

Open Joint Stock Company Inprom and subsidiaries

Independent Auditors' Report

Consolidated Financial Statements
Year Ended December 31, 2005

OPEN JOINT STOCK COMPANY INPROM AND SUBSIDIARIES

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OPEN JOINT STOCK COMPANY INPROM AND SUBSIDIARIES

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005

The following statement, which should be read in conjunction, with the independent auditors' responsibilities stated in the independent auditors report set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the independent auditors in relation to the consolidated financial statements of Open Joint Stock Company Inprom and its subsidiaries (the "Group").

Management is responsible for the preparation of consolidated financial statements that present fairly the consolidated financial position of the Group at December 31, 2005, and the consolidated results of its operations, and cash flows for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgments and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management is also responsible for:

- designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- maintaining proper accounting records that disclose, with reasonable accuracy at any time, the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- maintaining statutory accounting records in compliance with local legislation and accounting standards;
- taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- preventing and detecting fraud and other irregularities.

The consolidated financial statements for the year ended December 31, 2005 were approved on June 7, 2006 in Taganrog, Russian Federation by:



I.V. Kononov
General Director



A.V. Larionov
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Open Joint Stock Company Inprom:

We have audited the accompanying consolidated balance sheet of Open Joint Stock Company Inprom (the "Company") and its subsidiaries (together, the "Group") as at December 31, 2005 and the related consolidated statements of income, changes in shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

As discussed in notes 5, 15 and 22 to the financial statements, in December 2005 the Group entered into a non-binding agreement to sell certain property for an estimated USD 5.8 million which was acquired as part of a business combination in October 2005. The properties were valued by independent valuers as of the date of acquisition at USD 2.2 million and the Group recorded a gain of USD 3.6 million in the income statement and a receivable of USD 3.6 million on the balance sheet. In accordance with IFRS 3 "Business Combination" no gain on such transaction should have been recognized, and any adjustment in fair value of net assets at the date of acquisition should have been reflected in the carrying value of Goodwill.

Accordingly, the Group has overstated the Goodwill arising on the business combination and gain on sale of property by USD 3.6 million, understated the carrying value of the assets held for sale by USD 3.6 million and overstated trade receivables by USD 5.8 million.

The accompanying financial statements do not disclose the Company's ultimate controlling party or related parties by virtue of a relationship with the ultimate controlling party, if any. Therefore, we were unable to satisfy ourselves as to the completeness of the disclosure of related party transactions.

In our opinion, except for the effects of the matters referred in the preceding paragraphs, the financial statements give a true and fair view of the consolidated financial position of the Group as of 31 December 2005 and of the consolidated results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte + Touche

June 7, 2006

OPEN JOINT STOCK COMPANY INPROM AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2005

	Notes	2005 '000 USD	2004 '000 USD Restated
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment	7	74,466	30,401
Long-term investments	8	200	132
Goodwill	9	18,934	1,245
		<u>93,600</u>	<u>31,778</u>
CURRENT ASSETS:			
Inventories	10	52,359	43,570
Trade accounts receivable, net	11	36,506	12,018
Other receivables and prepaid expenses, net	12	14,059	11,623
Value added tax and other taxes receivable	12	7,197	5,863
Short-term investments	13	1,357	6,058
Cash and cash equivalents	14	2,179	665
Assets classified as held for sale	15	2,204	-
		<u>115,861</u>	<u>79,797</u>
TOTAL ASSETS		<u>209,461</u>	<u>111,575</u>
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY:			
Share capital	16	12,347	10,970
Additional paid-in capital	16	1,033	801
Revaluation reserve		22,975	16,874
Retained earnings		<u>5,746</u>	<u>3,224</u>
		<u>42,101</u>	<u>31,869</u>
MINORITY INTEREST		510	-
DEFERRED TAX LIABILITIES, NET	24	11,708	2,315
NON-CURRENT LIABILITIES:			
Long-term borrowings	17	<u>54,064</u>	<u>18,487</u>
CURRENT LIABILITIES:			
Short-term borrowings	17	67,316	45,841
Trade accounts payable	18	19,497	6,345
Other payables and accrued expenses	19	6,851	3,792
Taxes payable	20	<u>7,414</u>	<u>2,926</u>
		<u>101,078</u>	<u>58,904</u>
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		<u>209,461</u>	<u>111,575</u>

The notes on pages 7 to 30 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 2.

