JSC CHELYABINSK ZINC PLANT AND ITS SUBSIDIARIES

**International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report**

31 December 2008

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Statement of Management Responsibilities

To the Shareholders of JSC Chelyabinsk Zinc Plant:

International convention requires that management prepare financial statements that 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 the Group's results and cash flows for each financial period. Management is responsible for ensuring that the Group keeps accounting records that disclose, with reasonable accuracy, the financial position and that enable them to ensure that the financial statements comply with International Financial Reporting Standards and that the statutory accounting reports comply with Russian laws and regulations. They also have a general responsibility to take 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 1 to 39, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, and that appropriate International Financial Reporting Standards have been followed.

The consolidated financial statements, which are based on statutory accounting reports prepared in compliance with applicable legislation and 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. Geikhman
General Director

22 April 2009

PRICEWATERHOUSECOOPERS

ZAO PricewaterhouseCoopers Audit
Kosmodamianskaya Nab. 52, Bld. 5
115054 Moscow
Russia
Telephone +7 (495) 967 6000
Facsimile +7 (495) 967 6001
www.pwc.ru

INDEPENDENT AUDITOR'S REPORT

To the Shareholders and Board of Directors of JSC Chelyabinsk Zinc Plant:

We have audited the accompanying consolidated financial statements of Open Joint Stock Company Chelyabinsk Zinc Plant (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of 31 December 2008, the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 3 in these consolidated financial statements which indicates that the Group incurred a net loss of RUB 3,522,601 thousand and breached certain debt covenants during the year ended 31 December 2008 and as of that date. These conditions, along with other matters as set forth in Note 3, indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

ZAO PricewaterhouseCoopers Audit

22 April 2009
Moscow, Russian Federation

JSC CHELYABINSK ZINC PLANT

Consolidated Balance Sheet

In thousands of Russian Roubles	Note	31 December 2008	31 December 2007
ASSETS			
Non-current assets			
Property, plant and equipment	9	5,689,339	7,260,927
Advances for capital construction		70,653	71,351
Goodwill	10	-	815,488
Other intangible assets	11	97,507	292,489
Other non-current assets	12	6,936	609,449
Total non-current assets		**5,864,435**	**9,049,704**
Current assets			
Inventories	13	1,920,605	2,574,432
Trade and other receivables	14	1,321,990	1,943,250
Current income tax prepayments		329,394	152,388
Loans receivable and promissory notes		21,471	562
Short-term financial assets	15	145,599	-
Bank deposits	16	209,407	400,000
Cash and cash equivalents	17	590,299	501,098
Restricted cash	18	18,024	36,558
Total current assets		**4,556,789**	**5,608,288**
TOTAL ASSETS		**10,421,224**	**14,657,992**
EQUITY			
Share capital	19	127,635	127,635
Share premium	19	1,375,231	1,375,231
Legal reserve	19	3,011	3,011
Hedging reserve	15	92,076	-
Cumulative currency translation reserve		72,770	(297,603)
Retained earnings		5,442,379	8,964,980
TOTAL EQUITY		**7,113,102**	**10,173,254**
LIABILITIES			
Non-current liabilities			
Borrowings	20	68,931	1,798,775
Provision for asset retirement obligations	23	60,591	58,144
Deferred income tax liability	27	194,268	1,141,062
Other non-current liabilities		31,742	5,198
Total non-current liabilities		**355,532**	**3,003,179**
Current liabilities			
Borrowings	20	2,141,738	803,614
Short-term financial liabilities	15	21,436	-
Accounts payable, accrued expenses and advances from customers	21	711,066	553,452
Current income tax payable		5,773	7,306
Other taxes payable	22	72,577	117,187
Total current liabilities		**2,952,590**	**1,481,559**
TOTAL LIABILITIES		**3,308,122**	**4,484,738**
TOTAL LIABILITIES AND EQUITY		**10,421,224**	**14,657,992**

Approved for issue and signed on behalf of the Board of Directors on 22 April 2009.

V.V. Geikhman
General Director

B.D. Birman
Finance Director

Consolidated Income Statement

In thousands of Russian Roubles	Note	2008	2007
Revenue	24	9,973,406	15,526,501
Cost of sales (excluding impairment of property, plant and equipment)	25	(9,777,627)	(11,664,155)
Impairment of property, plant and equipment	9	(1,973,442)	-
Gross (loss)/profit		**(1,777,663)**	**3,862,346**
Distribution costs	26	(359,411)	(390,024)
General and administrative expenses	26	(912,559)	(808,321)
Goodwill impairment	10	(778,667)	-
Exploration and evaluation costs	11	(305,693)	-
Operating (loss)/profit		**(4,133,993)**	**2,664,001**
Finance income		102,603	159,384
Finance costs		(165,350)	(280,610)
Foreign exchange gain		495,145	528,480
Foreign exchange loss		(810,615)	(442,933)
(Loss)/profit before income tax		**(4,512,210)**	**2,628,322**
Income tax credit/(expense)	27	989,609	(714,756)
(Loss)/profit for the year		**(3,522,601)**	**1,913,566**
(Loss)/profit attributable to:			
Equity holders of the Company		(3,522,601)	1,913,566
(Loss)/profit for the year		**(3,522,601)**	**1,913,566**
(Loss)/Earning per share – basic and diluted (in RUB)	28	**(65)**	**35**

Approved for issue and signed on behalf of the Board of Directors on 22 April 2009.

V.V. Geikhman
General Director

B.D. Birman
Finance Director

JSC CHELYABINSK ZINC PLANT

Consolidated Cash Flow Statement

In thousands of Russian Roubles	Note	2008	2007
Cash flows from operating activities			
(Loss)/profit before income tax		(4,512,210)	2,628,322
Adjustments for:			
Depreciation and amortization	9, 11, 25, 26	1,086,428	1,016,077
Losses less gains on disposal of property, plant and equipment	26	90,506	13,726
Impairment/(Reversal of impairment) of trade and other receivables	26	131,977	(17,916)
Inventory write-down to net realisable value	25	391,986	9,455
Finance costs, net		62,747	121,226
Negative goodwill recognised as income	10	-	(19,811)
Precious metals revaluation	25	(22,652)	(27,759)
Foreign exchange loss/(gain), net		354,460	(262,837)
Goodwill impairment	10	778,667	-
Impairment of property, plant and equipment	9	1,973,442	-
Write-off of exploration and evaluation costs	11	305,693	-
Other non-monetary items		38,129	3,951
Operating cash flows before working capital changes		**679,173**	**3,464,434**
Decrease in trade and other receivables		525,866	30,156
Decrease in broker margin account		17,230	-
Decrease/(increase) in inventory		271,051	(115,219)
Increase/(decrease) in trade and other payables		128,191	(628,838)
(Decrease)/increase in taxes payable		(27,492)	1,030
Decrease in bank deposits		672,500	183,117
Decrease in restricted cash balance		15,885	366,353
Cash generated from operating activities		**2,282,404**	**3,301,033**
Interest paid		(137,267)	(253,359)
Income taxes paid		(152,146)	(1,176,952)
Net cash from operating activities		**1,992,991**	**1,870,722**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(1,012,271)	(1,156,393)
Futures not accounted as hedge		21,436	-
Purchase of exploration and evaluation assets		(108,708)	(251,163)
Proceeds from sale of property, plant and equipment		6,612	15,308
Payment for liquidation of property, plant and equipment		(45,760)	-
Loans issued and promissory notes purchased		(27,084)	(177,000)
Proceeds from repayment of loans and redemption of promissory notes		2,649	765,502
Interest income received		101,333	143,250
Acquisition of a subsidiary, net of cash acquired		-	(410,244)
Increase in long-term bank deposits		-	(8,917)
Net cash used in investing activities		**(1,061,793)**	**(1,079,657)**
Cash flows from financing activities			
Repayment of borrowings		(809,277)	(682,936)
Finance lease payments		(42,981)	(31,090)
Acquisitions of short-term investments		-	(563,786)
Disposal of short-term investments		-	565,742
Net cash used in financing activities		**(852,258)**	**(712,070)**
Effect of currency translation and exchange rate fluctuations on cash and cash equivalents		10,261	(21,450)
Net increase in cash and cash equivalents		**89,201**	**57,545**
Cash and cash equivalents at the beginning of the year	17	**501,098**	**443,553**
Cash and cash equivalents at the end of the year	17	**590,299**	**501,098**

Approved for issue and signed on behalf of the Board of Directors on 22 April 2009.

V.V. Geikhman
General Director

B.D. Birman
Finance Director

Consolidated Statement of Changes in Equity

In thousands of Russian Roubles	Share capital	Share premium	Legal reserve	Hedging reserve	Cumulative currency translation reserve	Retained earnings	Total equity
Balance at 1 January 2007	**78,860**	**1,375,231**	**572**	**-**	**(189,515)**	**7,102,628**	**8,367,776**
Currency translation reserve	-	-	-	-	(108,088)	-	(108,088)
Net expense recognised directly in equity	-	-	-	-	(108,088)	-	(108,088)
Profit for the year	-	-	-	-	-	1,913,566	1,913,566
Total recognised income for the year	-	-	-	-	(108,088)	1,913,566	1,805,478
Issue of shares through profit capitalisation (Note 19)	48,775	-	-	-	-	(48,775)	-
Legal reserve (Note 19)	-	-	2,439	-	-	(2,439)	-
Balance at 31 December 2007	**127,635**	**1,375,231**	**3,011**	**-**	**(297,603)**	**8,964,980**	**10,173,254**
Currency translation reserve	-	-	-	-	370,373	-	370,373
Net income recognised directly in equity	-	-	-	-	370,373	-	370,373
Loss for the year	-	-	-	-	-	(3,522,601)	(3,522,601)
Total recognised expense for the year	-	-	-	-	-	(3,522,601)	(3,152,228)
Hedging reserve (Note 15)	-	-	-	266,696	-	-	266,696
Deferred tax	-	-	-	(23,019)	-	-	(23,019)
Gain on futures designated for hedging (Note 24)	-	-	-	(151,601)	-	-	(151,601)
Balance at 31 December 2008	**127,635**	**1,375,231**	**3,011**	**92,076**	**72,770**	**5,442,379**	**7,113,102**

Approved for issue and signed on behalf of the Board of Directors on 22 April 2009.

V.V. Geikhman
General Director

B.D. Birman
Finance Director

1 JSC Chelyabinsk Zink Plant and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2008 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 and was set up in accordance with Russian legislation.

As of 31 December 2008, the Group's immediate parent is NF Holdings BV, incorporated in the Netherlands, which owns 52.34% of the Company's shares. In addition, NF Holdings BV indirectly owns 2.35% of the Company's shares through its wholly owned entity. It is also the ultimate controlling party of the Group.

The Company is listed on the Russian Trading System (RTS) and the London Stock Exchange (LSE) since November 2006.

Principal activities. The Group's principal business activity is the extraction and integrated processing of ore with the purpose of producing zinc and lead concentrates, production and distribution of zinc, zinc alloys and by-products. The Group's manufacturing facilities are based in Chelyabinsk (the Russian Federation), Akzhal (the Republic of Kazakhstan) and Cannock (the United Kingdom). There are a number of subsidiaries in the Group. The Group companies were set up under the legislation of the Russian Federation, the Republic of Kazakhstan, Switzerland and the United Kingdom. As of 31 December 2008 the Group employed approximately 3,212 employees (31 December 2007: 3,161).

Legal address and place of business. The Company's registered address is: Russian Federation, 454008, Chelyabinsk, Sverdlovsky trakt 24.

2 Operating Environment of the Group

Russian Federation and the Republic of Kazakhstan. The Russian Federation and the Republic of Kazakhstan display certain characteristics of an emerging market, including relatively high inflation. Despite strong economic growth in recent years, the financial situation in these markets significantly deteriorated during 2008, particularly in the fourth quarter. As a result of global volatility in financial and commodity markets, among other factors, there has been a significant decline in the Russian stock market since mid-2008. Since September 2008, there has been increased volatility in currency markets and the Russian Rouble (RUB) and the Kazakhstani Tenge (KZT) have depreciated significantly against some major currencies. The official US Dollar (USD) exchange rate of the Central Bank of Russia ("CBR") increased from RUB 25.37 at 1 October 2008 to RUB 29.38 at 31 December 2008 and to RUB 34.10 at 22 April 2009. On 4 February 2009 the Kazakhstani Tenge was devalued significantly from Tenge 120 per USD 1 to Tenge 150 per USD 1.

International reserves of the Russian Federation have decreased from USD 556,813,000 thousand at 30 September 2008 to USD 427,080,000 thousand at 1 January 2009 and to USD 383,889,000 thousand at 1 April 2009. The commodities market was also impacted by the latest events on the financial markets. Oil prices decreased significantly in the fourth quarter and continue to be volatile in 2009.

A number of measures have been undertaken to support the Russian financial markets, including the following:

- In October 2008 the CBR reduced the mandatory reserves ratio to 0.5% and raised the guarantee repayment of individual deposits under the state deposit insurance scheme to RUB 700 thousand per individual in case of the withdrawal of a license of a bank or a CBR-imposed moratorium on payments;
- The list of assets which can be pledged under repurchase agreements with the CBR was significantly extended.

The tax, currency and customs legislation within the Russian Federation and the Republic of Kazakhstan is subject to varying interpretations and frequent changes, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the Russian Federation and the Republic of Kazakhstan. The future economic direction of the Russian Federation and the Republic of Kazakhstan is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the respective Governments, together with tax, legal, regulatory, and political developments.

Management is unable to predict all developments in the economic environment which could have an impact on the Group's operations and consequently what effect, if any, they could have on the financial position of the Group.

