TNC Kazchrome JSC

International Financial Reporting Standards
Financial Statements and Auditors' Report

31 December 2005

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AUDITORS' REPORT

To the Board of Directors of TNC Kazchrome JSC

We have audited the accompanying consolidated balance sheets of TNC Kazchrome JSC and its subsidiaries (the "Company") as of 31 December 2005 and 31 December 2004, and the related consolidated statements of income, of cash flows, and of changes in equity for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

PricewaterhouseCoopers LLP

Almaty, Kazakhstan
23 October 2006

TNC Kazchrome JSC
Balance Sheet

In thousands of Kazakhstani Tenge	Note	31 December 2005	31 December 2004
ASSETS			
Non-current assets			
Property, plant and equipment	9	82,816,589	69,288,980
Intangible assets		5,677	6,816
Investments held to maturity	10	1,254,855	1,225,059
Available for sale investments	11	1,999,759	410,753
Loans and receivables	12	2,271,480	-
Other non-current assets	13	1,957,797	1,381,751
Total non-current assets		**90,306,157**	**72,313,359**
Current assets			
Inventories	14	16,290,942	13,100,377
Trade receivables and other current assets	15	37,429,422	20,245,117
Loans and receivables	12	3,695,530	1,685,642
Current income tax prepayments		-	1,739,247
Cash and cash equivalents	16	5,407,162	2,401,678
Total current assets		**62,823,056**	**39,172,061**
TOTAL ASSETS		**153,129,213**	**111,485,420**
EQUITY			
Share capital	17	11,777,952	11,777,952
Retained earnings		108,489,156	82,533,572
Equity attributable to the Company's equity holders		**120,267,108**	**94,311,524**
Minority interest		**19,783**	**19,477**
TOTAL EQUITY		**120,286,891**	**94,331,001**
LIABILITIES			
Non-current liabilities			
Borrowings	18	7,591,941	2,738,459
Deferred income tax liability	31	6,901,679	7,104,764
Provision for asset retirement obligations	20	1,193,332	933,221
Employee benefits	21	1,655,101	1,375,687
Preference shares	2	568,421	568,421
Other payables		65,175	99,295
Total non-current liabilities		**17,975,649**	**12,819,847**
Current liabilities			
Borrowings	18	4,268,022	753,092
Trade and other payables	22	8,054,676	3,232,268
Current income tax payable		806,139	-
Provision for asset retirement obligations	20	17,000	14,568
Other taxes payable	19	1,720,836	334,644
Total current liabilities		**14,866,673**	**4,334,572**
TOTAL LIABILITIES		**32,842,322**	**17,154,419**
TOTAL LIABILITIES AND EQUITY		**153,129,213**	**111,485,420**

Approved for issue and signed on behalf of the Board of Directors on 23 October 2006.

Viktor V. Til
General Director

Ludmila F. Mulyar
Chief Accountant

The accompanying notes on pages 6 to 51 are an integral part of these consolidated financial statements.

In thousands of Kazakhstani Tenge	Note	2005	2004
Revenue	23	149,692,483	127,856,596
Cost of sales	24	(64,299,372)	(61,193,787)
Gross profit		**85,393,111**	**66,662,809**
Other operating income	25	679,115	502,281
Distribution costs	26	(15,693,255)	(12,007,059)
General and administrative expenses	27	(9,317,651)	(6,567,746)
Other operating expenses	28	(798,395)	(4,994,546)
Operating profit		**60,262,925**	**43,595,739**
Finance income	29	719,752	116,530
Finance costs	30	(2,258,585)	(945,133)
Profit before income tax		**58,724,092**	**42,767,136**
Income tax expense	31	(19,240,182)	(13,670,007)
Profit for the year		**39,483,910**	**29,097,129**
Profit is attributable to:			
The parent Company's shareholders		**39,483,056**	**29,096,047**
Minority interest		**854**	**1,082**
Profit for the year		**39,483,910**	**29,097,129**
Earnings per share attributable to the equity holders of the Company, basic and diluted (expressed in Kazakhstani Tenge per share)	32	**5,014.56**	**3,699.02**

The accompanying notes on pages 6 to 51 are an integral part of these consolidated financial statements.

		Attributable to the Company's shareholders				
In thousands of Kazakhstani Tenge	**Note**	**Share capital**	**Retained earnings**	**Total**	**Minority interest**	**Total equity**
Balance at 1 January 2004		**11,777,952**	**54,949,892**	**66,727,844**	**18,395**	**66,746,239**
Profit for the year		-	29,096,047	29,096,047	1,082	29,097,129
Dividends declared	17	-	(600,033)	(600,033)	-	(600,033)
Consideration paid for subsidiaries purchased from a party under common control	1	-	(912,334)	(912,334)	-	(912,334)
Balance at 31 December 2004		**11,777,952**	**82,533,572**	**94,311,524**	**19,477**	**94,331,001**
Profit for the year		-	39,483,056	39,483,056	854	39,483,910
Dividends declared	17	-	(13,527,472)	(13,527,472)	(548)	(13,528,020)
Balance at 31 December 2005		**11,777,952**	**108,489,156**	**120,267,108**	**19,783**	**120,286,891**

In thousands of Kazakhstani Tenge	Note	2005	2004
Cash flows from operating activities			
Profit before income tax		**58,724,092**	**42,767,136**
Adjustments for:			
Depreciation of property, plant and equipment	9	7,135,334	7,699,704
Losses less gains on disposal of property, plant and equipment	28	543,305	3,643,389
Gain on sales of apartments to employees	25	(21,450)	-
Provision for advance for construction of hotel complex in Astana	13, 27	974,545	-
Provision for EIA employees mortgage loans	13, 27	277,600	-
Provision on receivables impairment	15, 27	156,487	227,757
Provision for impairment of investments in Hotel Alatau	27	-	365,750
Reversal of provision for obsolete and slow-moving inventory	14, 27	(137,367)	(113,293)
Interest income	29	(658,686)	(116,530)
Unwinding of the present value discount	30	231,305	339,548
Interest expense	30	626,165	187,090
Employee benefits	21	322,853	126,934
Losses less gains on origination of loans at non-market rate	30	1,401,115	418,495
Unrealised foreign currency exchange		72,168	(132,081)
Operating cash flows before working capital changes		**69,647,466**	**55,413,899**
Increase in trade receivables and other current assets	15	(17,390,947)	(12,619,357)
Increase in restricted cash	13	(413,097)	(18,872)
Increase in inventories	14	(3,053,198)	(3,069,802)
Increase/(decrease) in trade and other payables	22	899,603	(3,735,495)
Increase/(decrease) in other taxes payable	19	1,409,758	(68,718)
(Decrease)/increase in provision for asset retirement obligations	20	(6,925)	18,886
Cash generated from operations		**51,092,660**	**35,920,541**
Income tax paid		(16,897,879)	(18,080,848)
Interest paid		(424,468)	(47,326)
Employee benefits paid		(112,223)	(108,680)
Net cash from operating activities		**33,658,090**	**17,683,687**
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(17,029,314)	(10,960,532)
Proceeds from disposal of property, plant and equipment		934,985	1,707,764
Contribution to share capital of ECP	8, 11	(1,300,000)	-
Purchase of investments held to maturity	8, 10	-	(1,500,986)
Purchase of subsidiaries net of cash received	1	-	(895,745)
Purchase of investments in associates	13	-	(289,006)
Loans and receivables given	8, 12	(6,254,705)	(2,887,896)
Repayment of loans and receivables	8, 12	1,060,045	1,123,375
Increase in other non-current assets	13	(1,186,891)	(5,904)
(Decrease)/increase in other payable		(40,127)	90,721
Interest received		128,039	38
Net cash used in investing activities		**(23,687,968)**	**(13,618,171)**
Cash flows from financing activities			
Proceeds from borrowings	8, 18	3,384,000	23,000
Repayment of borrowings	8, 18	(35,719)	(801,781)
Repayment of finance lease liabilities	8, 18	(735,462)	-
Dividends paid to Company's shareholders	17	(9,579,914)	(1,650,767)
Net cash used in financing activities		**(6,967,095)**	**(2,429,548)**
Net increase in cash and cash equivalents		**3,003,027**	**1,635,968**
Unrestricted cash and cash equivalents at the beginning of the year	16	**2,392,218**	**756,250**
Unrestricted cash and cash equivalents at the end of the year	16	**5,395,245**	**2,392,218**

The accompanying notes on pages 6 to 51 are an integral part of these consolidated financial statements.

1 The Company and its Operations

These financial statements have been prepared in accordance with International Financial Reporting Standards for the year ended 31 December 2005 for TNC Kazchrome JSC and its subsidiaries (the "Company" or "Kazchrome").

Principal activity

The principal activity of the Company and its subsidiaries comprises the extraction and sale of chrome ore as well as the production of ferroalloys. Kazchrome is considered to be the world's third largest chrome ore and ferroalloy producer. The Company's (head office) is located at 312 Strelkovava Diviziya Av, Promzone, Aktobe, Republic of Kazakhstan.

Subsurface use contracts

The Company is party to a number of subsurface use agreements which were granted by the Government of the Republic of Kazakhstan the terms of which are set out below:

Subsurface use contract	Location	Commencement	Expiry*
Extraction of chromium ore	Chromtau, Aktobe oblast	1997	2041
Extraction of chromium ore	Chromtau, Aktobe oblast	2002	2018
Extraction of chromium ore	Chromtau, Aktobe oblast	2001	2006
Exploration of chromium ore	Aktobe oblast	2003	2009
Extraction of manganese ore	Karaganda oblast	1999	2021
Extraction of manganese ore	Karaganda oblast	1998	2018
Extraction of titanium-zirconium	Aktobe oblast	2003	2021

* Each contract includes a renewal clause.

Principal operating divisions

The Company has four main operating divisions:

- ✓ ***Aksu Ferroalloys Plant*** – Production of chromium, siliceous and manganese alloys;
- ✓ ***Aktobe Ferroalloys Plant*** - Production of chromium and siliceous alloys;
- ✓ ***Donskoy Mining and Metal Enriching Plant ("DGOK")*** – Extraction, processing and dressing of chrome ore mined from open-cast and underground mines which is both sold directly and used in the production of ferroalloys;
- ✓ ***Kazmarganets*** – Extraction and processing of manganese ore which is used in the production of ferroalloys.

1 The Company and its Operations (Continued)

Company's shareholders

During 2005 and 2004 the shareholders of the Company were:

In percent	**31 December 2005**	**31 December 2004**
State Property and Privatisation Committee of Ministry of Finance of the Republic of Kazakhstan	31.38	31.38
Summerside Investments Limited*	34.15	0.60
Perfetto Investments B.V.*	26.37	26.37
Kromet B.V.*	4.19	-
KMRC B.V.*	2.20	2.20
Dauphin Associates Limited*	-	17.50
Hillford Investment Corporation*	-	7.00
Eurasian Financial Industrial Company*	-	4.14
Lynchburg Enterprises Limited*	-	9.04
*Sub-total under common control**	**66.91**	**66.85**
Other legal entities	0.05	0.04
Individuals	1.66	1.73

* The entities referred to above are all ultimately owned and jointly controlled by three individuals: Mr. P. K. Chodiev, Mr. A. R. Ibragimov and Mr. A. A. Mashkevich.

Subsidiaries

In addition to the four main operating divisions the Company has a number of subsidiary entities which provide auxiliary services to the main operating entities:

In percent of ownership	**Country of incorporation**	**Activity**	**2005**	**2004**
Akbulak LLP	Kazakhstan	Soft drinks production	100.00	100.00
Molservis AZF JSC	Kazakhstan	Dairy products production	100.00	100.00
Lotos Aktobe LLP	Kazakhstan	Bricks production	100.00	-
Martuk Sut LLP	Kazakhstan	Dairy products production	100.00	-
Donskaya Neftebaza JSC	Kazakhstan	Warehousing services	68.24	68.24
Mineral JSC	Kazakhstan	Mining and processing	-	100.00

Mineral JSC was purchased from Eurasian Financial Industrial Company JSC, the Company's related party, in July 2004. Mineral JSC is located in Aktobe oblast and involved in extraction of titanium-containing ores and processing them into rutile-zirconium concentrates (ilmenite, leucoxene, zircon and rutile). The consideration paid was Tenge 920,200 thousand and the book value of net assets acquired as of that date was Tenge 7,886 thousand. As the transaction is a business combination under common control, it was accounted as if the businesses had been combined from the beginning of the earliest period presented, generating a net loss of 912,334 which was recognised directly in equity. As of 1 January 2005 Mineral JSC merged to Aktobe Ferroalloys Plant as one of its workshops.

During 2005 the Company de-merged its workshops on production of diary products and bricks into the separate legal entities, Martuk Sut LLP and Lotos Aktobe LLP through contribution of fixed assets in their share capital. These transactions have no effect on the consolidated financial statements.

2 Basis of Preparation and Significant Accounting Policies

Basis of preparation. These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention as modified in connection with certain financial instruments. The principal accounting policies applied in the preparation of these financial statements are set out below. These financial statements have been prepared in accordance with those IFRS standards and IFRIC interpretations issued and effective or issued and early adopted as at the time of preparing these statements (October 2006), unless otherwise stated (refer to Note 5, New Accounting Pronouncements).

