment of Assets. The Group now performs impairment tests of goodwill, intangible asset not yet available for use and intangible assets with indefinite useful life at least annually. The 'bottom-up/top-down' approach to testing goodwill was replaced by a simpler method. The goodwill is, from the acquisition date, allocated to each of the acquirer's cash-generating units ("CGU"), or groups of CGUs, that are expected to benefit from the synergies of the business combination. Each unit or group of units to which the goodwill is allocated represents the lowest level at which the goodwill is monitored and is not larger than a segment. Reversals of impairment losses of goodwill are now prohibited. The clarifications of certain elements of value in use calculations in the revised IAS 36 did not have an impact on these consolidated financial statements. Management now assesses reasonableness of the assumptions on which the Group's current cash flow projections are based by examining the causes of differences between past cash flow projections and actual cash flows. The revised IAS 36 is applied in accordance with the standard's transitional provisions to goodwill and intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004 and to all other assets prospectively from 1 January 2005.

4 Adoption of New or Revised Standards and Interpretations (Continued)

IAS 38 (revised 2004) Intangible Assets. The revised IAS 38 is applied prospectively in accordance with its transitional provisions. The amended accounting policies apply to intangible assets acquired in business combinations for which the agreement date is on or after 31 March 2004 and to all other intangible assets acquired on or after 1 January 2005. Intangible assets now include assets that arise from contractual or other legal rights, regardless of whether those rights are transferable or separable. The probability of inflow of economic benefits recognition criterion is now deemed to be always met for intangibles that are acquired separately or in a business combination. The Group's policies were amended to introduce the concept of indefinite life intangible assets which exist when, based on an analysis of all of the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Such intangibles are not amortised but tested for impairment at least annually. The Group has reassessed the useful lives of its intangible assets in accordance with the transitional provisions of IAS 38.

IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement. The definition of 'originated loans and receivables' was amended to become 'loans and receivables'. This category now comprises originated or purchased loans, and receivables or bills of exchange that are not quoted in an active market. The Group may now designate any financial instrument on initial recognition as one to be measured at fair value, with changes in fair value recognised in profit or loss. Subsequent reclassifications into or out of the 'at fair value through profit or loss' category are prohibited. The Group no longer recognises gains and losses on available-for-sale financial assets in profit or loss but in equity.

The Group amended its policies for derecognition of financial assets. Under the original IAS 39, several concepts governed derecognition. The revised IAS 39 retains the two main concepts of risks and rewards and control, but clarifies that the evaluation of the transfer of risks and rewards precedes the evaluation of the transfer of control. The Group now applies the guidance added to IAS 39 on how to determine fair values using valuation techniques and how to evaluate impairment in a group of loans, receivables or held-to-maturity investments which cannot yet be identified with any individual asset in the group. In accordance with the standard's transitional provisions the revised accounting policies are applied retrospectively except for the clarified derecognition rules which are applied prospectively from 1 January 2004. Although allowed by the standard, the Group has not redesignated any financial instrument into 'at fair value through profit or loss' or 'available for sale' categories at the date of initial application of the revised IAS 39.

IAS 40 (revised 2003) Investment Property. In accordance with the transitional provisions the Group can now classify operating leases as investment property under the fair value model provided that the rest of the definition of investment property is met. Such operating leases would be accounted for as if they were finance leases. This classification alternative is available on a property–by–property basis. The revised IAS 40 has no impact on these consolidated financial statements.

IFRS 3 (issued 2004) Business Combinations. The Group applies transitional provisions of IFRS 3 and accounts for all business combinations for which the agreement date is on or after 31 March 2004 and which are within the scope of IFRS 3 by applying the purchase method. For these transactions, the Group amended its policies for the application of the purchase method: (i) the Group now separately recognises, at the acquisition date, the acquiree's contingent liabilities if their fair values can be measured reliably; and (ii) the identifiable assets, liabilities and contingent liabilities are now measured at their fair values irrespective of the extent of any minority interest.

IFRS 5 (issued 2005) Non-current Assets Held for Sale and Discontinued Operations. The Group applies IFRS 5 prospectively in accordance with its transitional provisions to non-current assets (or disposal groups) that meet the criteria to be classified as 'held for sale' and operations that meet the criteria to be classified as 'discontinued' after 1 January 2005. The Group's accounting policies now describe assets 'held for sale' as those that will be recovered principally through a sale transaction rather than through continuing use. Subject to certain exceptions, for example for financial assets, assets or disposal groups that are classified as 'held for sale' are now measured at the lower of carrying amount and fair value less costs to sell. Such assets cease to be depreciated and are presented separately on the face of the balance sheet.

4 Adoption of New or Revised Standards and Interpretations (Continued)

IFRIC 1 (issued 2004) Changes in Existing Decommissioning, Restoration and Similar Liabilities. Changes in the measurement of an existing asset retirement obligation that result from changes in the estimated timing or amount of the outflows, or from changes in the discount rate now alter the previously recognised revaluation surplus or deficit for assets carried at valuation or adjust the cost of the related asset in the current period for assets carried under the cost model. IFRIC 1 has no impact on this consolidated financial statements.

IFRIC 2 (issued 2004) Members' Shares in Co-operative Entities and Similar Instruments. Shares are now equity only if the Group has an unconditional right to refuse their redemption.

Adoption of new or revised standards and interpretations did not have a material impact on these consolidated financial statements.

5 New Accounting Pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods and which the entity has not early adopted:

IAS 39 (Amendment) – The Fair Value Option (effective from 1 January 2006). IAS 39 (as revised in 2003) permitted entities to designate irrevocably on initial recognition practically any financial instrument as one to be measured at fair value with gains and losses recognised in profit or loss ('fair value through profit or loss'). The amendment changes the definition of financial instruments 'at fair value through profit or loss' and restricts the ability to designate financial instruments as part of this category. The Group's policy is not to voluntarily designate assets and liabilities as at fair value through profit or loss.

IAS 39 (Amendment) – Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss.

IAS 39 (Amendment) – Financial Guarantee Contracts (effective from 1 January 2006). Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognition of financial assets or result in continuing involvement accounting.

IFRS 7 Financial Instruments: Disclosures and a complementary Amendment to IAS 1 Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007). The IFRS introduces new disclosures to improve the information about financial instruments. Specifically, it requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk including sensitivity analysis to market risk. It replaces some of the requirements in IAS 32, Financial Instruments: Disclosure and Presentation. The Amendment to IAS 1 introduces disclosures about level of an entity's capital and how it manages capital. The Group is currently assessing what impact the new IFRS and the amendment to IAS 1 will have on disclosures in its consolidated financial statements.