Impact of the ongoing global financial and economic crisis. The ongoing global financial and economic crisis that emerged out of the severe reduction in global liquidity which commenced in the middle of 2007 (often referred to as the "Credit Crunch") has resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and wider economy, and, at times, higher interbank lending rates and very high volatility in stock and currency markets. The uncertainties in the global financial markets have also led to failures of banks and other corporates, and to bank rescues in the United States of America, Western Europe, Russia and elsewhere. The full extent of the impact of the ongoing financial crisis is proving to be difficult to anticipate or completely guard against.

2 Operating Environment of the Group (continued)

Zinc commodity price

The results of operations for the Group are highly dependent on the price of zinc. The spot price of zinc quoted on the London Metal Exchange has fallen from USD 2,290 per tonne at 31 December 2007 to USD 1,650 per tonne at 30 September 2008 and to USD 1,120 per tonne at 31 December 2008. Since 1 January 2009 the zinc price has increased to USD 1,420 per tonne at 22 April 2009.

Impact on liquidity

The availability of external funding in financial markets has significantly reduced since August 2007. Such circumstances may affect the ability of the Group to obtain new borrowings and re-finance its existing borrowings at terms and conditions similar to those applied to earlier transactions (Note 20).

Impact on customers

Debtors of the Group may be adversely affected by the financial and economic environment, which could in turn impact their ability to repay the amounts owed. Deteriorating economic conditions for customers may also have an impact on management's cash flow forecasts and assessment of the impairment of financial and non-financial assets. To the extent that information is available, management has properly reflected revised estimates of expected future cash flows in its impairment assessments (Note 9).

Management is unable to reliably determine the effects on the Group's future financial position of any further deterioration in the liquidity of the financial markets and the increased volatility in the currency and equity markets. Management believes it is taking all the necessary measures to support the sustainability and development of the Group’s business in the current circumstances.

3 Summary of Significant Accounting Policies

Basis of preparation

Going concern

These consolidated financial statements have been prepared on a going concern basis, which assumes that the Group will continue to be able to meet its liabilities, when they fall due, for the foreseeable future. The global credit market crisis has had a negative effect on our industry. In the three months ended 31 December 2008, the increased turmoil in the credit markets, sudden and rapid decline of zinc prices as disclosed in Note 2, the volatility in the price of oil, the recession in Russia and the slowdown of economic growth in the rest of the world created a substantially more difficult business environment. Our liquidity position, as well as our operating performance, were negatively affected by these economic and industry conditions and by other financial and business factors, many of which are beyond our control. The Group incurred a net loss on its operations for the year ended 31 December 2008 and has breached certain financial covenants under the terms of the Bayerische Hypo- and Vereinsbank and the consortium of CJSC UniCredit Bank, Moscow and VTB Bank (France) SA (“the Lenders”) Loan Facility as described more fully in Note 20. Therefore these loans are classified as short-term in the accompanying balance sheet.

The economic conditions show signs of improvement through April 2009, with zinc prices being close to the Group’s break-even level of operations. However, we expect that the adverse economic conditions, and their effect on the zinc industry, will continue during 2009 and we anticipate that the Group will incur a net loss for the year ending 31 December 2009. Therefore, we determined that it is very likely that for the year ending 31 December 2009 the Group will again be in breach of the same financial covenants. We have submitted to the Lenders our cash flow forecast for 2009-2011 to return to profitability and to operate as a going concern, on which basis the Lenders agreed to reduce repayment instalments in 2009 as detailed in Note 33. Because the Group may not meet some of its 2009 financial covenants, the Lenders will have the option to terminate the loan. As such, this is a material uncertainty which may cast significant doubt about our ability to continue as a going concern and therefore we might be unable to realise assets and discharge our liabilities in the normal course of business. As the Lenders have already rescheduled the 2009 loan repayment, the management strongly believes that the Lenders will not demand an immediate repayment of the loan. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Historical cost

These consolidated financial statements for the year ended 31 December 2008 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, as modified by accounting for the effects of hyperinflation (See the “Accounting for the effects of hyperinflation” paragraph below), except for certain financial instruments that are presented at fair value. 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, unless otherwise stated.

3 Summary of Significant Accounting Policies (continued)

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

Accounting for the effects of hyperinflation. The Russian Federation and the Republic of Kazakhstan have previously experienced relatively high levels of inflation and were 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 in the Russian Federation and the Republic of Kazakhstan indicate that hyperinflation has ceased effective from 1 January 2003 and 1 January 1999 respectively, the amounts expressed in the measuring unit current as of 31 December 2002 are treated as the basis for the carrying amounts for Russian companies of the Group and the amounts expressed in the measuring unit current as of 31 December 1998 are treated as the basis for the carrying amounts for Kazakhstani companies of the Group in these consolidated financial statements.

Consolidated financial statements. Subsidiaries are those companies and other entities (including special purpose vehicles) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights, or otherwise has the 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 acquisition costs are measured as the fair value of the assets transferred, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. If the combination of businesses takes place as a result of one transaction, then the date of exchange coincides with the acquisition date. If the combination of businesses takes place gradually by a sequential purchase of shares, the date of exchange shall be the date of purchase of each equity interest.

The excess of the cost of acquisition over the fair value of the Group's share in the net assets of the acquiree at each transaction date is recorded as goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over the acquisition cost ("negative goodwill") is immediately recognised in the income statement.

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

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

Financial instruments – key measurement terms. Depending on their classification, financial instruments are carried at fair value or amortised cost as described below.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Fair value is the current bid price for financial assets and current asking price for financial liabilities which are quoted in an active market. For assets and liabilities with offsetting market risks, the Group may use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply the bid or asking price to the net open position as appropriate. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange or other institution and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Valuation techniques such as discounted cash flows models based on recent arm's length transactions or consideration of financial data of the investees are used to fair value certain financial instruments for which external market pricing information is not available. Valuation techniques may require assumptions not supported by observable market data. Disclosures are made in these consolidated financial statements if changing any such assumptions to a reasonably possible alternative would result in significantly different profit, income, total assets or total liabilities.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets, less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related consolidated balance sheet items.

3 Summary of Significant Accounting Policies (continued)

The effective interest method is a method of allocating interest income or interest expense over the relevant period so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date except for the premium or discount that reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Classification of financial assets. The Group classifies its financial assets into the following measurement categories: (a) loans and receivables; (b) available-for-sale financial assets; (c) financial assets held to maturity and (d) financial assets at fair value through profit or loss. Financial assets at fair value through profit or loss have two subcategories: (i) assets designated as such upon initial recognition, and (ii) those classified as held for trading.

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 as trading investments if it has an intention to sell them within a short period after acquisition, i.e. within one to three months. Trading assets also include financial derivatives. Trading investments are not reclassified out of this category even when the Group's intentions subsequently change.

Derivative financial instruments are carried at their fair value. Derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss, except derivatives which are designated and qualify as effective cash flow hedges.

Certain derivative instruments embedded in other financial instruments are treated as separate derivative instruments when their risks and characteristics are not closely related to those of the host contract.

Other financial assets at fair value through profit or loss are financial assets designated irrevocably, at initial recognition, into this category. Recognition and measurement of this category of financial assets is consistent with the above policy for trading investments. Management designates financial assets into this category only if (a) such classification eliminates or significantly reduces an accounting mismatch that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases; or (b) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis in accordance with a documented risk management or investment strategy, and information on that basis is regularly provided to and reviewed by the Group's key management personnel.

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 assets include 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. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date.

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

Initial recognition of financial instruments. Trading investments, derivatives and other financial instruments at fair value through profit or loss 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 assets 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 asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expired or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining 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.

Derivatives and hedge accounting. The Group uses derivatives to hedge risks arising from zinc price volatility. Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

3 Summary of Significant Accounting Policies (continued)

The Group applies cash flow hedging as a method of accounting for derivatives used for hedging where the effective portion of changes in fair value of a derivative is recognised in the balance sheet as a "hedging reserve". Gain or loss on the derivative is recognised in the income statement in the reporting period when the hedged item affects the financial results. The gain or loss relating to the ineffective portion of changes in fair value of a derivative is recognised immediately in the income statement.

The group classifies a derivative as a short-term asset or liability if the maturity of a derivative is expected within 12 months; otherwise a derivative is classified as a long-term asset or liability.

Embedded derivatives. Foreign currency forwards embedded into sales-purchase contracts are separated from the host contracts and accounted for separately unless the contract is denominated in the functional currency of any substantial party to the contract, or in a currency that is commonly used in the economic environment in which the transaction takes place, such as in US Dollars and Euros for contracts within the Russian Federation.

Bifurcated derivatives are carried at fair value with gains and losses arising from changes in the fair value of derivatives included in the consolidated income statement in the period in which they arise. Assets purchased are recognised in the consolidated balance sheet at the forward rate determined at the contract date.

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 to estimate fair value of assets under construction and property, plant and equipment of the acquired subsidiaries, as well as their estimated remaining useful lives at the acquisition dates.

Construction in progress includes not only construction, but also equipment for installation.

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

Costs, including evaluation costs incurred to establish or expand production facilities, costs of production and construction works, as well as costs arising from mining preparation works during the development or mine renovation phase, are capitalised within mining assets as part of buildings and structures.

At each reporting date, management assesses 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 of property, plant and equipment are measured by comparing proceeds with carrying amount and are recognised in profit or loss.

Depreciation. Land is not depreciated. Assets under construction are not depreciated until they are put 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 life, years
Buildings and infrastructure	10 to 50
Plant, machinery and equipment	5 to 30
Other	2 to 20

Mineral resources are depreciated using the unit-of-production method. Unit-of-production rates are based on proven developed reserves, which are zinc ore and other mineral reserves estimated to be recovered from existing facilities using current operating methods. Zinc ore volumes are considered produced once they have been measured through meters at custody transfer or sales transaction points on the surface.

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 were 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. Assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Stripping costs. Stripping (i.e. overburden and other waste removal) costs incurred in field development before production commences are capitalised as part of field development costs and are subsequently amortised using the unit of production method over the life of the field operation.

Stripping costs incurred subsequently during the production stage of its operations are expensed.

Operating leases. Where the Group is a lessee under a lease contract that does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss on a straight-line basis over the period of the lease.

3 Summary of Significant Accounting Policies (continued)

Finance leases. Where the Group is a lessee in a lease that transfers substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the income statement over the lease period using the effective interest method. The assets acquired under finance leases are depreciated over their useful life, or the shorter lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Goodwill. Goodwill represents an excess of the cost of an acquisition over the fair value of the acquirer's share in the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash-generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit that is retained.

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

Intangible assets are amortised on a straight-line basis over their useful lives:

	Useful life, years
Cost of obtaining CZP SHG certification	30
License to use resources of the Amur field	25
Computer software and licenses	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.

Exploration and evaluation costs related to an area of interest are written off as incurred, except they are carried forward as an asset in the balance sheet where the rights of tenure of an area are current and it is considered probable that the costs will be recouped through successful development and exploitation of the area of interest, or alternatively by its sale.

Capitalised costs include costs directly related to exploration and evaluation activities in the relevant area of interest. Costs are accumulated on a field-by-field basis. General and administrative costs are allocated to an exploration or evaluation asset only to the extent that those costs can be related directly to operational activities in the relevant area of interest. Capitalisation is made within property, plant and equipment or intangible assets according to the nature of the expenditure.

Capitalised exploration and evaluation expenditure is written off where the above conditions are no longer satisfied.

No amortisation is charged during the exploration and evaluation stage.

Exploration and evaluation assets are tested for impairment when reclassified to development tangible or intangible assets or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. The recoverable amount is the higher of the exploration and evaluation assets' fair value less costs to sell and their value in use. For the purposes of assessing impairment, the exploration and evaluation assets subject to testing are grouped with existing cash-generating units of production fields that are located in the same geographical region.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with the legislation of the Russian Federation, the Republic of Kazakhstan and the United Kingdom enacted or substantively enacted as of the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated statement of income 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 tax authorities on taxable profits or losses for the current and prior periods. Taxes other than on income are recorded within operating expenses.

3 Summary of Significant Accounting Policies (continued)

Deferred income tax is provided using the balance sheet liability method for tax loss carryforwards 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 liabilities are not recorded for temporary differences on initial recognition of goodwill or subsequently for goodwill that is not deductible for tax purposes. Deferred tax balances are measured at tax rates enacted or substantively enacted as of the balance sheet date that are expected to apply to the period when the temporary differences will reverse or the tax loss carryforwards 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 carryforwards 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 measured at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Zinc ore is recognised as raw materials when delivered to the surface and is valued at the average cost of extraction. The cost of finished goods and work in progress comprises raw material, direct labor, 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.

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

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. The primary factors that the Group considers when deciding whether a receivable is impaired is its overdue status and the realisability of related collateral, if any. The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion of the receivable is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty is considering bankruptcy or a financial reorganisation;
- there is adverse change in the counterparty's payment status as a result of changes in the national or local economic conditions that impact the counterparty;
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss.

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 cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date are included in other non-current assets.

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.

3 Summary of Significant Accounting Policies (continued)

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, are included in equity attributable to the Company's equity holders.

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 taxes. Output value-added tax is payable to tax authorities on the earlier of (a) collection of the receivables from customers or (b) delivery of the goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit VAT settlement on a net basis. VAT related to sales and purchases 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.

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 once the counterparty has performed its contract obligations 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, 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 is 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.

Financial guarantees. Financial guarantees are contracts that require the Group to make specified payments to reimburse the guarantee holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. This amount is amortised on a straight line basis over the life of the guarantee. At each balance sheet date, the guarantees are measured at the higher of (i) the unamortised balance of the amount at initial recognition and (ii) the best estimate of expenditure required to settle the obligation at the balance sheet date.