OPEN JOINT STOCK COMPANY INPROM AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2005

	Notes	2005 ‘000 USD	2004 ‘000 USD
CONTINUING OPERATIONS			
Revenue		279,452	223,434
Cost of Sales		<u>(255,024)</u>	<u>(199,183)</u>
GROSS PROFIT		24,428	24,251
Selling, general and administrative expenses	21	<u>(16,936)</u>	<u>(10,650)</u>
OPERATING PROFIT		7,492	13,601
Finance costs, net		(10,258)	(6,094)
Reversal of impairment / Impairment of investments		950	(1,673)
Other income / (expenses)	22	750	(730)
Gain on the sale of property	22	<u>3,576</u>	<u>-</u>
PROFIT BEFORE TAXATION		2,510	5,104
Income tax expense	24	<u>(1,423)</u>	<u>(1,657)</u>
PROFIT after tax from continuing operations		1,087	3,447
DISCONTINUED OPERATIONS			
(Loss) / Profit for the year from discontinued operations	23	<u>(9)</u>	<u>264</u>
PROFIT FOR THE YEAR		<u>1,078</u>	<u>3,711</u>
Attributable to:			
Shareholders of the parent		1,078	3,711
Minority interest		<u>-</u>	<u>-</u>
		<u>1,078</u>	<u>3,711</u>

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OPEN JOINT STOCK COMPANY INPROM AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2005 (in USD and in thousands)

	Share Capital	Additional paid-in capital	Revaluation reserve	Retained earnings/ (Accumulate d deficit)	Attributable to equity holders of parent
Balance as at December 31, 2003	5,105	716	780	(998)	5,603
Effect of adoption of new standards (Note 3)	-	-	-	321	321
As restated	<u>5,105</u>	<u>716</u>	<u>780</u>	<u>(677)</u>	<u>5,924</u>
Share issue	5,355	52	-	-	5,407
Revaluation surplus, net of tax of USD 1,164 thousand	-	-	15,016	-	15,016
Profit for the year	-	-	-	3,711	3,711
Translation to presentation currency	<u>510</u>	<u>33</u>	<u>1,078</u>	<u>190</u>	<u>1,811</u>
Balance as at December 31, 2004	<u>10,970</u>	<u>801</u>	<u>16,874</u>	<u>3,224</u>	<u>31,869</u>
Share issue	1,891	-	-	-	1,891
Contribution by shareholders towards salary costs	-	300	-	-	300
Revaluation surplus net of tax effect of USD 6,065 thousands	-	-	10,782	-	10,782
Eliminated on disposals of fixed assets and subsidiaries	-	-	(4,280)	4,280	-
Loss incurred on disposal of subsidiary to an entity under the common control (Note 6)	-	-	-	(2,462)	(2,462)
Profit for the period	-	-	-	1,078	1,078
Translation to presentation currency	<u>(514)</u>	<u>(68)</u>	<u>(401)</u>	<u>(374)</u>	<u>(1,357)</u>
Balance as at December 31, 2005	<u><u>12,347</u></u>	<u><u>1,033</u></u>	<u><u>22,975</u></u>	<u><u>5,746</u></u>	<u><u>42,101</u></u>

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OPEN JOINT STOCK COMPANY INPROM AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2005 (in USD and in thousands)