IAS 19 (Amendment) – Employee Benefits (effective from 1 January 2006). The amendment to IAS 19 introduces an additional option to recognise actuarial gains and losses arising in post-employment defined benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employers.

IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). IFRS 6 allows an entity to continue using the accounting policies for exploration and evaluation assets applied immediately before adopting the IFRS, subject to certain impairment test requirements.

IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset.

5 New Accounting Pronouncements (Continued)

IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds (effective from 1 January 2006). Subject to certain exceptions, this interpretation prohibits offsetting a liability for decommissioning costs with an asset representing an interest in a decommissioning or similar fund and clarifies measurement of the reimbursement asset.

IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective for periods beginning on or after 1 December 2005, that is from 1 January 2006). The Interpretation states that a liability shared among market participants in proportion to their respective market share, in particular the liability for the decommissioning of historical waste electrical and electronic equipment in the European Union, should not be recognised because participation in the market during the measurement period is the obligating event in accordance with IAS 37.

IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007). The Interpretation clarifies application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that IAS 29 should initially be applied as if the economy has always been hyperinflationary. It further clarifies calculation of deferred income taxes in the opening balance sheet restated for hyperinflation in accordance with IAS 29.

IFRIC 8, Scope of IFRS 2 (effective for periods beginning on or after 1 May 2006, that is from 1 January 2007). The interpretation states that IFRS 2 also applies to transactions in which the entity receives unidentifiable goods or services and that such items should be measured as the difference between the fair value of the share-based payment and the fair value of any identifiable goods or services received (or to be received).

IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). The Interpretation clarifies certain aspects of the treatment of embedded derivatives under IAS 39 Financial Instruments: Recognition and Measurement. IFRIC 9 concludes that reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Interpretation shall be applied retrospectively.

IAS 21 (Amendment) – Net Investment in a Foreign Operation (effective from 1 January 2006). This amendment requires foreign exchange gains and losses on quasi-equity intercompany loans to be reported in consolidated equity even if the loans are not in the functional currency of either the lender or the borrower. Currently, such exchange differences are required to be recognised in consolidated profit or loss. It also extends the definition of ‘net investment in a foreign operation’ to include loans between sister companies.

IFRS 1 (Amendment) – First-time Adoption of International Financial Reporting Standards and IFRS 6 Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). This minor amendment to IFRS 1 clarifies that the IFRS 6 comparative information exemption applies to the recognition and measurement requirements of IFRS 6, as well as the disclosure requirements.

Unless otherwise described above, these new standards and interpretations are not expected to significantly affect the Group’s consolidated financial statements.

6 Segment Information

The Group has only one business segment – zinc and zinc alloys production. With regards to the secondary geographical segments, sales are based on the country in which the customer is located, while total assets and capital expenditures are based on where the assets are located. All of the Group’s assets and capital expenditures are located in the Russian Federation. For the geographical segments of the Group’s sales refer to Note 16.

7 Balances and Transactions with Related Parties

For the purposes of these consolidated financial statements, parties are considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Company's immediate parent and ultimate controlling party are disclosed in Note 1.

Related parties of the Group are predominantly comprised of parties under the control of the Group's shareholders or acting as agents on behalf of the parties controlled by the Group's shareholders. Related parties may enter into transactions which unrelated parties may not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions or had significant balances outstanding at 31 December 2005, 2004 and 2003 are detailed below.

(i) Balance sheet caption

In thousands of Russian Roubles	Note	2005	2004	2003
Assets				
Receivable from OJSC CTRP		49	4,916	2,632
Receivable from CJSC SKS METRIS		-	-	2,341
Total receivable	10	49	4,916	4,973
Interest receivable from CJSC GROUP CTRP	10	2,933	1,625	-
Prepaid insurance	10,18	-	-	207,799
Loans to OJSC CTRP		-	60,000	-
Loans to CJSC CTRP-META		-	75,009	-
Loans to CJSC GROUP CTRP		26,000	34,000	-
Total loans		26,000	169,009	-
Total assets		**28,982**	**175,550**	**212,772**
Liabilities				
Payable to CJSC SKS METRIS	14	(380)	(316)	-
Advances received from OJSC CTRP	14	(10)	-	-
Total liabilities		**(390)**	**(316)**	**-**

(ii) Income statement caption

In thousands of Russian Roubles	Note	2005	2004	2003
Revenue				
Sales to OJSC CTRP		86,724	62,325	4,480
Sales to CJSC SKS METRIS		-	2,311	1,951
Sales to Euromin S. A.*		-	-	263,827
Total sales	16	**86,724**	**64,636**	**270,258**
Purchases				
Purchases from CJSC SKS METRIS		(4,657)	(1,457)	-
Purchases from CJSC “CTRP-KTS		(64)	-	-
Purchases from CJSC MZMZ		-	(17)	-
Purchases from OJSC CTRP		-	(820)	-
Total purchases		**(4,721)**	**(2,294)**	**-**

7 Balances and Transactions with Related Parties (Continued)

Finance income				
Interest on loan provided to OJSC CTRP		1,545	705	-
Interest on loan provided to CJSC SKS METRIS		3,377	1,984	-
Interest on loan provided to CJSC GROUP CTRP		3,092	102	-
Interest on loan provided to CJSC CTRP-META		4,493	1,712	-
Interest on loan provided to OJSC Basa MTS		249	-	-
Interest on loan provided to CJSC SOT		964	-	-
Interest on loan provided to CJSC CTRP-KTS		1,477	-	-
Total finance income		**15,197**	**4,503**	**-**
Insurance expense	18	-	(209,347)	(7,000)
Gain/(loss) on origination of promissory note to Albion Proekt	19	-	12,038	(12,038)
Loss on sale of Property, Plant and Equipment to Abroil Holdings		-	-	(7,494)