Asset retirement obligations. Asset retirement costs include landfill site restoration and closure (dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas). Estimated landfill site restoration and closure costs are provided for and included in the cost of property, plant and equipment in the accounting period when the obligation arising from the related disturbance occurs during the mine development phase, based on the net present value of estimated future costs. Provisions for asset retirement obligations do not include any additional obligations expected to arise from future disturbances. The costs are estimated on the basis of a closure and restoration plan. The cost estimates are calculated at regular intervals during the life of the operation to reflect known developments, e.g., updated cost estimates and revisions to the estimated lives of operations, and are subject to formal review.

Landfill site restoration and closure costs are a normal consequence of mining, and the majority of landfill site restoration and closure expenditure is incurred during the life of the mine. Although the ultimate cost to be incurred is uncertain, the Group's business estimates their respective costs based on feasibility and engineering studies using current restoration standards and techniques.

The amortisation, or "unwinding", of the discount applied in establishing the net present value of provisions is charged to the income statement in each accounting period. The amortisation of the discount is shown as a financing cost rather than as an operating cost.

Movements in the provisions for asset retirement obligations resulting from new disturbance as a result of mine development, updated cost estimates, changes to the estimated lives of operations and revisions to discount rates are capitalised within property, plant and equipment. These costs are then depreciated over the lives of the assets to which they relate. Movements in the provisions for asset retirement obligations that relate to disturbances caused by the production phase are charged to the income statement.

Where landfill site restoration is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated outstanding continuous rehabilitation work at each balance sheet date and the cost is charged to the income statement.

3 Summary of Significant Accounting Policies (continued)

Foreign currency translation. The 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 Group's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RUB"). The functional currency of Nova Zinc LLP is the Kazakhstani Tenge ("KZT"), and the functional currency of Brock Metal Ltd is the pounds sterling ("GBP").

Monetary assets and liabilities of the Company are translated into the functional currency at the official exchange rate established on the respective balance sheet dates by the Central Bank of Russia (the "CBR"), of Nova Zinc by the Kazakhstan Stock Exchange ("KASE") and of Brock Metal – by the foreign exchange market. Foreign exchange gains and losses resulting from the settlement of transactions and from the translation of monetary assets and liabilities into the entity's functional currency at year-end official exchange rates are recognised in profit or loss. Translation at period-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 2008 the official exchange rates established by the CBR were: USD 1 = RUB 29.3804 (31 December 2007: USD 1 = RUB 24.5462), EUR 1 = RUB 41.4411 (31 December 2007: EUR 1 = RUB 35.9332) and GBP 1 = RUB 42.6163 (31 December 2007: GBP 1 = RUB 49.0114).

The official rates of exchange established by the KASE at 31 December 2008 were: RUB 1 = KZT 4.11 (31 December 2007: RUB 1 = KZT 4.92), USD 1 = KZT 120.77 (31 December 2007: USD 1 = KZT 120.30) and EUR 1 = KZT 170.89 (31 December 2007: EUR 1 = KZT 177.17).

At 31 December 2008 the market exchange rates were: GBP 1 = USD 1.46 (31 December 2007: GBP 1 = USD 1.99) and GBP 1 = EUR 1.05 (31 December 2007: GBP 1 = EUR 1.36).

Translation from functional to presentation currency. The results and financial position of each Group entity (the functional currency of none of which is the currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate on the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates of the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the related part of the exchange differences deferred in equity is reclassified to profit or loss.

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.

Mining royalties are included within cost of sales.

Interest income is recognised on a time-proportion basis using the effective interest method.

Employee benefits. Wages, salaries, contributions to the Russian 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 reporting period in which the associated services are rendered by the employees of the Group. These amounts 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 state pension scheme of the respective states (the Russian Federation and the Republic of Kazakhstan) on behalf of its employees. Mandatory contributions to governmental pension scheme are expensed when incurred.

Finance income and costs. Finance income and costs comprise interest expense on borrowings and loans payable, deposits, loans to own employees, interest income/expense from unwinding of discount on provision for asset retirement obligations and other financial assets and liabilities.

Interest income is recognised as it accrues, taking into account the effective yield on the asset.

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 period adjusted for events other than a conversion of potential ordinary shares that changes the number of ordinary shares outstanding without a corresponding change in resources.

3 Summary of Significant Accounting Policies (continued)

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) that 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 period. The effect of reclassifications between categories of cost of sales and distribution, general and administrative expenses for the year ended 31 December 2007 were as follows:

In thousands of Russian Roubles	As originally presented	Adjustment	As adjusted
Utilities and fuel	1,192,298	(19,495)	1,172,803
Depreciation and amortisation	1,016,077	(61,929)	954,148
Production overheads	328,003	(163,418)	164,585
Staff costs	275,229	198,531	473,760
Social costs	31,165	(31,165)	-
Total cost of sales	**2,842,772**	**(77,476)**	**2,765,296**
Transportation and customs duties	400,663	(35,113)	365,550
Packing materials	-	24,474	24,474
Total distribution expenses	**400,663**	**(10,639)**	**390,024**
Utilities and fuel	-	19,495	19,495
Depreciation and amortisation	-	61,929	61,929
Social costs	-	31,165	31,165
Other income and expenses, net	253,159	(24,474)	228,685
Total general and administrative expenses	**253,159**	**88,115**	**341,274**

Management of the Group has decided to include the salary and social tax of auxiliary workers in staff costs while in financial statements for the year ended 31 December 2007 these costs were included in production overheads. The Group has also shown separately packing materials, depreciation and amortization and utilities and fuel for administrative purposes.

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgments 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 judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the financial statements and estimates, and that could cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Goodwill. During the year ended 31 December 2007 the Group finalised the purchase price allocation of Nova Zinc. Management believes that no intangible assets other than those recognised upon the preliminary purchase price allocation have been identified. The entire amount of goodwill that arose in the business combination was allocated to Nova Zinc.

The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units are determined based on value-in-use calculations. These calculations require the use of estimates, as further detailed in Note 10.

During the year ended 31 December 2007 the Group finalised the purchase price allocation of Brock Metal. As a result of that exercise, the Group has identified an excess of the Group's interest in the net fair value of assets, liabilities and contingent liabilities of Brock Metal over purchase consideration (Note 29). Negative goodwill was recognised in the Group's statement of income for 2007.

Tax legislation. Russian and Kazakhstan tax, currency and customs legislation is subject to varying interpretations (Note 30).

Provision for asset retirement obligations. In accordance with the contracts on subsurface use Nova Zinc has a legal obligation to decommission its mining properties and restore a landfill site after its closure. Provision is made in the financial statements, based on net present values, for site restoration and rehabilitation costs as soon as the obligation arises from past mining activities. The provision for asset retirement obligations is estimated based on the current environmental legislation in the Republic of Kazakhstan. Asset retirement obligations are subject to potential changes in environmental regulatory requirements. As of 31 December 2008 the carrying amount of the provision for asset retirement obligations was RUB 60.6 million (31 December 2007: RUB 58.1 million) (Note 23).

4 Critical Accounting Estimates and Judgments in Applying Accounting Policies (continued)

The Group management believes that the Group has no liabilities associated with significant retirement of assets located in Russia and the United Kingdom.

Zinc cakes. The Group has accumulated significant stock of zinc cakes (a by-product with approximately 20% zinc content that requires substantial processing to extract zinc) due to the limited capacity of certain workshops. No provision regarding this inventory was formed in the accounts to cover the cost of obsolete and slow-moving inventory. In the second quarter 2007 Waelz-kiln No. 5 was put into operation, through which the Group has started processing the stock of zinc cakes. The Group records zinc cakes at the historic production cost, which is substantially lower than its potential sale price and the cost of zinc content (Note 13).

Impairment of property, plant and equipment. The application of IAS 36 requires extensive judgment on the part of management regarding the assumptions and estimates related to future cash flows and the discount rate. Given the nature of the current global economic environment such assumptions and estimates have a high degree of uncertainty associated with them.

As a result of an impairment test performed by management for Nova Zinc, which is a separate cash-generating unit (CGU), impairment of property, plant and equipment was identified. Details of the estimates used in the value-in-use calculation are presented in Note 9.

No impairment has been identified for the property, plant and equipment in Russia. However, the calculation of the recoverable amount of this CGU is highly sensitive to the level of future zinc prices. If the zinc prices were 10% lower in the forecasted period, there would be an impairment loss of RUB 930 million recognised as at 31 December 2008. Zinc prices used in the impairment test for the CGU in Russia are the same as those used in the impairment test for the property, plant and equipment of Nova Zinc and are disclosed in Note 9.

5 Adoption of New or Revised Standard and Interpretations

Certain new interpretations became effective for the Group from 1 January 2008:

- ***IFRIC 11, IFRS 2 – Group and Treasury Share Transactions*** (effective for annual periods beginning on or after 1 March 2007);
- ***IFRIC 12, Service Concession Arrangements*** (effective for annual periods beginning on or after 1 January 2008); and
- ***IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*** (effective for annual periods beginning on or after 1 January 2008).

Reclassification of Financial Assets – Amendments to IAS 39, Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures and a subsequent amendment, Reclassification of Financial Assets: Effective Date and Transition. The amendments allow entities the options (a) to reclassify a financial asset out of the held for trading category if, in rare circumstances, the asset is no longer held for the purpose of selling or repurchasing it in the near term; and (b) to reclassify an available-for-sale asset or an asset held for trading to the loans and receivables category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity (subject to the asset otherwise meeting the definition of loans and receivables). The amendments may be applied with retrospective effect from 1 July 2008 for any reclassifications made before 1 November 2008; the reclassifications allowed by the amendments may not be applied before 1 July 2008 and retrospective reclassifications are only allowed if made prior to 1 November 2008. Any reclassification of a financial asset made on or after 1 November 2008 takes effect only from the date when the reclassification is made.

These interpretations and amendments did not have any significant effect on the Group's consolidated financial statements.

6 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 2009 or later periods and which the Group has not early adopted:

IFRS 8, Operating Segments (effective for annual periods beginning on or after 1 January 2009). The Standard applies to entities whose debt or equity instruments are traded in a public market or that file, or are in the process of filing, their financial statements with a regulatory organisation for the purpose of issuing any class of instruments in a public market. IFRS 8 requires an entity to report financial and descriptive information about its operating segments and specifies how an entity should report such information. The Group is currently assessing what impact the Standard will have on segment disclosure in the consolidated financial statements.

6 New Accounting Pronouncements (continued)

IAS 23, Borrowing Costs (revised in March 2007; effective for annual periods beginning on or after 1 January 2009). The revised IAS 23 was issued in March 2007. The main change to IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise such borrowing costs as part of the cost of the asset. The revised standard applies prospectively to borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 January 2009. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Puttable Financial Instruments and Obligations Arising on Liquidation – IAS 32 and IAS 1 Amendment (effective for annual periods beginning on or after 1 January 2009). The amendment requires classification as equity of some financial instruments that meet the definition of a financial liability. The Group does not expect this standard to affect its consolidated financial statements.

IAS 1, Presentation of Financial Statements (revised September 2007; effective for annual periods beginning on or after 1 January 2009). The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income that will also include all non-owner changes in equity, such as the revaluation of available-for-sale financial assets. Alternatively, entities will be allowed to present two statements: a separate income statement and a statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The Group expects the revised IAS 1 to affect the presentation of its financial statements but to have no impact on the recognition or measurement of specific transactions and balances.

IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009). The revised IAS 27 will require an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interests"), even if this results in the non-controlling interests having a deficit balance. The current standard requires the excess losses to be allocated to the owners of the parent, except for a loss amount for which the holders of non-controlling interest incur liability and have ability to make additional investments covering such losses. The revised standard specifies that changes in a parent's ownership interest in a subsidiary that do not result in the loss of control must be accounted for as equity transactions. It also specifies how an entity should measure any gain or loss arising on the loss of control of a subsidiary. At the date when control is lost, any investment retained in the former subsidiary will have to be measured at its fair value. The Group does not expect this standard to affect its consolidated financial statements.

IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The revised IFRS 3 will allow entities to choose to measure non-controlling interests using the existing IFRS 3 method (proportionate share of the acquiree's identifiable net assets) or at fair value. The revised IFRS 3 is more detailed in providing guidance on the application of the purchase method to business combinations. The requirement to measure at fair value every asset and liability at each step in a step acquisition for the purposes of calculating a portion of goodwill has been removed. Instead, goodwill will be measured as the difference at acquisition date between the fair value of any investment in the business held before the acquisition, the consideration transferred and the net assets acquired. Acquisition-related costs will be accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer will have to recognise at the acquisition date a liability for any contingent purchase consideration. Changes in the value of that liability after the acquisition date will be recognised in accordance with other applicable IFRSs, as appropriate, rather than by adjusting goodwill. The revised IFRS 3 brings into its scope business combinations involving only mutual entities and business combinations achieved by contract alone. The Group is currently assessing the impact of the amended standard on its consolidated financial statements.

Vesting Conditions and Cancellations – Amendment to IFRS 2, Share-based Payment (issued in January 2008; effective for annual periods beginning on or after 1 January 2009). The amendment clarifies that only service conditions and performance conditions are vesting conditions. Other features of a share-based payment are not vesting conditions. The amendment specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group does not expect the amendment to affect its consolidated financial statements.

IFRIC 13, Customer Loyalty Programmes (effective for annual periods beginning on or after 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. IFRIC 13 is not relevant to the Group's operations because no Group companies operate any loyalty programmes.