IFRS – First time adoption. The rules for first time adoption of IFRS are set out in IFRS 1 *First time adoption of International Financial Reporting Standards* ("IFRS 1"). The Company, which previously prepared its financial statements under Kazakhstani Accounting Standards ("KAS"), had a transition date to IFRS of 1 January 2004. IFRS 1 generally requires full retrospective application of the standards and interpretations in force at the first reporting date. However, IFRS 1 allows certain optional exemptions in the application of particular standards to prior periods in order to assist companies with the transition process. For further details refer to Note 3.

The Company has decided to early adopt IFRS 6 *Exploration for and Evaluation of Mineral Resources* for all reporting periods since 1 January 2004, its date of transition to IFRS. The Company expenses all exploration costs as incurred up to the point when the evaluation demonstrates that there are commercially viable reserves present and there are probable future economic benefits from the continued development and production of the resource. All subsequent costs are capitalised up to the point when commercial production commences.

Presentation currency. All amounts in these financial statements are presented in thousands of Kazakhstani Tenge ("Tenge"), unless otherwise stated. The functional currency of the Company is Tenge.

Accounting for the effects of hyperinflation. The Republic of Kazakhstan has previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 *Financial Reporting in Hyperinflationary Economies* ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Republic of Kazakhstan indicate that hyperinflation has ceased, effective from 1 January 1999 the Company no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 1998 are treated as the basis for the carrying amounts in these financial statements.

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

Intercompany transactions, balances and unrealised gains on transactions between subsidiaries are eliminated; unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. The Company and all of its subsidiaries use uniform accounting policies consistent with the Company's policies.

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

Purchases of subsidiaries from parties under common control. Purchases of subsidiaries from parties under common control are accounted for using the pooling of interest method. Under this method the financial statements of the combined entity are presented as if the businesses had been combined from the beginning of the earliest period presented. The assets and liabilities of the subsidiary transferred under common control are at the predecessor entity's carrying amounts. Related goodwill inherent in the predecessor entity's original acquisitions is also recorded in these financial statements. Any difference between the carrying amount of net assets, including the predecessor entity's goodwill, and the consideration paid is accounted for in these consolidated financial statements as an adjustment to equity.

Investments in associates. Investments in associated undertakings are accounted for by the equity method of accounting. These are undertakings over which the Company generally has between 20 and 50 percent of the voting rights, or otherwise the Company has significant influence, but which it does not control.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Unrealised gains on transactions between the Company and its associated undertakings are eliminated to the extent of the Company's interest in the associated undertakings; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies for associates have been changed where necessary to ensure consistency with the policies adopted by the Company.

Equity accounting is discontinued when the carrying amount of the investment in an associated undertaking reaches zero, unless the Company has incurred obligations or guaranteed obligations in respect of the associated undertaking.

Foreign currency transactions. Monetary assets and liabilities denominated in foreign currencies at 31 December 2005 are translated into the Tenge at the official exchange rate of the Kazakhstani Stock Exchange ("KASE") at the balance sheet date. Foreign currency transactions are accounted for at the exchange rate prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

At 31 December 2005 the principal rate of exchange used for translating foreign currency balances was US dollar (USD) 1= Tenge 133.77 (31 December 2004: USD 1= Tenge 130.00). Exchange restrictions and currency controls exist relating to converting the Tenge into other currencies. The Tenge is not freely convertible in most countries outside of the Republic of Kazakhstan.

Property, plant and equipment. Property, plant and equipment is stated at cost or deemed cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads. The cost of property, plant and equipment at 1 January 2004, the date of the Company's transition to IFRS, was determined by reference to its depreciated replacement cost at that date ("deemed cost").

The individual significant parts of an item of property, plant and equipment (components), whose useful lives are different from the useful life of the given asset as a whole are depreciated individually, applying depreciation rates reflecting their anticipated useful lives. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Recognised as an item of property, plant and equipment are specialised spare parts and servicing equipment with a significant initial value and a useful life of more than one year. Other spare parts and servicing-related equipment are recognised as inventories and accounted for in the income statement at the moment they are used.

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

Mining assets are recorded at cost less accumulated amortisation and less any accumulated impairment losses. Expenditure, including evaluation costs, incurred to establish or expand productive capacity, to conduct mining-construction and mining-capital works, mining preparation works in the period of developing project capacities or mine reconstruction, are capitalised to mining assets as part of buildings and constructions.

Mining assets are amortised using the units-of-production method based on the estimated economically recoverable reserves to which they relate or the straight line method if the estimated useful life of the individual asset is less than the respective life of mine.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Depreciation. Land is not depreciated. The deemed cost of each item of property, plant and equipment is depreciated over its useful life to residual value. Each item's estimated useful life has due regard to both its own physical life limitations and/ or the present assessment of economically recoverable reserves of the mine property at which the item is located.

Depreciation is charged to the income statement on a straight line basis over the estimated useful life of the individual asset or on a unit of production basis depending on the type of asset. Changes in estimates, which affect unit of production calculations, are accounted for prospectively. The expected useful lives are as follows:

	Useful lives in years
Buildings and constructions	4 to 50
Machinery and equipment	2 to 35
Other equipment and motor vehicles	2 to 20
Mining assets – the infrastructure of mines	2 to 23
Mining assets – others	Units of production basis

The residual value of an asset is the estimated amount that the Company 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 Company expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Stripping costs. Stripping (i.e. overburden and other waste removal) costs incurred in the development of mines and open pits before production commences are capitalised as part of the cost of constructing the mines and open pits and subsequently amortised using unit of production method over the lives of the mines or open pits.

The Company expenses stripping costs incurred subsequently, during the production stage of its operations.

Impairment. Property, plant and equipment are reviewed for impairment if there is any indication that the carrying amount may not be recoverable.

When a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of "value in use" (being the net present value of expected future cash flows of the relevant cash generating unit) and "fair value less costs to sell" (the amount obtainable from the sale of an asset or cash generating unit in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal). Where there is no binding sale agreement or active market, fair value less costs to sell is based on the best information available to reflect the amount the Company could receive for the cash generating unit in an arm's length transaction. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Company distinguishes three cash generating units: Aktobe Ferroalloys Plant, Aksu Ferroalloys Plant and Donskoy Mining and Metal Enriching Plant.

The estimates used for impairment reviews are based on detailed mine plans and operating budgets, modified as appropriate to meet the requirements of IAS 36 *Impairment of Assets*. Future cash flows are based on:

- estimates of the quantities of the reserves and mineral resources for which there is a high degree of confidence of economic extraction;
- future production levels;
- future commodity prices (assuming the current market prices will revert to the Company 's assessment of the long term average price, generally over a period of three to five years); and
- future cash costs of production, capital expenditure, close down, restoration and environmental clean up.

The expected future cash flows of cash generating units reflect long term mine and production plans which are based on detailed research, analysis and iterative modelling to optimise the level of return from investment, output and sequence of extraction. The plans take account of all relevant characteristics of the orebody, including waste to ore ratios, ore grades, haul distances, chemical and metallurgical properties of the ore impacting on process recoveries and capacities of processing and production equipment that can be used in extraction of chromium ore and production of ferroalloys. The mine and production plans are therefore the basis for forecasting production output in each future year and the related production costs. Value in use represents discounted pre-tax cash flows discounted on the pre-tax long–term rate of capitalisation. Fair value less cost to sell is determined based on market information.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Cost levels incorporated in the cash flow forecasts are based on the current long term mine plan for the cash generating units. For impairment reviews, recent cost levels are considered, together with expected changes in costs that are compatible with the current condition of the business and which meet the requirements of IAS 36. IAS 36 includes a number of restrictions on the future cash flows that can be recognised in respect of future restructurings and improvement related capital expenditure.

The pre-tax discount rate applied is based upon the Company's weighted average cost of capital with appropriate adjustment for the risks associated with the relevant cash flows, to the extent that such risks are not reflected in the forecast cash flows.

Operating leases. Where the Company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Company, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

When assets are leased out under an operating lease, the lease payments receivable are recognised as rental income on a straight-line basis over the lease term.

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

Intangible assets. All of the Company's intangible assets have definite useful lives and primarily include capitalised computer software and patent. Acquired computer software and patent are capitalised on the basis of the costs incurred to acquire and bring them to use. Intangible assets are amortised using the straight-line method over their useful lives: twelve years for patent and five years for computer software.

Classification of financial assets. The Company classifies its financial assets into the following measurement categories: loans and receivables, held to maturity and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Company intends to sell in the near term. Loans and receivables are recognised initially at fair value plus transaction costs. Subsequently, loans and receivable are stated at amortised cost using the effective yield method. Where a loan is provided at interest rates different from market rates, the loan is re-measured at origination to its fair value, being future interest payments and principal repayments discounted at market interest rates for similar loans. The difference between the fair value of the loan at origination and its cost (fair value of the contribution to the borrower, net of transaction costs) represents an origination gain or loss. The origination gain or loss is recorded in the income statement within finance income/costs unless it qualifies for recognition as an asset, liability or a charge to equity in accordance with the substance of the arrangement. Subsequently, the carrying amount of the loans is adjusted for amortisation of the gains/losses on origination and the amortisation is recorded as finance income/costs using the effective yield method.

Loans and receivables are included in current assets in the balance sheet, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets (Note 12).

2 Basis of Preparation and Significant Accounting Policies (Continued)

(b) Held-to-maturity

Held-to-maturity classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company has both the intention and ability to hold to maturity. Management determines the classification of investment securities held to maturity at their initial recognition and reassesses the appropriateness of that classification at each balance sheet date. If the Company fails to keep these investments to maturity other than for certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost.

Held-to-maturity investments are initially recorded at fair value including transactions costs and subsequently carried at amortised cost (net of provision for impairment loss) including any discounts using the effective interest method over the period to maturity. Held-to-maturity investments are included in non-current assets (Note 10) unless for investments with maturities within 12 months of the balance sheet date. For the years ended 31 December 2005 and 2004, the Company did not hold short term investments.

If the Company fails to keep these investments to maturity other than for certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value rather than amortised cost.

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

(c) Available for sale investments

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Investments are initially carried at fair value plus transaction costs and subsequently carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Company’s right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from equity to profit or loss.

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

When it is not possible to obtain current market value for available for sale investments due to the nature of the local financial market and management cannot estimate fair value of those investments with adequate reliability investments available for sale are recognised in the balance sheet at actual purchase cost.

Available-for-sale investments are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date (Note 11).

Regular purchases and sales of financial instruments are recognised on the settlement date, which is the date that an asset is delivered to or by the Company, with the change in value between the trade date and settlement date not recognised for assets carried at cost or amortised cost and recognised in equity for assets classified as available for sale. 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.

2 Basis of Preparation and Significant Accounting Policies (Continued)

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

Derivatives. Within the ordinary course of business the Company routinely enters into sale and purchase transactions for commodities. These transactions take the form of contracts that were entered into and continue to be held for the purpose of receipt or delivery of the commodity in accordance with the Company's expected sale, purchase or usage requirements. Such contracts are not within the scope of IAS 39 *Financial Instruments: Recognition and Measurement*. Any net-settled commodity contracts are measured at fair value with gains and losses taken to the income statement.

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

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

Transactions with the state owned entities. Transactions with the state owned entities do not include those done in the ordinary course of business with terms consistently applied to all public and private entities and where there is no choice of supplier such as electricity transmission services, telecommunications and etc.

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. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the balance sheet date are included in other non-current assets, while balances restricted for more than three months but less than twelve months after the balance sheet date are included in other current assets. Restricted balances are excluded from cash and cash equivalents for the purpose of cash flow statement.

Share capital. Ordinary shares are classified as equity. Preference shares are compound financial instruments that contain both a liability and an equity component (see earnings per share policy). The liability is initially recognised at its fair value by applying the relevant effective interest rate to the amount of mandatory annual dividends using a net present value formula for the period of the life of the mines. The life of mines is used rather than a perpetuity since the company will not generate cash flows or profits beyond the life of the mines. Subsequently, the liability is measured at amortised cost. Effects of changes in cash flow estimates on carrying amounts are recognised in the income statement. At initial recognition, the equity component is the residual, i.e. it is the proceeds received from the issuance of the preference shares less the fair value of the liability. The equity component is not subsequently re-measured.

Dividends. Dividends, except for the mandatory annual dividends on preference shares, are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Mandatory annual dividends on preference shares are recognised as finance costs in the income statement. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Value added tax ("VAT"). Value-added tax related to sales is payable to the tax authorities when goods are shipped or services are rendered. Input VAT can be offset against output VAT upon the receipt of a tax invoice from a supplier. Tax legislation allows the settlement of VAT on a net basis. Accordingly, VAT related to sales and purchases unsettled at the balance sheet date is stated in the balance sheet on a net basis.

2 Basis of Preparation and Significant Accounting Policies (Continued)

Borrowings. Borrowings are initially recorded at fair value including transaction costs and subsequently measured at amortised cost using the effective interest method.

Where a loan is obtained at interest rates different from market rates, the loan is re-measured at origination to its fair value, being future interest payments and principal repayments discounted at market interest rates for similar loans. The difference between the fair value of the loan at origination and its cost (fair value of the contribution to the borrower, net of transaction costs) represents an origination gain or loss. The origination gain or loss is recorded in the statement of income within finance income/costs. Subsequently, the carrying amount of the borrowings is adjusted for amortisation of the gains/losses on origination and the amortisation is recorded as interest income/ interest expense using the effective yield method on the asset/ liability.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract. The Company recognizes trade payables at fair value. Subsequently trade payables are carried at amortised cost using the effective interest method.