(iii) Cash Flow statement caption

In thousands of Russian Roubles	Note	2005	2004	2003
Operating activities				
Cash receipts from OJSC CTRP for goods sold		107,211	71,259	2,744
Cash receipts from CJSC SKS METRIS		-	5,088	-
Cash receipts from Euromin		-	-	282,770
Payments to CJSC SKS METRIS		(5,431)	(1,403)	-
Payments to CJSC MZMZ		-	(17)	-
Payments to OJSC CTRP		-	(820)	-
Payments to CJSC "CTRP-KTS		(75)	-	-
Payment of insurance premium	18	-	-	(214,799)
Total cash flows from operating activities		**101,705**	**74,107**	**70,715**
Investing activities				
Interest received from OJSC CTRP		1,545	705	-
Interest received from CJSC SKS METRIS		3,377	1,984	-
Interest received from CJSC GROUP CTRP		159	102	-
Interest received from CJSC CTRP-META		6,118	87	-
Interest received from CJSC OJSC Basa MTS		249	-	-
Interest received from CJSC SOT		964	-	-
Interest received from CJSC CTRP-KTS		1,477	-	-
Total interest received		13,889	2,878	-
Loan to OJSC CTRP		(20,000)	(60,000)	-
Loan to CJSC CTRP-META		(220,000)	(75,009)	-
Loan to CJSC GROUP CTRP		(22,000)	(34,000)	-
Loan to CJSC SKS METRIS		(230,000)	(30,000)	-
Loan to CJSC SOT		(25,000)	-	-
Loan to OJSC Basa MTS		(10,000)	-	-
Loan to CJSC CTRP-KTS		(135,000)	-	-
Total loans given		(662,000)	(199,009)	-

7 Balances and Transactions with Related Parties (Continued)

In thousands of Russian Roubles	Note	2005	2004	2003
Loan redeemed by CJSC SKS METRIS		230,000	30,000	-
Loan redeemed by CJSC SOT		25,000	-	-
Loan redeemed by OJSC Basa MTS		10,000	-	-
Loan redeemed by CJSC CTRP-META		295,009	-	-
Loan redeemed by OJSC CTRP		80,000	-	-
Loan redeemed by CJSC GROUP CTRP		30,000	-	-
Loan redeemed by CJSC CTRP-KTS		135,000	-	-
Total loans redeemed		805,009	30,000	-
Proceeds from sale of Property, Plant and Equipment to Abroil Holding*		-	-	72,900
Total cash flows from/(used in) investing activities		**156,898**	**(166,131)**	**72,900**

* - from July 2003 through 31 December 2003 these parties are no longer related.

OJSC CTRP (CTRP), CJSC GROUP CTRP (GROUP CTRP), CJSC SKS METRIS (METRIS), CJSC CTRP-META (CTRP-META), CJSC MZMZ (MZMZ), CJSC SOT (SOT), OJSC Basa MTS (Basa MTS), CJSC CTRP-KTS (CTRP KTS)

These companies are controlled by the Group's shareholders.

During 2005 the Group supplied 1,936 tons of zinc and zinc alloys (2004: 1,788 tons and 2003: 131 tons) in accordance with the agreements with CTRP at the price determined as the LME official quotation for the metric ton of SHG zinc averaged over the quotation period and adjusted for the coefficient 1.12 for zinc and 1.15 for zinc alloys. As at 31 December 2005 the Group had a net receivable balance of RR 39 thousand (31 December 2004: RR 4,916 thousand and 31 December 2003: RR 2,632 thousand) from CTRP.

In 2004 the Group supplied 67 tons of zinc (2003: 63 tons) in accordance with the agreements with METRIS at the price determined as the London Metals Exchange (LME) official quotation for metric ton of SHG zinc averaged over the quotation period and adjusted for the coefficient 1.08. At 31 December 2004 the Group had a nil receivable balance from METRIS (31 December 2003: RR 2,341 thousand) .

In 2005 the Group provided short-term loans to CTRP, CTRP-META, GROUP CTRP, METRIS, SOT, Basa MTS and CTRP-KTS in the amount RR 20 million, RR 220 million, RR 22 million, RR 230 million, RR 25 million, RR 10 million and RR 135 million, respectively (2004: RR 60 million, RR 75 million, RR 34 million, RR 30 million to CTRP, CTRP-META, GROUP CTRP and METRIS, respectively, and 2003: nil). In 2005 all the loans were fully redeemed, except for the one provided to GROUP CTRP. At 31 December 2005 the loan receivable balance from GROUP CTRP was RR 26 million (31 December 2004: RR 60 million, RR 34 million and RR 75 million from CTRP, GROUP CTRP, and CTRP-META, respectively, and 31 December 2003: nil).

The loans bear interest of 10-11% p.a. in both 2005 and 2004. Management believes that the actual interest rates do not differ significantly from the market interest rates. For the year ended 31 December 2005 the interest income on the loans given amounted to RR 15.2 million (31 December 2004: RR 4.5 million). At 31 December 2005 interest receivable from GROUP CTRP amounted to RR 2.9 million (31 December 2004: RR 1.6 million and 31 December 2003: nil).

In 2005 the Group made purchases of inventory (pipe-bends, pipes) from METRIS and CTRP-KTS totalling RR 4.7 million. In 2004 the Group made purchases of inventory (pipe-bends, pipes) from METRIS, MZMZ and some services from CTRP for the total amount of RR 2.3 million (2003: nil). At 31 December 2005 the Group had a net payable balance of RR 0.4 million (31 December 2004: RR 0.3 million and 31 December 2003: nil) to METRIS.

7 Balances and Transactions with Related Parties (Continued)

Euromin

Zinc sales to Euromin S.A., a Vitol Group company (Note 1), during the year ended 31 December 2003 amounted to RR 490 million (zinc sales in 2003 to Euromin S.A. through June 2003 amounted to RR 184 million). Zinc tolling revenue for services provided to Euromin S.A. amounted to RR 186 million (zinc tolling revenue for services provided to Euromin S.A. through June 2003 amounted to RR 61 million). Other sales to Euromin S.A. (indium, cadmium) amounted to RR 47 million (other sales to Euromin S.A. through June 2003 amounted to RR 19 million).

During 2003 zinc price for sales to Euromin S.A. fluctuated between US$ 755 – US$ 945 per metric ton based on the official LME 'settlement' quotation for SHG zinc averaged for the quotation period, less a discount of US$ 10 - 70 per metric ton. As at 31 December 2003 the Company had a net payable balance of RR 77 million to Euromin SA. From 1 July 2003 Euromin was no longer a related party (Note 1).

Abroil Holding

During year 2003 the Group sold the office premises, situated in Moscow, Tverskaya street; the flat, situated in Moscow, Bronnaya street; and an attic-floor room in Moscow, Tverskaya street; to Abroil Holding, a Vitol Group controlled entity, with total proceeds amounting to RR 73 million (excluding VAT). The Company realized a loss on this transaction of RR 7 million before tax.