IFRIC 15, Agreements for the Construction of Real Estate (effective for annual periods beginning on or after 1 January 2009). The interpretation applies to the accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors, and provides guidance for determining whether agreements for the construction of real estate are within the scope of IAS 11 or IAS 18. It also provides criteria for determining when entities should recognise revenue on such transactions. The Group is currently assessing the impact of the interpretation on its consolidated financial statements.

6 New Accounting Pronouncements (continued)

IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective for annual periods beginning on or after 1 October 2008). The interpretation explains which currency risk exposures are eligible for hedge accounting and states that translation from the functional currency to the presentation currency does not create an exposure to which hedge accounting could be applied. The IFRIC allows the hedging instrument to be held by any entity or entities within a group except the foreign operation that itself is being hedged. The interpretation also clarifies how the gain or loss recycled from the currency translation reserve to profit or loss is calculated on disposal of the hedged foreign operation. Reporting entities will apply IAS 39 to discontinue hedge accounting prospectively when their hedges do not meet the criteria for hedge accounting in IFRIC 16. IFRIC 16 does not have an impact on these consolidated financial statements as the Group does not apply hedge accounting to net investments.

Improvements to International Financial Reporting Standards (issued in May 2008). In 2007, the International Accounting Standards Board decided to initiate an annual improvements project as a method of making necessary, but non-urgent, amendments to IFRS. The amendments issued in May 2008 consist of a mixture of substantive changes, clarifications, and changes in terminology in various standards. The substantive changes relate to the following areas: classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary; possibility of presentation of financial instruments held for trading as non-current under IAS 1; accounting for sale of IAS 16 assets which were previously held for rental and classification of the related cash flows under IAS 7 as cash flows from operating activities; clarification of definition of a curtailment under IAS 19; accounting for below market interest rate government loans in accordance with IAS 20; making the definition of borrowing costs in IAS 23 consistent with the effective interest method; clarification of accounting for subsidiaries held for sale under IAS 27 and IFRS 5; reduction in the disclosure requirements relating to associates and joint ventures under IAS 28 and IAS 31; enhancement of disclosures required by IAS 36; clarification of accounting for advertising costs under IAS 38; amending the definition of the fair value through profit or loss category to be consistent with hedge accounting under IAS 39; introduction of accounting for investment properties under construction in accordance with IAS 40; and reduction in restrictions over manner of determining fair value of biological assets under IAS 41. Further amendments made to IAS 8, 10, 18, 20, 29, 34, 40, 41 and to IFRS 7 represent terminology or editorial changes only, which the IASB believes have no or minimal effect on accounting. The Group does not expect the amendments to have any material effect on its consolidated financial statements.

Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate – IFRS 1 and IAS 27 Amendment (revised May 2008; effective for annual periods beginning on or after 1 January 2009). The amendment allows first-time adopters of IFRS to measure investments in subsidiaries, jointly controlled entities or associates at fair value or at previous GAAP carrying value as deemed cost in the separate financial statements. The amendment also requires distributions from pre-acquisition net assets of investees to be recognised in profit or loss rather than as a recovery of the investment. The amendments will not have an impact on the Group's consolidated financial statements.

Eligible Hedged Items – Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009). The amendment clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment is not expected to have an impact on the Group's consolidated financial statements.

IFRIC 17, Distribution of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009). The amendment clarifies when and how distribution of non-cash assets as dividends to the owners should be recognised. An entity should measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. A gain or loss on disposal of the distributed non-cash assets will be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 is not relevant to the Group's operations because it does not distribute non-cash assets to owners.

IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009). The revised IFRS 1 retains the substance of its previous version but within a changed structure in order to make it easier for the reader to understand and to better accommodate future changes. The Group concluded that the revised standard does not have any effect on its consolidated financial statements.

IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009). The interpretation clarifies the accounting for transfers of assets from customers, namely, the circumstances in which the definition of an asset is met; the recognition of the asset and the measurement of its cost on initial recognition; the identification of the separately identifiable services (one or more services in exchange for the transferred asset); the recognition of revenue, and the accounting for transfers of cash from customers. IFRIC 18 is not expected to have any impact on the Group's consolidated financial statements.

6 New Accounting Pronouncements (continued)

Improving Disclosures about Financial Instruments – Amendment to IFRS 7, Financial Instruments: Disclosures (issued in March 2009; effective for annual periods beginning on or after 1 January 2009). The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity will be required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment (a) clarifies that the maturity analysis of liabilities should include issued financial guarantee contracts at the maximum amount of the guarantee in the earliest period in which the guarantee could be called; and (b) requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial statements to evaluate the nature and extent of liquidity risk. The Group is currently assessing the impact of the amendment on disclosures in its consolidated financial statements.

Embedded Derivatives – Amendments to IFRIC 9 and IAS 39 (effective for annual periods ending on or after 30 June 2009). The amendments clarify that on reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives have to be assessed and, if necessary, separately accounted for. These amendments are not expected to have any impact on the Group's consolidated financial statements.

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

7 Segment Information

For the purposes of these consolidated financial statements, business segments are the primary format and geographical segments are secondary format. The Group has only one business segment – production of zinc and lead concentrate, zinc and zinc alloys. 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, the Republic Kazakhstan and the United Kingdom.

The Group's assets by geographical segments have the following structure:

In thousands of Russian Roubles	**31 December 2008**	**31 December 2007**
Russian Federation	7,969,083	9,665,966
Republic of Kazakhstan	2,403,439	4,325,869
United Kingdom	473,740	772,860
Elimination of intra-segment settlements	(425,038)	(106,703)
Total assets	**10,421,224**	**14,657,992**

The Group's revenues by location of customers had the following structure:

In thousands of Russian Roubles	**2008**	**2007**
Russian Federation	5,327,754	7,664,942
Europe	4,110,625	6,163,624
Other CIS states	146,892	473,078
Republic of Kazakhstan	129,412	1,115,263
Asia and Africa	258,723	109,594
Total revenue	**9,973,406**	**15,526,501**

Capital expenditure for the year ended 31 December 2008 incurred in Kazakhstan was RUB 303 million, in the UK – RUB 11 million (the year ended 31 December 2007: RUB 241 million in Kazakhstan and RUB 4 million, respectively). The rest of the capital expenditure was incurred in the Russian Federation.

8 Balances and Transactions with Related Parties

According to IAS 24 (revised 2003) Related Party Disclosures, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is paid 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 with whom the Group entered into significant transactions during the years ended 31 December 2008 and 2007 or had significant balances outstanding as of 31 December 2008 and 31 December 2007 predominantly comprised of parties under the control of the Group's shareholders or acting as agents of the aforementioned parties. The details of those transactions and outstanding balances are disclosed below. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

8 Balances and Transactions with Related Parties (continued)

(i) Balance sheet data

In thousands of Russian Roubles	Note	31 December 2008	31 December 2007
Assets			
Accounts receivable	14	998	296
Advances issued	14	-	868
Total accounts receivable and advances issued		998	1,164
Loans granted to key management personnel		5,465	-
Total assets		**6,463**	**1,164**
Liabilities			
Accounts payable	21	(7,350)	(1,765)
Total liabilities		**(7,350)**	**(1,765)**

(ii) Income statement data

In thousands of Russian Roubles	Note	2008	2007
Revenue			
Sales of goods	24	124,434	164,651
Total revenue		124,434	164,651
Purchases			
Purchases of inventory		(27,609)	(56,335)
Total purchases		**(27,609)**	**(56,335)**
Operating income and expenses			
Other income/expense		(25,009)	435
Information services received		(11,828)	(10,658)
Total operating income and expenses		**(36,838)**	**(10,223)**
Finance income			
Interest on loan issued		232	-
Other finance income/expense		(575)	-
Total finance income		**(342)**	**-**

(iii) Cash flow statement data

In thousands of Russian Roubles	2008	2007
Operating activities		
Cash received for goods sold	147,444	193,897
Payments made for inventory purchased	(49,398)	(83,432)
Total cash generated from operations	**98,046**	**110,465**
Investment activities		
Loan issued	(4,990)	-
Total cash flows used in investment activities	**(4,990)**	**-**

During the year ended 31 December 2008 the Group supplied 2,053 tonnes of zinc and zinc alloys (year ended 31 December 2007: 1,586 tonnes) in accordance with the agreements with related companies at the price determined as the London Metal Exchange official quotation for the metric tonne of special high grade zinc averaged over the quotation period and adjusted for the coefficient 0.15 for zinc and 0.16-0.18 for zinc alloys.

During the year ended 31 December 2008 the Group purchased inventory (primarily tubes and metal) from related parties for a total amount of RUB 27 million (year ended 31 December 2007: RUB 48 million), as well as information services in the amount of RUB 11.8 million (year ended 31 December 2007: RUB 10.7 million).

(iv) Directors' and key management's compensation

Total directors and key managements' compensation is represented by contractual salary and discretionary bonus. It is recorded in general and administrative expenses in the statement of income in the amount of RUB 51.9 million and RUB 60.5 million for the years ended 31 December 2008 and 2007, respectively. There were 27 members of the directors and key management group for the year ended 31 December 2008 (year ended 31 December 2007: 24 members).

9 Property, Plant and Equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

In thousands of Russian Roubles	Land	Buildings and infrastructure	Plant, machinery and equipment	Other	Mineral resources	Construction-in-progress	Total
Cost as of 1 January 2007	**45,419**	**2,133,646**	**3,249,603**	**522,136**	**2,806,267**	**690,325**	**9,447,396**
Accumulated depreciation	**-**	**(542,448)**	**(1,463,295)**	**(187,816)**	**(192,505)**	**-**	**(2,386,064)**
Carrying value as of 1 January 2007	**45,419**	**1,591,198**	**1,786,308**	**334,320**	**2,613,762**	**690,325**	**7,061,332**
Acquisition through business combinations	-	-	8,382	5,070	-	-	13,452
Additions/Transfers	-	442,981	566,913	110,361	18,140	141,834	1,280,229
Disposals	-	(51)	(13,952)	(13,335)	-	(1,481)	(28,819)
Depreciation charge	-	(157,099)	(488,261)	(79,620)	(277,915)	-	(1,002,895)
Translation to presentation currency	-	(6,231)	(6,466)	(3,277)	(45,445)	(953)	62,372
Carrying value as of 31 December 2007	**45,419**	**1,870,798**	**1,852,924**	**353,519**	**2,308,542**	**829,725**	**7,260,927**
Cost as of 1 January 2008	**45,419**	**2,568,361**	**3,773,845**	**612,439**	**2,768,358**	**829,725**	**10,598,147**
Accumulated depreciation	**-**	**(697,563)**	**(1,920,921)**	**(258,920)**	**(459,816)**	**-**	**(3,337,220)**
Carrying value as of 1 January 2008	**45,419**	**1,870,798**	**1,852,924**	**353,519**	**2,308,542**	**829,725**	**7,260,927**
Additions/Transfers	-	339,627	787,864	186,048	(6,657)	(194,556)	1,112,326
Reclass between categories of fixed assets	-	(30,912)	15,914	2,975	-	12,023	-
Impairment charge to profit or loss	-	-	-	-	(1,973,442)	-	(1,973,442)
Disposals	-	(4,069)	(15,792)	(8,156)	-	(25,298)	(53,315)
Depreciation charge	-	(165,813)	(526,130)	(94,431)	(293,005)	-	(1,079,379)
Translation to presentation currency	-	55,425	49,903	35,656	254,726	26,512	422,222
Carrying value as of 31 December 2008	**45,419**	**2,065,056**	**2,164,683**	**475,611**	**290,164**	**648,406**	**5,689,339**
Cost as of 31 December 2008	**45,419**	**2,945,175**	**4,593,234**	**833,245**	**1,184,223**	**648,406**	**10,249,702**
Accumulated depreciation	**-**	**(880,118)**	**(2,428,551)**	**(357,634)**	**(894,059)**	**-**	**(4,560,362)**
Carrying value as of 31 December 2008	**45,419**	**2,065,056**	**2,164,683**	**475,611**	**290,164**	**648,406**	**5,689,339**

9 Property, Plant and Equipment (continued)

As of 31 December 2008 and 31 December 2007, Bayerische Hypo- und Vereinsbank AG and the consortium of CJSC UniCredit Bank, Moscow (formerly called CJSC International Moscow Bank) and VTB Bank (France) SA (formerly called Banque Commerciale pour l'Europe du Nord-Eurobank) had a right of pledge to the Group's equipment with a carrying value of RUB 800 million (31 December 2007: RUB 762 million) (Note 20).

As of 31 December 2008, carrying value of property, plant and equipment used under financial lease arrangements was RUB 112.5 million (31 December 2007: RUB 71 million).

As of 31 December 2008, Moscow regional center "VTB bank Northen-West" had a right of pledge to the Group's equipment used under financial lease with a carrying value of RUB 61 million (31 December 2007: RUB 0).

As of 31 December 2008, carrying value of temporarily idle assets under construction and equipment for installation was RUB 207.8 million (31 December 2007: RUB 0).

Property, plant and equipment impairment test

As a result of the global economic downturn and falling demand for mineral resources, zinc and lead prices as of 31 December 2008 have dropped significantly down to USD 1,120 per tonne of zinc and USD 950 per tonne of lead from prices of USD 2,500 per tonne of zinc and USD 2,600 per tonne of lead observed in winter 2007. Such decrease in zinc and lead prices coupled with global liquidity crisis was considered by management as impairment indicators for impairment of non-financial assets.

Accordingly, as of 31 December 2008 a review of the carrying values and estimated recoverable amounts of the Group entities' property, plant and equipment was performed. As a result of this review, management concluded that there is an impairment loss to be recognised in the amount of RUB 1,973,442 thousand related to mining assets in Kazakhstan.

