JSC CHELYABINSK ZINC PLANT AND ITS SUBSIDIARIES

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

31 December 2010

Note: This version of the consolidated financial statements is a translation from the original, which was prepared in Russian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the financial statements takes precedence over this translation.

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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 Joint Stock Company Chelyabinsk Zinc Plant (the "Company") and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as of 31 December 2010 and the consolidated statements of income, comprehensive income, cash flows and changes in equity 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, and for such internal control as management determines is necessary to enable the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 consolidated 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 Group'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 2010, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

27 April 2011

Moscow, Russian Federation

ZAO PricewaterhouseCoopers Audit
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In thousands of Russian Roubles	Note	31 December 2010	31 December 2009
ASSETS			
Non-current assets			
Property, plant and equipment	9	5,069,733	4,969,105
Advances for capital construction		133,992	69,126
Intangible assets	10	50,172	45,272
Other non-current assets	11	101,098	1,019
Total non-current assets		**5,354,995**	**5,084,522**
Current assets			
Inventories	12	1,365,198	1,588,084
Trade and other receivables	13	1,515,462	1,563,046
Current income tax prepayments		36,353	-
Loans issued		1,474	17,446
Short-term financial assets		24,115	9,486
Bank deposits	14	1,057,300	-
Assets held for sale	14	20,000	90,637
Restricted cash		3,120	4,226
Cash and cash equivalents	15	748,718	470,437
Total current assets		**4,771,740**	**3,743,362**
TOTAL ASSETS		**10,126,735**	**8,827,884**
EQUITY			
Share capital	16	127,635	127,635
Share premium	16	1,375,231	1,375,231
Legal reserve	16	3,011	3,011
Hedging reserve		-	(51,780)
Cumulative currency translation reserve		(142,828)	(183,276)
Retained earnings		7,498,556	6,084,988
TOTAL EQUITY		**8,861,605**	**7,355,809**
LIABILITIES			
Non-current liabilities			
Financial lease liabilities	17	32,973	50,993
Provision for asset retirement obligations	20	60,761	72,377
Deferred income tax liability	24	291,114	282,434
Other non-current liabilities		55,042	34,152
Total non-current liabilities		**439,890**	**439,956**
Current liabilities			
Financial lease liabilities	17	18,087	16,853
Short-term financial liabilities		-	5,002
Accounts payable, accrued expenses and advances from customers	18	534,930	852,895
Current income tax payable		75,701	37,857
Other taxes payable	19	196,522	119,512
Total current liabilities		**825,240**	**1,032,119**
TOTAL LIABILITIES		**1,265,130**	**1,472,075**
TOTAL LIABILITIES AND EQUITY		**10,126,735**	**8,827,884**

Approved for issue and signed on behalf of the Board of Directors on 27 April 2011.

A.M. Panshin
General Director

S.B. Kondakov
Chief accountant

The accompanying notes on pages 6 to 40 are an integral part of these consolidated financial statements.

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In thousands of Russian Roubles	Note	2010	2009
Revenue	21	11,809,662	10,167,045
Cost of sales	22	(8,497,733)	(7,988,731)
Gross profit		**3,311,929**	**2,178,314**
Distribution costs	23	(501,973)	(419,878)
General and administrative expenses	23	(633,484)	(629,767)
Impairment of assets held for sale	14	(47,099)	-
Taxes other than on income		(111,412)	(109,954)
Other operating (expenses) and income, net		(125,359)	83,967
Exploration and evaluation costs	10	(4,122)	(58,330)
Operating profit		**1,888,480**	**1,044,352**
Finance income		77,385	71,354
Finance costs		(20,865)	(173,468)
Foreign exchange gains		108,925	758,532
Foreign exchange losses		(147,223)	(809,918)
Profit before income tax		**1,906,702**	**890,852**
Income tax expense	24	(493,134)	(248,243)
Profit for the year		**1,413,568**	**642,609**
Profit attributable to:			
Shareholders of the Company		1,413,568	642,609
Profit for the year		**1,413,568**	**642,609**
Earnings per share – basic and diluted (in RUB)	25	**26**	**12**

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In thousands of Russian Roubles	**2010**	**2009**
Profit for the year	1,413,568	642,609
Other comprehensive income after tax		
Effect of translation to presentation currency	40,448	(256,046)
Cash flow hedges, net of tax	51,780	(143,856)
Total other comprehensive income/(loss)	*92,228*	*(399,902)*
Total comprehensive income for the year	**1,505,796**	**242,707**
Total comprehensive income attributable to:		
Shareholders of the Company	1,505,796	242,707

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In thousands of Russian Roubles	Note	2010	2009
Cash flows from operating activities			
Profit before income tax		1,906,702	890,852
Adjustments for:			
Depreciation and amortization	9, 10, 22, 23	856,819	897,768
Net loss on disposal of property, plant and equipment		19,369	10,141
Impairment/(reversal of impairment) of loans issued and trade and other receivables		14,217	(77,082)
Reversal of inventory write down to net realisable value	22	(5,122)	(394,684)
Finance (costs)/income, net		(56,520)	102,114
Physical inventory count adjustment	22	(54,521)	194,872
Precious metals revaluation	22	(101,550)	(20,814)
Foreign exchange (gain)/loss, net		(5,163)	27,786
Impairment of property, plant and equipment	9	9,737	69,810
Impairment of assets held for sale		47,099	-
Write-off of exploration and evaluation costs	10	4,122	58,330
Other non-monetary operating (income)/expenses		(34,968)	44,354
Operating cash flows before changes in working capital		**2,600,221**	**1,803,447**
Decrease/(increase) in trade and other receivables		227,432	(242,087)
Decrease/(increase) in broker margin account		7,595	(24,826)
Decrease in inventory		481,479	554,899
(Decrease)/increase in trade payables		(409,002)	219,693
Increase in taxes payable		116,992	142,774
Decrease in restricted cash balance		1,106	13,798
Cash generated from operations		**3,025,823**	**2,467,698**
Interest paid		(3,705)	(125,069)
Income taxes (paid)/refunded		(503,896)	92,917
Net cash generated from operating activities		**2,518,222**	**2,435,546**
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets		(1,091,588)	(573,320)
Forward contracts not accounted for as hedge		(14,629)	(30,923)
Purchase of exploration and evaluation assets		(7,623)	(11,175)
Proceeds from sale of property, plant and equipment		-	41,912
Loans issued		(1,590)	(27,311)
Proceeds from repayment of loans		4,065	37,253
Interest income received		23,784	36,115
(Increase)/decrease in short-term bank deposits		(1,057,300)	209,407
Increase in long-term bank deposits		(100,000)	-
Net cash used in investing activities		**(2,244,881)**	**(318,042)**
Cash flows from financing activities			
Repayment of borrowings		-	(3,071,590)
Proceeds from borrowings		-	870,552
Finance lease payments		(26,574)	(41,209)
Net cash used in financing activities		**(26 574)**	**(2,242,247)**
Effect of currency translation and exchange rate fluctuations on cash and cash equivalents		31,514	4,881
Net increase/(decrease) in cash and cash equivalents		**278,281**	**(119,862)**
Cash and cash equivalents at the beginning of the year	15	**470,437**	**590,299**
Cash and cash equivalents at the end of the year	15	**748,718**	**470,437**

Approved for issue and signed on behalf of the Board of Directors on 27 April 2011.

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In thousands of Russian Roubles	Share capital	Share premium	Legal reserve	Hedging reserve	Cumulative currency translation reserve	Retained earnings	Total equity
Balance at 31 December 2008	**127,635**	**1,375,231**	**3,011**	**92,076**	**72,770**	**5,442,379**	**7,113,102**
Comprehensive income							
Net profit for the period	-	-	-	-	-	642,609	642,609
Other comprehensive income							
Effect of translation to presentation currency	-	-	-	-	(256,046)	-	(256,046)
Cash flow hedges, net of tax	-	-	-	(143,856)	-	-	(143,856)
Total other comprehensive income	-	-	-	(143,856)	(256,046)	-	(399,902)
Total comprehensive income	**-**	**-**	**-**	**(143,856)**	**(256,046)**	**642,609**	**242,707**
Balance at 31 December 2009	**127,635**	**1,375,231**	**3,011**	**(51,780)**	**(183,276)**	**6,084,988**	**7,355,809**
Comprehensive income							
Net profit for the period	-	-	-	-	-	1,413,568	1,413,568
Other comprehensive income							
Effect of translation to presentation currency	-	-	-	-	40,448	-	40,448
Cash flow hedges, net of tax	-	-	-	51,780	-	-	51,780
Total other comprehensive income	-	-	-	51,780	40,448	-	92,228
Total comprehensive income	**-**	**-**	**-**	**51,780**	**40,448**	**1,413,568**	**1,505,796**
Balance at 31 December 2010	**127,635**	**1,375,231**	**3,011**	**-**	**(142,828)**	**7,498,556**	**8,861,605**

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General Director

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Chief accountant

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1 JSC Chelyabinsk Zinc Plant and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2010 for JSC Chelyabinsk Zinc Plant (the "Company") and its subsidiaries (together referred to as the "Group").

The Company was incorporated under Russian legislation in May 1993 as an open joint stock company and is domiciled in the Russian Federation.

As of 31 December 2010, the Group's immediate and ultimate parent is NF Holdings BV, incorporated in the Netherlands, which owns 58% of the Company's shares. In September 2009, 100% of the shares of NF Holdings BV were acquired by a new group of shareholders, none of whom controls individually or jointly NF Holding BV.

The Company is listed on the Russian Trading System (RTS), Moscow Interbank Currency Exchange (MICEX) and the London Stock Exchange (LSE) in the form of Global Depositary Receipts.

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 major Group companies were set up under the legislation of the Russian Federation (JSC Chelyabinsk Zinc Plant), the Republic of Kazakhstan (Nova Zinc LLP) and the United Kingdom (Brock Metal Ltd). As of 31 December 2010 the Group employed approximately 3,221 employees (31 December 2009: 3,046).