(iv) Directors' and key management's compensation

Total directors' and key managements' compensation is represented by contractual salary and remuneration paid to members of the Board of directors. It is recorded in general and administrative expenses in the statement of income in the amount of RR 27.0 million, RR 13.2 million and RR 10.4 million for the years ended 31 December 2005, 2004 and 2003, respectively. There were 14 members of the directors and key management group in 2005 (2004 and 2003: 9 members).

(v) Guaranties given on behalf of related parties

LK-Prom and Imtekhnoservis

In 2003 the Group entered into a guarantee agreement with AKB RosEvroBank (REB) to guarantee repayment of a US$ 2 million (RR 55.5 million) loan by Imtekhnoservis LLC., a party controlled by the shareholders of the Group, and repayment of RR 22 million loan by LK-Prom LLC., a party controlled by the shareholders of the Group. For the latter loan REB also held a pledge over 1,500 tons of zinc in zinc concentrate and 950 tons of zinc of the Group with the total carrying value of approximately RR 39 million as at 31 December 2004 (31 December 2003: RR 40 million) (Note 9).

In 2005 the loan of Imtekhnoservice LLC. was fully redeemed and LK-Prom LLC. was declared bankrupt. The total amount of expenses incurred by the Group in respect of the guarantee agreement with REB in favour of LK-Prom LLC. was RR 25 million, including interest (Note 18).

8 Property, Plant and Equipment and Intangible Assets

Movements in the carrying amount of property, plant and equipment and intangible assets were as follows:

In thousands of Russian Roubles	Land	Buildings and infrastructure	Plant, machinery and equipment	Other	Intangible assets	Construction in progress	Total
Cost at 1 January 2003	**-**	**1,562,137**	**2,245,890**	**210,077**	**3,862**	**544,790**	**4,566,756**
Accumulated depreciation	**-**	**(204,032)**	**(291,442)**	**(72,150)**	**(599)**	**-**	**(568,223)**
Carrying amount at 1 January 2003	**-**	**1,358,105**	**1,954,448**	**137,927**	**3,263**	**544,790**	**3,998,533**
Additions/Transfers	45,419	147,921	353,165	7,924	-	(114,913)	439,516
Disposals	-	(80,390)	(3,201)	(1,127)	-	(39,849)	(124,567)
Depreciation charge	-	(76,338)	(266,540)	(28,274)	(1,133)	-	(372,285)
Carrying amount at 31 December 2003	**45,419**	**1,349,298**	**2,037,872**	**116,450**	**2,130**	**390,028**	**3,941,197**
Cost at 31 December 2003	**45,419**	**1,604,953**	**2,580,893**	**212,082**	**3,862**	**390,028**	**4,837,237**
Accumulated depreciation	**-**	**(255,655)**	**(543,021)**	**(95,632)**	**(1,732)**	**-**	**(896,040)**
Carrying amount at 31 December 2003	**45,419**	**1,349,298**	**2,037,872**	**116,450**	**2,130**	**390,028**	**3,941,197**
Additions/Transfers	-	97,724	92,383	23,997	23,662	(87,426)	150,340
Disposals	-	(38)	(2,631)	(3,986)	(5)	(7,494)	(14,154)
Depreciation charge	-	(83,302)	(305,324)	(30,892)	(980)	-	(420,498)
Carrying amount at 31 December 2004	**45,419**	**1,363,682**	**1,822,300**	**105,568**	**24,808**	**295,108**	**3,656,885**
Cost at 31 December 2004	**45,419**	**1,692,627**	**2,657,245**	**227,363**	**27,508**	**295,108**	**4,945,270**
Accumulated depreciation	**-**	**(328,945)**	**(834,945)**	**(121,795)**	**(2,700)**	**-**	**(1,288,385)**
Carrying amount at 31 December 2004	**45,419**	**1,363,682**	**1,822,300**	**105,568**	**24,808**	**295,108**	**3,656,885**
Additions/Transfers	-	19,232	48,931	25,665	-	11,760	105,588
Disposals	-	-	(4,443)	(4,247)	-	(2,330)	(11,020)
Depreciation charge	-	(89,032)	(300,731)	(25,127)	(780)	-	(415,670)
Carrying amount at 31 December 2005	**45,419**	**1,293,882**	**1,566,057**	**101,859**	**24,028**	**304,538**	**3,335,783**
Cost at 31 December 2005	**45,419**	**1,711,718**	**2,684,679**	**245,271**	**27,508**	**304,538**	**5,019,133**
Accumulated depreciation	**-**	**(417,836)**	**(1,118,622)**	**(143,412)**	**(3,480)**	**-**	**(1,683,350)**
Carrying amount at 31 December 2005	**45,419**	**1,293,882**	**1,566,057**	**101,859**	**24,028**	**304,538**	**3,335,783**

8 Property, Plant and Equipment and Intangible Assets (Continued)

At 31 December 2005, 2004 and 2003 the gross carrying value of fully depreciated property, plant and equipment still in use approximated RR 371 million, 284 million and 222 million, respectively.

In November 2003 the Group purchased 687,600 square meters of land (100% of total land occupied by the plant), for a consideration of RR 45 million. The transaction was registered as required by the Russian legislation in February 2004.

Intangible assets include cost of obtaining "CZP SHG" (Chelyabinsk Zink Plant Special High Grade) certification with the carrying value of RR 23.6 million. The product was officially registered at the London Metal Exchange in December 2004.

9 Inventories, net

In thousands of Russian Roubles	**2005**	**2004**	**2003**
Raw materials and consumables	1,192,611	381,707	505,660
Work in progress	163,410	65,501	80,036
Finished products	86,584	102,013	80,531
Precious metals	11,454	2,765	84,142
Goods for resale	43,095	-	-
Provision for obsolete and slow-moving inventory	(18,169)	(13,143)	(23,227)
Total inventories, net	**1,478,985**	**538,843**	**727,142**

At 31 December 2005 the Group has accumulated zinc cakes (a by-product with approximately 20% zinc content, which requires substantial processing to extract zinc) in excess of 100.8 thousand tons (31 December 2004: 122.7 thousand tons and 31 December 2003: 114.5 thousand tons), which has not been processed due to the limited capacity of certain workshops. It is expected that reduced production output will allow the Group to further decrease the accumulated stock of zinc cakes in 2006 with the existing capacity. It is also possible to introduce improvements to the existing production process in order to avoid zinc cakes stock build up when projected production output is maintained and ensure processing of the stock which has already been accumulated. The Group approved installation of such processing equipment during the period from 2003 to 2005. However, in 2005 this program was suspended due to reduction of production output and only resumed at the end of 2005. The expected commission date is 1 May 2007 with the estimated cost to completion of US$ 19.5 million (RR 561.3 million). The carrying value of zinc cakes is substantially lower than its potential resale value and cost of zinc content. The carrying value of zinc cakes, included in consumables, amounted to RR 36 million (2004: RR 44 million and 2003: RR 40 million). At 31 December 2005 the EBRD held a pledge over the 100.8 thousand tons of zinc cakes of the Group as a guarantee over the loan facility (Note 13).