Estimates of future cash flows are based on management estimates of future commodity prices, market supply and demand, product margins, and, in case of mining properties, the expected future production volumes. The impairment review and calculations are based on assumptions that are consistent with the Group's business plans.

The principal assumptions made by management in the assessment of the value in use were as follows:

- future cash flows are projected in real terms until the date when subsurface use contract expires;

- average yearly zinc and lead prices are expected to be at the levels shown below.

	2009	2010	2011	2012	2013	2014	2015
Average price zinc metal, USD per tonne	1,272	1,596	1,948	2,054	2,106	2,158	2,212
Average price lead metal, USD per tonne	1,323	1,323	1,213	1,213	1,243	1,274	1,306

- long-term inflation rate is 2.5% per annum;

- pre-tax discount rate of 15.8%.

One of the principal assumptions having significant impact on the projected future cash flows is future zinc and lead prices. Presented below is a sensitivity analysis, which demonstrates amounts of total possible impairment loss at various price levels and pre-tax discount rates (given all other variables held constant):

	2009	2010	2011	2012	2013	2014	2015	Impairment loss, 000'RUB
Average price zinc metal, USD per ton	1,250	1,500	1,600	1,650	1,691	1,734	1,777	
Average price lead metal, USD per ton	1,213	1,257	1,168	1,146	1,175	1,204	1,234	(2,709,613)

	2009	2010	2011	2012	2013	2014	2015	Impairment loss, 000'RUB
Average price zinc metal, USD per ton	1,190	1,543	2,249	2,646	2,712	2,780	2,849	
Average price lead metal, USD per ton	1,333	1,504	1,661	1,625	1,666	1,707	1,750	(1,270,767)

	2009	2010	2011	2012	2013	2014	2015	Impairment loss, 000'RUB
Pre-tax discount rate	13.30%	13.30%	13.30%	13.30%	13.30%	13.30%	13.30%	(1,827,498)
Pre-tax discount rate	18.30%	18.30%	18.30%	18.30%	18.30%	18.30%	18.30%	(2,103,033)

10 Goodwill

Goodwill is related to acquisition of 100% of shares in Nova Trading and Commerce AG (later renamed Nova Holding AG), a company that owns Nova Zinc, a zinc-lead mining company in the Republic of Kazakhstan. The acquisition was completed on 10 April 2006.

Movements in goodwill on acquisition of the subsidiary includes a presentation currency translation adjustment: loss of RUB 36,821 thousand for the year ended 31 December 2008 (year ended 31 December 2007: RUB 16,498 thousand).

Goodwill impairment test

As a result of the decrease of the market price for zinc and lead, the Group performed goodwill impairment test as of 30 June 2008. Goodwill was allocated to CGUs which represent the lowest level within the Group at which goodwill is monitored by management and which are not larger than a segment. Nova Zinc was recognised as the Group's cash-generating unit. Since the Group's management believes that the synergy effect of acquisitions on other entities was not significant, no goodwill was allocated to other CGUs.

The recoverable amount of a CGU was determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a period of seven and a half years up to depletion of the mine.

Key assumptions used for value-in-use calculations:

	Nova Zinc
EBITDA	52%-68%
Pre-tax discount rate	13.30%

Management determined budgeted EBITDA based on past performance and its expectations for market development. The discount rates used are pre-tax and reflect specific risks relating to the CGU.

As a result of the test, impairment was identified. An impairment loss of RUB 778,667 thousand was recognised in the income statement.

During the year ended 31 December 2007, the Group completed the purchase price allocation for Brock Metal. As a result it was identified that the Group's share in net fair value of assets, liabilities and contingent liabilities of Brock Metal exceeded its acquisition cost. This surplus was RUB 19,811 thousand and was recognised in the Group's income statement for 2007 (Note 29).

11 Other Intangible Assets

In thousands of Russian Roubles	**Exploration and evaluation assets**	**Other intangible assets**	**Total**
Cost as of 1 January 2007	-	27,977	**27,977**
Accumulated amortisation	-	(5,393)	**(5,393)**
Carrying value as of 1 January 2007	**-**	**22,584**	**22,584**
Additions/Transfers	252,819	2,257	**255,076**
Acquired in business combination	-	30,368	**30,368**
Amortisation	-	(13,182)	**(13,182)**
Disposals and write-offs	-	(215)	**(215)**
Translation to presentation currency	(952)	(1,190)	**(2,142)**
Carrying value as of 31 December 2007	**251,867**	**40,622**	**292,489**
Cost as of 1 January 2008	251,867	58,637	**310,504**
Accumulated amortisation	-	(18,015)	**(18,015)**
Carrying value as of 1 January 2008	**251,867**	**40,622**	**292,489**
Additions	82,840	3,961	**86,801**
Disposals and write-offs	(283,420)	(198)	**(283,618)**
Amortisation	-	(7,049)	(7,049)
Translation to presentation currency	9,744	(860)	**8,884**
Carrying value as of 31 December 2008	**61,031**	**36,476**	**97,507**
Cost as of 31 December 2008	61,031	59,770	**120,801**
Accumulated amortisation	-	(23,294)	**(23,294)**
Carrying value as of 31 December 2008	**61,031**	**36,476**	**97,507**

11 Other Intangible Assets (continued)

Other intangible assets comprise the cost of obtaining CZP SHG (Chelyabinsk Zinc Plant Special High Grade) certification. The carrying value of this asset is RUB 20.5 million (31 December 2007: RUB 21.3 million). The product was formally registered with London Metal Exchange in December 2004.

In October 2008 the Group received results of the evaluation of reserves for the Amur mine. Based on those results, the Group decided to cease development of the mine. As a result, exploration and evaluation assets amounting to RUB 305,693 thousand have been written off, including RUB 22,273 thousand from property, plant and equipment.

12 Other Non-Current Assets

In thousands of Russian Roubles	31 December 2008	31 December 2007
Long-term deposit with Severnaya Kazna, USD denominated, at 8.0% p.a.	-	3,682
Long-term deposit with Severnaya Kazna, RUB denominated, at 10.0% p.a.	-	305,000
Long-term deposit with Tiumenenergobank, RUB denominated, at 11.75% p.a. for RUB 100 million and at 10.5% for RUB 100 million	-	200,000
Long-term deposits with Chelindbank, RUB denominated, at 12% p.a.	-	100,000
Other non-current assets	6,936	767
Total other non-current assets	**6,936**	**609,449**

The long-term deposit with Severnaya Kazna is replenishable and represented a minimum balance of USD 150 thousand at 8% p.a. as of 31 December 2007. The underlying deposit agreement provides for a reduction in the deposit interest rate in case of early drawdown of all funds in accordance with the following schedule: 361-730 days – 8% p.a., 271-360 days – 6.5% p.a., 181-270 days – 5.5% p.a., 96-180 days – 4.5% p.a., 30-95 days – 3% p.a., less than 30 days – 0% p.a. As of 31 December 2008 deposit with Severnaya Kazna in the amount of USD 150 thousand (RUB 4,407 thousand) at 8% p.a. maturing in May 2009 is included in bank deposits (Note 16).

The long-term deposit with Severnaya Kazna is replenishable and represented a minimum balance of RUB 5 million and replenished deposit of RUB 300 million at 10% p.a. as of 31 December 2007. The underlying deposit agreement provides for a reduction in the deposit interest rate in case of early drawdown of all funds in accordance with the following schedule: 361-730 days – 10% p.a., 271-360 days – 9.5% p.a., 181-270 days – 7.5% p.a., 96-180 days – 6.5% p.a., 30-95 days – 5% p.a., less than 30 days – 0% p.a. As of 31 December 2008 deposit with Severnaya Kazna in the amount of RUB 5 million at 10% p.a. maturing in April 2009 is included in bank deposits (Note 16).

The long-term deposit with Tiumenenergobank is replenishable and represented a minimum balance of RUB 100 million at 11.75% p.a. and replenished deposit of RUB 100 million as of 31 December 2007. In accordance with the underlying deposit agreement the replenished amount of more than RUB 200 million accrues interest as follows: 182-365 days – 10.5% p.a., 181-91 days – 8.5% p.a., 61-90 days – 7% p.a., 31-60 days – 6.5% p.a., less than 30 days – 5.75% p.a. The agreement also provides for a change in the interest rate applicable to the principal amount of the deposit in accordance with the following schedule: over 365 days – 11.75% p.a., 272-365 days – 11.50% p.a., 182-271 days – 10% p.a., 101-181 days – 9.25% p.a., 31-100 days – 8.5% p.a., less than 30 days – 7.5% p.a. As of 31 December 2008 deposit with Tiumenenergobank in the amount of RUB 127.5 million at 11.75% p.a. maturing in June 2009 is included in bank deposits (Note 16).

As at 31 December 2007 the long-term RUB denominated deposits with Chelindbank represent a balance of RUB 100 million at 12% p.a. As of 31 December 2008 the deposits in the amount RUB 100 million at 12% p.a. maturing in January 2009 are included in bank deposits (Note 16).

Management believes that the effective interest rates do not differ significantly from the nominal interest rates disclosed above. Management believes that fair value of the long-term deposits does not differ significantly from their carrying value.

13 Inventories

In thousands of Russian Roubles	31 December 2008	31 December 2007
Raw materials and consumables	1,363,508	1,411,442
Work in process	442,036	291,122
Finished goods	441,944	531,415
Precious metals	10,233	30,033
Goods for resale	86,476	342,026
Inventory provision	(423,592)	(31,606)
Total inventory, net	**1,920,605**	**2,574,432**

As a result of decrease of the market prices for zinc as at 31 December 2008, the net cost of production of inventory dependant on market quotations was higher than its net realizable value. Accordingly, the management of the Group has created a provision for the difference between the net cost of production and net realizable value of finished goods and work in progress and for the difference between the carrying value of raw materials (zinc concentrate) and their net realizable value assessed at their replacement cost. As at 31 December 2008 the provision for inventory written down to net realizable value amounted to RUB 411,002 thousand (31 December 2007: RUB 22,639 thousand).

13 Inventories (continued)

As of 31 December 2008, the Group had accumulated 92.1 thousand tonnes of zinc cakes (a by-product with approximately 20% zinc content, which requires substantial processing to extract zinc) (31 December 2007: 129.8 thousand tonnes) that had not been processed due to the limited capacity of relevant workshops.

By 31 December 2008, 55,113 tonnes of zinc cakes were processed, including those which were processed using new equipment put into operation in the second quarter 2007.

The carrying value of zinc cakes is substantially lower than its potential selling value and the cost of zinc content. The carrying value of zinc cakes, included in consumables as at 31 December 2008, amounted to RUB 41.5 million (31 December 2007: RUB 56.9 million).

As of 31 December 2008, Chelindbank had the right of pledge to 1,610 tonnes of zinc in zinc concentrate with a pledge value of RUB 44 million (its carrying value is approximately RUB 34,5 million). The pledge was submitted as a collateral of the Group liabilities arising from the letter of credit confirmed by Commerzbank AD Germany to secure contractual liabilities of the Group to Mining Solutions LTD for a total of RUB 32.2 million.

At 31 December 2007, Chelindbank had the right of pledge to 6,560 tonnes of zinc in zinc concentrate with a pledge value of RUB 389 million (its carrying value is approximately RUB 270 million). The pledge was submitted as a collateral of the Group liabilities arising from the letter of credit confirmed by Commerzbank AG to secure contractual liabilities of the Group to Glencore AG for a total of RUB 73.6 million and from the letter of credit confirmed by Raiffeisen Zentralbank AG to secure contractual liabilities of the Group to Lloyds TSB Bank for a total of RUB 49.1 million.

14 Trade and Other Receivables

In thousands of Russian Roubles	Note	31 December 2008	31 December 2007
Trade receivables denominated in RUB – third parties		230,554	188,186
Trade receivables denominated in RUB – related parties	8	998	296
Trade receivables denominated in USD – third parties		113,240	138,609
Trade receivables denominated in EUR – third parties		72,789	177,127
Trade receivables denominated in GBP – third parties		100,489	214,425
Trade receivables denominated in KZT – third parties		67	29,675
Less: impairment provision		(6,815)	(2,338)
Total financial assets		**511,322**	**745,980**
VAT and other taxes recoverable		695,006	883,558
Interest income – third parties		418	310
Property insurance prepaid		2,438	6,542
Other prepayments – third parties		110,863	294,494
Other prepayments – related parties	8	-	868
Other receivables – third parties		1,943	11,498
Total trade and other receivables		**1,321,990**	**1,943,250**

Management believes that the fair value of accounts receivable as of both year-ends does not differ significantly from their carrying amounts.

No accounts receivable were renegotiated as of 31 December 2008 (31 December 2007: none).

As of 31 December 2008, trade receivables of RUB 3,023 thousand (31 December 2007: RUB 8,448 thousand) were individually impaired. The amount of the provision was RUB 6,815 thousand as of 31 December 2008 (31 December 2007: RUB 2,338 thousand). The individually impaired receivables mainly relate to customers that are in unexpectedly difficult economic situations. A portion of accounts receivable will be collected.

The ageing of these receivables is as follows:

In thousands of Russian Roubles	31 December 2008	31 December 2007
3 to 6 months	1,245	7,753
Beyond 6 months	1,778	695
Total gross amount of impaired accounts receivable	**3,023**	**8,448**

As of 31 December 2008, trade receivables of RUB 104,636 thousand (31 December 2007: RUB 101,062 thousand) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables from past due date is as follows:

In thousands of Russian Roubles	31 December 2008	31 December 2007
Less than 3 months	62,561	56,736
3 to 6 months	41,760	42,897
Beyond 6 months	315	1,429
Trade accounts receivable past due but not impaired	**104,636**	**101,062**

14 Trade and Other Receivables (continued)

Movements on the provision for impairment of trade receivables are as follows:

In thousands of Russian Roubles	2008	2007
As of 1 January	**2,338**	**20,254**
Acquired in business combination	-	765
Provision accrued	5,058	806
Receivable write-offs	(74)	-
Reversal of unused amount	(819)	(19,495)
Foreign exchange differences	312	8
As of 31 December	**6,815**	**2,338**

The creation and release of provision for impaired receivables were included in general and administrative expenses in the income statement (Note 26). Amounts charged to the provision account are generally written off when there is no expectation of recovering additional cash.