The Group has a licence to mine lead and zinc ore at the Akzhal field in the Karaganda Region issued by the authorities of the Republic of Kazakhstan. The licence expires in 2017, however, based on the analysis of the current licensing practices, the Group management believes that the licence will be extended without any significant costs.

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 Republic of Kazakhstan. The Russian Federation and the Republic of Kazakhstan continue to display some characteristics of an emerging market, including relatively high inflation and high interest rates. The recent global financial crisis had a severe effect on the Russian and Kazakhstan economies and starting mid-2008 the financial position of the national financial and corporate sectors has significantly deteriorated. In 2010, the national economies experienced a moderate recovery. The recovery was accompanied by a gradual increase of household incomes, lower refinancing rates, stabilisation of the Russian and Kazakh national currencies against major foreign currencies, and increased liquidity levels in the banking sector.

Current tax, currency and customs legislation of the Russian Federation and 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 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 Governments of these countries, together with tax, legal and political developments.

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 increased from USD 1,120 per tonne at 31 December 2008 to USD 2,570 per tonne at 31 December 2009. The zinc price per tonne at 31 December 2010 and at 31 March 2011 was USD 2,433 and USD 2,319 respectively.

Management is unable to predict all developments in the economic environment which could have an impact on the metals industry and the economy as a whole and consequently what effect, if any, they could have on the future financial position of the Group. The Group's management believes that it is taking all necessary measures to support sustainability and development of the Group's business.

3 Summary of Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, except for certain financial instruments categorised as at fair value through profit or loss. 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.

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

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. Identifiable assets acquired 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 non-controlling interest.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews appropriateness of their measurement.

The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of net assets of the acquiree.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including fair value of assets or liabilities from contingent consideration arrangements but excludes acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt and all other transaction costs associated with the acquisition are expensed.

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.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

Purchases and sales of non-controlling interests. The Group applies the economic entity model to account for transactions with owners of non-controlling interest. Any difference between the purchase consideration and the carrying amount of non-controlling interest acquired is recorded as a capital transaction directly in equity. The Group recognises the difference between sales consideration and carrying amount of non-controlling interest sold as a capital transaction in the consolidated statement of changes in equity.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

3. Summary of Significant Accounting Policies (continued)

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 items in the consolidated statement of financial position.

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; and (b) financial assets at fair value through profit or loss.

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.

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.

***Initial recognition of financial instruments*.** 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.

3 Summary of Significant Accounting Policies (continued)

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.

The Group applies cash flow hedging as a method of accounting for derivatives. The effective portion of changes in fair value of a derivative is recognised in the consolidated statement of financial position as a “hedging reserve”. Gain or loss on the derivative is recognised in profit or losses of 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 profit and loss.

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.

Property, plant and equipment. Property, plant and equipment are stated at historical acquisition or construction cost less accumulated depreciation and provision for impairment, where required.

Construction in progress includes not only construction projects, but also equipment for installation until a date it is put into operation.

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.

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 profit or loss for the year. 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 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, except for mining assets, 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

Mining assets 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 the end of each reporting period.

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.

3 Summary of Significant Accounting Policies (continued)

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.

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 interest cost is charged to profit and loss 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.

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
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

(i) Recognition and subsequent measurement

Exploration and evaluation assets are measured at cost less provision for impairment, where required.

Exploration and evaluation expenditure relates to costs incurred on the exploration for and evaluation of potential mineral reserves and includes costs relating to the following: acquisition of exploration rights; conducting geological studies; exploratory drilling and sampling; and evaluating the technical feasibility and commercial viability of extracting a mineral resource.

Expenditure incurred on activities that precede exploration for and evaluation of mineral resources, being all expenditure incurred prior to securing the legal rights to explore an area, is expensed immediately.

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.

An exploration and evaluation asset is no longer classified as such when the technical feasibility and commercial viability of extracting a resource is demonstrable. Once commercial reserves are found, exploration and evaluation assets are transferred to development tangible and intangible assets and amortised using the unit-of-production method based on proved and probable mineral reserves. No amortisation is charged during the exploration and evaluation stage.

(ii) Impairment of exploration and evaluation assets

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.

3 Summary of Significant Accounting Policies (continued)

Exploration and evaluation costs (continued)

(ii) Impairment of exploration and evaluation assets (continued)

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 by the reporting date. The income tax charge and credit comprise current tax and deferred tax and is recognised in profit or loss for the year except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or 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.

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

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

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, which is determined by reference to the quotations of the Central Bank of the Russian Federation. The change in the net realizable value 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 expenses for the period. 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;

3 Summary of Significant Accounting Policies (continued)

- 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 for the year.

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 reporting period 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 recorded as share premium in equity.

Dividends. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the financial statements are authorised for issue are disclosed in the subsequent events note.

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 consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability, except for VAT on transactions of Nova Zinc LLP which is reported net in accordance with legislation of the Republic of Kazakhstan. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

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.

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 in the consolidated financial statements 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 estimates the 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.

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 recognized in profit and loss.

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 pound 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 the Russian Federation ("CBRF"), of Nova Zinc LLP by the Kazakhstan Stock Exchange ("KASE") and of Brock Metal Ltd – 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 year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded in profit and loss as part of the fair value gain or loss.

At 31 December 2010 the official exchange rates established by the CBRF were: USD 1 = RUB 30.4769 (31 December 2009: USD 1 = RUB 30.2442), EUR 1 = RUB 40.3331 (31 December 2009: EUR 1 = RUB 43.3883) and GBP 1 = RUB 47.2605 (31 December 2009: GBP 1 = RUB 48.0429).

The official rates of exchange established by the KASE at 31 December 2010 were: RUB 1 = KZT 4.84 (31 December 2009: RUB 1 = KZT 4.92), USD 1 = KZT 147.40 (31 December 2009: USD 1 = KZT 148.36) and EUR 1 = KZT 195.23 (31 December 2009: EUR 1 = KZT 212.84).

Translation from functional to presentation currency. The results and financial position of each Group entity are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position are translated at the closing rate at the end of the respective reporting period;

(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 in other comprehensive income.

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.

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

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.

Segment reporting. Operating segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Segments 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 to the presentation of the current year amounts.

3 Summary of Significant Accounting Policies (continued)

The effect of reclassifications for presentation purposes was as follows on amounts for 2009:

In thousands of Russian Roubles	**As originally presented**	**Reclassification**	**As reclassified**
General and administrative expenses	(655,754)	25,987	(629,767)
Taxes other than on income	-	(109,954)	(109,954)
Other operating (expenses) and income, net	-	83,967	83,967

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:

Provision for asset retirement obligations. In accordance with the environmental legislation and contracts on subsurface use, the subsidiary Nova Zinc LLP in Kazakhstan has a legal obligation to rehabilitate damaged environments caused by its operating activity and decommission its mining properties and restore a landfill site after its closure. Provisions are made, based on net present value, for site restoration costs as soon as the obligation arises from past operating activities.

The provision for mining asset retirement and landfill site restoration is estimated based on the management's interpretation of the current environmental legislation in the Republic of Kazakhstan and related programme adopted by Nova Zinc LLP for restoration of the contracted territory after mining and other operating activities supported by the feasibility study and the engineering research performed in accordance with the existing rehabilitation standards and techniques. Rehabilitation cost estimates are subject to potential changes in environmental regulatory requirements and interpretations of the law. Obligations to decommission mining assets and restore landfill sites are recognised if they are likely to arise and it is possible to measure the amounts reliably.

As of 31 December 2010, the carrying amount of the provision for asset retirement obligations was RUB 60,761 thousand (31 December 2009: RUB 72,377 thousand) (Note 20).

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

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.

As a result of an impairment test performed by management for subsidiary Nova Zinc LLP, which is a separate cash-generating unit (CGU), impairment of property, plant and equipment was identified as of 31 December 2008. As of 31 December 2009 and 31 December 2010, the Group performed an analysis of future cash flows of this CGU and did not identify further impairment or need for reversal of previously recognized impairment loss in relation to property, plant and equipment of Nova Zinc LLP. The calculation of the recoverable amount of this CGU is highly sensitive to the level of future prices for lead and zinc, as well as zinc concentrate production output. Should the forecasted prices for zinc and lead be higher or lower by 5 percent with all other variables held constant, the impairment loss previously recognised would be reversed as of 31 December 2010 or an additional impairment loss of RUB 371,558 thousand would be recognised respectively. As at 31 December 2009 decrease of zinc and lead prices by 5 percent could result in impairment of RUB 46,986 thousand.

The Group management estimates that average annual output of zinc concentrate in the projected period will approximate 60.7 thousand tonnes. This estimate is sensitive to the volume of stripping work, stripping ratio (one cubic meter per tonne of ore) and zinc extraction rate. As of 31 December 2010, should estimated average annual output of zinc concentrate be 5% higher or lower, with all other variables held constant, it would have resulted in the reversal of previously recognised impairment loss or recognition of additional impairment loss of RUB 237,933 thousand, respectively. As of 31 December 2009 a 5% decline in estimated average annual output of zinc concentrate did not result in any impairment loss.

As of 31 December 2010, management did not identify any impairment indicators with regard to CGU located in Russia.

Details of the estimates used in the value-in-use calculation are presented in Note 9.

5 Adoption of New or Revised Standards and Interpretations

The following new standards and interpretations became effective for the Group from 1 January 2010:

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 requires an entity to attribute total comprehensive income to the owners of the parent and to the non-controlling interests (previously "minority interest") even if this results in the non-controlling interests having a deficit balance (the previous standard required the excess losses to be allocated to the owners of the parent in most cases). 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 has to be measured at its fair value. As at 31 December 2010 revised IAS 27 did not have a material impact on the Group's 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 allows entities to choose to measure non-controlling interests using the previous 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, in a business combination achieved in stages, the acquirer has to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognise the resulting gain or loss, if any, in profit or loss for the year. Acquisition-related costs are accounted for separately from the business combination and therefore recognised as expenses rather than included in goodwill. An acquirer has to recognise a liability for any contingent purchase consideration at the acquisition date. Changes in the value of that liability after the acquisition date are 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 revised IFRS 3 did not have a material impact on these consolidated financial statements.