At 31 December 2005 there is no other inventory pledged by the Group. At 31 December 2004 the Chelindbank held a pledge over 2,580 tons of zinc concentrate of the Group with the carrying value of RR 24 million (2003: nil) as a security over the overdraft facility and REB held a pledge over 1,500 tons of zinc in zinc concentrate and 950 tons of finished zinc with the total carrying value of RR 39 million (2003: RR 40 million) as a security over the loan obtained by LK-Prom LLC., a related party (Note 7).

The precious metals are stated at net realisable value ("NRV"). NRV is determined by reference to the Central Bank of the Russian Federation quotations. The change in NRV of the precious metals balance for the period is included within cost of sales (Note 17).

Reversal of a write-down of inventories in the year ended 31 December 2004 is comprised of RR 4,429 thousand relating to zinc sulphate and RR 5,655 thousand relating to consumables. This reversal was justified by the increased selling price of the inventories subsequent to 31 December 2003.

10 Trade and Other Receivables, net

In thousands of Russian Roubles		2005	2004	2003
Trade receivables RR denominated – third parties		42,377	29,614	36,930
Trade receivables RR denominated – related parties	7	49	4,916	4,973
Trade receivables US$ denominated		186,507	12,105	529
Less provision for impairment of trade receivables		(1,481)	(949)	(6,445)
VAT and other taxes recoverable		330,762	298,563	296,971
Interest receivable – related parties	7	2,933	1,625	-
Property insurance prepaid – related parties	7	36,792	40,410	207,799
Other prepayments		90,427	67,186	47,271
Other receivables		1,403	10,302	3,762
Less provision for impairment of other receivables		-	(1,663)	(4,171)
Total trade and other receivables, net		**689,769**	**462,109**	**587,619**

11 Cash and Cash Equivalents

In thousands of Russian Roubles	2005	2004	2003
RR denominated bank balances payable on demand and cash on hand	6,391	12,654	46,897
US$ denominated bank balances payable on demand	1,925	7,271	38,905
EURO denominated bank balances payable on demand	-	36	40
RR term deposits	50,538	85,000	-
US$ term deposits	69,078	83,246	-
Promissory notes	3,808	-	6,400
Total cash and cash equivalents	**131,740**	**188,207**	**92,242**
Restricted cash	**4,073**	**5,293**	**-**

At 31 December 2005 short-term deposits denominated in Roubles include cash deposited with the Uralsky Kommerchesky Bank in the amount RR 50 million at 5% p.a. maturing in January 2006.

At 31 December 2004 short-term deposits denominated in Roubles include cash deposited with the Chelindbank in the amount RR 70 million at 4.5% p.a. maturing in January 2005 and cash deposited with the Agropromkredit bank in the amount RR 15 million at 12% p.a. maturing 31 December 2005.

At 31 December 2005 short-term deposits denominated in US Dollars include cash deposited with the Chelindbank in the amount RR 28.8 million (equivalent of US$ 1 million) at 1% p.a. maturing 16 January 2006 and cash deposited with the Uralvneshtorgbank in the amount RR 40.3 million (equivalent of US$ 1.4 million) at 7% p.a. maturing 15 March 2006.

At 31 December 2004 short-term deposits denominated in US Dollars include cash deposited with Chelindbank in the amount RR 55.5 million (equivalent of US$ 2 million) at 6.0% p.a. maturing 17 March 2005 and cash deposited with the Agropromkredit bank in the amount RR 27.7 million (equivalent of US$ 1 million) at 7.25% p.a. maturing 15 March 2005.

The balance of restricted cash as at 31 December 2005 includes a promissory note of the Kreditny Agroprombank for RR 2.8 million pledged with this bank as a guarantee for payments to customs authorities. This promissory note is non-interest bearing. It matures in January 2007. The remaining amount of RR 1.3 million is represented by a letter of credit opened with the Chelindbank in favour of G. Diefenbach S.r.l. for supply of equipment. This letter of credit matured 11 March 2006.

At 31 December 2004 the balance of restricted cash includes promissory notes of the Vneshtorgbank for RR 2.5 million and the Agropromkredit bank for RR 2.8 million pledged with the respective banks as a guarantee for payments to customs authorities. These promissory notes are short-term and non-interest bearing.

12 Share capital

The nominal registered amount of the Company's issued share capital prior to restatement of capital contributions made before 1 January 2003 to the purchasing power of the Russian Rouble at 31 December 2002 is RR 637 thousand (2004: RR 637 thousand and 2003: RR 637 thousand). At 31 December 2005, 2004 and 2003 authorized, issued and fully paid share capital consists of 636,796 ordinary shares with a nominal value of RR 1 each. Each ordinary share carries one vote.

Share premium represents the excess of contributions received over the nominal value of shares issued.

In April 2004 the shareholders' meeting approved declaration of the right to issue 5,000,000 additional ordinary shares with the par value of RR 1 each, and authorized additional issue of 1,500,000 ordinary shares with the par value of RR 1 at RR 500 per share by private offering. As at 31 December 2005 no additional ordinary shares were issued.

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For the year ended 31 December 2005, the current year net statutory profit for the Company as reported in the published annual statutory reporting forms was RR 268 million (year ended 31 December 2004: RR 127 million and 31 December 2003: RR 144 million). However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these consolidated financial statements.

The legal reserve is stipulated by the Law for Joint Stock Companies and equals 15% of authorized share capital value in the Russian statutory financial statements. The legal reserve of RR 96 thousand recorded in the statutory financial statements is different from the respective reserve in these consolidated financial statements due to inflation effect.

In April 2006 the annual shareholders meeting decided not to pay dividends for 2005. There were no dividends declared in 2005 for 2004 and in 2004 for 2003. The amounts of unpaid approved and declared dividends, relating to prior periods, as of 31 December 2005 were nil (2004: RR 1,640 thousand and 2003: RR 1,756 thousand).