Other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above plus the amount of promissory notes and loans receivable, cash and cash equivalents, bank deposits, restricted cash and other non-current assets. The Group does not hold any collateral as security on accounts receivable.

15 Short-Term Financial Assets and Liabilities

In thousands of Russian Roubles	31 December 2008		31 December 2007	
	Assets	Liabilities	Assets	Liabilities
Futures contracts – cash flow hedges	145,599	-	-	-
Forward contract accounted for at fair value through profit and loss	-	21,436	-	-
Total short-term assets and liabilities	**145,599**	**21,436**	**-**	**-**

The group hedges volatility in future cash flows related to highly probable zinc sale due to the changes in the USD market price of zinc.

Provided that the hedge is effective, changes in the fair value of the hedging instrument are initially recognised as a hedging reserve in equity. They are transferred to the income statement when the hedged transaction affects profit or loss. During the year ended 31 December 2008 the amount of RUB 266,696 thousand of changes in the fair value of the hedging instruments was recognised in equity as a hedging reserve (year ended 31 December 2007: nil). Out of this amount, a gain of RUB 151,601 thousand was recognised as part of revenue (Note 24) in relation to the hedge transactions that affected profit or loss during the year ended 31 December 2008 (year ended 31 December 2007: nil).

The ineffective portion of the change in the fair value of the hedging instrument is recognised directly in the income statement. During the year ended 31 December 2008 the ineffective portion recognised in the profit or loss that arises from cash flow hedges amounted to a gain of RUB 14,570 thousand (year ended 31 December 2008: nil).

If a hedged forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in the hedging reserve is immediately transferred to the income statement.

16 Bank Deposits

In thousands of Russian Roubles	31 December 2008	31 December 2007
Deposits with Chelindbank, RUB denominated, at 11.5% p.a.	-	200,000
Deposits with Chelindbank, RUB denominated, at 10.5% p.a.	-	100,000
Deposits with Chelindbank, RUB denominated, at 9% p.a.	-	100,000
Deposit with Severnaya Kazna, USD denominated, at 8.0% p.a.	4,407	-
Deposit with Severnaya Kazna, RUB denominated, at 10.0% p.a.	5,000	-
Deposit with Tiumenenergobank, RUB denominated at 11.75% p.a.	127,500	-
Provision for deposit with Tiumenenergobank, RUB denominated, at 11.75% p.a	(127,500)	-
Deposits with Chelindbank, RUB denominated, at 12% p.a.	100,000	-
Deposits with Nomos-bank, RUB denominated, at 10.5% p.a.	100,000	-
Total bank deposits	**209,407**	**400,000**

Outstanding deposits as of 31 December 2008 mature in January-June 2009 (31 December 2007: April-July 2008).

In December 2008 the Central bank of Russian withdrew a license to carry out banking activities of Tiumenenergobank. As a result, the Group made a provision for the deposit held at that bank in the amount of RUB 127.5 million.

Management believes that the effective interest rates do not differ significantly from the nominal interest rates disclosed above. Management believes that fair value of the bank deposits does not differ significantly from their carrying value.

17 Cash and Cash Equivalents

In thousands of Russian Roubles	31 December 2008	31 December 2007
RUB denominated bank balances payable on demand and cash on hand	49,081	129,889
USD denominated bank balances payable on demand	371,080	154,353
GBP denominated bank balances payable on demand	144,093	9,581
SFR denominated bank balances payable on demand	1,410	196
KZT denominated bank balances payable on demand and cash on hand	24,636	7,079
RUB denominated term deposits	-	200,000
Total cash and cash equivalents	**590,299**	**501,098**

No bank balances are past due or considered impaired.

Bank balances payable on demand carry interest at 0%-2% p.a.

18 Restricted Cash

In thousands of Russian Roubles	31 December 2008	31 December 2007
Issued covered letters of credit in EUR	-	14,052
Deposit against future hedging agreements	14,916	-
Cash transferred to secure customs fee payment	2,500	2,500
Other restricted cash in RUB	608	20,006
Total restricted cash	**18,024**	**36,558**

Restricted cash balances as of 31 December 2007 included an irrevocable transferable letter of credit in the amount of EUR 391 thousand (RUB 14,052 thousand) issued by Chelindbank to an equipment supplier till 31 March 2008.

19 Share Capital

The total number of ordinary shares in issue comprises:

In thousands of Russian Roubles	Number of ordinary shares	Book value of ordinary shares	Share premium	Total
As of 1 January 2007	**5,419,541**	**78,860**	**1,375,231**	**1,454,091**
Additional share issue, October 2007	48,775,869	48,775	-	48,775
As of 31 December 2007	**54,195,410**	**127,635**	**1,375,231**	**1,502,866**
As of 31 December 2008	**54,195,410**	**127,635**	**1,375,231**	**1,502,866**

As of 31 December 2008, the authorized, issued and fully paid share capital of the Company consisted of 54,195,410 ordinary shares with a nominal value of RUB 1 each (31 December 2007: 54,195,410 ordinary shares). Each ordinary share carries one vote.

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

During the year ended 31 December 2008 and 2007, the Company did not purchase treasury stock.

During the year ended 31 December 2008 the Company did not issue any additional shares. In July 2007, the Board of Directors approved a decision to issue an additional 48,775,869 ordinary shares with a par value of RUB 1 each. In October 2007, the shares were distributed for no consideration between the existing shareholders in proportion to the number of shares held.

The statutory accounting reports of the Group's entities are used as 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 2008, net statutory loss of the Company for the current year as reported in the published annual statutory reporting forms was RUB 531 million (for the year ended 31 December 2007 net statutory profit: RUB 1,979 million) and the closing balance of the accumulated profit including the current year net statutory loss totaled RUB 6,277 million (2007: RUB 6,896 million). However, this legislation and other statutory laws and regulations 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 financial statements.

The formation of the legal reserve in the RAR accounting reports is stipulated by the Law of the Russian Federation "On Joint Stock Companies" and equals 5% of the declared share capital. The legal reserve of RUB 2,710 thousand recorded in the statutory reporting forms as of 31 December 2008 (31 December 2007: RUB 2,710 thousand) is different from the relevant reserve shown in these consolidated financial statements due to the effect of inflation.

In June 2008, the annual shareholders meeting decided not to accrue or pay dividends for outstanding ordinary shares. A similar decision was taken in 2007. As at 31 December 2008 and 31 December 2007, the amounts of unpaid dividends for prior periods were nil.

20 Borrowings

In thousands of Russian Roubles	31 December 2008	31 December 2007
Long-term bank loans denominated in USD	-	1,762,882
Current portion of long-term USD loans	2,114,818	783,504
Finance lease payable	95,851	56,003
Total borrowings	**2,210,669**	**2,602,389**
1 to 2 years	16,762	799,045
2 to 3 years	18,017	792,609
3 to 4 years	14,587	204,313
4 to 5 years	12,905	2,808
5 to 6 years	6,660	-
Total long-term borrowings	**68,931**	**1,798,775**

As of 31 December 2008 and 31 December 2007, current portion of long-term bank loans denominated in USD comprised two loans obtained from Bayerische Hypo- und Vereinsbank AG and the consortium of CJSC UniCredit Bank, Moscow (formerly called CJSC International Moscow Bank) and VTB Bank (France) SA (formerly called Banque Commerciale pour l'Europe du Nord-Eurobank) (hereinafter, the "Lenders") to finance the acquisition of Nova Trading & Commerce AG shares, replenishing working capital and export financing. The total amount of these loans was USD 70 million (RUB 1,943 million) and USD 68.5 million (RUB 1,862 million), respectively. As of 31 December 2008, both loans bear interest of LIBOR + 2.5% p.a. (31 December 2007: LIBOR + 2.5% p.a.) and should be repaid in equal instalments from 2006 to 2011. The total amount repaid as of 31 December 2008 was USD 65 million (RUB 1,653 million) (31 December 2007: USD 33 million or RUB 844 million) of the principal.

As of 31 December 2008, these banks hold a pledge over the Group's property with a carrying value of RUB 800 million (31 December 2007: RUB 762 million) (Note 9). The Group also assigned to the Lenders all its present and future rights, title, benefits and interest arising from certain export sales contracts, including collection of amounts due under such contracts and an unconditional right to debit certain bank accounts. The amount of cash held on these accounts as of 31 December 2008 was RUB 68 million (31 December 2007: RUB 5 million).

The loans are additionally collateralised by 52.34% shares of the Company, owned by the Group's immediate parent NF Holdings BV incorporated in Netherlands (Note 1).

The loans contain covenants on adequacy of financial ratios, capital expenditure, dividend payments, property insurance and certain other clauses. In 2008, the Group failed to comply with certain covenants for those bank loans, as a result of which the Lenders have the right to require early repayment of the whole amount of the loans at the reporting date. These loans are classified as short-term in the balance sheet.

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

Management believes that fair values of the loans outstanding at 31 December 2008 and 31 December 2007 do not differ significantly from the respective carrying amounts on these dates.

The Group did not conclude any significant hedging agreements relating to its debt denominated in foreign currency or risks connected with interest rates.

The Group has contractual commitments for the purchase of assets held under finance lease at termination of the contract provided that all lease payments are made. In addition, the Group has an option for the purchase of assets held under finance lease before termination of the contract provided that all lease payments are made.

The purchase price of leased assets is comprised of:

- carrying value of lease assets at purchase date, including VAT;
- any costs directly attributable to assignation of lease, including VAT.

The restrictions prescribed by lease contracts contain the following: proper usage of the equipment, no sublease without approval of the lessor, no substantial construction changes in the equipment without lessor's approval.

20 Borrowings (continued)

Minimal finance lease payments and their present value are as follows:

In thousands of Russian Roubles	31 December 2008	31 December 2007
Finance lease liabilities – minimum payments		
- within 1year	38,923	30,308
- between 1 and 5 years	85,636	46,578
- after 5 years	6,900	-
	131,459	**76,886**
Future finance charges on finance leases	(35,608)	(20,883)
Present value of finance leases liabilities		
- within 1year	26,920	20,111
- between 1 and 5 years	62,271	35,892
- after 5 years	6,660	-
	95,851	**56,003**

21 Accounts Payable, Accrued Expenses and Advances from Customers

In thousands of Russian Roubles	Note	31 December 2008	31 December 2007
Trade payables RUB denominated – third parties		409,389	193,293
Trade payables RUB denominated – related parties	8	6,688	1,765
Trade payables USD denominated – third parties		5,475	2,540
Trade payables EUR denominated – third parties		7,415	5,832
Trade payables GBP denominated – third parties		29,704	84,839
Trade payables SFR denominated – third parties		-	1,276
Trade payables KZT denominated – third parties		36,760	26,740
Trade payables KZT denominated – related parties	8	662	-
Liabilities for purchased property, plant and equipment and intangible assets		79,218	50,156
Accrued liabilities and other creditors		54,558	66,671
Total financial payables		**629,869**	**433,112**
Advances from customers RUB denominated – third parties		6,078	31,363
Advances from customers USD denominated – third parties		21,543	22,487
Advances from customers KZT denominated – third parties		384	550
Payroll and social tax payable		37,413	60,734
Unused vacation accrual		15,779	5,206
Accounts payable, accrued expenses and advances from customers		**711,066**	**553,452**

22 Other Taxes Payable

In thousands of Russian Roubles	31 December 2008	31 December 2007
Property tax	17,233	18,114
Withholding tax	44,385	61,240
Personal income tax	3,840	4,804
Land tax	4,328	4,292
VAT	49	2,083
Duty payable	-	18,771
Other taxes	2,742	7,883
Total other taxes payable	**72,577**	**117,187**

23 Provisions for Asset Retirement Obligations

The Group has an obligation to landfill site restoration during the mining operations and decommissioning of its mining property after its expected closure in 2016.

Movements in provisions for asset retirement obligations are as follows:

In thousands of Russian Roubles	**Restoration costs**
Carrying value as of 1 January 2007	**38,386**
Changes to the forecasts adjusted for property, plant and equipment cost	18,187
Unwinding of accrued discount	2,849
Effect of presentation currency translation	(1,278)
Carrying value as of 31 December 2007	**58,144**
Changes in estimates adjusted against property, plant and equipment	(6,657)
Unwinding of accrued discount	(901)
Effect of presentation currency translation	10,005
Carrying value as of 31 December 2008	**60,591**

The discount rate used to calculate the net present value of future costs of asset retirement obligations as of 31 December 2008 was 13.57% p.a.

24 Analysis of Revenue by Category

In thousands of Russian Roubles	**Note**	**2008**	**2007**
Zinc and zinc alloys – third parties		8,364,987	13,769,291
Zinc and zinc alloys – related parties	8	120,831	163,665
Lead concentrate – third parties		146,138	388,860
Zinc tolling – third parties		2,811	29,653
Other – transactions with third parties		1,335,036	1,174,046
Other – transactions with related parties	8	3,603	986
Total revenue		**9,973,406**	**15,526,501**

Revenue from sale of zinc and zinc alloys includes RUB 151,601 thousand of gain on zinc futures designated as accounting hedges (Note 15).

Other sales were generated from by-products of zinc production including indium, cadmium, sulphuric acid and other products.