Group Cash-settled Share-based Payment Transactions – Amendments to IFRS 2, Share-based Payment *(effective for annual periods beginning on or after 1 January 2010).* The amendments provide a clear basis to determine the classification of share-based payment awards in both consolidated and separate financial statements. The amendments incorporate into the standard the guidance in IFRIC 8 and IFRIC 11, which are withdrawn. The amendments expand on the guidance given in IFRIC 11 to address plans that were previously not considered in the interpretation. The amendments also clarify the defined terms in the Appendix to the standard. The amendments did not have an impact on these 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 did not have a material impact on these consolidated financial statements.

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 revised standard did not have an impact on these consolidated financial statements.

Additional Exemptions for First-time Adopters – Amendments to IFRS 1, First-time Adoption of IFRS *(effective for annual periods beginning on or after 1 January 2010).* The amendments exempt entities using the full cost method from retrospective application of IFRSs for oil and gas assets and also exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining Whether an Arrangement Contains a Lease' when the application of their national accounting requirements produced the same result. The amendments did not have an impact on these consolidated financial statements.

5 Adoption of New or Revised Standard and Interpretations (continued)

***Improvements to International Financial Reporting* Standards** *(issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010).* The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: clarification that contributions of businesses in common control transactions and formation of joint ventures are not within the scope of IFRS 2; clarification of disclosure requirements set by IFRS 5 and other standards for non-current assets (or disposal groups) classified as held for sale or discontinued operations; requiring to report a measure of total assets and liabilities for each reportable segment under IFRS 8 only if such amounts are regularly provided to the chief operating decision maker; amending IAS 1 to allow classification of certain liabilities settled by entity's own equity instruments as non-current; changing IAS 7 such that only expenditures that result in a recognised asset are eligible for classification as investing activities; allowing classification of certain long-term land leases as finance leases under IAS 17 even without transfer of ownership of the land at the end of the lease; providing additional guidance in IAS 18 for determining whether an entity acts as a principal or an agent; clarification in IAS 36 that a cash generating unit shall not be larger than an operating segment before aggregation; supplementing IAS 38 regarding measurement of fair value of intangible assets acquired in a business combination; amending IAS 39 (i) to include in its scope option contracts that could result in business combinations, (ii) to clarify the period of reclassifying gains or losses on cash flow hedging instruments from equity to profit or loss for the year and (iii) to state that a prepayment option is closely related to the host contract if upon exercise the borrower reimburses economic loss of the lender; amending IFRIC 9 to state that embedded derivatives in contracts acquired in common control transactions and formation of joint ventures are not within its scope; and removing the restriction in IFRIC 16 that hedging instruments may not be held by the foreign operation that itself is being hedged. In addition, the amendments clarifying classification as held for sale under IFRS 5 in case of a loss of control over a subsidiary published as part of the *Annual Improvements to International Financial Reporting Standards,* which were issued in May 2008, are effective for annual periods beginning on or after 1 July 2009. The amendments did not have a material impact on these consolidated financial statements.

IFRIC 17, Distributions of Non-Cash Assets to Owners *(effective for annual periods beginning on or after 1 July 2009).* The interpretation 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 should be recognised in profit or loss when the entity settles the dividend payable. IFRIC 17 did not have an impact on these 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 did not have an impact on these consolidated financial statements.

6 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2011 or later and which the Group has not early adopted.

IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 issued in November 2009 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities. Key features of the standard are as follows:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.

6 New Accounting Pronouncements (continued)

- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated as at fair value through profit or loss in other comprehensive income.

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

Classification of Rights Issues - Amendment to IAS 32 *(issued on 8 October 2009; effective for annual periods beginning on or after 1 February 2010).* The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives.

Amendment to IAS 24, Related Party Disclosures *(issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).* IAS 24 was revised in 2009 by: (a) simplifying the definition of a related party, clarifying its intended meaning and eliminating inconsistencies; and by (b) providing a partial exemption from the disclosure requirements for government-related entities. The Group is considering the implications of the standard, the impact on the Group and the timing of its adoption by the Group.

IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments *(effective for annual periods beginning on or after 1 July 2010).* This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in profit or loss based on the fair value of the equity instruments compared to the carrying amount of the debt.

Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14 *(effective for annual periods beginning on or after 1 January 2011).* This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement.

Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendment to IFRS 1 *(effective for annual periods beginning on or after 1 July 2010).* Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7*, Financial Instruments: Disclosures*. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7.

Disclosures – Transfers of Financial Assets – Amendments to IFRS 7 *(issued in October 2010 and effective for annual periods beginning on or after 1 July 2011.).* The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood.

6 New Accounting Pronouncements (continued)

Improvements to International Financial Reporting Standards *(issued in May 2010 and effective from 1 January 2011).* The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1 was amended (i) to allow previous GAAP carrying value to be used as deemed cost of an item of property, plant and equipment or an intangible asset if that item was used in operations subject to rate regulation, (ii) to allow an event driven revaluation to be used as deemed cost of property, plant and equipment even if the revaluation occurs during a period covered by the first IFRS financial statements and (iii) to require a first-time adopter to explain changes in accounting policies or in the IFRS 1 exemptions between its first IFRS interim report and its first IFRS financial statements; IFRS 3 was amended (i) to require measurement at fair value (unless another measurement basis is required by other IFRS standards) of non-controlling interests that are not present ownership interest or do not entitle the holder to a proportionate share of net assets in the event of liquidation, (ii) to provide guidance on acquiree's share-based payment arrangements that were not replaced or were voluntarily replaced as a result of a business combination and (iii) to clarify that the contingent considerations from business combinations that occurred before the effective date of revised IFRS 3 (issued in January 2008) will be accounted for in accordance with the guidance in the previous version of IFRS 3; IFRS 7 was amended to clarify certain disclosure requirements, in particular (i) by adding an explicit emphasis on the interaction between qualitative and quantitative disclosures about the nature and extent of financial risks, (ii) by removing the requirement to disclose carrying amount of renegotiated financial assets that would otherwise be past due or impaired, (iii) by replacing the requirement to disclose fair value of collateral by a more general requirement to disclose its financial effect, and (iv) by clarifying that an entity should disclose the amount of foreclosed collateral held at the reporting date and not the amount obtained during the reporting period; IAS 27 was amended by clarifying the transition rules for amendments to IAS 21, 28 and 31 made by the revised IAS 27 (as amended in January 2008); IAS 34 was amended to add additional examples of significant events and transactions requiring disclosure in a condensed interim financial report, including transfers between the levels of fair value hierarchy, changes in classification of financial assets or changes in business or economic environment that affect the fair values of the entity's financial instruments; and IFRIC 13 was amended to clarify measurement of fair value of award credits.

Recovery of Underlying Assets – Amendments to IAS 12 *(issued in December 2010 and effective for annual periods beginning on or after 1 January 2012).* The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, *Property, Plant and Equipment,* was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value.

Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters – Amendments to IFRS 1 *(issued in December 2010 and effective for annual periods beginning on or after 1 July 2011).* The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position. The IASB has also amended IFRS 1 to eliminate references to fixed dates for one exception and one exemption, both dealing with financial assets and liabilities. The first change requires first-time adopters to apply the derecognition requirements of IFRS prospectively from the date of transition, rather than from 1 January 2004. The second amendment relates to financial assets or liabilities where the fair value is established through valuation techniques at initial recognition and allows the guidance to be applied prospectively from the date of transition to IFRS rather than from 25 October 2002 or 1 January 2004. This means that a first-time adopter may not need to determine the fair value of certain financial assets and liabilities at initial recognition for periods prior to the date of transition. IFRS 9 has also been amended to reflect these changes.

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

7 Segment Information

The Group is organized as a vertically integrated company and has three reportable operating segments:

- Mining segment – it is represented by Nova Zinc LLP, an operator of lead zinc mine "Akzhal" in the Republic of Kazakhstan, which produces zinc and lead concentrate.
- Smelting segment – it is represented by JSC Chelyabinsk Zinc Plant, which produces Special High Grade zinc of 99.995% metal purity and zinc-based alloys.
- Alloying segment – it is represented by The Brock Metal Company Limited, a British producer of die-cast zinc alloys.

7 Segment Information (continued)

The board of directors assesses performance and allocates resources based on financial information for these segments, which includes earnings before interest, tax, depreciation and amortization, adjusted for impairment, interest and foreign exchange differences on borrowings and deposits (segment EBITDA) as a key measure of profitability. Sales between segments are carried out on an arm's length basis.

Last year information about assets and liabilities of the reportable operating segments provided to the board of directors was limited to accounts receivable and payable balances for all segments and to finished goods balance for the Smelting segment only. Starting 1 January 2010 certain changes have been made by the Group to the presentation of the Smelting segment information, specifically:

- revenue includes sale of other products;
- assets include prepayments for income and other taxes, settlements with employees and other receivables;
- liabilities include settlements with employees, income and other taxes payable, other payables and accrued charges;
- inventory includes raw materials.

Where necessary, corresponding figures have been adjusted. At 31 December 2010, the Group did not have income tax prepayments on Smelting segment (31 December 2009: nil).

The financial information reported on operating segments is based on management accounts which are derived from accounts prepared in accordance with national standards of accounting applied in the country of residence of a corresponding segment. There are differences between the management accounts used as a basis for segment disclosure and amounts presented in these consolidated financial statements due to the differences in accounting policies.