13 Borrowings

In thousands of Russian Roubles	**2005**	**2004**	**2003**
EBRD loan - long-term portion	-	260,144	474,954
Total non-current borrowings	**-**	**260,144**	**474,954**
EBRD loan - current portion of long-term borrowing	269,836	187,304	154,636
REB loan	-	-	12,038
Total current borrowings	**269,836**	**187,304**	**166,674**

The long-term loan maturity schedule is as follows:

In thousands of Russian Roubles	**2005**	**2004**	**2003**
1 to 2 years	-	135,275	198,818
2 to 3 years	-	83,246	143,591
3 to 4 years	-	41,623	88,364
4 to 5 years	-	-	44,181
Total current borrowings	**-**	**260,144**	**474,954**

13 Borrowings (continued)

At 31 December 2005 current portion of long-term borrowings is represented by a loan from the European Bank of Reconstruction and Development (EBRD) for financing the plant renovation program. The EBRD loan is denominated in US$. It bears an interest rate of LIBOR+4.25% (2004: LIBOR+4.5% and 2003: LIBOR +6%) for the first two tranches of the loan in the amounts US$ 8 million (RR 222 million) and US$ 7 million (RR 194.3 million), respectively, and LIBOR+4.5% (2004: LIBOR+4.75% and 2003: LIBOR +5%) for the third and fourth tranches in the amounts US$ 7 million (RR 194.3 million) and US$ 5 million (RR 138.8 million), respectively. The forth tranche of the loan was arranged in 2003, in the amount of US$ 5 million (RR 147 million).

The EBRD holds a pledge over 100.8 thousand tons of zinc cakes of the Group as a guarantee over the loan facility. The carrying value of the zinc cakes pledged as guarantee for the loan is RR 36 million (Note 9).

The EBRD loan is collateralized by the Company's shares pledged by NF Holdings BV (Note 1). The EBRD loan contains covenants on adequacy of capital expenditure, dividend payments, property insurance, operations with related parties and certain other clauses. Due to a failure to comply with all of the debt covenants as of 31 December 2005 the loan was classified as current. In March 2006 the Group repaid the remaining amount of the EBRD loan ahead of schedule (Note 25).

Management believes that the effective interest rates do not differ significantly from the nominal interest rates disclosed above.

Management believes that the fair value of the EBRD loan does not differ significantly from the carrying amount.

In 2003 the Group signed a revolving credit line agreement with AKB RosEvroBank (REB) and received RR 150 million at 12% p.a. under this agreement, repayable in September 2004. Simultaneously the Group purchased a non-interest bearing promissory note of Albion Proekt LLC., a party controlled by the shareholders of the Group, at the nominal amount of RR 150 million redeemable in September 2004. As at 31 December 2003 the Group had a legally enforceable right to set off the principle loan amount payable to REB against the amount of promissory note. Therefore, as at 31 December 2003 balances were presented on a net basis as a payable of RR 12 million within short-term borrowings in the Group's balance sheet.

The difference between the fair value of the promissory note calculated as the net present value of the amount receivable discounted at the market interest rate at the date of origination of 12% p.a. and the nominal amount was recorded in the statement of income as loss on origination in 2003, for the benefit of an entity controlled by the shareholders of the Group (Note 7).

The Group did not enter into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

14 Accounts payable, Accrued expenses and Advances from customers

In thousands of Russian Roubles	**Note**	**2005**	**2004**	**2003**
Trade payables RR denominated – third parties		378,125	84,053	106,445
Trade payables RR denominated – related parties	7	380	316	-
Trade payables US$ denominated – third parties		313,445	-	-
Advances from customers RR denominated – third parties		30,462	41,920	39,237
Advances from customers RR denominated – related parties	7	10	-	-
Advances from customers US$ denominated – third parties		43,892	25	77,182
Payroll and social tax payable		12,759	8,931	8,699
Interest payable		6,531	9,320	9,866
Accrued liabilities and other creditors		23,329	3,545	8,321
Accounts payable, accrued expenses and advances from customers		**808,933**	**148,110**	**249,750**

15 Other Taxes Payable

In thousands of Russian Roubles	2005	2004	2003
VAT payable	-	-	12,952
Property tax	14,304	14,719	-
Personal income tax	1,829	1,559	1,489
Other taxes	857	29	30
Total other taxes payable	**16,990**	**16,307**	**14,471**

16 Revenue

In thousands of Russian Roubles	Note	2005	2004	2003
Zinc and zinc alloys – third parties		4,072,169	3,117,837	3,301,000
Zinc and zinc alloys – related parties	7	86,184	64,110	189,681
Zinc tolling – third parties		103,401	303,958	124,508
Zinc tolling – related parties	7	-	-	61,154
Other – third parties		528,865	486,023	405,726
Other – related parties	7	540	526	19,423
Total sales		**4,791,159**	**3,972,454**	**4,101,492**

In 2005 export sales of zinc, zinc alloys and by-products comprised RR 1,032,799 thousand (2004: RR 882,961 thousand and 2003: RR 800,092 thousand). 88% of the Group's export sales were to Europe, 9% to Asia and 3% to CIS countries (2004: 90% to Europe, 6% to USA, 3% to CIS countries and 1% to Middle East and 2003: 97% to Europe, 2% to Asia and 1% to CIS countries). Other revenue comprised sales of zinc production process by-products including: indium, cadmium, sulplunic acid and other products.

17 Cost of sales

In thousands of Russian Roubles	Note	2005	2004	2003
Materials and consumables used		2,476,250	1,805,995	1,788,236
Utilities and fuel		587,721	661,807	669,347
Production overheads		144,409	131,564	159,580
Repairs and maintenance		146,714	126,090	205,558
Depreciation and amortisation	8	415,670	420,498	372,677
Staff costs		107,414	87,520	84,847
Change in work-in-progress		(97,909)	14,535	(7,401)
Change in finished goods		15,429	(21,482)	(15,217)
Inventory obsolescence provision, net	9	5,026	(10,084)	5,483
Social costs		19,147	14,109	20,679
Precious metals revaluation		(5,764)	(1,928)	(14,057)
Cost of goods and materials for resale		229,996	136,838	139,797
Total cost of sales		**4,044,103**	**3,365,462**	**3,409,529**

18 Distribution, General and Administrative expenses

In thousands of Russian Roubles	Note	2005	2004	2003
Transportation and customs duties		113,392	158,717	150,645
Total distribution expenses		**113,392**	**158,717**	**150,645**
Staff costs		77,339	78,231	77,719
Repairs and maintenance		40,893	32,761	24,362
Property insurance – third parties		47,629	783	11,577
Property insurance – related parties	7	-	209,347	7,000
Property tax		62,909	65,860	23,415
Land tax		20,270	18,106	16,486
Other taxes		(1,139)	2,898	3,280
Impairment of trade and other receivables		(199)	(6,210)	3,234
Loss on disposal of property, plant and equipment – third parties		7,685	3,848	1,098
Loss on disposal of property, plant and equipment – related parties	7	-	-	7,494
Expenses under surety agreement	7	24,951	-	-
Other income and expenses, net		102,638	73,780	70,082
Total general and administrative expenses		**382,976**	**479,404**	**245,747**

Total depreciation expense and staff costs (including social expenses) in cost of sales and general and administrative expenses amounted to RR 415,670 thousand (2004: RR 420,498 thousand and 2003: RR 372,677 thousand) and RR 216,611 thousand (2004: RR 179,860 thousand and 2003: RR 183,245 thousand), respectively.