25 Cost of Sales (excluding impairment of property, plant and equipment)

In thousands of Russian Roubles	**2008**	**2007**
Raw materials and consumables used in production	5,186,325	8,479,185
Utilities and fuel	1,386,072	1,172,803
Production overheads	253,892	164,585
Repairs and maintenance	485,340	441,056
Depreciation and amortization	1,023,997	954,148
Staff cost	623,254	473,760
Change in work-in-progress	(150,914)	62,277
Change in finished goods	109,271	(203,538)
Inventory provision	391,986	9,455
Precious metals revaluation	(22,652)	(27,759)
Cost of goods and materials for resale	491,056	138,183
Total cost of sales (excluding impairment of property, plant and equipment)	**9,777,627**	**11,664,155**

26 Distribution, General and Administrative Expenses

In thousands of Russian Roubles	2008	2007
Transportation and customs duties	326,957	365,550
Packing Materials	32,454	24,474
Total distribution costs	**359,411**	**390,024**
Utilities and fuel	23,415	19,495
Wages and salaries	242,746	235,852
Penalties	20,245	55,885
Land tax	16,908	17,478
Property tax	65,240	63,376
Other taxes	(692)	25,168
Repairs	27,018	30,530
Depreciation and amortization	62,431	61,929
Bad debt provision	131,977	(17,916)
Property insurance	6,783	9,250
Social expenses	38,879	31,165
Losses less gains on disposal of property, plant and equipment	90,506	13,726
Audit, consulting, information and other professional services	49,795	53,509
Negative goodwill recognised as income	-	(19,811)
Other sales, general and administrative expenses	137,308	228,685
Total general and administrative expenses	**912,559**	**808,685**

Total depreciation expense and staff costs (including social expenditures) in the costs of sale and general and administrative expenses amounted to RUB 1,086,428 thousand (31 December 2007: RUB 1,016,077 thousand) and RUB 904,879 thousand (31 December 2007: RUB 740,777 thousand), respectively.

27 Income Taxes

Income taxes comprise the following:

In thousands of Russian Roubles	2008	2007
Current tax	8,152	912,187
Deferred tax	(997,761)	(197,431)
Income tax (credit)/expense for the year	**(989,609)**	**714,756**

The expected tax charges are reconciled to the actual tax charges as follows.

In thousands of Russian Roubles	2008	2007
(Loss)/profit before taxation under IFRS	**(4,525,152)**	**2,628,322**
Estimated tax (credit)/expense at statutory rates	(1,183,174)	664,990
Tax effect of items which are not deductible or assessable for taxation purposes		
Social costs	21,041	18,727
Goodwill impairment	186,880	-
Bank deposit provision	30,600	-
Other non-deductible expenses	28,217	31,039
Effect of change in current income tax rates	(73,173)	-
Income tax (credit)/expense for the current year	**(989,609)**	**714,756**

On 26 November 2008, the Russian Federation reduced the standard corporate income tax rate from 24% to 20% with effect with 1 January 2009.

Effective from 1 January 2009 the Kazakhstan Government reduced the corporate income tax rate from 30 % to 20% in 2009, to 17.5% in 2010, and to 15% in 2011 and going forward.

The impact of the change in tax rates presented above represents the effect of applying the reduced tax rates to deferred tax balances at 31 December 2008.

Income before taxation from transactions within the UK – 30% (2007: 30%).

Differences between IFRS and statutory taxation regulations of the countries where the Group companies are located 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 aforementioned effective rates.

27 Income Taxes (continued)

In thousands of Russian Roubles	31 December 2006	(Charged)/ credited to profit and loss	Business combination	Translation difference	31 December 2007	(Charged)/ credited to profit and loss	(Charged)/ credited to capital	Translation difference	31 December 2008
Tax effects of deductible temporary differences:									
Accounts receivable	4,376	45,791	-	8	50,175	(4,658)	-	48	45,565
Financial Instruments	-	-	-	-	-	-	(23,019)	-	(23,019)
Accounts payable and accrued liabilities	25,294	(11,000)	-	(87)	14,207	18,651	-	936	33,794
Exploration and evaluation costs	-	-	-	-	-	54,951	-	-	54,951
Provisions for asset retirement obligations	11,515	6,312	-	(384)	17,443	(9,995)	-	1,641	9,089
Loss carry forward	-	-	-	-	-	73,920	-	4,109	78,029
Deferred tax assets	41,185	41,103	-	(463)	81,825	132,869	(23,019)	6,734	198,409
Tax effects of taxable temporary differences:									
Property, plant and equipment	(1,189,503)	64,945	-	16,579	(1,107,979)	768,855	-	(35,508)	(374,632)
Inventory	(170,606)	59,667	-	175	(110,764)	111,045	-	217	498
Other	(31,695)	31,716	(3,969)	(196)	(4,144)	(15,008)	-	609	(18,543)
Deferred tax liabilities	(1,391,804)	156,328	(3,969)	16,558	(1,222,887)	864,892	-	(34,682)	(392,677)
Total net deferred tax liability	**(1,350,619)**	**197,431**	**(3,969)**	**16,095**	**(1,141,062)**	**997,761**	**(23,019)**	**(27,948)**	**(194,268)**

As of 31 December 2008 the Group has not recorded a deferred tax liability in respect of taxable temporary differences of RUB 11 million (31 December 2007: RUB 110.4 million) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

28 (Loss)/Earnings per Share

(Loss)/earnings per share was calculated by dividing the (loss)/profit attributable to the equity holders of the Company in the amount of RUB (3,522,601) thousand (31 December 2007: RUB 1,913,566 thousand) by the weighted average number of ordinary shares outstanding during the year ended 31 December 2008, which was 54,195,410 shares (31 December 2007: 54,195,410 shares).

The Company has no financial instruments that may entail dilution of equity; therefore, the diluted (loss)/earnings per share equals the basic (loss)/earnings per share.

29 Business Combinations

On 29 June 2007 the Group acquired 100% of the share capital of Pimco 2620 Limited (subsequently renamed to Brock Metal Limited), a company that produces and sells goods made from zinc and zinc alloys, for a cash consideration of RUB 460,983 million.

The acquired subsidiary contributed revenue of RUB 919,275 thousand and profit of RUB 20,885 thousand to the Group for the period from the date of acquisition to 31 December 2007. If the acquisition had occurred on 1 January 2007, Group revenue and net profit for the year ended 31 December 2007 would have been RUB 17,281 million and RUB 2,020 million, respectively.

Details of the assets and liabilities acquired and goodwill arising are as follows:

In thousands of Russian Roubles	**Note**	**IFRS carrying amount immediately before business combination**	**Fair value**
Cash and cash equivalents		50,739	50,739
Inventories		190,215	191,480
Trade and other receivables		692,946	632,431
Property, plant and equipment and intangible assets		76,800	43,820
Other assets		3,448	703
Trade and other payables		(387,272)	(434,405)
Other taxes payable		(58,318)	(3,974)
Fair value of acquired interest in net assets of subsidiary			**480,794**
Excess of Group's interest in fair value of net assets of subsidiary recognised in statement of income	10		(19,811)
Total purchase consideration			**460,983**
Less: cash and cash equivalents of subsidiary acquired			(50,739)
Outflow of cash and cash equivalents on acquisition			**410,244**

30 Contingencies and Commitments

Legal proceedings. During the year ended 31 December 2008, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) that arose in the ordinary course of business. On the basis of its own estimates and both internal and external professional advice, management is of the opinion that there are no current legal proceedings or other claims outstanding, that 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. Both Russian and Kazakhstan 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 companies of the Group may be challenged by the relevant regional and federal authorities.

The Russian tax authorities may be taking a more assertive and sophisticated approach in their interpretation of the legislation and tax examinations. This includes them following guidance from the Supreme Arbitration Court for anti-avoidance claims based on reviewing the substance and business purpose of transactions. Combined with a possible increase in tax collection efforts to respond to budget pressures, the above may lead to an increase in the level and frequency of scrutiny by the tax authorities. In particular, 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.

30 Contingencies and Commitments (continued)

Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review in accordance with the Russian legislation and five years in accordance with the Kazakhstan legislation. Under certain circumstances reviews may cover longer periods.

As of 31 December 2008 management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained.

Russian transfer pricing legislation provides the possibility for Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. In the past, the arbitration court practice with this respect has been contradictory.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible with the evolution of the interpretation of the transfer pricing rules in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transfer prices could be challenged. Given the brief nature of the current Russian transfer pricing rules, the impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Russian tax legislation does not provide definitive guidance in certain areas. From time to time, the Group adopts interpretations of such uncertain areas that reduce the overall tax rate of the Group. As noted above, such tax positions may come under heightened scrutiny as a result of recent developments in administrative and court practices; the impact of any challenge by the tax authorities cannot be reliably estimated; however, it may be significant to the financial condition and/or the overall operations of the Group.

In addition, given existing tax practices in the Russian Federation, transactions, whose form and supporting documentation formally meet all the requirements of the applicable tax law but whose substance may be different, may be challenged in future as interpretation of the Russian tax law and approach of the Russian tax authorities evolve.

The subsurface use contract of Nova Zinc subsidiary in the Republic of Kazakhstan provides for a stable tax regime. This means that the tax regime prevalent at the time of signing the subsurface use contract is effective throughout the term of the contract.

Recently the Kazakhstan Government increased the pressure on subsurface users in relation to tax stability. This particularly materialized in amendments to the Subsurface Use Law, which were signed by the President on 24 October 2007, the major effect of which is to enhance the ability of the Government to secure revisions of the terms of subsurface use contracts or their cancellation in cases when subsurface users' operations are deemed to jeopardize the state economic interests and national security. Furthermore, during 2008 the Government has developed a legislative proposal to cancel stability of subsurface use contracts tax regimes starting from 1 January 2009, except for valid production sharing agreements and subsurface use contracts ratified by the Kazakhstan Parliament. According to the new tax legislation approved by the Parliament in the fourth quarter 2008 and subsequently signed by the President in December 2008, starting from 1 January 2009, all subsurface users' taxation, apart from those noted exceptions, are regulated by the New Tax Code rather than by subsurface use contracts that were signed previously.

The Kazakhstan Government introduced significant amendments to the existing New Tax Code effective from 1 January 2009. The following key changes have been made: replacement of the royalty with the mineral production tax; change in the methodology of excess profit tax calculations; reduction of the corporate income tax rate from 30% to 20% in the financial year 2009, 17.5% in 2010, and 15% in 2011 and going forward; reduction of the VAT rate to 12%; and other changes.

Management of Nova Zinc is in the process of negotiating low-profit deposit status for the Contract for zinc and lead extraction in the Akzhal field in order to apply for temporary reduction of mineral extraction tax rate to the level of royalties paid under stabilized tax code.

Capital expenditure commitments. As of 31 December 2008 the Group had contractual commitments pertaining to capital investments in property, plant and equipment for a total of RUB 125.4 million (31 December 2007: RUB 85.9 million).

Exploration and evaluation commitments. As of 31 December 2008 the Group had contractual commitments on Amur Field exploration for a total of RUB 18.3 million (31 December 2007: 72.9 million).

30 Contingencies and Commitments (continued)

In June 2007 the Nova Zinc subsidiary started exploration and evaluation activities on the Eastern site of Akzhal field to exploit any mineral deposits within it through underground extraction. In 2005 the State Reserves Committee of the Republic of Kazakhstan estimated field reserves of zinc and lead on the Eastern site of Akzhal field and according to the Protocol # 413-05-У, ore reserves were estimated and classified as C-2 category (inferred ore reserves) taking into account market conditions existed at that time. According to the requirements of the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan, Nova Zinc does not have rights to develop mine field with C-2 reserves category. In order to assess whether reserves can be classified as C-1 category (extrapolated reserves) Nova Zinc should perform an additional feasibility study.

As at 31 December 2008 Nova Zinc has drilled 35 exploration test wells and performed geophysical survey at the field. Expenses in the amount of RUB 61,031 thousand were capitalized as intangible assets.

According to the protocol #780-08-У dated 23 December 2008, issued by the State Reserves Committee of the Republic of Kazakhstan, ore reserves at the Eastern site of Akzhal field have been reclassified to category C-1 based on the results of geophysical survey performed by the Company.

In accordance with the Contract for subsurface use (the "Contract"), Nova Zinc has rights for stripping operations and geological and geophysical survey only in the area stipulated by the Contract (the "Contract area"). However, Nova Zinc performed drilling activities on the area not pertaining to the Contract area.

Management initiated drilling activities based on the letters received from the Committee of Geology and Subsurface use (Letter # 16-051506 dated 23 May 2007) and the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan (Letter # 14-01-5944 dated 27 June 2007) on proposing Nova Zinc prepare amendment to the Contract for subsurface use for expansion of the Contract area.

In August 2008 the Committee of Geology and Subsurface Use signed an addendum to the license on subsoil use of Nova Zinc approving the new expanded contract area for Nova Zinc.

Nova Zinc prepared Addendum # 7 to the Contract for expansion of the Contract area; however, it has not yet been approved by the Ministry of Energy and Mineral Resources of the Republic of Kazakhstan. Management expects to obtain approval of the addendum from the Ministry of Energy and Mineral Resources in the second quarter 2009.

Management of the Group has plans to develop underground activity. The date of start of extraction using combined or underground mine method depends on zinc and lead market conditions.