The segment revenue and EBITDA provided to the board of directors for the years ended 31 December 2010 and 31 December 2009, respectively, were as follows:

In thousands of Russian Roubles	**Mining**	**Smelting**	**Alloying**	**Total**
The year ended 31 December 2010				
Total segment revenue	1,396,232	9,370,935	2,040,830	**12,807,997**
Intersegment revenue	1,074,588	124,343	-	**1,198,931**
Revenue from external customers	321,644	9,246,592	2,040,830	**11,609,066**
Segment EBITDA	279,682	2,135,133	38,667	**2,453,482**
Depreciation and amortization	145,210	421,844	7,649	**574,703**
The year ended 31 December 2009				
Total segment revenue	1,203,399	8,197,291	1,287,226	**10,687,916**
Intersegment revenue	687,235	81,891	-	**769,126**
Revenue from external customers	516,164	8,115,400	1,287,226	**9,918,790**
Segment EBITDA	500,788	1,037,616	19,958	**1,558,362**
Depreciation and amortization	120,555	448,849	8,926	**578,330**

The following tables show a reconciliation of revenue and EBITDA used by management for decision-making and profit or loss before tax per the consolidated financial statements prepared in accordance with IFRS:

In thousands of Russian Roubles	**2010**	**2009**
Revenue from external customers of reportable segments	**11,609,066**	**9,918,790**
Adjustments relating to hedge accounting	(67,940)	107,201
Timing differences	158,946	85,853
Other income	33,904	32,209
Other business activities not reviewed by the board of directors	75,686	22,992
Revenue based on IFRS financial statements	**11,809,662**	**10,167,045**

7 Segment Information (continued)

In thousands of Russian Roubles	2010	2009
Segment EBITDA	**2,453,482**	**1,558,362**
Accounting policy differences:		
Inventory adjustments (i)	(4,384)	282,912
Hedging (ii)	(67,310)	119,061
Timing differences (iii)	156,102	197,489
Capitalization of expenses (iv)	200,981	124,467
Elimination of intersegment operations	(35,687)	(112,242)
Employee benefits (v)	(58,407)	(4,444)
Mineral extraction tax	53,036	(36,694)
Other business activities not reviewed by the board of directors	(1,912)	(3,971)
Other reconciling items	40,926	(50,564)
Items excluded from segment EBITDA:		
Depreciation and amortization (vi)	(856,819)	(897,768)
Additional impairment of assets held for sale	(11,149)	-
Impairment of property, plant and equipment	(9,737)	(69,810)
Exploration and evaluation costs	(4,122)	(58,330)
Foreign exchange loss on borrowings and deposits, net	(4,818)	(55,502)
Finance income	77,385	71,354
Finance costs	(20,865)	(173,468)
Profit before tax based on IFRS financial statements	**1,906,702**	**890,852**

The reconciling items are attributable to the following:

(i) Inventory adjustments consist of provisions for slow-moving goods and materials, overhead absorption and other adjustments required to recognise inventory in accordance with IFRS;

(ii) Hedging: under IFRS, the Group uses hedge accounting as described in Note 3. In the management accounts gains and losses on derivative financial instruments are recognised when realised;

(iii) Timing differences arise on both revenue and purchase transactions which are recognised in different accounting periods for IFRS and management accounting purposes;

(iv) Capitalisation of expenses: certain costs and expenses in the management accounts which, because they extend the remaining useful life of an asset, are required to be capitalised under IFRS;

(v) Employee benefits include directors' and key management's compensation which is recognised in different accounting periods in the IFRS financial statements as compared to the management accounts, accrual of unused vacation and pension plan benefits in accordance with IFRS;

(vi) Accounting policy differences on depreciation include: differences in capitalization principles, useful life periods and initial valuation upon transition to IFRS:

In thousands of Russian Roubles	2010	2009
Segment depreciation and amortisation	**574,703**	**578,330**
Accounting policy differences	282,116	319,438
Depreciation and amortisation based on IFRS financial statements	**856,819**	**897,768**

7 Segment Information (continued)

Segment assets and liabilities

Total segment assets and liabilities were as follows:

In thousand of Russian Roubles	**Mining**	**Smelting**	**Alloying**	**Total**
As of 31 December 2010:				
Inventory	-	684,770	-	684,770
Accounts receivable	68,000	1,100,000	357,000	1,525,000
Total segment assets	**68,000**	**1,784,770**	**357,000**	**2,209,770**
Accounts payable	23,000	1,093,000	81,000	1,197,000
Total segment liabilities	**23,000**	**1,093,000**	**81,000**	**1,197,000**
As of 31 December 2009:				
Inventory	-	896,782	-	896,782
Accounts receivable	114,928	1,094,000	314,540	1,523,468
Total segment assets	**114,928**	**1,990,782**	**314,540**	**2,420,250**
Accounts payable	12,098	1,233,000	21,171	1,266,269
Total segment liabilities	**12,098**	**1,233,000**	**21,171**	**1,266,269**

Reportable segment assets are reconciled to consolidated inventory and trade and other receivable balances in the financial statements as follows:

In thousands of Russian roubles	**31 December 2010**	**31 December 2009**
Total segment assets	**2,209,770**	**2,420,250**
Other inventories of Smelting segment	504,250	455,964
Inventories of Mining and Alloying segments	109,784	111,586
Other receivables of Mining and Alloying segments	101,747	52,113
Netting of accounts receivable and accounts payable	(12,529)	(8,114)
Inventory adjustments	23,899	59,356
Timing differences	14,400	59,453
Other business activities not reviewed by the board of directors	12,963	9,316
Other reconciling items	(83,624)	(8,794)
Total inventories, trade and other receivables based on IFRS financial statements	**2,880,660**	**3,151,130**

Reportable segment liabilities are reconciled to total current liabilities in these consolidated financial statements as follows:

In thousands of Russian roubles	**31 December 2010**	**31 December 2009**
Total segment liabilities	**1,197,000**	**1,266,269**
Intersegment eliminations	(417,552)	(497,047)
Settlements with employees, income tax payables, other payables and accrued charges of Mining and Alloying segments	105,325	122,341
Timing differences	(66,580)	86,577
Netting of accounts receivable and accounts payable	(12,529)	(8,114)
Other business activities not reviewed by the board of directors	42,865	36,418
Other reconciling items	(23,289)	25,675
Total current liabilities based on IFRS financial	**825,240**	**1,032,119**

7 Segment Information (continued)

Geographical information

Non-current assets for each individual country are reported separately as follows:

In thousands of Russian Roubles	31 December 2010	31 December 2009
Russia	4,325,721	4,097,055
Kazakhstan	1,004,693	957,945
Great Britain	18,384	23,204
Other business activities not reviewed by the board of directors	5,101	5,299
Other unallocated non-current assets	1,096	1,019
Total consolidated non-current assets	**5,354,995**	**5,084,522**

The analysis is based on the location of assets.

Revenues for each individual country are reported separately as follows:

In thousands of Russian Roubles	2010	2009
Russia	8,709,394	5,784,035
Switzerland	379,784	2,444,650
Great Britain	1,189,538	775,297
Kazakhstan	444,826	316,368
Germany	318,491	279,762
France	190,992	144,713
Other	576,637	422,220
Total revenue based on IFRS financial statements	**11,809,662**	**10,167,045**

The analysis is based on domicile of the customer.

Revenues from customers which represent 10% or more of the total revenue were as follows:

In thousands of Russian Roubles	Mining	Smelting	Alloying	Total
For the year ended 31 December 2010				
OJSC MMK	-	2,833,231	-	2,833,231
OJSC Severstal	-	1,871,204	-	1,871,204
UGMK	-	2,151,594	-	2,151,594
Other customers	340,946	2,569,640	2,043,047	4,953,633
Total revenue based on IFRS financial statements	**340,946**	**9,425,669**	**2,043,047**	**11,809,662**

In thousands of Russian Roubles	Mining	Smelting	Alloying	Total
For the year ended 31 December 2009				
OJSC MMK	-	2,113,515	-	2,113,515
Euromin S.A.	236,780	1,763,396	-	2,000,176
OJSC Severstal	-	1,546,240	-	1,546,240
Other customers	306,993	2,791,878	1,408,243	4,507,114
Total revenue based on IFRS financial statements	**543,773**	**8,215,029**	**1,408,243**	**10,167,045**

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 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 Group has entered into significant transactions during the years ended 31 December 2010 and 2009 and had significant balances outstanding as of 31 December 2010 and 31 December 2009 with related parties. Those related parties consisted of entities under the control of indirect shareholders of the Group with significant influence. 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) Consolidated statement of financial position data

In thousands of Russian Roubles	Note	31 December 2010	31 December 2009
Assets			
Accounts receivable	13	171,609	79,435
Advances issued	13	20	584
Advances for capital construction		4,419	-
Total accounts receivable and advances issued		176,048	80,019
Loans granted to key management personnel		-	3,173
Total assets		**176,048**	**83,192**
Liabilities			
Accounts payable	18	(68,251)	(407,075)
Liabilities for purchased property, plant and equipment		(11,061)	(407,075)
Total liabilities		**(79,312)**	**(407,075)**

(ii) Consolidated income statement data

In thousands of Russian Roubles	Note	2010	2009
Revenue			
Tolling fee	21	1,766,815	-
Sales of goods	21	654,379	246,094
Total revenue		**2,421,194**	**246,094**
Purchases			
Purchases of inventory		(1,025,267)	(931,126)
Total purchases		**(1,025,267)**	**(931,126)**
Operating expenses			
Other expenses		(63,969)	(21,124)
Information services		-	(5,315)
Total operating expenses		**(63,969)**	**(26,439)**
Finance income/(costs)			
Interest on loan issued		93	870
Other finance (costs)/income		(69)	56
Total finance income		**24**	**926**

During the year ended 31 December 2010 the Group supplied to related parties 2,352 tonnes of zinc sulphate (year ended 31 December 2009: 604 tonnes) and 876 tonnes of copper-bearing cake (year ended 31 December 2009: 277 tonnes).