	Notes	2005	2004
CASH FLOW FROM OPERATING ACTIVITIES:			
Profit before tax from continuing and discontinued operations		2,579	5,413
Adjustments for:			
Depreciation and amortization		2,801	1,747
Change in allowance for doubtful receivables		(177)	281
Change in allowance for obsolete inventory		-	(96)
Gain on disposal of property, plant and equipment		(192)	(188)
Gain on sale of property right		(3,576)	
(Reversal) / Impairment loss on investments		(950)	1,226
Finance costs, net		10,258	6,074
Operating cash flow before changes in working capital		10,743	14,457
Changes in working capital:			
Increase in trade and other receivables		(24,962)	(20,050)
Increase in inventories		(2,899)	(21,632)
(Decrease) / Increase in trade and other payables and accrued expenses		4,792	(37)
Increase in taxes payable, other than income tax		4,161	1,321
Cash flow from operating activities		(8,165)	(25,941)
Income tax paid		(1,360)	(1,959)
Interest paid		(8,442)	(5,606)
Net cash used in operating activities		(17,967)	(33,506)
CASH FLOW FROM INVESTING ACTIVITIES:			
Acquisition of additional shares in subsidiaries, net of cash acquired	5	(35,518)	(1,048)
Disposal of subsidiaries	6	2,078	-
Purchase of property, plant and equipment	7	(10,443)	(5,312)
Proceeds on disposal of property, plant and equipment and intangible assets		1,686	1,062
Proceeds from redemption of short-term investments, net		4,528	(5,000)
Net cash used in investing activities		(37,669)	(10,298)
CASH FLOW FROM FINANCING ACTIVITIES:			
Cash contribution from shareholders		300	-
Proceeds from issuance of common stock		-	5,313
Proceeds from long-term borrowings		33,761	18,019
Principal payments on long-term borrowings		-	(2,234)
Proceeds from short-term borrowings, net		23,115	23,018
Net cash provided by financing activities		57,176	44,116
Translation to presentation currency		(26)	20
NET INCREASE IN CASH AND CASH EQUIVALENTS		1,514	332
CASH AND CASH EQUIVALENTS, beginning of the year	14	665	333
CASH AND CASH EQUIVALENTS, end of the year	14	2,179	665

The notes on pages 7 to 30 form an integral part of these consolidated financial statements. The Independent Auditors' Report is on page 2.

OPEN JOINT STOCK COMPANY INPROM AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (in USD and in thousands)

1. GENERAL

Open Joint Stock Company “Inprom” (the “Company”) is a parent company of the Inprom Group of companies (the “Group”). OJSC “Inprom” was incorporated as open joint stock company under the laws of Russian Federation on 15 February 1996. The address of the registered office is 2A, Marshal Zhukov street, Taganrog, Rostov Region, Russia. The Company is a wholesale and retail trader, a processor of long and flat steel, and of tube products.

The consolidated financial statements presented herein include the financial statements of the Company and its subsidiaries in which the parent company has control (the “Group”).

The ultimate parent of the Group is Cassar World Investments Corporation, incorporated in the British Virgin Islands.

All companies of the Group are incorporated and operate under the laws of the Russian Federation.

The principal activities of the significant entities of the Group as of December 31, 2005 are as follows:

Subsidiary	Nature of business	Percentage of ownership interest as of December 31, 2005	Percentage of ownership interest as of December 31, 2004
OJSC “Inprom”	Trading of steel products	Parent	Parent
OJSC “Vladimirmelaloptorg”	Trading of steel products	95.23%	19.90%
CJSC “Torfagregat”	Trading of steel products	100%	-
CJSC “Metalloservisnye tsentry”	Trading of steel products	100%	-
OJSC “Brynskmetallresursy”	Trading of steel products	91%	-
OJSC “Mordovmetalltorg”	Trading of steel products	100%	-
CJSC “Penzametalltorg”	Trading of steel products	99%	-
OJSC “Ulyanovskmetall”	Trading of steel products	99%	-
OJSC “Kalugametalltorg”	Trading of steel products	86%	-
CJSC “Tulametalloptorg”	Trading of steel products	100%	-
CJSC Inprom-Finance	Management of finance operations	100%	100%
	Production of constructions for power and construction industry		
OJSC “Krasnodarelectrostroykonstruktsiya”	industry	-	87.60%
OJSC Upravlenie Mekhanizaci	Trading of steel products	-	95.40%

The number of employees of the Group at December 31, 2005 and 2004 was 1,844 and 1,608, respectively.

OPEN JOINT STOCK COMPANY INPROM AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (in USD and in thousands)

2. PRESENTATION OF FINANCIAL STATEMENTS

Basis of Presentation – The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), formerly known as International Accounting Standards (“IAS”). The Group companies incorporated in the Russian Federation maintain their accounting records in Russian Roubles in accordance with the accounting and reporting regulations of the Russian Federation. Russian statutory accounting principles and procedures differ substantially from those generally accepted under IFRS. Accordingly, the accompanying consolidated financial statements, which had been prepared from Russian statutory accounting records, reflect adjustments necessary for the financial statements to be presented in accordance with IFRS.