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

Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Provision for asset retirement obligations. Asset retirement costs include the 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 costs are provided for and incurred 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 which are expected to arise from future disturbance. The costs are estimated on the basis of a closure and restoration plan. The cost estimates are calculated annually 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 at regular intervals.

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

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

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

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

2 Basis of Preparation and Significant Accounting Policies (Continued)

Revenue recognition. Revenues from sales of goods are recognised at the point of transfer of the risks and rewards of ownership of the goods, normally when the goods are shipped. If the Company agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

Sales of services are recognised in the accounting period in which the services are rendered, by reference to the stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

Sales are shown net of VAT and discounts.

Revenues are measured at the fair value of the consideration received or receivable. When the fair value of goods received in a barter transaction cannot be measured reliably, the revenue is measured at the fair value of the goods or service given up.

Revenue from sales of ferroalloys is subject to adjustment based on an inspection of the quantity and quality of product by the customer. In such cases, revenue is initially recognised on a provisional basis using the Company's best estimate of ferroalloys delivered and contained metal. Any subsequent adjustments to the initial estimate of the quantity delivered and metal content are recorded in revenue once they have been determined.

Mining royalties are included within cost of sales.

Employee benefits. The Company provides long term employee benefits to employees before, on and after retirement, in accordance with a Collective Labour Agreement. The agreement provides for one-off retirement payments, financial aid for employees' disability, significant anniversaries and funeral aid to the Company's employees. The entitlement to some benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period.

The expected costs of the benefits associated with one-off retirement payments are accrued over the period of employment using the same accounting methodology as used for defined benefit post-employment plans. For defined benefit post-employment plans, the difference between the fair value of the plan assets (if any) and the present value of the plan liabilities is recognised as an asset or liability on the balance sheet. Actuarial gains and losses arising in the year are taken to the income statement. For this purpose, actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred. The Company has elected to take an exemption from IFRS 1 and recognised all cumulative actuarial gains and losses at the date of the transition to IFRS.

Other movements in the net surplus or deficit are recognised in the income statement, including current service cost, any past service cost and the effect of any curtailments or settlements.

The most significant assumptions used in accounting for defined benefit obligations are the discount rate and the mortality assumptions. The discount rate is used to determine the net present value of future liabilities and each year the unwinding of the discount on those liabilities is charged to the income statement as interest cost.

The mortality assumption is used to project the future stream of benefit payments, which is then discounted to arrive at a net present value of liabilities.

Employee benefits other than one-off retirement payments are considered as other long-term employee benefits. The entitlement to these benefits is usually conditional on the completion of a minimum service period. The expected cost of these benefits is accrued over the period of employment using the same accounting methodology as used for the defined benefit plan.

These obligations are valued annually by independent qualified actuaries.

Payroll expense and related contributions. Wages, salaries, social tax, contributions to social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits are accrued in the year in which the associated services are rendered by the employees of the Company.

Pension payments, except for described above in employee benefits. The Company does not incur any expenses in relation to pension payments for its employees. In accordance with the legal requirements of the Republic of Kazakhstan, the Company withholds pension contributions from employees' salary and transfers them into the employee's designated pension fund. Upon retirement of employees, all pension payments are administered by such pension funds.

2 Basis of Preparation and Significant Accounting Policies (Continued)

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

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable income or losses are based on estimates where the financial statements are authorised prior to the filling of the relevant tax return. 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. Deferred tax balances are measured at tax rates enacted or substantively enacted at the balance sheet date which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets for deductible temporary differences and tax loss carry-forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised. Deferred excess profit tax is calculated with respect to temporary differences in respect of assets allocated to contracts for subsurface use at the expected rate of excess profits tax to be paid under the contract.

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

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

Earnings per share. Preference shares are not redeemable and are not considered to be participating shares with respect with the distribution of dividends. Preference shares should not be declared in the amount less than declared to ordinary shareholders. Thus preference shares are compound instruments with equity component. The preference shares give their holders the right to participate in general shareholders' meetings without voting rights (except for instances when decisions are made in relation to re-organisation and liquidation of the Company) and to participate with voting rights when considering the issue specifying restriction of rights of preference shareholders, and also if dividends on preference shares are not paid in full in three months from the date of expiry of the period set for payment of such dividends. As a result preference shares get voting rights without conversion to ordinary shares at the moment when dividends of preference shares are not paid in full in three months from the date of expiry of the period set for payment of such dividends until the dividends are paid.

For the purpose of calculating earnings per share, it is considered that there are two classes of shares: ordinary shares and preference shares. To calculate basic and diluted earnings per share the profit or loss attributable to the ordinary shareholders is adjusted by the amount of dividends declared in the period for each class of shares. The remaining profit or loss is allocated to ordinary shares and preference shares to the extent that each instrument shares in earnings as if all the profit or loss for the period had been distributed. The total amount of profit or loss allocated to each class of shares is divided by the number of outstanding shares to which the earnings are allocated to determine the earnings per share for the instrument.

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

3 Transition to IFRS

Application of IFRS 1. These financial statements are the Company's first annual financial statements that comply with IFRS. These consolidated financial statements have been prepared on the basis described in Note 2. The Company has applied IFRS 1 in preparing these financial statements. The Company's IFRS transition date is 1 January 2004. The Company prepared its IFRS transition balance sheet at that date.

In preparing consolidated financial statements in accordance with IFRS 1, the Company has applied the available fair value as deemed cost exemption in relation to property, plant and equipment (Note 2). The aggregate of the fair values used as deemed cost under IFRS 1 is Tenge 69,585,367 thousand as at 1 January 2004.

3 Transition to IFRS (Continued)

Reconciliation of equity. The effect of adopting IFRS on the previously reported total equity under KAS as of 1 January 2004 and 31 December 2004 is as follows:

	Note	1 January 2004	31 December 2004
Total equity as previously reported under KAS		46,644,461	79,194,964
Adjustments due to corrections of errors related to previous periods	(i)	(2,963,662)	(2,867,445)
Adjusted total equity reported under KAS		43,680,799	76,327,519
Adjustments resulting from changes in accounting policies:			
Property, plant and equipment at fair value as deemed cost	(ii)	33,438,569	33,438,569
Depreciation	(iii)	-	(4,592,259)
Additional IFRS adjustments to loss on disposal of revalued property, plant and equipment	(iv)	-	(3,436,583)
Deferred tax	(v)	(7,680,183)	(4,527,487)
Provision for asset retirement obligations	(vi)	(407,799)	(488,571)
Employee benefits	(vii)	(1,292,793)	(1,375,687)
Financial assets and liabilities at amortised cost	(viii)	(12,497)	(400,507)
Preference shares	(ix)	(644,021)	(644,021)
Other adjustments	(x)	(335,836)	30,028
Equity under IFRS		**66,746,239**	**94,331,001**

Reconciliation of profit for the year ended 31 December 2004. The effects of adopting IFRS on the previously reported profit under KAS for the year ended 31 December 2004 are:

	Note	For the year ended 31 December 2004
Profit for the year ended 31 December 2004 as previously reported under KAS		34,198,447
Adjustments due to corrections of errors related to previous periods	(i)	36,240
Adjusted profit for the year ended 31 December 2004 as reported under KAS		34,234,687
Adjustments resulting from changes in accounting policies:		
Depreciation	(iii)	(4,592,259)
Additional IFRS adjustments to loss on disposal of revalued property, plant and equipment	(iv)	(3,436,583)
Deferred tax	(v)	3,152,696
Provision for asset retirement obligations	(vi)	(80,772)
Employee benefits	(vii)	(82,894)
Financial assets and liabilities at amortised cost	(viii)	(388,010)
Preference shares	(ix)	(75,600)
Other adjustments	(x)	365,864
Profit under IFRS		**29,097,129**

3 Transition to IFRS (Continued)

The adjustments are attributable to the following:

(i) ***Errors related to previous periods.*** In a process of transition to IFRS the Company has revised its previously reported financial statements under KAS to ensure full compliance with KAS rules and requirements. As a result some adjustments have been made to retained earnings and profit for the year ended 31 December 2004. These adjustments represent (a) cut off errors on accounts receivable not accounted for in the period when risk and rewards were transferred to a buyer, (b) underestimation of liabilities and accruals related to previous reporting periods. Those were not in accordance with KAS requirements, which are based on accrual method of accounting. As a result of adjustments made retained earnings as at 1 January 2004 were decreased by Tenge 2,963,662 thousand and net profit for the year 2004 was increased by Tenge 36,240 thousand. The amounts mentioned above include the result of corresponding deferred tax effect.

(ii) ***Property, plant and equipment at fair value as deemed cost.*** In its IFRS financial statements the Company has elected to take an exemption under IFRS 1 (see Note 2) and accounted for all property, plant and equipment at fair value as deemed cost as at 1 January 2004. Under KAS, property, plant and equipment is accounted for at historic cost adjusted for statutory revaluation, less accumulated depreciation. KAS depreciation rates are based on statutory regulations and differ from IFRS depreciation rates based on economic useful lives.

(iii) ***Depreciation.*** Following the transition to IFRS, as a result of the revision of property, plant and equipment value due to IFRS transition, component approach in accordance with IAS 16 *Property, plant and equipment* and reassesment of remaining useful lives as of transition date the depreciation for the year ended 31 December 2004 has been reassessed accordingly.

(iv) ***Additional IFRS adjustments to loss on disposal of revalued property, plant and equipment.*** Losses on disposal of property, plant and equipment are different under KAS and IFRS due to the differences between the deemed cost of property, plant and equipment determined under IFRS 1 and the carrying amount under KAS as at 1 January 2004, and the differences in methods of subsequent measurement and depreciation of property, plant and equipment.

(v) ***Deferred taxes.*** Under KAS the deferred taxes were calculated using income statement liability method, which focuses on timing differences. Timing differences are differences between taxable profit and accounting profit that originate in one period and reverse in one or more subsequent periods. Conversely, IAS 12 *Income Taxes* requires balance sheet liability method, which focuses on temporary differences. Temporary differences are differences between the tax bases of assets or liabilities and their carrying amount in the balance sheet.

(vi) ***Provision for asset retirement obligations.*** In its IFRS financial statements the Company has accounted for asset retirement obligations in relation to rehabilitation of actual damage caused by the Company as at 1 January 2004, during initial construction and its operating activities. Asset retirement obligations were assessed at the net present value of future expenditures (see Note 2). In accordance with KAS, these liabilities were accrued to the extent the contributions were made to the deposit fund for the retirement of assets in accordance with the requirements of the contract on subsurface use (Notes13, 20).

(vii) ***Employee benefits.*** In its IFRS financial statements in accordance with IAS 19 *Employee Benefits* ("IAS 19") the Company accrues liabilities (see Note 2) for one-off retirement benefits, financial aid to employees due to their permanent or temporary disability, events of employees' significant anniversaries and death, based on an estimation of these liabilities by actuaries. The Company has recognised all cumulative actuarial gains and losses at the date of transition to IFRS (see Note 2). In accordance with KAS, these liabilities were not accrued.

(viii) ***Financial assets and liabilities at amortised cost.*** In its IFRS financial statements in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39") the Company accounts for financial assets and liabilities (borrowings, receivables, prepayments, deposits etc.) at amortised cost (see Note 2). In accordance with KAS, these liabilities were accounted for at a nominal value.

(ix) ***Preference shares.*** In accordance with IAS 32 *Financial Instruments: Presentation and Disclosure* the preference shares issued with obligation on fixed annual dividends, which should be not less than the amount of dividends paid to ordinary shareholders, should be accounted for with apportioning for debt and equity components (see Note 2). In accordance with KAS, preference shares were accounted for in equity at a nominal value.

3 Transition to IFRS (Continued)

(x) ***Other adjustments.*** In the process of transition to IFRS the Company has made a number of small adjustments to comply with requirements of IFRS for remaining lines of balance sheet and income statement. These adjustments have been presented under *Other adjustments* category.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Contracts on subsurface use. The major contract of the Company on subsurface use for the extraction of chromium ore expires in 2041. Management of the Company expects that this contract will be extended at nominal cost until the end of the mine life which is expected to be in 2074. In these financial statements primarily depreciation charge and carrying amounts of property, plant and equipment were recorded on the assumption that the subsurface use contracts will be extended until the end of the mine life. The Company believes that it has a right to extend the contracts on subsurface use in accordance with the contracts and current subsurface use legislation. If the contracts will not be renewed in 2041, the carrying amount of property, plant and equipment to be written off at the day of subsurface use contract expiry will be Tenge 689,773 thousand.

Useful life of mining assets and mineral reserves estimates. The mining assets, classified within property, plant and equipment, are depreciated over the respective life of mine using the unit of production (UOP) method based on proved and probable mineral reserves. When determining mineral reserves, assumptions that were valid at the time of estimation may change when new information becomes available. Any changes could affect prospective depreciation rates and asset carrying values.

The calculation of the units of production rate of depreciation could be impacted to the extent that actual production in the future is different from current forecast production based on proved and probable mineral reserves, which would generally arise as a result of significant changes in any of the factors or assumptions used in estimating mineral reserves.