During the reporting period the Group extracted zinc from the zinc concentrate provided by its related parties under tolling arrangements. The respective revenue generated for the year ended 31 December 2010 was RUB 1,766,815 thousand (2009: nil).

During the year ended 31 December 2010 the Group purchased from related parties 50,217 tonnes of zinc concentrates for a total amount of RUB 916,472 thousand (year ended 31 December 2009: 46,470 tonnes for a total amount of RUB 897,904 thousand).

(iii) 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 consolidated statement of income in the amount of RUB 77,026 thousand and RUB 90 783 thousand for the years ended 31 December 2010 and 2009, respectively. There were 35 directors and managers in the key management personnel of the Group in the year ended 31 December 2010 (year ended 31 December 2009: 28 people).

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	Mining assets	Construction-in-progress	Total
Cost as of 1 January 2009	**45,419**	**2,945,175**	**4,593,234**	**833,245**	**3,300,251**	**648,406**	**12,365,730**
Accumulated depreciation	**-**	**(880,119)**	**(2,428,551)**	**(357,634)**	**(894,059)**	**-**	**(4,560,363)**
Impairment	**-**	**-**	**-**	**-**	**(2,116,028)**	**-**	**(2,116,028)**
Carrying value as of 1 January 2009	**45,419**	**2,065,056**	**2,164,683**	**475,611**	**290,164**	**648,406**	**5,689,339**
Additions/Transfers of assets under construction	-	109,243	268,174	24,773	20,483	83,099	505,772
Impairment charge to profit or loss	-	-	-	-	-	(69,810)	(69,810)
Disposals	-	(9,445)	(27,574)	(20,276)	-	(6,426)	(63,721)
Depreciation charge	-	(192,382)	(562,783)	(102,718)	(33,316)	-	(891,199)
Translation to presentation currency	-	(53,819)	(42,776)	(33,495)	(46,225)	(24,961)	(201,276)
Carrying value as of 31 December 2009	**45,419**	**1,918,653**	**1,799,724**	**343,895**	**231,106**	**630,308**	**4,969,105**
Cost as of 1 January 2010	**45,419**	**2,958,600**	**4,565,569**	**768,455**	**2,786,157**	**700,118**	**11,824,318**
Accumulated depreciation	**-**	**(1,039,947)**	**(2,765,845)**	**(424,560)**	**(781,083)**	**-**	**(5,011,435)**
Impairment	**-**	**-**	**-**	**-**	**(1,773,968)**	**(69,810)**	**(1,843,778)**
Carrying value as of 1 January 2010	**45,419**	**1,918,653**	**1,799,724**	**343,895**	**231,106**	**630,308**	**4,969,105**
Additions/Transfers of assets under construction	-	205,502	859,566	113,484	(17,911)	(116,876)	1,043,765
Impairment charge to profit or loss	-	-	-	-	-	(9,737)	(9,737)
Disposals	-	(9,506)	(11,828)	(54,033)	-	(18,963)	(94,330)
Depreciation charge	-	(174,803)	(528,972)	(110,642)	(37,303)	-	(851,720)
Translation to presentation currency	-	3,853	2,230	2,072	3,161	1,334	12,650
Carrying value as of 31 December 2010	**45,419**	**1,943,699**	**2,120,720**	**294,776**	**179,053**	**486,066**	**5,069,733**
Cost as of 31 December 2010	**45,419**	**3,141,957**	**5,271,756**	**814,468**	**2,808,291**	**565,613**	**12,647,504**
Accumulated depreciation	**-**	**(1,198,258)**	**(3,151,036)**	**(519,692)**	**(829,738)**	**-**	**(5,698,724)**
Impairment	**-**	**-**	**-**	**-**	**(1,799,500)**	**(79,547)**	**(1,879,047)**

9 Property, Plant and Equipment (continued)

As of 31 December 2010, carrying value of property, plant and equipment used under financial lease arrangements was RUB 53,029 thousand (31 December 2009: RUB 82,811 thousand).

As of 31 December 2010, 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 38,438 thousand (31 December 2009: RUB 49,688 thousand).

Due to uncertainty about the completion of construction of crushing and sorting plant, construction-in-progress assets in Kazakhstan amounting to RUB 69,810 thousand were written off in 2009 (Note 22).

Reversal of impairment loss

As a result of the global economic downturn and falling demand for mineral resources, zinc and lead prices as of 31 December 2008 dropped by more than 50% since the beginning of 2007 to USD 1,120 per tonne of zinc and USD 950 per tonne of lead. Such decrease in zinc and lead prices coupled with the global liquidity crisis was considered by management as indicators of impairment in value 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, an impairment loss was recognised in the amount of RUB 1,973,442 thousand related to property, plant and equipment of Nova Zinc LLP.

The recoverable amount was calculated based on the value in use of the CGU assets which was 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 and discount rates reflecting the time value of money and risks inherent in CGU.

In 2009, zinc and lead prices almost doubled. Therefore management performed a review of the carrying value and calculated the recoverable amount of the property, plant and equipment of Nova Zinc LLP, a subsidiary of the Group, as of 31 December 2009 to identify whether it is necessary to reverse previously recognized impairment loss either fully or partially. Based on their review management identified that in spite of the recovery of zinc and lead prices the value in use of the property, plant and equipment approximated their carrying value. That was due to changes in other assumptions used by management in their assessment of the value in use of CGU Nova Zinc LLP, primarily because of a decline in zinc concentrate production output in the forecast period (Note 4) and increasing capital expenditure. Therefore this review showed that there was no need to recognise additional impairment loss or to reverse the impairment loss previously recognised for the Group's property, plant and equipment in Kazakhstan.

In 2010, zinc and lead prices continued to recover year-on-year but independent analysts have not significantly changed their expectations for zinc and lead prices in the forecast period. Yearly average zinc and lead prices used by management in calculation of the recoverable amount of property, plant and equipment of Nova Zinc LLP as of 31 December 2010, 31 December 2009 and 31 December 2008 are based on the average prices published by independent market analysts and are provided below:

	2010	2011	2012	2013	2014	2015
At 31 December 2010						
Average price of zinc metal, USD per tone	-	2,430	2,493	2,477	2,448	2,517
Average price of lead metal, USD per tone	-	2,397	2,585	2,352	2,333	2,399
At 31 December 2009						
Average price of zinc metal, USD per tone	2,083	2,387	2,533	2,370	2,436	2,505
Average price of lead metal, USD per tone	2,098	2,264	2,320	2,202	2,264	2,327
At 31 December 2008						
Average price of zinc metal, USD per tone	1,596	1,948	2,054	2,106	2,158	2,212
Average price of lead metal, USD per tone	1,323	1,213	1,213	1,243	1,274	1,306

The remaining assumptions have not changed significantly and are provided below:

- future cash flow projections in real terms up to the expiration date of the subsoil use agreement;
- annual inflation rate will be 1% to 6.6% in the long-term (31 December 2009: 1.2% to 2.8%; and 31 December 2008: 2.5%);
- pre-tax discount rate will be 14.2% (31 December 2009: 14.7%; and 31 December 2008: 15.8%).

Accordingly, in the consolidated financial statements as of 31 December 2010 no further impairment or reversal of the previously recognised impairment loss in relation to the property, plant and equipment in Kazakhstan was recognised.

10 Intangible Assets

In thousands of Russian Roubles	Exploration and evaluation assets	Other intangible assets	Total
Cost as of 1 January 2009	61,031	59,770	**120,801**
Accumulated amortisation	-	(23,294)	**(23,294)**
Carrying value as of 1 January 2009	**61,031**	**36,476**	**97,507**
Additions	19,327	868	**20,195**
Disposals and impairment charge to profit and loss	(58,330)	(88)	**(58,418)**
Amortisation	-	(6,569)	**(6,569)**
Translation to presentation currency	(7,797)	354	**(7,443)**
Carrying value as of 31 December 2009	**14,231**	**31,041**	**45,272**
Cost as of 1 January 2010	14,231	62,408	**76,639**
Accumulated amortisation	-	(31,367)	**(31,367)**
Carrying value as of 1 January 2010	**14,231**	**31,041**	**45,272**
Additions	8,540	1,278	**9,818**
Amortisation	-	(5,099)	**(5,099)**
Translation to presentation currency	230	(49)	181
Carrying value as of 31 December 2010	**23,001**	**27,171**	**50,172**
Cost as of 31 December 2010	23,001	63,327	**86,328**
Accumulated amortisation	-	(36,156)	**(36,156)**
Carrying value as of 31 December 2010	**23,001**	**27,171**	**50,172**

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 18,935 thousand (31 December 2009: RUB 19,723 thousand). The product was formally registered with London Metal Exchange in December 2004.

In 2009, management of the Group decided to suspend the development of the Eastern site of Akzhal field until 2023. Due to uncertainty about the resumption of development works, exploration and evaluation assets amounting to RUB 54,079 thousand were written off.

11 Other Non-current Assets

In thousands of Russian Roubles	31 December 2010	31 December 2009
Long-term deposit	100,000	-
Other non-current assets	1,098	1,019
Total other non-current assets	**101,098**	**1,019**

The long-term deposit of RUB 100,000 thousand (2009: nil) was placed with Gazprombank at 6.4% per annum. This deposit matures in 2012.

12 Inventories

In thousands of Russian Roubles	31 December 2010	31 December 2009
Raw materials and consumables	750,294	948,706
Work in process	365,477	345,804
Finished goods	166,531	300,071
Precious metals	85,458	8,920
Goods for resale	9,121	1,267
Inventory provision	(11,683)	(16,684)
Total inventory, net	**1,365,198**	**1,588,084**

In 2009 Chelindbank issued a guarantee in the Group's favor to secure the Group's liabilities to JSC AZENCO for a total amount of RUB 87,708 thousand. The Group pledged 3,515 tonnes of zinc concentrate with the bank against this guarantee. The bank guarantee expired on 23 January 2010.