Reclassification – Certain comparative information, presented in the consolidated financial statements for the year ended December 31, 2004, has been reclassified in order to achieve comparability with the presentation used in the consolidated financial statements.

Use of Estimates and Assumptions – The preparation of consolidated financial statements in conformity with IFRS requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Due to the uncertainty inherent in the making of such estimates, actual results reported in future periods could differ from these estimates.

Functional and Presentation Currency – The national currency of the Russian Federation and the functional currency of the Group’s consolidated financial statements is Russian Rouble (“RUR”).

The functional currency reflects the economic substance of the underlying events and circumstances of the Group. The Group has chosen to present its consolidated financial statements in US dollars (“USD”) which is a more acceptable currency for international users of the Group’s consolidated financial statements. The translation from the functional currency into presentation currency is made in accordance with the requirements of IAS 21 “The effects of changes in foreign exchange rates”.

The translation is made using the following exchange rates as quoted by the Central Bank of the Russian Federation:

- all assets and liabilities, as of December 31, 2005 and 2004, both monetary and non-monetary, have been translated at following closing exchange rates:
2005:USD 1 = RUR 28.7825, and
2004:USD 1 = RUR 27.7487, respectively;
- all items included in shareholders’ equity, as of December 31, 2005 other than net profit for the reporting period, have been translated at closing exchange rate, USD 1 = RUR 28.7825;
- all items included in shareholders’ equity, as of December 31, 2004, have been translated at closing exchange rate, USD 1 = RUR 27.7487;
- all income and expense items for the year 2005 have been translated at the average exchange rate, USD 1 = RUR 28.2277;
- all resulting exchange differences are included in shareholders’ equity.

The RUR is not a fully convertible currency outside the territory of the Russian Federation. The translation of RUR denominated assets and liabilities into USD for the purpose of these consolidated financial statements does not indicate that the Group could or will in the future realize or settle in USD the translated value of these assets and liabilities.

These consolidated financial statements were approved by management on June 7, 2006.

OPEN JOINT STOCK COMPANY INPROM AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (in USD and in thousands)

3. ADOPTION OF NEW INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year the Group has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for accounting periods beginning on January 1, 2005. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies in the following areas that have affected the amounts reported for the current or prior years:

- Goodwill (IFRS 3 "Business Combination");
- Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost of acquisition (previously known as negative goodwill) (IFRS 3 "Business Combination");
- Non-current assets held for sale (IFRS 5 "Non-current Assets Held for Sale and Discontinued operations").

The impact of these changes in accounting policies is discussed below.

IFRS 3, Business Combinations

Goodwill – IFRS 3 has been adopted for business combinations for which the agreement date is on or after March 31, 2004.

After initial recognition, IFRS 3 requires goodwill acquired in a business combination to be carried at cost less any accumulated impairment losses. Under IAS 36 "Impairment of Assets" (as revised in 2004), impairment reviews are required annually, or more frequently if there are indications that goodwill might be impaired. IFRS 3 prohibits the amortisation of goodwill.

Previously, under IAS 22 "Business Combinations" (superseded by IFRS 3), the Group carried goodwill in its balance sheet at cost less accumulated amortisation and accumulated impairment losses. Amortization was charged over the estimated useful life of the goodwill, subject to the rebuttable presumption that the maximum useful life of goodwill was 20 years.

In accordance with the transitional rules of IFRS 3, the Group has applied revised accounting policy for goodwill prospectively from the beginning of its first annual period beginning on or after March 31, 2004, i.e. January 1, 2005, to goodwill acquired in business combinations for which the agreement date was before March 31, 2004. Therefore, from January 1, 2005, the Group has discontinued amortizing such goodwill and has tested the goodwill for impairment in accordance with IAS 36. At January 1, 2005, the carrying amount of amortisation accumulated before that date of USD 98 thousand has been eliminated, with a corresponding decrease in the cost of goodwill.

Because the revised accounting policy has been applied prospectively, the change has had no impact on amounts reported for 2004 or prior periods.

No amortisation of goodwill has been charged in 2005. The charge in 2004 was USD 44 thousand.

No impairment loss on goodwill was recognised in 2005. This goodwill has been written off in 2005 due to the disposal of subsidiary.