In 2003 the Group prepaid to an insurance company RR 215 million of premium under an insurance agreement for property damage and business interruption expiring 14 October 2004. The shareholders of the ultimate holding company have advised the Company that they have received a significant balance of the amounts prepaid by the Company in 2003. These amounts effectively represent distributions to the shareholders of the ultimate holding company. In 2004 the Group concluded a new insurance agreement with the insurance company expiring 14 October 2005 and made a prepayment of RR 42 million of insurance premium on 20 December 2004. In 2005 the Group prolonged the insurance agreement with the insurance company, for the period from 15 October 2005 till 14 October 2006 and made a prepayment of RR 42.3 million of insurance premium on 18 November 2005. The insurance contract provides for insurance coverage of RR 2,923 million (2004: RR 2,923 million and 2003: RR 10,755 million) not to exceed the replacement cost of the assets insured and a deductible limit of RR 7 million (2004: RR 3 million and 2003: RR 1.5 million) under property insurance and 90 days (2004: 90 days and 2003: 45 days) under business interruption insurance. At 31 December 2005 the book value of the insured property was RR 3,312 million (2004: RR 3,592 million and 2003: RR 4,668 million). The amount of insurance premium recognized in the income statement in 2005 in respect of both agreements was RR 45.9 million (2004: RR 209.3 million and 2003: RR 7 million).

19 Finance Income and Costs, net

In thousands of Russian Roubles	Note	2005	2004	2003
Interest income		(25,584)	(9,617)	(5,294)
Interest expense		26,610	42,491	43,412
Other finance cost	7, 13	-	-	12,038
Total finance income and costs, net		**1,026**	**32,874**	**50,156**

20 Income Taxes

Income tax expense comprises the following:

In thousands of Russian Roubles	**2005**	**2004**	**2003**
Current tax charge	94,323	41,065	-
Deferred tax charge/(credit)	109	(18,795)	78,952
Income tax expense for the year	**94,432**	**22,270**	**78,952**

A reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Russian Roubles	**2005**	**2004**	**2003**
IFRS profit/(loss) before tax	**241,657**	**(39,454)**	**283,671**
Theoretical tax charge/(credit) at statutory rate (2005: 24%; 2004: 24%)	57,998	(9,469)	68,081
Tax effect of items which are not deductible or assessable for taxation purposes:			
- Social expenses	5,977	9,285	7,725
- Business interruption insurance expenses	2,557	8,426	-
- Interest expense	-	4,308	-
- Expenses under surety agreement	5,988	-	-
- Other non deductible expenses	21,912	9,720	3,146
Income tax expense for the year	**94,432**	**22,270**	**78,952**

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 24% (2004 and 2003: 24%).

In thousands of Russian Roubles	**1 January 2003**	**(Charged) / credited to profit or loss**	**31 December 2003**	**(Charged) / credited to profit or loss**	**31 December 2004**	**(Charged) / credited to profit or loss**	**31 December 2005**
Tax effect of deductible temporary differences and tax loss carry forwards							
Accounts receivable	3,246	2,906	6,152	(5,348)	804	(627)	177
Accounts payable and accruals	11,223	(8,048)	3,175	(960)	2,215	17,783	19,998
Loss carry forward	-	15,715	15,715	(15,715)	-	-	-
Deferred tax asset	14,469	10,573	25,042	(22,023)	3,019	17,156	20,175
Tax effect of taxable temporary differences							
Property, plant and equipment	(118,645)	(67,552)	(186,197)	20,179	(166,018)	2,107	(163,911)
Inventories	(16,822)	(21,973)	(38,795)	20,639	(18,156)	(19,372)	(37,528)
Deferred tax liability	(135,467)	(89,525)	(224,992)	40,818	(184,174)	(17,265)	(201,439)
Total net deferred tax liability	**(120,998)**	**(78,952)**	**(199,950)**	**18,795**	**(181,155)**	**(109)**	**(181,264)**

21 Earnings/(loss) per Share

Basic earnings per share were calculated by dividing the profit attributable to equity holders of the Company of RR 147,225 thousand (2004: loss of RR 61,724 thousand and 2003: profit of RR 204,719 thousand) by the weighted average number of ordinary shares in issue during the year which comprised 636,796 shares in 2005 (2004: 636,796 shares and 2003: 636,796 shares).

The Company has no dilutive potential ordinary shares; therefore, the diluted earnings per share equals the basic earnings per share.

22 Contingencies, Commitments and Operating Risks

***Legal proceedings*.** During the year ended 31 December 2005, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of the management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these consolidated financial statements.

Tax legislation. 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 may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, 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.

Transfer pricing legislation, which was introduced from 1 January 1999, provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect to all controlled transactions, provided that the transaction price differs from the market price by more than 20%. Controlled transactions include transactions with related parties, barter transactions, foreign trade transactions and transactions with unrelated parties if the price differs on similar transactions with two different counterparties by more than 20%. There is no formal guidance as to how these rules should be applied in practice.

Additionally, in the current Russian tax environment, where the form and the accompanying documentation of a transaction generally meet the literal requirements of the applicable tax legislation, but the substance of the transaction may bring a different result, such transactions are generally not challenged by tax authorities. However, it is possible with the evolution of the interpretation of tax law in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transactions could be challenged in the future. The impact of such challenges has been estimated by management in the amount of 64 million roubles.

Management has assessed the Group's overall tax position based upon their understanding of the tax regulations and experience in working with the tax authorities. As a result, the Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2005 no provision for potential tax liabilities had been recorded (2004 and 2003: no provision).

Capital expenditure commitments. At 31 December 2005 the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling RR 1.4 million (2004: RR 78 million and 2003: RR 79 million).