13 Trade and Other Receivables

In thousands of Russian Roubles	Note	31 December 2009	31 December 2008
Trade receivables denominated in RUB – third parties		558,368	329,663
Trade receivables denominated in RUB – related parties	8	171,609	79,435
Trade receivables denominated in USD – third parties		84,479	340,427
Trade receivables denominated in EUR – third parties		140,647	116,072
Trade receivables denominated in GBP – third parties		183,985	208,891
Trade receivables denominated in KZT – third parties		36,707	58,917
Impairment provision		(17,420)	(17,696)
Total financial assets		**1,158,375**	**1,115,709**
VAT and other taxes recoverable		147,800	321,914
Interest income – third parties		38,778	647
Property insurance prepaid		37,295	23,725
Other prepayments – third parties		98,989	82,642
Other prepayments – related parties	8	20	584
Other receivables – third parties		34,205	17,825
Total trade and other receivables		**1,515,462**	**1,563,046**

Management believes that the fair value of accounts receivable as of the end of the reporting periods does not differ significantly from their carrying amounts. No accounts receivable were renegotiated as of 31 December 2010 and 31 December 2009.

As of 31 December 2010, trade receivables of RUB 16,380 thousand (31 December 2009: RUB 16,088 thousand) were individually impaired. The amount of the provision was RUB 17,420 thousand as of 31 December 2010 (31 December 2009: RUB 17,696 thousand). The individually impaired receivables mainly relate to customers that are in unexpectedly difficult economic situations. Management of the Group expects that a portion of accounts receivable included in the provision will be collected.

The ageing of these impaired receivables is as follows:

In thousands of Russian Roubles	31 December 2010	31 December 2009
3 to 6 months	22	11,497
Beyond 6 months	16,358	4,591
Total gross amount of impaired accounts receivable	**16,380**	**16,088**

As of 31 December 2010, trade receivables of RUB 135,600 thousand (31 December 2009: RUB 78,930 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 2010	31 December 2009
Less than 3 months	125,853	75,214
3 to 6 months	9,742	3,316
Beyond 6 months	5	400
Trade accounts receivable past due but not impaired	**135,600**	**78,930**

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

In thousands of Russian Roubles	2010	2009
As of 1 January	**17,696**	**6,815**
Provision accrued	3,147	22,747
Receivable write-offs	(114)	(693)
Reversal of unused amount	(3,404)	(9,216)
Foreign exchange differences	95	(1,957)
As of 31 December	**17,420**	**17,696**

The creation and release of provision for impaired receivables were included in general and administrative expenses in the consolidated statement of income. Receivable balances included in the provision are normally written off against the provision as soon as management acknowledges that there is a remote possibility that these receivables will be collected from the counterparty.

13 Trade and Other Receivables (continued)

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 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.

14 Bank Deposits

In thousands of Russian Roubles	**31 December 2010**	**31 December 2009**
Deposits with CB Koltso Urala, RUB denominated, at 10.75% p.a.	250,000	-
Deposits with CB Koltso Urala, RUB denominated, at 10.00% p.a.	172,000	-
Deposits with CB Koltso Urala, RUB denominated, at 9.75% p.a.	111,000	-
Deposit with Alfa Bank, RUB denominated, at 7.00% p.a.	250,000	-
Deposits with CB Koltso Urala, USD denominated, at 6.00% p.a.	91,431	-
Deposits with CB Koltso Urala, USD denominated, at 6.25% p.a.	91,431	-
Deposit with Gazprombank, USD denominated, at 4.25% p.a.	30,476	-
Deposit with Sberbank, USD denominated, at 4.60% p.a.	60,962	-
Deposit with Tiumenenergobank, RUB denominated, at 11.75% p.a.	37,579	37,579
Provision for deposit with Tiumenenergobank	(37,579)	(37,579)
Total bank deposits	**1,057,300**	**-**

Deposits outstanding as of 31 December 2010 will mature in April-December 2011.

In December 2008, the Central Bank of the Russian Federation revoked Tiumenenergobank’s banking licence. As a result the Group made provision for the deposit of RUB 127,500 thousand with this bank as of 31 December 2008.

In 2009 the Group signed several agreements relating to its claims for recovery of the bank deposit with Tiumenenergobank. The assignee under these agreements transferred to the Group property valued at RUB 90,637 thousand, which was recognized as assets held for sale in the consolidated statement of financial position. As a result, as of 31 December 2009 the amount of the bank deposit and the related provision were decreased to RUB 37,579 thousand. In 2010 the Group partially sold assets with a historical cost of RUB 59,488 thousand and recognised loss of RUB 35,950 thousand on those transactions. As of 31 December 2010, management recognised an impairment loss on the remaining asset of RUB 11,149 thousand and believed that the fair value of this asset net of costs to sell was not materially different from its carrying value as of the reporting date. The total effect in the amount of RUB 47,099 thousand was recorded in the line “Impairment of assets held for sale” of the consolidated statement of income. Management is actively marketing the remaining asset and expects the sale to complete by the end of 2011.

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.

15 Cash and Cash Equivalents

In thousands of Russian Roubles	**31 December 2010**	**31 December 2009**
RUB denominated bank balances payable on demand and cash on hand	53,955	13,532
USD denominated bank balances payable on demand	(6,958)	294,606
GBP denominated bank balances payable on demand	207,888	75,945
SFR denominated bank balances payable on demand	61	30
KZT denominated bank balances payable on demand and cash on hand	27,329	18,324
RUB denominated term deposits	375,000	68,000
USD denominated term deposits	91,443	-
Total cash and cash equivalents	**748,718**	**470,437**

All deposits classified by the Group as cash and cash equivalents have original maturities of less than three months and allow for early withdrawal.

The Group includes overdraft with the bank Lloyds TSB in the cash and cash equivalents based on the legally enforceable right and management intent to offset overdraft against cash balances denominated in other currencies placed with this bank.

15 Cash and Cash Equivalents (continued)

As of 31 December 2010, RUB denominated term deposits include two deposits with CB Koltso Urala for a total of RUB 100,000 thousand at 10.75% p.a., four deposits with CB Koltso Urala for a total of RUB 250,000 thousand at 11.25% p.a. and one deposit with CB Uralliga for an amount of RUB 25,000 thousand at 5% p.a.

As of 31 December 2010, USD denominated short-term deposits represent cash deposited with Sberbank at 4.1% p.a. (repaid in February 2011).

No bank balances are past due or considered impaired.

16 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 at 31 December 2009	**54,195,410**	**127,635**	**1,375,231**	**1,502,866**
As at 31 December 2010	**54,195,410**	**127,635**	**1,375,231**	**1,502,866**

As of 31 December 2010, 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 2009: 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 years ended 31 December 2010 and 2009, the Company did not issue or repurchase its own shares.

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 2010, net statutory profit of the Company for the current year as reported in the published annual statutory reporting forms was RUB 1,394,906 thousand (for the year ended 31 December 2009: RUB 451,671 thousand) and the closing balance of the accumulated profit including the current year net statutory profit totaled RUB 8,077,114 thousand (2009: RUB 6,681,875 thousand). 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 2010 (31 December 2009: RUB 2,710 thousand) is different from the relevant reserve shown in these consolidated financial statements due to the effect of inflation calculated in accordance with IAS 29 which had been applied to the economy of the Russian Federation till 2002.

During the years 2010 and 2009, under the annual shareholders general meeting's decision, the Company did not accrue or pay dividends for outstanding ordinary shares. As at 31 December 2010 and 31 December 2009, the Group's liabilities related to unpaid dividends for prior periods were nil.

17 Finance Lease Liabilities

In thousands of Russian Roubles	31 December 2010	31 December 2009
Finance lease liabilities	51,060	67,846
1 to 2 years	14,589	18,017
2 to 3 years	12,906	14,588
3 to 4 years	5,478	12,905
4 to 5 years	-	5,483
Total long-term portion of finance lease liabilities	32,973	50,993

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.

17 Finance lease liabilities (continued)

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.

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

In thousands of Russian Roubles	31 December 2010	31 December 2009
Finance lease liabilities – minimum payments		
- within 1year	24,799	26,573
- between 1 and 5 years	38,880	63,678
	63,679	**90,251**
Future finance charges on finance leases	(12,619)	(22,405)
Present value of finance leases liabilities		
- within 1year	18,087	16,853
- between 1 and 5 years	32,973	50,993
	51,060	**67,846**

18 Accounts Payable, Accrued Expenses and Advances from Customers

In thousands of Russian Roubles	Note	31 December 2010	31 December 2009
Trade payables RUB denominated – third parties		143,436	191,719
Trade payables RUB denominated – related parties	8	67,700	407,075
Trade payables USD denominated – third parties		402	3,554
Trade payables EUR denominated – third parties		45,087	625
Trade payables GBP denominated – third parties		35,823	22,292
Trade payables SFR denominated – third parties		1,250	91
Trade payables KZT denominated – third parties		15,803	9,187
Trade payables KZT denominated – related parties	8	551	-
Liabilities for purchased property, plant and equipment and intangible assets		58,644	9,767
Accrued liabilities and other creditors		50,151	53,923
Total financial payables		**418,847**	**698,233**
Advances from customers RUB denominated – third parties		5,117	6,843
Advances from customers USD denominated – third parties		6,366	93,877
Advances from customers KZT denominated – third parties		204	232
Payroll and social tax payable		64,488	38,934
Unused vacation accrual		39,908	14,776
Accounts payable, accrued expenses and advances from customers		**534,930**	**852,895**

19 Other Taxes Payable

In thousands of Russian Roubles	31 December 2010	31 December 2009
Property tax	19,692	21,848
Withholding tax	4,863	4,796
Personal income tax	8,261	3,878
Land tax	4,243	4,062
VAT	75,574	982
Mineral Extraction Tax	49,584	79,192
Provision for uncertain tax positions	29,345	-
Other taxes	4,960	4,754
Total other taxes payable	**196,522**	**119,512**

20 Provisions for Asset Retirement Obligations

The Group has an obligation to restore the landfill site resulting from the mining operations and to decommission its mining property after its expected closure in 2016.