These factors could include:

- changes to proved and probable mineral reserves;
- the grade of mineral reserves varying significantly from time to time;
- differences between actual commodity prices and commodity price assumptions used in the estimation of mineral reserves;
- unforeseen operational issues at mine sites; and
- changes in capital, operating mining, processing and reclamation costs, discount rates and foreign exchange rates possibly adversely affecting the economic viability of mineral reserves.

The majority of other property, plant and equipment are depreciated on a straight line basis over their useful economic lives. Management reviews the appropriateness of assets useful economic lives at least annually; any changes could affect prospective depreciation rates and asset carrying values. As at 31 December 2005 the carrying amount of mining assets included within buildings and constructions was Tenge 3,829,890 thousand (2004: Tenge 4,338,254 thousand).

Determination of deemed cost. The Company used the fair value as deemed cost exemption at transition date (see Note 3). For that purpose, management of the Company engaged an independent appraisal firm to perform the valuation. The methodology used was the depreciated replacement cost. In applying the depreciated replacement cost, certain key elements needed to be considered, such as:

- an understanding of the asset, its function, and its environment;
- research and analysis to determine the remaining physical life (to estimate physical deterioration) and economic life of the asset;
- knowledge of the business requirements (to estimate functional/technical obsolescence)
- familiarity with the class of property through access to available market data;
- knowledge of construction techniques and materials (to estimate the cost of a modern equivalent asset); and
- sufficient knowledge to determine the impact of economic/external obsolescence on the value of the improvements.

4 Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

In addition, the valuation must be subject to the test of adequate profitability of the entity to sustain the valuation. The Company used its judgement to select the assumptions for this analysis. The carrying amount of property, plant and equipment would not change if the discount rate used in the cash flow analysis was higher by 10 percent from management's estimates. Any changes to the other assumptions could affect the carrying amount and the remaining useful lives of the items of property, plant and equipment.

Provision for asset retirement obligations. In accordance with the contracts on subsurface use the Company has a legal obligation to decommission its mining properties and restore a landfill site after its closure. Provision is made, based on net present values, for site restoration and rehabilitation costs as soon as the obligation arises from past mining activities. The provision for asset retirement obligation is estimated based on the Company's interpretation of current environmental legislation in the Republic of Kazakhstan and the Company's related program for liquidation of subsurface use consequences on the contracted territory supported by the feasibility study and engineering researches in accordance with the existing rehabilitation standards and techniques. Asset retirement obligations are subject to potential changes in environmental regulatory requirements and the interpretation of the legislation. As at 31 December 2005 the carrying amount of the provision for asset retirement obligations was Tenge 1,210,332 thousand (2004: Tenge 947,789 thousand).

Impairment indicators. The Company reviews the carrying amounts of its property, plant and equipment to determine whether there is any indication that those assets are impaired. Based on analysis of internal and external factors management has assessed that no impairment indicators exist at the balance sheet date.

Accounting for potential transfer pricing liabilities. The Company sells its exported products to related sales and marketing companies. The price is fixed in accordance with the additional agreements to the contracts and is determined by reference to the prevailing market price less a 10 percent discount. Whilst Kazakh transfer pricing legislation only permits a 10 percent market price deviation for transactions with unrelated parties, Management considers that: i) given the substance existing within the related sales and marketing companies, ii) the commercial risks, including price, credit and inventory risk, borne by those structures, and iii) the non-discriminatory clauses contained within a number of international tax treaties to which Kazakhstan is a party which take precedent over local legislation, the Company's transfer pricing policy is defendable in the event of challenge.

Management is currently in the process of seeking validation of their transfer pricing policy from the Kazakh State Tax Authorities. As of the date of issuance of these financial statements the validation process was still under review.

In the event the Company's transfer pricing policies were to be challenged, Management would seek the intervention of certain foreign tax authorities in order to support the Companies' application of the non-discriminatory clause within the relevant international double tax treaty and/or challenge any claim through Kazakh courts. Given the absence of practical application of current transfer pricing law considering provisions of international tax treaties, which have a priority over national legislation, Management cannot reliably estimate the degree of any claim from tax authorities. The amount of any potential adjustment could however be material, but further information is not given since it might seriously prejudice the position of the Company with the tax authorities.

Excess profits taxation. The determination of the Company's obligations and expenses for taxes requires an interpretation of tax law. Excess profits tax ("EPT") may be imposed on the Company in addition to Kazakh corporate income tax on the subsurface use contract. EPT is based on an approximation of the internal rate of return ("IRR") with EPT being applicable only where the IRR in the current year exceeds 20%. In determining the IRR for the subsurface use contract, there is judgement involved as to the allocation of profit between the power generation and the subsurface use contract, the nature of deductions for capital expenditure, and the timing of those deductions. Management believes its judgements are reasonable and in compliance with the legislation, although there is a risk that the tax authorities will have a different interpretation of prevailing tax legislation. As of 31 December 2005 management estimated that IRR will exceed 20 percent starting from 2006, hence, deferred excess profit tax has been recognised for all temporary differences that will be reversed during the period when IRR exceeds 20 percent.

EPT is determined using the following rates:

IRR, %	EPT rate (%) to net income for the reporting year
Below or equal to 20	0
Above 20 but below or equal to 22	4
Above 22 but below or equal to 24	8
Above 24 but below or equal to 26	12
Above 26 but below or equal to 28	18
Above 28 but below or equal to 30	24
Above 30	30

5 New Accounting Pronouncements

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

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

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

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

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

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

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

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

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

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

5 New Accounting Pronouncements (Continued)

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

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

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

6 Segment Information

The Company's primary format for reporting segment information is business segments and the secondary format is geographical segments.

Business Segments. The Company is organised on a basis of two main business segments:

- Production of ferroalloys – representing high, medium and low carbon ferrochromium, ferrosilicon, ferrosilicochromium, ferrosilicomanganese being produced in Aktobe and Aksu Ferroalloys Plants. Production of manganese concentrate is included in production of ferroalloys segment as manganese concentrate is fully consumed in production of ferroalloys.
- Production of chromium ore – representing extraction and processing of chromium ore by DGOK.

Transactions between the business segments are at cost. Internal charges between segments have been reflected in the performance of each business segment. Other operations of the Company mainly comprise the production and sale of bricks, crushed stones, ilmenite concentrate, heat and power, and diary products, which generate aggregate income of less than ten percent of total revenues, and the related assets are less than ten percent of total assets.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash, and mainly exclude investments and income tax balances. Segment liabilities comprise operating liabilities and exclude items such as taxation and corporate borrowings. Capital expenditure comprises additions to property, plant and equipment and intangible assets.

6 Segment Information (Continued)

Segment information for the main reportable business segments of the Company for the year ended 31 December 2005 is set out below:

In thousands of Kazakhstani Tenge	Ferroalloys	Chromium ore	Other	Eliminations	Unallocated	Total
2005						
Gross revenue	128,254,485	18,618,213	2,819,785	-	-	149,692,483
Inter-segment revenue	-	8,015,074	201,923	(8,216,997)	-	-
Revenue	**128,254,485**	**26,633,287**	**3,021,708**	**(8,216,997)**	**-**	**149,692,483**
Depreciation charge	(4,854,067)	(2,257,591)	(312,322)	-	(38,327)	(7,462,307)
Amortisation charge	-	(1,139)	-	-	-	(1,139)
Operating profit/Segment result	**53,373,382**	**12,780,688**	**(214,411)**	**-**	**(5,676,734)**	**60,262,925**
Net finance cost	(493,539)	(267,010)	(1,548)	-	(776,736)	(1,538,833)
Profit before income tax	**-**	**-**	**-**	**-**	**-**	**58,724,092**
Income tax expense	-	-	-	-	(19,240,182)	(19,240,182)
Profit for the year	**-**	**-**	**-**	**-**	**-**	**39,483,910**
Assets	**87,478,843**	**35,045,237**	**6,340,409**	**-**	**24,264,724**	**153,129,213**
Liabilities	**(7,911,325)**	**(8,032,181)**	**(144,727)**	**-**	**(16,754,089)**	**(32,842,322)**
Capital expenditures	**9,628,313**	**11,223,995**	**984,688**	**-**	**643,856**	**22,480,852**

6 Segment Information (Continued)

Segment information for the main reportable business segments of the Company for the year ended 31 December 2004 is set out below:

In thousands of Kazakhstani Tenge	Ferroalloys	Chromium ore	Other	Eliminations	Unallocated	Total
2004						
Gross revenue	116,491,043	9,197,523	2,168,030	-	-	127,856,596
Inter-segment revenue	-	7,145,930	42,438	(7,188,368)	-	-
Revenue	**116,491,043**	**16,343,453**	**2,210,468**	**(7,188,368)**	**-**	**127,856,596**
Depreciation charge	(5,047,327)	(2,527,676)	(386,432)	-	(33,147)	(7,994,582)
Amortisation charge	-	(1,139)	-	-	-	(1,139)
Operating profit/Segment result	**43,410,117**	**4,299,123**	**(529,843)**	**-**	**(3,583,658)**	**43,595,739**
Net finance cost	(203,191)	(64,320)	(10,268)	-	(550,824)	(828,603)
Profit before income tax	**-**	**-**	**-**	**-**	**-**	**42,767,136**
Income tax expense	-	-	-	-	(13,670,007)	(13,670,007)
Profit for the year	**-**	**-**	**-**	**-**	**-**	**29,097,129**
Assets	**61,800,091**	**25,482,286**	**3,292,226**	**-**	**20,910,817**	**111,485,420**
Liabilities	**(7,173,699)**	**(1,898,554)**	**(125,966)**	**-**	**(7,956,200)**	**(17,154,419)**
Capital expenditures	**8,942,097**	**3,820,947**	**679,092**	**-**	**158,687**	**13,600,823**

6 Segment Information (Continued)

Geographical segments. As disclosed in Note 8, the Company has long term supply agreements with a related sales and marketing companies which are located in Switzerland. The Company also makes direct sales to Russian distributors who act as agents for and on behalf of related party structures. The Company also makes direct sales to Kazakhstani companies. Sales of other products to other geographical locations generate less than ten percent of total revenues. For the purposes of the financial statements three geographical segments are therefore identified as reportable segments in respect of the years ended 31 December 2005 and 31 December 2004. Segment information is set out as follows: revenues are presented according to geographical location of the final customers; while assets and capital expenditures are presented according to their actual geographical location and are not allocated to geographical segments by final customers as such allocation could only be made on an arbitrary basis.

	Switzerland	Kazakhstan	Russia	Other	Total
2005					
Revenue	134,212,417	4,818,586	8,738,299	1,923,181	149,692,483
Assets	-	153,129,213	-	-	153,129,213
Capital expenditures	-	22,480,852	-	-	22,480,852

	Switzerland	Kazakhstan	Russia	Other	Total
2004					
Revenue	108,550,726	3,591,829	15,714,041	-	127,856,596
Assets	-	111,485,420	-	-	111,485,420
Capital expenditures	-	13,600,823	-	-	13,600,823

7 Employee Information

The average number of employees (including executive directors) employed by the Company during the year was:

	2005	2004
Aksu Ferroalloys Plant	6,451	6,244
Aktobe Ferroalloys Plant	3,257	3,276
DGOK	6,643	6,320
Kazmarganets	968	1,042
Administration	103	89
Total	**17,422**	**16,971**

Total staff costs (including executive directors) for the Company were:

in thousands of Kazakhstani Tenge	2005	2004
Wages, salaries and other bonuses	11,410,715	10,035,983
Post employment and other long-term benefits	391,637	191,574
Total staff costs	**11,802,352**	**10,227,557**

Key management personnel compensation for the Company was:

in thousands of Kazakhstani Tenge	2005	2004
Wages, salaries and other bonuses	240,350	111,245
Post employment and other long-term benefits	(1,225)	2,148
Total key management compensation	**239,125**	**113,393**

8 Balances and Transactions with Related Parties

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

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

At 31 December 2005, the outstanding balances with related parties were as follows:

In thousands Kazakhstani Tenge	**Note**	**Shareholders**	**Entities under common control**	**Key management personnel**
Investments held to maturity	10	-	1,254,855	-
Available-for-sale investments	11	-	1,634,009	-
Long-term portion of loans and receivables	12	-	2,271,480	-
Short-term portion of loans and receivables	12	-	3,695,530	-
Restricted cash (contractual interest rates: 0% p.a, 4-7% p.a., effective interest rates: 0.2% p.a., 7% p.a.)	13	-	455,923	-
Other long-term receivables	13	-	222,080	-
Provision for impairment of other non-current assets	13	-	(222,080)	
Trade receivables	15	10,097	30,096,140	-
Other receivables	15	-	59,375	-
Provision for impairment of trade and other receivables	15		(55,520)	
Prepayments	15	-	2,026,128	-
Prepaid insurance	15	-	1,189,182	-
Term deposit, USD (contractual interest rate: 3% p.a., effective interest rate: 3% p.a)	16	-	3,013,002	-
Cash in bank, USD	16	-	1,742,328	-
Cash in bank, Tenge	16	-	563,275	-
Cash in bank, RR	16	-	32	-
Letters of credit, Tenge	16	-	11,792	-
Bank overdrafts	18	-	125	-
Term loans (contractual interest rates: 11% p.a, 12% p.a., effective interest rates: 11% p.a., 12.5% p.a.)	18	-	3,380,100	-
Finance lease liabilities (contractual interest rate: 15% p.a, effective interest rate 15.56% p.a.)	18	8,479,738	-	-
Trade payables	22	30,903	765,937	-
Dividends payable	22	4,139,444	-	-
Payables to employees	22	-	-	4,512
Provisions for claims	22	-	537,615	-
Pension funds	22	-	155,159	-
Advances received	22	11,136	2,594	-
Promissory notes	22	-	65,782	-
Other payables	22	-	8,773	7,731