Sales commitments. At 31 December 2005 the Group has entered into a number of agreements for zinc and zinc alloys supply in 2006 totalling approximately 89.9 thousand tons (2004: 237 thousand tons and 2003: 132 thousand tons), with a price to be agreed on the date of sale based on market prices.

At 31 December 2005 the Group has entered into a sale agreement for silver in 2006 totalling approximately 1,585,540 g, with a price to be agreed on the date of sale (2004: 1,422,662 g and 2003: nil).

Inventory purchase commitments. At 31 December 2005 the Group has entered into a number of agreements for zinc concentrate purchase in 2006, totalling approximately 3 thousand tons (2004: 10 thousand tons and 2003: 6 thousand tons), with a price to be agreed on the date of purchase based on market prices.

The Group has already allocated the necessary resources in respect of these commitments. The Group believes that future net income and funding will be sufficient to cover this and any similar such commitments.

22 Contingencies, Commitments and Operating Risks (Continued)

Guarantees. Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations.

As disclosed in the related parties transactions note (Note 7), in 2003 the Group entered into a guarantee agreement with REB to guarantee repayment of a US$ 2 million loan maturing in September 2005 by Imtekhnoservis LLC., a related party, and repayment of RR 22 million loan maturing in January 2006 by LK-Prom LLC., a related party. In 2005 LK-Prom LLC. was declared bankrupt and the Group paid to REB 25 million of respective principal and interest. Imtekhnoservice LLC. repaid its loan in full in 2005. As at 31 December 2005 there are no guarantees issued by the Group.

Insurance policies. Under the bank loan covenants (Note 13), the Group is to insure its assets during the loan period. The Group has insured most of its manufacturing property, plant and equipment during 2005 for a maximum of RR 2,923 million (2004: RR 2,923 million and 2003: RR 10,755 million). The Group also has business interruption insurance for a period of 90 days. However, the insurance does not cover the risks of damage to the third parties. Management does not assess exposure to such risks to be significant.

Environmental matters. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Operating environment of the Group. Whilst there have been improvements in economic trends in the Russian Federation, the country continues to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

The future economic direction of the Russian Federation is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Government, together with tax, legal, regulatory, and political developments.

Operating risks concentrations. Significant volume of zinc and zinc alloys sales is made by the Group to four customers: Trade House NLMK LLC., OJSC MMK, Alf Trading Group LLC. and Euromin S.A.. These customers account for 84% of the Group's total revenue from zinc and zinc alloys sales for the year ended 31 December 2005 (2004: 75% and 2003: 66%). The Group's management believes that exposure to the risk of total or partial loss of business relationship with these customers is not significant.

23 Financial Risk Management

Credit risk. Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. At 31 December 2005 the Group had 2 debtors with aggregated outstanding balances above RR 40 million. The total aggregate amount of these receivables was RR 186 million or 58% of the total trade and other receivables. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provisions already recorded.

Cash is placed in financial institutions, which are considered at time of deposit to have minimal risk of default.

Foreign exchange risk. The Group exports production to European and CIS countries and attracts a substantial amount of foreign currency denominated long-term borrowings and is thus exposed to foreign exchange risk. Foreign currency denominated assets (Note 10, 11) and liabilities (Note 13, 15) give rise to foreign exchange exposure.

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.

23 Financial Risk Management (Continued)

Interest rate risk. The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings. The interest rates on long-term borrowings are disclosed in Note 13. The Group has no significant interest-bearing assets, other than disclosed in Note 11.

Liquidity risk. Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

24 Fair Value of Financial Instruments

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgement is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation continues to display some characteristics of an emerging market and economic conditions continue to limit the volume of activity in the financial markets. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

Financial instruments carried at fair value. Available-for-sale investments are carried on the consolidated balance sheet at their fair value. Cash and cash equivalents are carried at t fair value.

Fair values were determined based on quoted market prices except for certain investment securities available for sale for which there were no available external independent market price quotations. These securities have been fair valued by the Group on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies. Valuation techniques required certain assumptions that were not supported by observable market data. Changing any such used assumptions to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade receivables approximate fair values.

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Refer to Note 13 for the estimated fair values of borrowings.

25 Events After the Balance Sheet Date

Business combinations. After the balance sheet date, the Group acquired 100% of the share capital of a Swiss company Nova Trading & Commerce AG, which holds a controlling interest of 100% in JV LLC Nova Zinc and through that company operates a zinc-lead mine in Akzhal, Kazakhstan. The amount of consideration was US$ 136.5 million (RR 3,753 million). Purchase price allocation was not finalised as of the date of these consolidated financial statements and is expected to be completed by 31 December 2006 and it is not practicable to make respective disclosures.

The Group expects that supplies of zinc concentrate from Kazakh mine will secure approximately 25% of its annual production output of zinc.

25 Events After the Balance Sheet Date (Continued)

Transactions with shareholders. In March-April 2006 the Company repurchased 7,268 of its ordinary shares at RR 3,000 per share, which represent 1.06% of the charter capital.

In accordance with Russian legislation treasury stock should be sold or retired within one year from the date of purchase.

In May 2006 the Company approved issuance of additional 4,457,572 common shares with the par value of 1 Rouble per share. These shares were distributed by private offering in August 2006.

On 18 August 2006 the shareholders' meeting approved declaration of the right to issue 50,000,000 additional ordinary shares with the par value of RR 1 each.

On 30 August 2006 the Board of Directors approved issuance of additional 325,173 common shares with the par value of 1 Rouble per share.

Borrowings. In March 2006 the Group repaid the EBRD loan (Note 13) in full ahead of schedule. The total amount paid to EBRD was US$ 9,784 thousand (RR 272,173 thousand), including interest of US$ 394 thousand (RR 10,970 thousand).

In March 2006 the Group obtained long-term loans from the Bayerische Hypo- und Vereinsbank AG and the International Moscow Bank along with the Banque Commerciale pour l'Europe du Nord - Eurobank in the amount US$ 70 million (RR 2,014 million) and US$ 68.5 million (RR 1,972 million), respectively. These loans were obtained to finance acquisition of Nova Trading & Commerce AG shares, general working capital purposes and pre-export financing. Both loans bear interest of LIBOR+3.6% p.a. and should be repaid in equal instalments during 2006 - 2011.

In January 2006 the Group obtained a short-term loan from OJSC PNTZ, a related party, in the amount of RR 300 million. This loan bears interest of 8.65% p.a. and matures in March 2006. The final payment on the loan was made on 4 April 2006.