These obligations relate to the mineral property of the Group disclosed in Note 9. Movements in provisions for asset retirement obligations are as follows:

In thousands of Russian Roubles	Restoration costs
Carrying value as of 1 January 2009	**60,591**
Changes to the forecasts adjusted for property, plant and equipment cost	20,483
Unwinding of accrued discount	2,306
Effect of presentation currency translation	(11,003)
Carrying value as of 31 December 2009	**72,377**
Changes in estimates adjusted against property, plant and equipment	(17,911)
Unwinding of accrued discount	5,292
Effect of presentation currency translation	1,003
Carrying value as of 31 December 2010	**60,761**

The discount rate used to calculate the net present value of future costs of asset retirement obligations as of 31 December 2010 was 10.07% p.a. (31 December 2009: 7.23% p.a.)

21 Revenue

In thousands of Russian Roubles	Note	2010	2009
Zinc and zinc alloys – third parties		7,816,323	8,087,752
Zinc and zinc alloys – related parties	8	-	38,729
Zinc concentrate – third parties		-	147,930
Lead concentrate – third parties		696,058	571,423
Tolling fee – third parties		-	3,433
Tolling fee – related parties	8	1,766,815	-
Other – transactions with third parties		876,087	1,110,413
Other – transactions with related parties	8	654,379	207,365
Total revenue		**11,809,662**	**10,167,045**

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

22 Cost of Sales

In thousands of Russian Roubles	2010	2009
Raw materials and consumables used in production	4,413,980	4,262,235
Utilities and fuel	1,702,824	1,281,701
Depreciation and amortization	780,976	805,778
Staff cost	736,079	589,612
Repairs and maintenance	584,088	398,916
Mineral extraction tax	161,551	171,961
Cost of goods and materials for resale	146,441	301,401
Production overheads	90,546	82,327
Change in finished goods	51,402	135,771
Impairment of property, plant and equipment	9,737	69,810
Abnormal fixed production overheads	-	21,459
Inventory provision	(5,122)	(394,684)
Change in work-in-progress	(18,698)	88,386
Physical inventory count adjustment	(54,521)	194,872
Precious metals revaluation	(101,550)	(20,814)
Total cost of sales	**8,497,733**	**7,988,731**

23 Distribution, General and Administrative Expenses

In thousands of Russian Roubles	2010	2009
Transportation and customs duties	434,523	358,271
Packing materials	37,667	31,825
Depreciation and amortization	29,783	29,782
Total distribution costs	**501,973**	**419,878**
Wages and salaries	305,118	308,246
Worksite safety and security costs	69,865	44,927
Depreciation and amortization	46,060	62,208
Audit, consulting, information and other professional services	44,570	50,023
Repairs	39,698	33,955
Utilities and fuel	25,991	21,367
Other general and administrative expenses	102,182	109,041
Total general and administrative expenses	**633,484**	**629,767**

Total depreciation expenses and staff costs (including social expenditures) in the costs of sale, distribution, general and administrative expenses and other operating expenses amounted to RUB 856,819 thousand (31 December 2009: RUB 897,768 thousand) and RUB 1,092,084 thousand (31 December 2009: RUB 927,689 thousand), respectively.

24 Income Taxes

Income taxes comprise the following:

In thousands of Russian Roubles	2010	2009
Current tax expense	508,413	111,346
Deferred tax (credit)/expense	(15,279)	136,897
Income tax expense for the year	**493,134**	**248,243**

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

In thousands of Russian Roubles	2010	2009
Profit before taxation under IFRS	**1,906,702**	**890,852**
Estimated tax expense at statutory rates	379,531	180,935
Tax effect of items which are not deductible or assessable for taxation purposes		
Additional income tax liability related to prior periods	58,385	-
Social costs	14,865	14,346
Impairment of property, plant and equipment and intangible assets	3,374	29,177
Bank deposit provision	-	(17,984)
Other non-deductible expenses	27,739	36,229
Effect of change in current income tax rates	9,240	5,540
Income tax expense for the year	**493,134**	**248,243**

Pre-tax profit from operations in the Russian Federation is taxed based on the effective rate of 20% (2009: 20%); in Great Britain the rate is 28% (2009: 28%).

In 2009 and 2010 the legislation of the Republic of Kazakhstan was amended in respect of the applicable corporate income tax rate (Note 26). As at 31 December 2010 the deferred tax assets and liabilities of Nova Zinc LLP were assessed using the income tax rate which is expected to be applied at the time when the respective tax differences realise.

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.

24 Income Taxes (continued)

In thousands of Russian Roubles	31 December 2008	Charged to profit and loss	Charged to capital	Translation difference	31 December 2009	Charged to profit and loss	Charged to capital	Translation difference	31 December 2010
Tax effects of taxable/(deductible) temporary differences:									
Accounts receivable	45,565	(25,057)	-	(820)	19,688	(22,010)	-	4	(2,318)
Financial Instruments	(23,019)	-	35,964	-	12,945	-	(12,945)	-	-
Accounts payable and accrued liabilities	33,794	8,167	-	(629)	41,332	(26,744)	-	116	14,704
Exploration and evaluation costs	54,951	(54,594)	-	-	357	(161)	-	-	196
Provisions for asset retirement obligations	9,089	3,418	-	(1,650)	10,857	1,136	-	160	12,153
Loss carry forward	78,029	(74,881)	-	(3,148)	-	-	-	-	-
Property, plant and equipment	(374,632)	40,408	-	22,290	(311,934)	33,852	-	(1,395)	(279,477)
Inventory	498	(39,281)	-	(3,283)	(42,066)	14,817	-	(2,372)	(29,621)
Other	(18,543)	4,923	-	7	(13,613)	14,389	(7,089)	(439)	(6,752)
Total net deferred tax assets/(liabilities)	**(194,268)**	**(136,897)**	**35,964**	**12,767**	**(282,434)**	**15,279**	**(20,034)**	**(3,926)**	**(291,114)**
Deferred tax assets	221,926	56,916	35,964	22,297	85,179	64,194	-	280	27,053
Deferred tax liabilities	(416,194)	(193,813)	-	(9,530)	(367 613)	(48,915)	(23,034)	(4,206)	(318,168)

As of 31 December 2010 the Group has not recorded a deferred tax liability in respect of taxable temporary differences of RUB 52,859 thousand 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 (31 December 2009: RUB 28,469 thousand).

Substantially all deferred tax liabilities presented in the consolidated statement of financial position are expected to be realised within a period exceeding 12 months from the reporting date.

Substantially all deferred tax assets presented in the consolidated statement of financial position are expected to be realised within a 12 months period from the reporting date.

25 Earnings per Share

Earnings per share was calculated by dividing the profit attributable to the equity holders of the Company in the amount of RUB 1,413,568 thousand (31 December 2009: RUB 642,609 thousand) by the weighted average number of ordinary shares outstanding during the year ended 31 December 2010, which was 54,195,410 shares (31 December 2009: 54,195,410 shares).

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

26 Contingencies and Commitments

Legal proceedings. During the year ended 31 December 2010, 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.

In the first six months 2010, the Federal Antimonopoly Service initiated proceedings against the Company based on the indications that the Company breached the Federal Law on Protection of Competition by setting economically, technically or otherwise unreasonable various contractual coefficients in entering into contracts with Russian and foreign consumers for the delivery of zinc and by creating a discriminatory environment for the Russian consumers of zinc as compared to its foreign customers. On 17 February 2011, the Federal Antimonopoly Service decided to dismiss these proceedings.

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.

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.

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 of the Group 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.

On 5 July 2008, the new law on transfer pricing was introduced in Kazakhstan, which replaces the previous one with effect from 1 January 2009. Under this law international transactions are subject to state control. This law prescribes Kazakhstani companies to maintain and, if required, to provide economic rationale and method of the determination of prices used in international transactions, including documentation supporting the prices and differentials. Additionally, differentials could not be applied to the international transactions with companies registered in off-shore countries. In case of deviation of transaction price from market price the tax authorities have the right to adjust taxable items and to impose additional taxes, penalties and interest.

26 Contingencies and Commitments (continued)

The Group's management believes that they will be able to sustain their transfer pricing policy and provide all documents to support their pricing policy to the government authorities of Kazakhstan, if necessary. Therefore no additional tax liability was recorded in these consolidated financial statements of the Group.

The contract for subsoil use concluded by Nova Zinc LLP with the State Investments Committee of the Republic of Kazakhstan envisions a stable tax regime, which means that the tax regime existing as of the date of signing the agreement for subsoil use is in force throughout the whole period of the contract.

1 January 2009 the President signed a new Tax Code cancelling preferential ("stable") tax treatment for all subsurface use contracts, except for the product sharing agreements and subsurface use contracts that are currently in force and have been ratified by the Parliament of Kazakhstan. According to the new tax legislation, 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 key changes include: replacement of the royalty with the mineral extraction tax; change in the methodology of excess profit tax, VAT and property tax calculation; introduction of a fixed unified social tax rate and some other changes. Consequently, an amendment was passed to suspend application of the Tax Code in the part of corporate income tax rate and to introduce the following corporate income tax rates: from 1 January 2009 to 1 January 2013 – the rate of 20%, from 1 January 2013 to 1 January 2014 – the rate of 17.5% and 15% from 1 January 2014 and going forward. On 26 November 2010, President of the Republic of Kazakhstan signed a law on amendments to the Tax Code which come into effect starting from 1 January 2011. Major changes include repealing reduction in the rates of the corporate income tax starting from 2013. The repeal of reduction in the rates of the corporate income tax starting from 2013 has affected the deferred income tax assets and liabilities recorded by Nova Zinc LLP as of 31 December 2010 (Note 24).