8 Balances and Transactions with Related Parties (Continued)

At 31 December 2004, the outstanding balances with related parties were as follows:

In thousands Kazakhstani Tenge	Note	Shareholders	Entities under common control	Key management personnel
Investments held to maturity	10	-	1,225,059	-
Available-for-sale investments	11	-	45,003	-
Loans and receivables	12	-	1,685,642	-
Restricted cash (contractual interest rates: 4-7% p.a., effective interest rate: 7% p.a.)	13	-	42,826	-
Trade receivables	15	921	8,922,726	-
Other receivables	15	214	7,061	-
Prepayments	15	127,623	834,712	-
Prepaid insurance	15	-	2,079,827	-
Term deposit, USD (contractual interest rate: 2% p.a., effective interest rate: 2% p.a.)	15	-	2,513,855	-
Cash in bank, USD	16	-	937,106	-
Cash in bank, Tenge	16	-	1,295,312	-
Cash in bank, RR	16	-	18,469	-
Cash in bank, Euro	16	-	1,644	-
Letters of credit, RR	16	-	7,989	-
Bank overdrafts	18	-	1,471	-
Term loans (contractual interest rate: 16% p.a., effective interest rate: 16% p.a.)	18	-	21,219	-
Finance lease liabilities (contractual interest rate: 15% p.a., effective interest rate 15.56%)	18	3,468,861	-	-
Trade payables	22	222,773	433,644	-
Dividends payable	22	116,320	-	-
Payables to employees	22	-	-	5,207
Pension funds	22	-	105,392	-
Advances received	22	12,933	15,542	-
Promissory notes	22	-	89,379	-
Other creditors	22	-	45,096	7,631

8 Balances and Transactions with Related Parties (Continued)

The transactions with related parties for the year 2005 were as follows:

In thousands of Kazakhstani Tenge	**Note**	**Shareholders**	**Entities under common control**	**Key management personnel**
Revenue from sales of goods and services:				
Ferroalloys	23	-	126,280,699	-
Chrome ore	23	-	16,759,401	-
Ilmenite concentrate	23	-	199,867	-
Other	23	6,816	127,140	-
Insurance income	25	-	208,991	-
Sales of inventory	25	1,168	106,655	-
Interest income on bank deposits	29	-	212,671	-
Interest income on investments held to maturity	29	-	29,796	-
Other interest income	29		1,893	-
Unwinding of the present value discount	29	-	468,038	-
Raw materials consumables purchases	24	308,650	7,442,184	-
Electricity purchases	24	-	7,923,989	-
Purchases of property, plant and equipment including fixed assets held under finance lease	9,18	5,511,710	545,665	-
Insurance costs	24,26,27	-	4,114,701	-
Commission fees	24	-	646,592	-
Transportation services - outbound	26	-	32,090	-
Other	26	-	75,181	-
Sponsorship and other financial aid	27	-	1,271,512	-
Information, consulting and other professional services	27	-	412,926	-
Bank charges	27	-	350,670	-
Provision for EIA employees mortgage loans	27	-	277,600	-
Losses less gain on disposals of property, plant and equipment	9, 28	-	11,706	-
Losses less gains on origination of loans at non-market rate	30	-	1,395,940	-
Interest expense on finance lease	30	602,272	-	-
Interest expense on borrowings	30	-	17,886	-
Other interest expense	30	-	28	-
Dividends declared	17	13,603,620	-	-

8 Balances and Transactions with Related Parties (Continued)

The transactions items with related parties for the year 2004 were as follows:

In thousands of Kazakhstani Tenge	**Note**	**Shareholders**	**Entities under common control**	**Key management personnel**
Revenue from sales of goods and services:				
Ferroalloys	23	16,467	116,368,801	-
Chrome ore	23		8,164,507	-
Manganese ore	23	-	94,151	-
Other	23	8,347	2,182	-
Insurance income	25	-	128,539	-
Sales of inventory	25	1,452	16,724	-
Other	25	1,201	56,893	-
Interest income on bank deposits	29	-	44,900	-
Interest income on investments held to maturity	29	-	5,426	-
Unwinding of the present value discount	29	5,054	52,621	-
Raw materials consumables purchases	24	52,305	7,841,148	-
Electricity purchases	24	-	9,351,710	-
Purchases of property, plant and equipment including fixed assets held under finance lease	9, 18	3,022,986	180,478	-
Insurance costs	24,26,27	-	3,579,619	-
Commission fees	24	177,303	229,330	-
Transportation services - outbound	26	-	17,610	-
Sponsorship and other financial aid	27	-	842,574	-
Bank charges	27	-	318,973	-
Information, consulting and other professional services	27	-	303,130	-
Other	27	4,519	19,709	-
Losses less gain on disposals of property, plant and equipment	9, 28	2,042,918	754,270	-
Losses less gains on origination of loans at non-market rate	30	32,098	385,933	-
Interest expense on finance lease	30	129,203	-	-
Interest expense on borrowings	30	-	49,777	-
Other expenses	30	-	62	-
Consideration paid for the purchase of JSC Mineral	1	920,220	-	-
Declared dividends	17	675,631	-	-

In 2005 and 2004, the Company sold chromium ore and ferroalloys primarily to Alloy 2000 B.V. (Switzerland), Lindex Trading AG (Switzerland) and a number of Russian distributors who acted for and on behalf of the controlling shareholders on the basis of contracts for chromium ore and ferroalloys supply. Starting from 1 November 2005 all rights and responsibilities under the contract with Alloy 2000 B.V. and Lindex Trading AG were transferred to another related party ENR Ferroalloys AG. Prices for ferroalloys and chromium ore are linked to the market prices published by Metals Bulletin.

At 31 December 2005 and 31 December 2004 guarantees issued by the Company were as follows:

In thousands of Kazakhstani Tenge	**2005**	**2004**
Entities under common control	2,715,839	-

9 Property, Plant and Equipment

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

In thousands of Kazakhstani Tenge	Freehold Land	Buildings and Constructions	Machinery and equipment	Other	Construction in progress	Total
Deemed cost at 1 January 2004	**5,338,130**	**23,455,827**	**32,666,013**	**4,168,220**	**3,957,177**	**69,585,367**
Additions	18,110	227,091	5,679,980	997,297	6,678,345	13,600,823
Transfers	-	879,868	1,305,430	10,870	(2,196,168)	-
Depreciation charge	-	(1,751,953)	(5,183,151)	(1,059,478)	-	(7,994,582)
Disposals	-	(337,172)	(4,964,688)	(186,591)	(414,177)	(5,902,628)
Cost at 31 December 2004	**5,356,240**	**24,301,005**	**34,365,690**	**4,971,641**	**8,025,177**	**77,019,753**
Accumulated depreciation	-	**(1,827,344)**	**(4,862,106)**	**(1,041,323)**	**-**	**(7,730,773)**
Carrying amount at 31 December 2004	**5,356,240**	**22,473,661**	**29,503,584**	**3,930,318**	**8,025,177**	**69,288,980**
Additions	3,252	326,653	7,849,815	898,004	13,403,128	22,480,852
Transfers	-	4,082,626	3,248,139	29,347	(7,360,112)	-
Depreciation charge	-	(1,522,902)	(4,788,269)	(1,151,136)	-	(7,462,307)
Disposals	(37,770)	(97,302)	(386,866)	(162,047)	(806,951)	(1,490,936)
Cost at 31 December 2005	**5,321,722**	**28,507,877**	**44,849,035**	**5,615,853**	**13,261,242**	**97,555,729**
Accumulated depreciation	**-**	**(3,245,141)**	**(9,422,632)**	**(2,071,367)**	**-**	**(14,739,140)**
Carrying amount at 31 December 2005	**5,321,722**	**25,262,736**	**35,426,403**	**3,544,486**	**13,261,242**	**82,816,589**

Included in property, plant and equipment are assets held under finance leases with a carrying value of Tenge 8,323,790 thousand (2004: Tenge 2,974,994 thousand). Refer to Note 18.

In its IFRS financial statements the Company has elected to take an exemption under IFRS 1 (see Note 2) and accounted for all property, plant and equipment at fair value as deemed cost as at 1 January 2004 determined using depreciated replacement cost method.

Buildings and constructions include historical costs for the acquisition of geological information and subscription bonuses incurred at signing of the contracts on subsurface use in the amount of Tenge 75,820 thousand (2004: Tenge 81,768 thousand).

In 2003, the Company had an accident with the complex of equipment related to electric power station ("power station"). In the result of the accident, the power station was put out of the operations. In March 2004, the power station was sold to Perfetto Investments B.V., the Company's shareholder, for Tenge 864,977 thousand. The loss from sales of the power station amounted to Tenge 2,042,918 thousand (see Notes 8, 28). In September 2004, the Company received back the repaired power station in form of financial leasing (see Note 18).

Additionally, in 2004 the Company sold another complex of fixed assets to Energosystema LLP, the Company's related party, for Tenge 627,268 thousand. The loss from sales of the complex amounted to Tenge 763,259 thousand (see Notes 8, 28).

9 Property, Plant and Equipment (Continued)

During 2005 and 2004 certain items of property, plant and equipment were transferred to inventories and granted to the third parties free of charge for approximately Tenge 35 million and Tenge 550 million, respectively. The cost of such property, plant and equipment was included in general and administrative expenses.

Depreciation charge

In thousands of Kazakhstani Tenge	2005	2004
Cost of sales	6,922,403	7,306,958
General and administrative expenses	143,115	219,921
Distribution costs	30,077	25,585
Other	366,712	442,118
Total depreciation charge	**7,462,307**	**7,994,582**

Other depreciation charge represents charges included in other operating expenses and capitalised in the cost of self-constructed fixed assets.

10 Investments Held to Maturity

In thousands of Kazakhstani Tenge	2005	2004
Bonds	1,254,855	1,225,059
Total investments held to maturity	**1,254,855**	**1,225,059**

In December 2004 the Company acquired registered coupon subordinated bonds issued by Eurasian Bank JSC, the Company's related party. The bonds mature on 10 December 2011. As of 31 December 2005 and 2004 since the market rates for similar financial instruments did not change significantly, the carrying value of the held-to-maturity investments approximate their fair value. In May 2006 the Company sold the bonds of Eurasian Bank JSC for Tenge 1,532,367 thousand. As of 31 December 2005, the Company's intention was to hold these investments to maturity.

11 Available for Sale Investments

In thousands of Kazakhstani Tenge	2005	2004
Equity investments	1,999,759	410,753
Total available for sale investments	**1,999,759**	**410,753**

Presented below is information on the Company's equity investments available for sale as at 31 December 2005 and 31 December 2004:

			2005		2004	
Company name	Country of registration	Nature of activity	thousands of Tenge	% of ownership	thousands of Tenge	% of ownership
Eurasian Credit Partnership LLP	Kazakhstan	Banking and other services for shareholders	1,589,006	12.14	-	-
Hotel Alatau JSC	Kazakhstan	Hotel services	365,750	23.00	365,750	23.00
OAPF Senim JSC	Kazakhstan	Accumulation pension fund	45,003	12.16	45,003	12.16

11 Available for Sale Investments (Continued)

In thousands of Kazakhstani Tenge	2005	2004
Beginning of year	410,753	776,503
Additions	1,589,006	-
Impairment provision	-	(365,750)
End of year	**1,999,759**	**410,753**

During 2005, the Company contributed additional share capital in Eurasian Credit Partnership LLP ("ECP") for Tenge 1,300,000 thousand (see Note 13). The other shareholders of ECP contributed in excess to their respective interests and as a result, the Company's interest was diluted from 26.14 percent to 12.14 percent. Therefore, the Company ceased to use the equity method to account for the interest in ECP, reclassifying this investment to available for sale financial assets. There was no gain or loss on this transaction.

Management of the Company did not exercise significant influence over Hotel Alatau JSC during 2004 and 2005. Therefore it was not accounted for by the equity method of accounting. In 2004, the Company's management recognised an impairment on investments in Hotel Alatau in the amount of Tenge 365,750 thousand (see Note 27).

Equity investments classified as available for sale at 31 December 2005 and 31 December 2004 are carried at cost less impairment, because they are not publicly traded and no reliable method for their fair valuation exists. These equity investments were made upon the decision of controlling shareholders.

Available for sales investments as at 31 December 2005 and 31 December 2004 are denominated in Kazakhstani Tenge.

12 Loans and Receivables

In thousands of Kazakhstani Tenge	2005	2004
Short-term portion of loans and receivables	3,695,530	1,685,642
Long-term portion of loans and receivables	2,271,480	-
Total loans and receivables	**5,967,010**	**1,685,642**

The Company's loans mature as follows:

In thousands of Kazakhstani Tenge		2005	2004
Loans due:	- within 1 year	3,695,530	1,685,642
	- between 1 and 2 years	1,047,292	-
	- between 2 and 5 years	1,224,188	-
Total loans and receivables		**5,967,010**	**1,685,642**

The Company's loans are denominated in Kazakhstani Tenge.