Excess of Acquirer's Interest in the Net Fair Value of Acquiree's Identifiable Assets, Liabilities And Contingent Liabilities over Cost (Previously Known as Negative Goodwill) – IFRS 3 requires that, after reassessment, any excess of the acquirer's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination should

OPEN JOINT STOCK COMPANY INPROM AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (in USD and in thousands)

be recognised immediately in profit or loss. IFRS 3 prohibits the recognition of negative goodwill in the balance sheet.

Previously, under IAS 22, the Group released negative goodwill to income over a number of accounting periods, based on an analysis of the circumstances from which the balance resulted. Negative goodwill was reported as a deduction from assets in the balance sheet.

In accordance with the transitional rules of IFRS 3, the Group has applied the revised accounting policy prospectively from January 1, 2005. Therefore, an adjustment of USD 321 thousand is made to opening retained earnings and negative goodwill at January 1, 2005.

IFRS 5, Non-current Assets Held for Sale and Discontinued Operations

IFRS 5 requires that the non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in the present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell. If the asset (or disposal) group is acquired as part of a business combination, it should be measured at fair value less costs to sell.

In accordance with IFRS 5 the Group classified assets acquired as part of the business combination with a fair value of USD 2.2 million as assets held for sale. As of December 31, 2005 the Group entered into an agreement with a related party to dispose these assets.

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation – The consolidated financial statements incorporate the financial statements of Company and other enterprises, where the Company exercises control. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

The financial statements of subsidiaries are prepared for the same reporting period as those of the holding company; where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used by them into line with those of the Group.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

OPEN JOINT STOCK COMPANY INPROM AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (in USD and in thousands)

All intra-group balances, transactions, and any unrealised profits or losses arising from intra-group transactions, are eliminated on consolidation.

Business Combinations – The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Loss incurred on transactions between entities under common control, including existing subsidiaries representing the difference between the of the Group's interest in carrying value of the identifiable assets, liabilities and contingent liabilities of a subsidiary at the date of disposal and the consideration received is recognized directly in equity, as a distribution to the equity holders.

Investments in Associates – An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in joint venture. Significant influence is a power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Under the equity method, investments in associates are carried in consolidated balance sheet at cost as adjusted for post-acquisition change in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate are not recognized.

Goodwill – Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognized at the date of acquisition. Goodwill is initially recognized as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

OPEN JOINT STOCK COMPANY INPROM AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (in USD and in thousands)

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Non-current Assets Held for sale – Non-currents asset and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Revenue Recognition – Revenue is measured at the fair value of the consideration received or receivable and represent amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognized when goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Foreign Currency Transactions – Transactions in currencies other than the functional currency are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the balance sheet date. Gains and losses arising on exchange are included in the consolidated income statement.

Borrowing Costs – Borrowing costs are recognized as an expense in the period in which they are incurred. Borrowing costs include interest on borrowings.

Taxation – Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from initial recognition (other than a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (in USD and in thousands)

The carrying amount of deferred tax asset is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to profit and loss. Except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Property, Plant and Equipment – Buildings, constructions, machinery and equipment of the Group are valued at each balance sheet date by independent professionally qualified appraisers. For each item of valued assets full replacement cost less accumulated depreciation at the date of valuation is being determined.

A revaluation surplus, net of related deferred income tax, is being recorded as revaluation reserve within shareholders' equity.

The Group measured items of property, plant and equipment at the date of transition to IFRS, at their fair value and treated such fair value as the deemed cost from that date. To arrive at the fair value of property, plant and equipment as of the date of transition to IFRS, management used valuations performed by independent professionally qualified appraisers.

Cost includes major expenditures for improvements and replacements, which extend useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance are charged to the income statement as incurred. The carrying value of property, plant and equipment, as determined above, less expected residual value, is depreciated on a straight-line basis over the estimated useful economic lives of the related assets, which are:

Description	<u>Useful Life (Years)</u>
Buildings and constructions	10-45 years
Machinery and equipment	5-25 years
Transport and other	5-10 years

Construction in progress comprises costs directly related to the construction and acquisition of property, plant and equipment plus an appropriate allocation of variable and fixed overheads that are incurred in construction.

Items of property, plant and equipment that are retired or otherwise disposed of are eliminated from the balance sheet along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is included in the income statement.

Impairment of Tangible and Intangible Assets (Other than Goodwill) – At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is impossible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

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If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount.