Both Russian and Kazakh tax legislation do 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 the course of its activity, the Group interacts with numerous third party suppliers. The Group's management took reasonable steps to be sure they comply with the tax legislation. However, in accordance with the practice that has developed in Russia, if tax authorities find out that the Group's suppliers are not fully compliant with the current tax requirements, tax claims may be brought against the Group. As a result, additional taxes, penalties and interest may be assessed whose amounts cannot be reliably estimated by management.

As of 31 December 2010 management believes that their interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. During 2010 tax authorities examined the Company's tax compliance with respect to major taxes for a number of prior years. Where management believes that it is probable that certain tax positions taken by the Group may not be sustained in court, if challenged by the tax authorities, the Group has, in these consolidated financial statements, recorded provisions, in particular for income tax, VAT and penalties related to transactions with suppliers in the amount of RUB 87,730 thousand (31 December 2009: nil).

In addition to the above matters, management estimates that the Group has other possible obligations from exposure to other than remote tax risks of RUB 123,721 thousand as at 31 December 2010 (31 December 2009: RUB 120,304 thousand). These exposures primarily relate to calculation of taxable income for corporate income tax purposes.

Capital expenditure commitments. As of 31 December 2010 the Group had contractual commitments pertaining to capital investments in property, plant and equipment for a total of RUB 110,311 thousand (31 December 2009: RUB 80,391 thousand).

Exploration and evaluation commitments. In June 2007 the Nova Zinc LLP 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 Protocol No. 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.

In 2008 Nova Zinc LLP conducted exploration drilling and geophysical survey, based on which the ore reserves in the Eastern site of the Akzhal deposit were reclassified into C-1 category (proven ore reserves). However, in 2009 management decided not to start underground development of the Eastern area of the Akzhal deposit and wrote off RUB 54,079 thousand of the expenses incurred to profit and losses.

26 Contingencies and Commitments (continued)

As of 31 December 2010, Group management was still contemplating a combined method of field development, however they have put off transition to that method until 2013, because currently the open-pit mining is more expedient. Group management has a plan to continue in 2011 assessment of feasibility/appropriateness of underground production. Management believes that the amount of previously recognised impairment may be reversed in full or in part based on the performed technical analysis and decision about appropriateness of underground mining (Note 9).

In 2010 management took a decision not to write off capitalised exploration costs attributable to the reconstruction of the Central open-cast for the purposes of starting production under the combined method, because they expect to receive a feasibility report which is currently being developed and to make a final decision based on findings from the report.

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 2010	31 December 2009
Less than 1 year	770	623
1 to 5 years	3,444	2,491
Over 5 years	1,462	1,951
Total operating lease commitments	**5,676**	**5,065**

Commitments under contract for zinc and lead extraction and licenses

There are a number of commitments that are required to be met by Nova Zinc LLP 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 2010, the Geology and Subsoil Use Committee at the Kazakhstan Ministry of Industry and Innovative Technologies conducted examination of compliance by Nova Zinc LLP with licensing obligations under a contract for production of zinc and lead. Based on findings from the examination, the Committee has identified schedule delay in stripping operations. The Group's management does not expect the findings from the aforementioned examination to significantly affect its consolidated financial statements.

Insurance. At 31 December 2010 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 234,685 thousand (31 December 2009: RUB 155,281 thousand). The insurance premium is RUB 118 thousand (31 December 2009: RUB 114 thousand). The contracts expire during 2011.

26 Contingencies and Commitments (continued)

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, litigation or legislation, cannot be estimated precisely but could be material. In the current enforcement climate under existing legislation, management believes that the Group has no significant liabilities for environmental damage.

27 Financial Risk Management

27.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange 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.

(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 most of the Group's export revenue proceeds are denominated in USD.

As of 31 December 2010, if the RUB had weakened/strengthened by 4% against USD with all other variables held constant, the net profit for the year would have been RUB 14,172 thousand lower/higher, mainly as a result of foreign exchange gains/losses on translation of USD denominated trade receivables, cash in bank and deposits. As of 31 December 2009 if the RUB had weakened/strengthened by 6% against USD with all other variables held constant, the net profit for the year would have been RUB 30,311 thousand lower/higher.

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.

In addition, the Group has forward contracts totalling 1,625 tonnes of zinc that are not designated for hedge accounting and are accounted for at fair value through profit and loss. The profit on such contracts in the amount of RUB 14,792 thousand for the year ended 31 December 2010 (year ended 31 December 2009: profit of RUB 9,486 thousand) is recognised in cost of sales line in the consolidated statement of income.

If the LME quotations for SHG zinc had been 13% higher/lower during the year ended 31 December 2010, the net profit of the Group would have been RUB 496,369 thousand higher/lower. If the LME quotations for SHG zinc had been 40% higher/lower during the year ended 31 December 2009, the net profit of the Group would have been RUB 1,487,574 thousand higher/lower.

27 Financial Risk Management (continued)

27.1 Financial risk factors (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest rate risk

As the Group has no significant assets bearing interest at floating rates, the Group's profit and operating cash flows are substantially independent of changes in market interest rates. Prior to the end of 2009 the Group's interest rate risk arouse from borrowings, which were fully redeemed by 31 December 2009. Management considers that due to full redemption of the borrowings the risk is insignificant for the Group's business.

(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.

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 thouroughly 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 2010	Rating	31 December 2009
Banks					
Chelindbank	RBC	100*	69,857	98*	96,980
Sberbank	RBC	-	-	1*	68,000
CB Koltso Urala	RBC	142*	1,065,862	-	-
Gazprombank	RBC	3*	130,561	-	-
Alfa Bank	RBC	7*	250,000	-	-
CB Uralliga	RBC	455*	25,000	-	-
Sberbank Kazakhstan	Fitch ratings	BBB-	155,470	-	-
ABN AMRO Bank Kazakhstan (Royal bank of Scotland)	Moody's	A1	28,025	AA-	170,592
JSC Narodny Bank Kazakhstana	Fitch ratings	B+	14,736	-	-
Lloyds TSB	Fitch ratings	AA-/ F1+	163,805	AA-/ F1+	112,709
Total			**1,903,316**		**448,281**
Trade accounts receivable					
Euromin SA***	-	-	-	-	106,806
MaxMin Group**	-	-	-	-	203,575
RoRes (Transal)***	-	-	332,932	-	254,037
UGMK Holding***	-	-	135,033	-	-
MMK	Fitch ratings	BB	129,851	BB	66,164
Kazzinc***	-	-	36,707	-	58,860
Total			**634,523**		**689,442**

*Position in Rosbusinessconsulting rating of banks by net assets as of 31 December 2010 and 31 December 2009 respectively.
** This is a receivable balance related to one-off export sale which was substantially paid in the first quarter 2010.
*** These companies are significant customers, with which the Group has a history of relationships.

27 Financial Risk Management (continued)

27.1 Financial risk factors (continued)

(b) Credit risk (continued)

The remaining portion of accounts receivable is being analysed by Group management who believe that these receivables have good quality due to the established relations with the customers. The Group monitors credit risk on a client-by-client basis.

As of 31 December 2010, the Group management also classified RUB 357,242 thousand of Brock Metal Ltd's receivables (31 December 2009: RUB 383 131 thousand) into a separate category. There is a policy in place for these receivables which requires an appropriate credit check on potential customers prior to sales. As a matter of additional credit risk mitigation, management also provided credit insurance of accounts receivable where possible.

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	2010	2009
Other non-current assets	**101,098**	**1,019**
- Other non-current financial assets (Note 11)	101,098	1,019
Trade receivables (Note 13)	**1,158,375**	**1,115,709**
Cash and cash equivalents (Note 15)	**748,718**	**470,437**
- Bank balances payable on demand	282,275	402,437
- Term deposits with original maturity of less than three months	466,443	68,000
Bank deposits with original maturity of less than twelve months (Note 14)	**1,057,300**	**-**
Restricted cash	**3,120**	**4,226**
Forward contracts accounted for at fair value through profit and loss	**24,115**	**9,486**
Total maximum exposure to credit risk	**3,092,726**	**1,600,877**

(d) Liquidity risk

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 2010				
Trade and other payables	418,847	-	-	-
Finance leasing	24,799	18,426	20,454	-
At 31 December 2009				
Trade and other payables	698,233	-	-	-
Financial liabilities	5,002	-	-	-
Finance leasing	26,573	24,798	38,880	-

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.

27.2 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 statement of financial position) less other non-current assets, loans, bank deposits, cash and cash equivalents and restricted cash. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

27 Financial Risk Management (continued)

27.2 Capital risk management (continued)

The gearing ratios as of 31 December 2010 and 31 December 2009 were as follows:

In thousands of Russian Roubles	Note	31 December 2010	31 December 2009
Total debts		585,990	920,741
Less: loans		(1,474)	(17,446)
Less: bank deposits		(1,158,398)	(1,019)
Less: cash and cash equivalents	15	(748,718)	(470,437)
Less: restricted cash		(3,120)	(4,226)
Net (cash)/debt		(1,325,720)	427,613
Total equity		8,861,605	7,355,809
Total capital		7,535,885	7,783,422
Gearing ratio		**n/a**	**5%**

As of 31 December 2010 and 31 December 2009 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.

28 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.

29 Subsequent Events

On 17 February 2011, the Federal Antimonopoly Service decided to dismiss the proceedings initiated against JSC Chelyabinsk Zinc Plant based on the indications that the Company breached the Federal Law on Protection of Competition (Note 26).

In February 2011 the Company issued a loan to CJSC Capital Invest in the amount of RUB 1,000,000 thousand at 5% p.a. with a maturity at 31 December 2011. As collateral, the Company received in pledge 100% of CJSC CLASS-STROY's stock. CJSC CLASS-STROY is an investor and developer of large real estate assets.