The effective interest rates at the balance sheet date were as follows:

In percent per annum	31 December 2005
Loan to Zhairemskiy GOK JSC	12.9 – 13.5
Loan to Kazakhstan Aluminium Smelter JSC	12.2 – 13.8
Loan to Eurasian Financial Industrial Company JSC	11.3 – 13.5
Loan to Remzholservice LLP	13.5 – 14.0
Loan to Energosistema LLP	14.2

12 Loans and Receivables (Continued)

Zhairemskiy GOK JSC

In 2004 and 2005, in accordance with loan agreements signed, Zhairemskiy GOK JSC, the Company's related party, was given five interest-free loans in the total amount of Tenge 2,474,239 thousand to finance its working capital, with various maturity dates in 2006 and 2007. On 10 April 2006, Zhairemsky GOK JSC fully repaid to the Company all outstanding loans ahead of schedule.

Kazakhstan Aluminium Smelter JSC

According to the loan agreement dated 10 October 2005, Kazakhstan Aluminium Smelter JSC, the Company's related party, was given an interest-free loan in two tranches in the total amount of Tenge 2,157,000 thousand to finance a construction of a plant for initial production of aluminium. The loan is repayable in lump sum amount on 17 April 2006. In April 2006 the repayment of the loan was extended until 31 December 2006.

Eurasian Financial Industrial Company JSC

In accordance with the contract dated 28 October 2004, Eurasian Financial Industrial Company JSC ("EFIC"), the Company's related party, was granted an interest-free loan in the amount of Tenge 255,000 thousand with the initial maturity date on 21 October 2005. The loan was given to finance the working capital of EFIC. On 28 November 2005 the Company signed an addendum to the contract, which extended the loan repayment until 21 October 2007. The loan was fully repaid on 24 March 2006, ahead of schedule.

On 5 December 2005 the Company signed another loan agreement with EFIC for the loan amounted to Tenge 603 million with the maturity date on 5 December 2006. EFIC fully repaid this loan to the Company on 6 April 2006.

Remzholservice LLP

According to three loan agreements signed on 14 September 2004, 29 September 2004 and 20 October 2004 Remzholservice LLP, the Company's related party, was given the loans totalling to Tenge 1,300,282 thousand to finance its working capital. Initially the loans were agreed to be paid in two instalments: 173,051 thousand on 14 March 2005 and Tenge 1,127,231 thousand on 31 December 2004. Afterwards, the repayment dates were prolonged for two times with the final repayment date on 1 April 2006. As of the date of this report the loans were not repaid yet. However, controlling shareholders undertakes the measures to restructure the loan of Remzholservice LLP through external refinancing to repay it by the end of 2006. The corresponding loss on loan impairment in the amount of Tenge 348,419 thousand has been recorded in income statement for the year ended 31 December 2005.

Energosistema LLP

Under the terms of the loan agreement dated 30 March 2005, Energosistema LLP, the related party of the Company, was given an interest-free loan of Tenge 178,000 thousand to finance its working capital. The initial repayment date was scheduled for 4 January 2005, which was further extended until 15 December 2006. On 4 April 2006, the Company signed a new agreement, which transfers the loan in the amount of Tenge 153,890 thousand from Energosistema LLP to Aktobeenergosnab LLP, the wholly owned subsidiary of Energosistema LLP, with the repayment date of 15 December 2006.

All of the loans issued are uncollateralised.

The carrying amounts and fair values of loans are as follows:

	2005		**2004**	
In thousands of Kazakhstani Tenge	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Loan to Zhairemskiy GOK JSC	2,103,478	2,135,752	27,643	29,663
Loan to Kazakhstan Aluminium Smelter JSC	1,878,904	2,081,325	-	-
Loan to Eurasian Financial Industrial Company JSC	736,237	744,683	228,079	228,946
Loan to Energosistema LLP	156,586	163,760	171,813	174,018
Loan to Remzholservis LLP	1,091,805	1,323,208	1,258,107	1,259,367
Total loans and receivables	**5,967,010**	**6,448,728**	**1,685,642**	**1,691,994**

13 Other Non-Current Assets

In thousands of Kazakhstani Tenge	2005	2004
Prepayments for property, plant and equipment and related services	1,500,882	1,040,553
Advance for construction of hotel complex in Astana	969,832	-
Restricted cash (contractual interest rate 0%, 7% p.a., effective interest rate 7%, 7% p.a.)	455,923	42,826
Other long-term receivables	233,150	9,366
Investments in associates	-	289,006
Less: provision for impairment of non-current assets	(1,201,990)	-
Total other non-current assets	**1,957,797**	**1,381,751**

As described in Note 27, advances for construction of hotel complex in Astana have been fully provided for.

Presented below is information on the Company's equity share and investments in associates as at 31 December 2005 and 31 December 2004 (see Note 11):

			2005		2004	
Company name	Country of registration	Nature of activity	Thousands of Tenge	Ownership percentage	Thousands of Tenge	Ownership percentage
Eurasian Credit Partnership LLP	Kazakhstan	Banking and other services for shareholders	-	-	289,005	26.13

Restricted cash represents bank deposits for a special fund for the retirement of assets in accordance with the requirements of the subsurface use contracts in the amount of Tenge 62,387 thousand (2004: Tenge 42,826 thousand) and a bank guarantee deposit in the amount of Tenge 393,536 thousand (2004: nil) with maturity date on 28 August 2020 securing the Company's employees mortgage liabilities. The bank guarantee deposit is interest free and carried at amortised cost.

Other long-term receivables represent long-term portion of interest free mortgage loans given to the Eurasian Industrial Association ("EIA", related party) employees in 2005 in the total amount of Tenge 277,600 thousand. In accordance with the terms of the mortgage agreements, if individual labor contracts with EIA employees (the "ILC") are not terminated within the next five years starting from 2005 and other terms of financing are complied with, the EIA employees are exempt from repayment of the loan. In case of termination of ILC within this period of five years, the borrower should repay the amount in proportion to the remaining portion of time he/she will no be employed by EIA. Management of the Company has determined that all EIA employees will adhere to the mortgage loan agreements terms and therefore provision for impairment was established for the full amount of long-term receivable at 31 December 2005 (see Note 27).

14 Inventories

In thousands of Kazakhstani Tenge	2005	2004
Raw materials, purchased	7,605,457	5,947,295
Raw materials, produced	2,885,294	2,507,117
Raw materials, in transit	948,771	665,657
Work in progress	2,299,860	1,960,092
Finished products	135,072	271,998
Finished products, in transit	2,429,645	1,908,079
Goods for resale	194,256	184,919
Less: provisions for obsolete and slow-moving inventory	(207,413)	(344,780)
Total inventories	**16,290,942**	**13,100,377**

At 31 December 2005 inventories carried at Tenge 4,954,100 thousand (2004: nil) have been pledged as collateral for borrowings. Refer to Note 18.

15 Trade Receivables and Other Current Assets

In thousands of Kazakhstani Tenge	2005	2004
Trade receivables	30,824,775	9,316,504
VAT recoverable	3,435,938	4,004,898
Prepayments	2,027,277	2,322,333
Prepaid insurance	1,189,182	2,079,827
Term deposit (contractual interest rate 2% p.a., effective interest rate 2.5% p.a.)	-	2,513,855
Other receivables	392,292	316,585
Less: impairment loss provision	(440,042)	(308,885)
Total trade receivables and other current assets	**37,429,422**	**20,245,117**

As of 31 December 2005 trade receivables of Tenge 29,974,551 thousand (2004: Tenge 8,808,330 thousand) are denominated in US Dollars.

Term deposits include USD denominated deposit with the original maturity at 2 January 2006. The Company has fully withdrawn the term deposit during 2005.

16 Cash and Cash Equivalents

In thousands of Kazakhstani Tenge	2005	2004
Term deposits (contractual interest rate 3% p.a., effective interest rate 3% p.a.)	3,013,002	-
Cash in bank, USD	1,742,328	937,106
Cash in bank, Tenge	575,369	1,321,956
Cash on hand	64,639	114,514
Cash in bank, RR	32	18,469
Cash in bank, Euro	-	1,644
Letters of credit	11,792	7,989
Total cash and cash equivalents	**5,407,162**	**2,401,678**

Term deposits include USD denominated deposits with the original maturities of less than three months.

16 Cash and Cash Equivalents (Continued)

Included in cash and cash equivalents as at 31 December 2005 and 31 December 2004 are the amounts of Tenge 11,792 thousand and Tenge 7,989 thousand, respectively, of irrevocable covered letters of credit, which represent restricted cash. The Company provided irrevocable letters of credit for the benefit of some of its suppliers and contracting companies. The amount of cash provided by the letters of credit is not readily available to the Company until the letters of credit expire or payments to the suppliers and contractors have been made which is expected to occur during the first quarter of 2006.

Unrestricted cash and cash equivalents and bank overdrafts include the following for the purpose of the cash flow statement:

In thousands of Kazakhstani Tenge	**2005**	**2004**
Cash and cash equivalents	5,407,162	2,401,678
Bank overdrafts	(125)	(1,471)
Less: letters of credit	(11,792)	(7,989)
Total unrestricted cash and cash equivalents	**5,395,245**	**2,392,218**

17 Share Capital

	31 December 2005		**31 December 2004**	
In thousands of Kazakhstani Tenge	**Number**	**Value**	**Number**	**Value**
Ordinary shares	7,147,485	7,147,485	7,147,485	7,147,485
Preference shares	756,000	187,579	756,000	187,579
Total nominal share capital	-	7,335,064	-	7,335,064
Share capital indexation for hyperinflation	-	4,442,888	-	4,442,888
Total share capital	**-**	**11,777,952**	**-**	**11,777,952**

The number and value of ordinary and preference shares remained unchanged for the years 2005 and 2004.

The total authorised number of ordinary shares is 7,147,485 shares (2004: 7,147,485 shares) with a par value of Tenge 1,000 per share (2004: Tenge 1,000 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

The total authorised number of preference shares is 756,000 shares (2004: 756,000 shares) with a par value of Tenge 1,000 per share (2004: Tenge 1,000 per share). All issued preference shares are fully paid.

The preference shares are not redeemable and rank ahead of the ordinary shares in the event of the Company's liquidation. The preference shares give their holders the right to participate in general shareholders' meetings without voting rights except for instances where decisions are made in relation to re-organisation and liquidation of the Company, when considering the issue specifying restriction of rights of preference shareholders. Preference shares get voting rights at the moment when dividends on preference shares are not paid in full in three months from the date of expiry of the period set for payment of such dividends. Dividends on preference shares should not be declared in the amount less than declared to ordinary shareholders. Preference share dividends are set at 10% of nominal value p.a. (2004: 10% of nominal value p.a.) and rank above ordinary dividends.

17 Share Capital (Continued)

Dividends declared and paid during the year were as follows:

In thousands of Kazakhstani Tenge (except for dividends per share)	2005 Ordinary	2005 Preference Equity	2005 Preference Liability	2004 Ordinary	2004 Preference Equity	2004 Preference Liability
Dividends payable at 1 January	**481**	**40,239**	**75,600**	**-**	**1,016,433**	**75,600**
Dividends declared during the year	12,300,822	1,227,198	75,600	600,033	-	75,600
Dividends paid during the year	(9,290,849)	(214,047)	(75,600)	(599,552)	(976,194)	(75,600)
Dividends payable at 31 December	**3,010,454**	**1,053,390**	**75,600**	**481**	**40,239**	**75,600**
Dividends per share declared during the year (expressed in Tenge per share)	**1,721**	**1,623**	**100**	**84**	**-**	**100**

All dividends are declared and paid in Kazakhstani Tenge. During the years ended 31 December 2005 and 31 December 2004 dividends on preference shares at guaranteed fixed amount of 10% p.a. of nominal value per share were accrued as a part of non-current preference shares liabilities in the amount of Tenge 75,600 thousand.

18 Borrowings

In thousands of Kazakhstani Tenge	2005	2004
Finance lease liabilities	8,479,738	3,468,861
Term loans	3,380,100	21,219
Bank overdrafts	125	1,471
Total borrowings	**11,859,963**	**3,491,551**

The Company's borrowings mature as follows:

In thousands of Kazakhstani Tenge		2005	2004
Borrowings due:	- within 1 year	4,268,022	753,092
	- between 2 and 5 years	3,533,182	1,236,402
	- after 5 years	4,058,759	1,502,057
Total borrowings		**11,859,963**	**3,491,551**

The Company's borrowings are denominated in currencies as follows:

In thousands of Kazakhstani Tenge		2005	2004
Borrowings denominated in:	- US Dollars	11,840,338	3,468,861
	- Kazakhstani Tenge	19,625	22,690
Total borrowings		**11,859,963**	**3,491,551**

The average effective interest rates at the balance sheet date were as follows:

In percent per annum	31 December 2005 Kazakhstani Tenge	31 December 2005 US Dollars	31 December 2004 Kazakhstani Tenge	31 December 2004 US Dollars
Bank overdrafts	15	-	15	-
Term loans	12.5	11	16	-
Finance lease liabilities	-	15.56	-	15.56

18 Borrowings (Continued)

Eurasian Bank

The Company signed a USD 25 million loan agreement with Eurasian Bank on 14 December 2005. The loan bears fixed annual interest at the rate of 11 percent. The loan is short-term and is to be repaid on 14 March 2006 and used for the purpose of working capital financing. Under the terms of the loan agreement, inventory of the Company for the amount of Tenge 4,954,100 thousand is pledged as collateral for this loan (Notes 14, 33). The carrying amount of this borrowing at 31 December 2005 was Tenge 3,360,600 thousand.