Operating lease commitments. Where the Group is a lessee in a lease, future minimal lease payments under contracts for operating lease of land with no early termination option are as follows:

In thousands of Russian Roubles	**31 December 2008**	**31 December 2007**
Less than 1 year	306	1,706
1 to 5 years	1,223	1,848
Over 5 years	2,101	2,032
Total operating lease commitments	**3,630**	**5,586**

Other commitments under contract for zinc and lead extraction and licenses. According to the provisions set forth in the License and the Contract on the Amur Field exploration, the Company has the following commitments to meet:

- Meet the working schedule and the work program requirements;
- Comply with statutory legislation, norms, regulations related to mining technology;
- Ensure the most effective extraction of resources;
- Comply with applicable statutory legislation to ensure industrial and labor safety during mining operations;
- Comply with the environmental legislation and take all necessary measures for the avoidance and reduction of pollution resulting from mining operations;
- Engage, in the first place, local companies operating in Chelyabinsk region/Russia provided that they are competitive;
- Ensure mine output is directed for further reprocessing to facilities operating in Chelyabinsk region, wherever possible;
- Employ minimum 430 residents of Chelyabinsk region;
- Remediate the contractual territory, return the License to Rosnedra and present all geological, surveyor and other documentation.

30 Contingencies and Commitments (continued)

There are also a number of commitments that are required to be met by Nova Zinc in accordance with the provisions set forth in the License and the Contract for zinc and lead extraction:

- Meet the working schedule and the work program requirements;
- Apply corresponding modern technologies and business management knowledge during mining operations according to the field development standards;
- Comply with agreed upon technological plans and mining projects that provide for the ensuring health and safety of both staff and local population;
- Use, in the first place, equipment, materials and finished products manufactured in Kazakhstan, provided that they are competitive, in Group's opinion, in terms of their technological characteristics, environmental and operational safety, prices, operational characteristics, delivery time frame and terms;
- Engage, in the first place, local companies operating in Kazakhstan to perform certain assignments during mining operations, provided that they are competitive, in Group's opinion, in terms of their technological characteristics, environmental and operational safety, prices, operational characteristics, delivery time frame and terms;
- Employ Kazakh citizens in the first place;
- Prepare and apply professional training programmes for citizens and professionals of Kazakhstan, employed under the Contract;
- Remediate the Contractual territory that was damaged due to the mining operations or other activity of the subsidiary to the condition necessary for its further use according to Kazakhstan legislation.

In April 2008 the Committee of Geology and Subsurface Protection under the Ministry of Energy and Mineral Resources (the "Committee") and Centranedra conducted the audit of Nova Zinc's fulfilment of license conditions in regard of the Contract. As a result of delays in the process of stripping the Company has prepared Addendum # 6 to the Contract reflecting the amended volume of stripping works. Management of the Group does not expect any significant impact on its operations and financial position as result of the audit performed by the Committee.

In June 2008, the Geology and Subsoil Committee of the Ministry of Energy and Mineral Resources and Nova Zinc signed Addendum No. 6 to the Contract, where the new timeline of stripping operations on Akzhal mine was approved.

Insurance. Under liabilities set forth in the loan agreements with banks (Note 20) the Group is obligated to insure the Company's assets for the loan term. The Company entered into a property insurance contract with a total insured amount of RUB 15,300 million and the insurance premium of RUB 2,905 thousand (2007: RUB 9,779 thousand).

At 31 December 2008 the Company had entered into civil liability insurance contracts covering an entity operating hazardous production facilities against any damage to life, health or property of third parties resulting from an industrial accident at the hazardous production facility. The insurance amount is RUB 167,494 thousand (31 December 2007: RUB 19,800 thousand). The insurance premium is RUB 90 thousand (31 December 2007: RUB 112 thousand). The contracts expire during 2009.

Environmental matters. The enforcement of environmental legislation in the Russian Federation and the Republic of Kazakhstan 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 the Group has no significant liabilities for environmental damage.

31 Financial Risk Management

31.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. Although the Group lacks a formalised risk management programme (apart from a hedging arrangements programme) its overall risk management procedures focus on the unpredictability of financial and commodity markets and seek to minimise potential adverse effects on the Group's financial performance. Also, the companies of the Group use derivative financial instruments to hedge their risk exposures.

Risk management is carried out by treasury departments of each of the Group companies under general guidance of the treasury department of the Company. Treasury departments of the entities of the Group identify, evaluate and take measures to minimise financial risks in close co-operation with the Company's treasury department.

31 Financial Risk Management (continued)

31.1 Financial risk factors (continued)

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is thereby exposed to foreign exchange risk arising from various currency transactions, primarily with respect to the USD and Euro. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is different from the functional currency of the companies of the Group. The Group companies do not have a formal policy to manage their foreign exchange risk against their functional currency. However, management of the Group believes that the exposure to the foreign exchange risk is partially mitigated by the fact that both most of the Group's borrowings (Note 20) and most of the Group's export revenue proceeds are denominated in USD.

As of 31 December 2008, if the RUB had weakened/strengthened by 25% against USD with all other variables held constant, the net loss for the year would have been RUB 311,073 thousand lower/higher (profit for the year ended 31 December 2007: RUB 427,934 thousand lower/higher), mainly as a result of foreign exchange gains/losses on translation of USD denominated trade receivables and loans, cash in bank, deposits and foreign exchange losses/gains on translation of USD denominated borrowings.

Since the Group does not hold any financial instruments revalued through equity, the effect of change of exchange rate on equity would be the same as on post-tax profit.

(ii) Price risk

The Group is not exposed to equity securities price risk because it does not hold a material portfolio of quoted equity securities. The Group is exposed to commodity price risk because prices for zinc and zinc concentrate are determined basing on London Metal Exchange ("LME") quotations for zinc Special High Grade ("SHG"). To manage its price risk, the Group determines a price mechanism in its zinc concentrate purchase agreements so that the price is fixed as the LME quotation in approximately one month period after the shipment date. In it sales contracts the prices for zinc are normally based on spot LME quotations. Due to this pricing mechanism similar prices are used to determine both sale and purchase prices, which minimises the price risk for the Group.

The companies of the Group also use derivatives to hedge their risk of zinc price volatility (Note 15). As of 31 December 2008 the Group had futures contracts for sale of 3,850 tonnes of zinc in order to hedge highly probable forecast transactions of zinc sales which are expected to occur at various dates in January-February 2009.

In addition, the Group has futures contracts totalling 3,425 tonnes of zinc that are not designated for hedge accounting and are accounted for at fair value through profit and loss. The loss on such contracts in the amount of RUB 21,436 thousand for the year ended 31 December 2008 (year ended 31 December 2007: nil) is recognised in cost of sales line in the income statement.

If the LME quotations for SHG zinc had been 30% higher/lower during the year ended 31 December 2008, the net loss of the Group would have been RUB 1,062,327 thousand higher/lower (the post-tax profit for the year ended 31 December 2007: RUB 1,750,084 thousand higher/lower).

The impact on the hedge reserve in equity of the above indicated change in LME quotations for SHG zinc during the year ended 31 December 2008 would be a decrease/increase of RUB 25 million (year ended 31 December 2007: nil).

(iii) Cash flow and fair value interest rate risk

As the Group has no significant assets bearing interest at floating rates, the Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's interest rate risk arises from borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During the year ended 31 December 2008 the Group did not seek debt financing since significant amounts of cash obtained through an initial public offering in 2006 were invested in bank deposits. However, the Group did not redeem its long-term borrowings as the management believes the loan terms are competitive in the current market conditions. During the year ended 31 December 2008 and 31 December 2007, the Group's variable rate borrowings were denominated in USD.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions. Based on the simulations performed, the impact on profit or loss of a 1% shift in interest rate for year ended 31 December 2008 would be an increase/decrease of RUB 15,812 thousand (year ended 31 December 2007: RUB 22,907 thousand).

31 Financial Risk Management (continued)

31.1 Financial risk factors (continued)

(b) Credit risk

Credit risk is managed by the individual companies of the Group. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions and from exposures to customers, including outstanding receivables and committed transactions. For banks and financial institutions, only the top Russian banks by net assets are accepted.

Most of the domestic customers are large metallurgical plants that have independent ratings, which are used in the course of credit risk assessment. In transactions with key customers the Group aims to collect accounts receivable within one month from the invoice issue date. Any delays in payment are investigated.

The table below shows the balances of the major counterparties on the balance sheet date.

In thousands of Russian Roubles	Agency	Rating	31 December 2008	31 December 2007
Banks				
Agropromcredit	RBC	85*	-	200,000
Chelindbank	RBC	102*	395,163	631,419
Severnaya Kazna	RBC	76*	9,407	308,682
Tyumenenergobank	RBC	-	-	200,000
Nomos-bank	RBC	14*	100,000	-
Unicredit	RBC	9*	68,147	4,650
ABN AMRO Bank Kazakhstan (Royal bank of Scotland)	S&P	A+	84,983	69,977
Lloyds TSB	S&P	A+/Stable/A-1	148,219	97,778
			805,919	**1,512,506**
Trade accounts receivable				
Euromin SA**	-	-	45,457	70,302
ArcelorMittal Termirtau	S&P	BBB+	-	40,895
Kazzinc***	-	-	-	29,675
Transal***	-	-	128,220	29,568
UGMK Holding***	-	-	8,640	27,350
MMK	S&P	BB	27,869	1,696
NLMK	S&P	BBB-	-	31,071
			210,186	**230,557**

* Place in Rosbusinessconsulting rating of banks by net assets.

** Export sales are performed primarily through Euromin SA, which also acts as a supplier of import zinc concentrate. The credit risk on this counterparty is managed by maintaining an accounts payable balance equal or exceeding the amount of accounts receivable.

*** These companies are significant customers, with which the Group has a history of relationships.

Management of the Group also considers trade and other receivables of Brock Metal in the amount of RUB 239.6 million as a separate category. Brock Metal has credit insurance coverage over its accounts receivables balances.

Cash was collected according to contractual terms during the reporting period, and management does not expect any losses from non-performance by these counterparties.

The Group's maximum exposure to credit risk by class of assets is as follows:

In thousands of Russian Roubles	2008	2007
Other non-current assets	**24,960**	**646,007**
- Restricted cash (Note 18)	18,024	36,558
- Other non-current financial assets (Note 12)	6,936	609,449
Trade and other receivables (Note 14)	**511,322**	**745,980**
- Trade receivables	511,322	745,980
Cash and cash equivalents (Note 17)	**590,299**	**501,098**
- Bank balances payable on demand	590,299	301,098
- Term deposits with original maturity of less than three months	-	200,000
Bank deposits with maturity of less than twelve months (Note 16)	**209,407**	**400,000**
Futures contracts – cash flow hedges(Note 15)	**145,599**	**-**
Total on-balance sheet exposure	**1,481,587**	**2,293,085**
Total maximum exposure to credit risk	**1,481,587**	**2,293,085**

31 Financial Risk Management (continued)

31.1 Financial risk factors (continued)

(c) Liquidity risk

Following the initial public offering which took place in November 2006 the Group had a significant cash surplus invested in deposits and bank promissory notes as disclosed in Notes 12, 16 and 17.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the time remaining from the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows at spot rates. Balances due within 12 months approximate their carrying balances, as the impact of discounting is not significant.

In thousands of Russian Rubles	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
At 31 December 2008				
Trade and other payables	629,869	-	-	-
Financial liabilities	21,436	-	-	-
Borrowings	2,141,738	-	-	-
Finance leasing	38,923	26,709	58,927	6,900
At 31 December 2007				
Trade and other payables	438,318	-	-	-
Borrowings	955,425	896,576	1,038,672	-
Finance leasing	30,308	21,136	25,442	-

The Group manages the liquidity risk inherent in its financial liabilities by matching their maturity with cash resources, projected cash flows from operations and arranging additional borrowings. Refer to Note 3 for disclosure of a material uncertainty.

31.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure in order to reduce the cost of capital.

Consistent with others in the industry, the Group monitors capital on a gearing ratio basis. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total debt (including borrowings and trade and other payables, as shown in the consolidated balance sheet) less other non-current assets, loans and promissory notes receivable, bank deposits, cash and cash equivalents and restricted cash. Total capital is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

The gearing ratios as of 31 December 2008 and 31 December 2007 were as follows:

In thousands of Russian Roubles	**Note**	**31 December 2008**	**31 December 2007**
Total debts		2,921,735	3,155,841
Less: other non-current assets	12	(6,936)	(609,449)
Less: loans and promissory notes		(21,471)	(562)
Less: bank deposits	16	(209,407)	(400,000)
Less: cash and cash equivalents	17	(590,299)	(501,098)
Less: restricted cash	18	(18,024)	(36,558)
Net debt		2,075,598	1,608,174
Total equity		7,113,102	10,173,254
Total capital		9,188,700	11,781,428
Gearing ratio		23%	14%

As of 31 December 2008 management did not set any specific target gearing ratio as management believes that its current level is significantly below the safe level or level typical for the industry. The management does not have plans to significantly increase the gearing ratio in the foreseeable future.

32 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 a financial instrument have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. The Russian Federation and the Republic of Kazakhstan continue 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 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. Which discount rates are used depends on the credit risk of the counterparty. Carrying amounts of trade receivables approximate fair values.

Cash and cash equivalents are carried at amortised cost which approximates their current fair value.

Financial 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 20 for the estimated fair values of borrowings.

33 Events After the Balance Sheet Date

In January 2009 the Group has signed an amendment to the Facility Agreement with Bayerische Hypo- und Vereinsbank AG, CJSC International Moscow Bank and VTB Bank (France) SA (formely Banque Commerciale pour l'Europe du Nord-Eurobank). The parties agreed to reduce repayments by 50% for the period beginning 1 January 2009 ending 30 June 2009 with an option to reduce payments in a similar manner for each of the three month periods ending 30 September and 31 December 2009. The interest rate in each period will increase from LIBOR + 2.5% to LIBOR + 5%.

In February 2009 due to cessation of the development of the Amur mine, the Group has liquidated its subsidiary JSC GOK "Amur".