Inventories – Inventories are stated at the lower of cost or net realizable value. Cost comprises direct materials and, where applicable, direct labor costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using “First in – first out” method. Inventories are reported net of allowances for slow moving or obsolete items.

Financial Instruments – Financial assets and financial liabilities are recognised on the Group’s balance sheet when the Group has become a party to the contractual provisions of the instrument in accordance with the provisions of IAS 39 “Financial instruments: Recognition and Measurement”.

Investments – Investments are recognized and derecognized on a trade date basis where the purchase or sale of investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

At the subsequent reporting date, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortized cost using the effective interest rate method, less any impairment loss recognized to reflect irrecoverable amounts. An impairment loss is recognized in profit and loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment’s carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment loss is reversed in subsequent periods when an increase in investment’s recoverable amount can be related objectively to an event after the impairment was recognized, subject to the restriction that the carrying amount of the investment at the date of impairment is reversed shall not exceed what the amortized cost would have been had the impairment not been recognized.

Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are recognized directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognized in equity is included in the profit or loss for the period. Impairment losses recognized in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognized in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Trade and Other Receivables – Trade and other receivables originated by the Group are measured at gross invoice value less allowance for doubtful debts where considered appropriate.

Cash and Cash Equivalents – Cash and cash equivalents comprise petty cash and cash held on current bank accounts.

Financial Liabilities – The Group recognises financial liabilities on its balance sheet when it becomes a party to a contractual obligation. Financial liabilities are initially recognised at cost, which is the fair value of the consideration received, taking into account transaction costs.

Bank Loans and Other Non-Bank Borrowings – Loans and borrowings are initially measured at proceeds received, net of direct transaction costs. Subsequently loans and borrowing are measured at amortized cost, which is calculated by taking into account any discount or premium on settlement. Finance charges, including premiums payable on settlement or redemption, are accounted for on

OPEN JOINT STOCK COMPANY INPROM AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (in USD and in thousands)

an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

After initial recognition financial liabilities, other than liabilities held-for-trading and derivatives, are carried at amortized cost. The amortized cost of a financial liability is the amount at which the financial liability was measured at initial recognition minus principal repayments, plus or minus the cumulative amortization of any difference between that initial amount and the maturity amount.

Trade and Other Payables – Liabilities for trade and other amounts payable are stated at their nominal value.

Allowance for Losses – The Group establishes an allowance for losses on financial assets when it is probable that the Group will not be able to collect principal and interest according to the contractual terms of its financial assets which are carried at cost or amortized cost. The allowance for losses is defined as the difference between carrying amounts and the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of the financial asset. For financial assets that do not have fixed maturities, expected future cash flows are discounted using the periods during which the Group expects to realize the asset.

Provisions – Provisions are recognised when the Group has legal or constructive obligations, as a result of a past event for which it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated.

Retirement Benefit Costs – The Group contributes to the state pension, medical and social insurance funds on behalf of all its current employees. Any related expenses are recognised in the income statement as incurred. Contributions to the Russian Federation state pension fund are recorded in the consolidated income statement on an accrual basis.

Segment Reporting – The Group's business operations are located in the Russian Federation and relate primarily to trading of steel products. Therefore, business activities are subject to the same risks and returns and addressed in the consolidated financial statements of the Group as one reportable segment.

5. ACQUISITION OF SUBSIDIARIES

In 2005 the Group acquired a share in equity of OJSC Vladimirmetalloptorg of 75.3% in addition to directly held equity of 19.9 % for cash consideration of 36,561 thousand of Russian Roubles (approx. USD 1,270 thousand).

In October 2005 the Group acquired 100% share in equity of the CJSC Metalosservisnye tsentry, a holding company with 6 subsidiaries, for cash consideration of 906,000 thousand of Russian Roubles and transfer of 300 shares of OJSC Inprom. In parallel with a share-purchase agreement, a share granting agreement was signed between the Group and the seller, according to which the seller granted the 300 shares to the one of the equity shareholders of the group. The total consideration paid was 906,000 thousand of Russian Roubles (approx. USD 31,463 thousand).

OPEN JOINT STOCK COMPANY INPROM AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (in USD and in thousands)

On December 31, 2005 the Group acquired 100 % share in equity of the CJSC Torfagregat for the cash consideration of 86,385 thousand of Russian Roubles (approx. USD 3,001 thousands).