Martuk Sut LLP signed a Tenge 34 million loan agreement on 31 August 2005. The loan bears fixed annual interest at the rate of 12 percent. The loan is to be paid on 1 May 2006 in accordance with additional agreement to the main agreement and used for the purpose of property, plant and equipment purchase. The amount of loan outstanding as at 31 December 2005 is Tenge 19,500 thousand.

As at 31 December 2004 Akbulak LLP had a loan outstanding in the amount of Tenge 21,219 thousand. The loan agreement was signed for the amount of Tenge 23 million on 2 April 2004. The loan bears fixed annual interest at the rate of 16 percent. The loan is secured by the letter of guarantee for the amount of Tenge 23,920 thousand provided by the Company. The loan was provided for the period of three years, but was fully repaid as at 31 December 2005.

The carrying amounts of borrowings approximate their fair values due to their sort-term maturities.

Perfetto Investments B.V.

During the year 2004 and 2005 the Company signed two financial lease agreements with Perfetto Investments B.V. for the total amount of USD 21,918 thousand and USD 40,459 thousand, respectively. The finance lease agreements bear annual interest at the rate of 15 percent. The lease payables are to be repaid in equal semi-annual instalments by 11 September 2014 and 9 October 2015, respectively. The carrying amount of this lease payable as of 31 December 2005 and 2004 was Tenge 8,479,738 thousand and Tenge 3,468,861 thousand, respectively.

Minimum lease payments under finance leases and their present values are as follows:

In thousands of Kazakhstani Tenge	**Due in 1 year**	**Due between 2 and 5 years**	**Due after 5 years**	**Total**
Minimum lease payments at 31 December 2005	**2,010,766**	**6,791,442**	**5,390,950**	**14,193,158**
Less future finance charges	(1,122,969)	(3,258,260)	(1,332,191)	(5,713,420)
Present value of minimum lease payments at 31 December 2005	887,797	3,533,182	4,058,759	8,479,738
Minimum lease payments at 31 December 2004	**1,147,829**	**2,379,210**	**2,012,356**	**5,539,395**
Less future finance charges	(396,208)	(1,164,027)	(510,299)	(2,070,534)
Present value of minimum lease payments at 31 December 2004	751,621	1,215,183	1,502,057	3,468,861

Leased assets with carrying amount disclosed in Note 9 are effectively pledged for finance lease liabilities as the rights to the leased asset revert to the lessor in the event of default.

19 Other Taxes Payable

In thousands of Kazakhstani Tenge	2005	2004
Withholding tax	899,085	85
Social tax	210,440	86,370
Property tax	193,094	1,365
Individual income tax	171,913	77,023
Taxes and special payments of subsurface users	124,049	78,179
Environmental payments	106,388	70,908
VAT	14,162	18,447
Other	1,705	2,267
Total other taxes payable	**1,720,836**	**334,644**

20 Provision for Asset Retirement Obligations

The Company has a legal obligation to landfill site restoration during the mining operations and decommissioning of its mining property after its expected closure in 2013 and 2017 at Kazmarganets and 2035 at DGOK. The timing of decommissioning activity is subject to reassessment due to revision of the Company's proved and probable reserves.

In thousands of Kazakhstani Tenge	2005	2004
Current portion of provisions for asset retirement obligations	17,000	14,568
Long-term portion of provisions for asset retirement obligations	1,193,332	933,221
Total provisions for asset retirement obligations	**1,210,332**	**947,789**

Movements in provisions for asset retirement obligations are as follows:

	Landfill site restoration	Decommissioning costs	Total
Carrying amount at 1 January 2004	**322,656**	**423,435**	**746,091**
Additions to property, plant and equipment	40,124	67,856	107,980
Production costs	18,886	-	18,886
Utilised during the year	-	-	-
Unwinding of the present value discount	37,552	37,280	74,832
Carrying amount at 31 December 2004	**419,218**	**528,571**	**947,789**
Additions to property, plant and equipment	153,131	29,416	182,547
Production costs	7,643	-	7,643
Utilised during the year	(14,568)	-	(14,568)
Unwinding of the present value discount	42,554	44,367	86,921
Carrying amount at 31 December 2005	**607,978**	**602,354**	**1,210,332**

In accordance with the contracts on subsurface use, the Company makes annual obligatory contributions to form a deposit fund for the closure costs (refer to Note 13).

The amount of the provision for asset retirement obligations was determined as at the date of transition to IFRS (1 January 2004) using the nominal prices effective at that date and by applying the forecasted rate of inflation for the expected period of the life of the mines.

Principal assumptions made in calculations of asset retirement obligations are presented below:

	2005	2004
Discount rate as at 31 December	8.69 %	9.17 %
Inflation rate as at 31 December	7.00 %	7.00 %

21 Employee Benefits

Changes in benefit obligations are as follows:

In thousands of Kazakhstani Tenge	2005	2004
Present value of defined benefit obligation at start of year	1,375,687	1,292,793
Charge for unwinding of discount	68,784	64,640
Benefits paid	(112,223)	(108,680)
Current service expenses	50,033	39,790
Actuarial losses	272,820	87,144
Present value of defined benefit obligation at end of year	**1,655,101**	**1,375,687**

Amounts recognised in the balance sheet and income statement are as follows:

In thousands of Kazakhstani Tenge	2005	2004
Present value of defined benefit obligation at end of year	1,655,101	1,375,687
Net liability	**1,655,101**	**1,375,687**
Charge for unwinding of discount	68,784	64,640
Current service expenses	50,033	39,790
Actuarial losses	272,820	87,144
Expense recognised in profit and loss	**391,637**	**191,574**

Actuarial losses and current service expenses were included in the income statement as part of cost of sales in the amount of Tenge 277,367 thousand (2004: loss of Tenge 101,341 thousand), part of general and administrative expense in the amount of Tenge 10,729 thousand (2004: loss of Tenge 8,527 thousand) and part of other expenses and capitalised costs in the amount of Tenge 34,757 thousand (2004: loss of Tenge 17,066 thousand).

Charge for unwinding of discount was included in the finance costs (Note 30).

Principal actuarial assumptions at the balance sheet date are as follows:

	2005	2004
Discount rate at 31 December	5%	5%
Future salary increases	7%	6%
Average labour turnover rate	10%	11%

22 Trade and Other Payables

In thousands of Kazakhstani Tenge	Note	2005	2004
Dividends payable	17	4,139,444	116,320
Trade payables	8	1,695,551	1,687,571
Payables to employees	8	1,160,210	957,570
Provisions for claims	8	537,615	-
Pension funds	8	183,671	106,437
Advances received	8	118,880	129,362
Promissory notes	8	65,782	89,379
Other creditors	8	153,523	145,629
Total trade and other payables		**8,054,676**	**3,232,268**

Trade payables of Tenge 611,006 thousand (2004: Tenge 233,265 thousand) are denominated in foreign currencies, mainly 93 percent in US Dollars (2004: 48 percent), and 5 percent in Russian Roubles (2004: 10 percent).

Provisions for claims represent claims payables to ENR Ferroalloys for the shortages of ferroalloys delivered to ENR Ferroalloys during 2005.

23 Revenue

In thousands of Kazakhstani Tenge	Note	2005	2004
Ferroalloys	8	128,254,485	116,396,892
Chrome ore	8	18,618,213	9,197,523
Bricks		699,872	409,239
Crushed stone		323,637	223,412
Ilmenite concentrate	8	199,867	57,475
Heat and power		384,521	377,017
Manganese ore	8	-	94,151
Other products		679,628	633,519
Other services rendered	8	532,260	467,368
Total revenue		**149,692,483**	**127,856,596**

24 Cost of Sales

In thousands of Kazakhstani Tenge	Note	2005	2004
Materials	8	30,728,945	29,135,848
Payroll and related expenses		8,945,560	7,666,582
Electricity expense	8	8,904,239	10,890,324
Depreciation	9	6,922,403	7,306,958
Insurance costs	8	2,468,951	2,156,208
Gas		2,107,651	891,157
Royalty		1,287,131	728,282
Social tax		1,020,087	953,986
Commission fees	8	646,592	406,633
Repair and maintenance expenses		556,908	495,092
Changes in inventories of finished goods and work in progress	14	(1,102,585)	(812,684)
Other		1,813,490	1,375,401
Total cost of sales		**64,299,372**	**61,193,787**

25 Other Operating Income

In thousands of Kazakhstani Tenge	Note	2005	2004
Insurance income	8	209,380	128,539
Sales of inventory	8	170,039	125,618
Inventory surplus		92,763	76,846
Net foreign exchange gain		88,507	-
Rent income		47,999	71,347
Gain on sales of apartments to employees		21,450	-
Other		48,977	99,931
Total other operating income		**679,115**	**502,281**

26 Distribution Costs

In thousands of Kazakhstani Tenge	Note	2005	2004
Transportation services - outbound	8	13,351,501	10,077,183
Insurance costs	8	1,569,752	1,354,594
Materials		101,753	84,563
Payroll and related expense		93,201	73,778
Depreciation	9	30,077	25,585
Customs fees		16,542	21,832
Other		530,429	369,524
Total distribution costs		**15,693,255**	**12,007,059**

27 General and Administrative Expenses

In thousands of Kazakhstani Tenge	Note	2005	2004
Sponsorship and other financial aid	8	1,757,585	1,319,204
Payroll and related expense		1,630,220	1,191,110
Taxes other than on income		984,445	523,415
Information, consulting and other professional services	8	974,749	316,573
Provision for advance for construction of hotel complex in Astana	13	974,545	-
Bank charges	8	354,547	324,607
Transportation		353,501	320,110
Provision for EIA employees mortgage loans	8, 13	277,600	-
Provision on receivables impairment		156,487	227,757
Social tax		155,402	103,597
Depreciation	9	143,115	219,921
Telecommunications expenses		127,066	127,041
Fines		122,496	92,361
Advertising expenses		119,188	101,839
Security services		106,308	66,253
Business trips and representative expenses		86,828	101,195
Insurance costs	8	75,998	68,817
Repair and maintenance		52,829	245,818
Rent expense		49,058	19,340
Membership fees		48,270	50,040
Provisions for impairment of investments in Hotel Alatau	11	-	365,750
Other	8	767,414	782,998
Total general and administrative expenses		**9,317,651**	**6,567,746**

Provision for advance for construction of hotel complex in Astana represents provision for advance amounted to 7,250 thousand US dollars and paid to Atex International FZC in 2005 for the construction of hotel complex in Astana. Management does not expect to recover this asset and therefore a provision for the full amount of advance paid to Atex International FZC was established in 2005.

28 Other Operating Expenses

In thousands of Kazakhstani Tenge	Note	2005	2004
Losses less gain on disposals of property, plant and equipment	8, 9	543,305	3,643,389
Exploration expenses		121,445	73,445
Rent expense		10,123	19,211
Net foreign exchange loss		-	1,085,671
Other operating expenses		123,522	172,830
Total other operating expenses		**798,395**	**4,994,546**

29 Finance Income

In thousands of Kazakhstani Tenge	Note	2005	2004
Unwinding of the present value discount	8	470,560	57,675
Interest income on bank deposits	8	212,671	46,489
Interest income on investments held to maturity	8	29,796	5,426
Interest income on employee loans		4,830	3,463
Other interest income	8	1,895	3,477
Total finance income		**719,752**	**116,530**

30 Finance Costs

In thousands of Kazakhstani Tenge	Note	2005	2004
Losses less gains on origination of loans at non-market rate	8, 12	1,401,115	418,495
Interest expense on financial lease	8, 18	602,272	129,203
Asset retirement obligations: unwinding of the present value discount	20	86,921	74,832
Preference shares: unwinding of the present value discount	17	75,600	75,600
Employee benefits: unwinding of the present value discount	21	68,784	64,640
Interest expense on borrowings	8, 18	17,886	49,777
Other: unwinding of the present value discount		-	124,476
Other interest expense	8	6,007	8,110
Total finance costs		**2,258,585**	**945,133**

31 Income Taxes

Income tax expense comprises the following:

In thousands of Kazakhstani Tenge	2005	2004
Current income tax expense	19,443,267	16,368,049
Deferred income tax benefit	(266,935)	(2,681,057)
Deferred excess profit tax expense / (benefit)	63,850	(16,985)
Income tax expense for the year	**19,240,182**	**13,670,007**

31 Income Taxes (Continued)

Reconciliation between the expected and the actual taxation charge is provided below.

In thousands of Kazakhstani Tenge	2005	2004
IFRS profit before tax	**58,724,092**	**42,767,136**
Theoretical tax charge at statutory rate of 30 percent (2004: 30 percent)	17,617,228	12,830,141
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Provisions for impairment of advances and receivables	422,504	117,380
- Losses less gains on origination of loans at non-market rate	420,335	125,549
- Non-deductible expenses on claims	213,468	-
- Inventory write-offs	73,068	102,667
- Sponsorship and other financial aid expenses	66,079	287,811
- Non-deductible taxes	58,473	5,359
- Non-deductible exploration expenses	36,434	17,586
- Preference shares: unwinding of the present value discount	22,680	22,680
- Depreciation of non-production assets	20,931	-
- Non-deductible general and administrative expenses	20,234	5,386
- Non-deductible expenses on conservation of property, plant and equipment	3,429	3,628
- Penalties and fines	108	720
- Non-deductible foreign exchange loss	-	4,445
- Other non-deductible expenses	201,362	163,641
- Excess profit tax	63,849	(16,986)
Income tax expense for the year	**19,240,182**	**13,670,007**

31 Income Taxes (Continued)

Differences between IFRS and Kazakhstani statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 30% (2004: 30%).

In thousands of Kazakhstani Tenge	**1 January 2005**	**Charged/ (credited) to profit or loss**	**31 December 2005**
Tax effect of deductible temporary differences			
Trade receivables	1,257,268	432,203	1,689,471
Employee benefits	386,363	83,513	469,876
Provision for asset retirement obligations	273,440	73,422	346,862
Vacation provisions	159,332	41,193	200,525
Taxes accrued but not paid	55,631	105,104	160,735
Intangible assets	7,168	(1,041)	6,127
Finance lease	38,067	48,158	86,225
Other payables	16,981	6,027	23,008
Gross deferred tax asset	**2,194,250**	**788,579**	**2,982,829**
Less offsetting with deferred tax liabilities	(2,194,250)	(788,579)	(2,982,829)
Recognised deferred tax asset	**-**	**-**	**-**
Tax effect of taxable temporary differences			
Property, plant and equipment	8,335,898	365,175	8,701,073
Inventories	572,424	156,469	728,893
Gross deferred tax liability	**8,908,322**	**521,644**	**9,429,966**
Less offsetting with deferred tax assets	(2,194,250)	(788,579)	(2,982,829)
Net deferred tax liability at a standard tax rate of 30%	**6,714,072**	**(266,935)**	**6,447,137**
Excess profit tax – inventories	-	274	274
Excess profit tax – property, plant and equipment	473,257	121,255	594,512
Excess profit tax – intangible assets	63	(124)	(61)
Excess profit tax – trade receivables	-	(1,920)	(1,920)
Excess profit tax – finance lease	-	(4,905)	(4,905)
Excess profit tax – vacation provisions	-	(5,123)	(5,123)
Excess profit tax – employee benefits	(27,774)	(27,950)	(55,724)
Excess profit tax – other payables	-	(1,225)	(1,225)
Excess profit tax - taxes accrued but not paid	-	(6,155)	(6,155)
Excess profit tax – asset retirement obligations	(54,854)	(10,277)	(65,131)
Recognised deferred tax liability	**7,104,764**	**203,085**	**6,901,679**

31 Income Taxes (Continued)

In thousands of Kazakhstani Tenge	**1 January 2004**	**Charged/ (credited) to profit or loss**	**31 December 2004**
Tax effect of deductible temporary differences			
Trade receivables	1,208,068	49,200	1,257,268
Employee benefits	362,655	23,708	386,363
Provision for asset retirement obligations	218,243	55,197	273,440
Vacation provisions	149,372	9,960	159,332
Taxes accrued but not paid	54,902	729	55,631
Intangible assets	8,473	(1,305)	7,168
Finance lease	-	38,067	38,067
Other payables	19,288	(2,307)	16,981
Gross deferred tax asset	**2,021,001**	**173,249**	**2,194,250**
Less offsetting with deferred tax liabilities	(2,021,001)	(173,249)	(2,194,250)
Recognised deferred tax asset	**-**	**-**	**-**
Tax effect of taxable temporary differences	10,754,140	(2,418,242)	8,335,898
Property, plant and equipment	661,990	(89,566)	572,424
Gross deferred tax liability	**11,416,130**	**(2,507,808)**	**8,908,322**
Less offsetting with deferred tax assets	(2,021,001)	(173,249)	(2,194,250)
Net deferred tax liability at a standard tax rate of 30%	**9,395,129**	**(2,681,057)**	**6,714,072**
Excess profit tax – property, plant and equipment	470,965	2,292	473,257
Excess profit tax – intangible assets	65	(2)	63
Excess profit tax – vacation provisions	(23,487)	(4,287)	(27,774)
Excess profit tax – other payables	(1,214)	1,214	-
Excess profit tax – asset retirement obligations	(38,652)	(16,202)	(54,854)
Recognised deferred tax liability	**9,802,806**	**(2,698,042)**	**7,104,764**

32 Earnings per Share

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

Earnings per share are calculated as follows:

In thousands of Kazakhstani Tenge (except for earnings and dividends per share)	**2005**	**2004**
Number of shares:		
Ordinary shares	7,147,485	7,147,485
Preference shares	756,000	756,000
Total number of shares	**7,903,485**	**7,903,485**
Profit attributable to the parent Company's shareholders	39,483,056	29,096,047
Less:		
Additional preference dividends declared during the year	1,227,198	-
Dividends to shareholders declared during the year	12,300,822	600,031
Undistributed earnings	**25,955,036**	**28,496,016**
Less: Ordinary shareholders' minimum dividend	714,749	714,749
	25,240,287	**27,781,267**
Allocation to ordinary shareholders	22,825,952	25,123,877
Allocation to preference shareholders	2,414,335	2,657,390
	25,240,287	**27,781,267**
Basic Earnigs per share amounts:		
Preference shares		
Distributed earnings	1,623.28	-
Undistributed earnings	3,193.56	3,515.07
Total earnings per share	4,816.84	3,515.07
Ordinary shares		
Distributed earnings	1,721.00	83.95
Undistributed earnings	3,293.56	3,615.07
Total earnings per share	5,014.56	3,699.02

33 Contingencies, Commitments and Operating Risks

Political and economic situation in Kazakhstan. Whilst there have been improvements in the economic situation in the Republic of Kazakhstan in recent years, its economy continues to display some characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible outside of the country and a low level of liquidity of debt and equity securities in the markets.

Additionally, the mining and metals sector in Kazakhstan is impacted by political, legislative, fiscal and regulatory developments in Kazakhstan. The prospects for future economic stability in Kazakhstan are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory and political developments, which are beyond the Company's control.

The financial condition and future operations of the Company may be adversely affected by continued economic difficulties that are characteristic of an emerging market. Management is unable to predict the extent and duration of the economic difficulties, nor quantify the impact, if any, on these financial statements.

Tax legislation. Kazakhstani tax legislation and practice is in a state of continuous development and therefore is subject to varying interpretations and frequent changes, which may be retroactive. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activities of the Company may not coincide with that of management. As a result, transactions may be challenged by tax authorities and the Company may be assessed additional taxes, penalties and interest. Tax periods remain open to retroactive review by the tax authorities for five years.

The Company's Management believes that its interpretation of the relevant legislation is appropriate and the Company's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2005 no provision for potential tax liabilities had been recorded (2004: no provision).

Transfer pricing. Note 4 discloses the risk that the Kazakhstani tax authorities might challenge the transfer pricing policy applied by the Company. The amount of any potential claim may be significant, but further information is not given since it might seriously prejudice the position of the Company with the tax authorities.

Capital expenditure commitments. At 31 December 2005 the Company has contractual capital expenditure commitments in respect of property, plant and equipment totalling Tenge 2,759,053 thousand (2004: 2,500,252).

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

Legal proceedings. From time to time and in the normal course of business, claims against the Company are received. On the basis of its own estimates and both internal and external professional advice management of the Company is of the opinion that no material losses will be incurred in respect of claims.

Guarantees. Guarantees are irrevocable assurances that the Company will make payments in the event that another party cannot meet its obligations. The Company has guaranteed the following obligations:

In thousands of Kazakhstani Tenge	**Note**	**2005**	**2004**
Entities under common control	8	2,715,839	-
Total guarantees		2,715,839	**-**

Assets pledged and restricted. At 31 December 2005 and 2004 the Company has the following assets pledged as collateral:

		2005		**2004**	
In thousands of Kazakhstani Tenge	**Note**	**Asset pledged**	**Related liability**	**Asset pledged**	**Related liability**
Inventories	14	4,954,100	3,380,100	-	-
Total		4,954,100	3,380,100	**-**	**-**

33 Contingencies, Commitments and Operating Risks (Continued)

Insurance policies. The Company holds insurance policies in relation to the following risks:

- Insurance of property
- Insurance of civil responsibility of employer for causing damage to life and health of employee during his/her work duties
- Insurance of civil responsibility of owners of vehicles
- Insurance of civil responsibility of owners of properties, operations of which can cause damage to third parties.

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

In December 2005 the Company's management made the decision on building and certification of management system in accordance with the requirements of standards: ISO 9001:2000, ISO 14001: 2004, OHSAS 18011:1999, as well as SA 8000. Management system complying with the requirements of standards: ISO 9001: 2000 (quality management system), ISO 14001: 2004 (environment protection management system), OHSAS 18011:1999 (health and labor safety management system) is implemented in Aksu and Aktobe Ferroalloy Plants and DGOK. These Company's sub-divisions have certificates on compliance with the standards: ISO 9001: 2000, ISO 14001: 2004, OHSAS 18011:1999, issued by TUV CERT, international certification body. The development of management system in accordance with the above standards is commenced in Kazmarganets since January 2006.

Provision for asset retirement obligations. The estimate of the outstanding provision for asset retirement obligations was based on the legal contractual obligations in respect of site restoration and rehabilitation. This estimate might change upon completion of further environmental study works and reassessment of the existing liabilities.

34 Financial Risk Management

Credit risk. Financial assets, which potentially subject Company entities to credit risk, consist principally of trade receivables and loans receivable. The Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. The Company has significant concentrations of credit risk. At 31 December 2005, the Company had 2 debtors (2004: 3 debtors) with aggregated outstanding amounts of Tenge 29,947,551 thousand (2004: Tenge 8,808,330 thousand). The total aggregated amount of these receivables was 97 percent (2004: 95 percent) of the total trade receivables (see Note 15). These accounts receivable are short-term with payments due within three months. At 31 December 2005, the Company also had significant loans receivable from its related parties in the amount of Tenge 5,967,010 thousand (2004: Tenge 1,685,642 thousand). As discussed in Note 12, the majority of those loans were either repaid after the balance sheet date or expected to be repaid by the end of 2006. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Company beyond the provisions already recorded.

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

Market risk. The Company takes on exposure to market risks. Market risks arise from ferroalloy prices published in Metals Bulletin and open positions in interest rate, currency and equity financial instruments, all of which are exposed to general and specific market movements. The Board of Directors sets limits on the value of risk that may be accepted. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Foreign exchange risk. The Company mainly exports its production, and attracts foreign currency denominated long-term borrowings and is thus exposed to foreign exchange risk. Foreign currency denominated assets (see Notes 15 and 16) and liabilities (see Note 18) give rise to foreign exchange exposure. The Board of Directors sets limits on the level of exposure by currency and in total. Compliance with limits is monitored.

34 Financial Risk Management (Continued)

Cash flow and fair value interest rate risk. The Company's income and operating cash flows are exposed to changes in market interest rates. The Company is exposed to fair value interest rate risk through market value fluctuations of interest-bearing borrowings which are at fixed interest rates (see Note 18). The Company's interest bearing assets are disclosed in Notes 10, 13 and 16. All of these assets bear fixed interest and are thus exposed to fair value interest rate risk.

Liquidity risk. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Company treasury aims to maintain flexibility in funding by keeping committed credit lines available.

35 Fair Value of Financial Instruments

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

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

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty. Carrying amounts of trade receivables approximate fair values due to their short term maturities. Refer to Note 12 for the estimated fair values of loans and receivables.

Liabilities carried at amortised cost. 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. Refer to Note 18 for the estimated fair values of borrowings.

36 Events after the Balance Sheet Date

Guarantees. After the balance sheet date, the Company issued the guarantees on payments, in case of counterparty's failure to fulfill its obligations to the following related parties:

In thousands of Kazakhstani Tenge	
Kazakhstan Aluminium Smelter LLP	10,377,840
Remput LLP	3,743,359
Transcom LLP	3,439,536
Sary-Arka Spetskoks LLP	1,651,000
TransRemMash LLP	1,296,556
IEC Transsystema LLP	1,217,693
ZIKSTO LLP	378,747
Transremvagon LLP	54,052
Total guarantees	**22,158,783**

Guarantee issued in October 2005 to AktobeEnergoSnab in the amount of Tenge 227,213 thousand is closed due to the repayment by the latter of its outstanding amounts on a loan received from Eurasian Bank JSC. The guarantee issued in July 2005 to Sary-Arka Spetskoks LLP in the amount of Tenge 619,476 thousand is closed due to change in loan collateral.

36 Events after the Balance Sheet Date (Continued)

Finance lease. In January 2006 the Company acquired from Perfetto Investments B.V. on leaseback terms the workshop building on production of pellets with land plot for the period of 10 years. Total lease payments under agreement is US Dollars 19,470 thousand with scheduled semi-annual payments during the period from 7 August 2006 to 8 February 2016.

Significant claims of suppliers and buyers. After the balance sheet date, during the period from April to September 2006, the Company received claims from ENRC Marketing AG, the Company's related party with respect to difference in ferroalloys volume. The amount of issued claims on shortage of ferroalloys which are in consideration process was Tenge 373,114 thousand (US Dollars 2,870 thousand).