	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
Net assets of subsidiaries acquired:			
Property, plant and equipment (Note 7)	6,884	20,254	27,138
Inventories	7,887		7,887
Trade and other receivables	1,679		1,679
Deferred tax asset	231		231
Taxes receivable, net	1,407		1,407
Cash and cash equivalents	216		216
Trade and other accounts payable	(15,628)		(15,628)
Deferred tax liabilities, short-term portion (Note 23)	(18)	(5,101)	(5,119)
Net assets	2,658	15,153	17,811
Goodwill			18,934
			36,745
Consideration paid			
Cash paid in 2004			1,011
Cash paid in 2005			35,734
Total Cash Consideration Paid			36,745
Net Cash outflow arising on acquisition in 2005:			
Cash and cash equivalents acquired			216
Cash consideration received in 2005			-
Net cash outflow on acquisition of subsidiaries			(35,518)

Included in property, plant and equipment are assets valued at USD 2.2 million by an independent valuer at the date of acquisition. This provisional determination is subject to adjustment within 12 months of the acquisition date should subsequent events indicate a different fair value. The Group entered into an agreement with a related party to sell the assets subject to number of contingencies at an indicative amount of USD 5.8 million. Should the transaction be settled in September 2006 in normal terms then the cost of business combination will be adjusted.

OPEN JOINT STOCK COMPANY INPROM AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (in USD and in thousands)

6. DISPOSAL OF SUBSIDIARIES AND ASSOCIATES

On March 22, 2005 the Group disposed its holding of 87.6% of the share capital of OJSC “Krasnodarelektrostroykonstrukziya” to a company under common control for cash consideration of 55,000 thousand of Russian Roubles (USD 2,079 thousand), bearing a loss of USD 2.4 million on this transaction. The loss is recognised directly in shareholders equity.

	<u>As at the date of disposal</u>	<u>December 31, 2004</u>
Net assets of subsidiaries disposed of:		
Property, plant and equipment (Note 7)	4,973	6,225
Inventories	1,997	941
Trade receivables	2,774	2,073
Other receivables and prepaid expenses	769	769
Cash and cash equivalents	1	6
Short-term borrowings	(1,640)	(1,640)
Trade accounts payable	(2,636)	(2,136)
Other accounts payable and accrued liabilities	(1,144)	(1,144)
Taxes payable	(429)	(429)
Deferred tax liabilities, short-term portion	(1,369)	(1,375)
Goodwill	1,245	1,245
	<u>4,541</u>	<u>4,535</u>
Net assets		
	<u>4,541</u>	<u>4,535</u>
Proceeds from disposal of subsidiaries	<u>2,079</u>	<u>-</u>
Loss on disposal	<u>2,462</u>	<u>-</u>
Net cash inflow on disposal of subsidiaries:		
Cash and cash equivalents disposed of	(1)	-
Proceeds from disposal of subsidiaries	2,079	-
Net cash inflow on disposal of subsidiaries	<u>2,078</u>	<u>-</u>

OPEN JOINT STOCK COMPANY INPROM AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (in USD and in thousands)

7. PROPERTY, PLANT AND EQUIPMENT

	Buildings and constructions	Machinery and equipment	Transport	Other	Construction- in-progress	Total
Cost or valuation						
At January 1, 2004	14,821	4,834	1,150	9,938	967	31,710
Additions	1,928	498	489	771	1,626	5,312
Transfers		-	14	41	(55)	-
Disposals	(26)	-	(90)	(17)	(811)	(944)
Revaluation	36,798	8,298	120	-	-	45,216
Translation to presentation currency	2,271	617	71	630	28	3,617
At December 31, 2004	<u>55,792</u>	<u>14,247</u>	<u>1,754</u>	<u>11,363</u>	<u>1,755</u>	<u>84,911</u>
Additions	266	8	24	248	11,788	12,334
Acquisition of subsidiaries	49,199	10,489	603	105	1,092	61,488
Transfers	3,455	4,908	130	(972)	(7,521)	-
Disposals of subsidiary	(11,652)	(5,937)	(300)	(9,268)	(70)	(27,227)
Disposals	(485)	(68)	(10)	(4)	(6)	(573)
Reclassified as held for sale	(3,719)	-	-	-	(134)	(3,853)
Revaluation	29,267	369	-	-	(274)	29,362
Translation to presentation currency	(3,357)	(700)	(68)	(217)	(155)	(4,497)
At December 31, 2005	<u>118,766</u>	<u>23,316</u>	<u>2,133</u>	<u>1,255</u>	<u>6,475</u>	<u>151,945</u>
Comprising:						
At cost	2,205	4,472	-	1,255	-	7,932
At valuation 2005	<u>116,561</u>	<u>18,844</u>	<u>2,133</u>	<u>-</u>	<u>6,475</u>	<u>144,013</u>
	<u>118,766</u>	<u>23,316</u>	<u>2,133</u>	<u>1,255</u>	<u>6,475</u>	<u>151,945</u>
Accumulated Depreciation						
At January 1, 2004	(9,287)	(3,369)	(279)	(9,283)	-	(22,218)
Charge for the year	(965)	(311)	(268)	(302)	-	(1,846)
Eliminated on disposals	21	-	39	10	-	70
Revaluation	(25,908)	(3,201)	73	-	-	(29,036)
Translation to presentation currency	(570)	(326)	(14)	(570)	-	(1,480)
At December 31, 2004	<u>(36,709)</u>	<u>(7,207)</u>	<u>(449)</u>	<u>(10,145)</u>	<u>-</u>	<u>(54,510)</u>
Acquisition of subsidiaries	(26,899)	(7,099)	(295)	(57)	-	(34,350)
Charge for the year	(1,657)	(772)	(242)	(130)	-	(2,801)
Disposal of subsidiary	8,636	3,667	172	9,779	-	22,254
Eliminated on disposals	225	49	-	-	-	274
Reclassified as held for sale	1,649	-	-	-	-	1,649
Revaluation	(10,467)	(2,009)	-	-	-	(12,476)
Translation to presentation currency	1,901	378	23	179	-	2,481
At December 31, 2005	<u>(63,321)</u>	<u>(12,993)</u>	<u>(791)</u>	<u>(374)</u>	<u>-</u>	<u>(77,479)</u>
Carrying amount:						
At December 31, 2005	<u>55,445</u>	<u>10,323</u>	<u>1,342</u>	<u>881</u>	<u>6,475</u>	<u>74,466</u>
At December 31, 2004	<u>19,083</u>	<u>7,040</u>	<u>1,305</u>	<u>1,218</u>	<u>1,755</u>	<u>30,401</u>

Other fixed assets consist of computers, office equipment, furniture and other relatively small groups of fixed assets.

OPEN JOINT STOCK COMPANY INPROM AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (in USD and in thousands)

As of December 31, 2005 and 2004, property, plant and equipment with a net book value of USD 25,642 thousand and USD 14,192 thousand, respectively, have been pledged as collateral for certain of the Group's short-term loans (Note 17).

The Group performed an independent valuation of all its major groups of property, plant and equipment as of December 31, 2005. Revaluation surplus of USD 10,782 thousand, net of deferred tax of USD 6,064, thousand was recorded as a revaluation reserve within equity.

The valuation was carried out by American Appraisals (AAR), Inc., independent valuers not connected with the Group.

At December 31, 2005, had the buildings, machinery and equipment and transport been carried at historical cost less accumulated depreciation and accumulated impairment losses, their carrying amount would have been approximately USD 42,863 thousand.

8. LONG-TERM INVESTMENTS

Long-term investments as of December 31, 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Carrying value of investments in associates	200	1,055
Loans to associates	-	27
Total investments in associates	200	1,082
Impairment loss	-	(950)
Total long – term investments	<u>200</u>	<u>132</u>

In 2005, investments in associates are mainly represented by ownership of 18.7% interest in the share capital of CJSC CAP acquired in 2005. The Group does not exercise either control or significant influence over the operations of the company therefore the investment is recorded at cost.

In 2004, the Group acquired a 19.9% stake in OJSC “Vladimirmetalloptorg” for cash consideration of USD 1,082 thousand and recorded an impairment loss of USD 950 thousand.

In 2005, the Group increased its holding in the company by 75.33% bringing the total interest to 95.23% and reversed the impairment loss recognised in 2005.

9. GOODWILL

Cost	
As of January 1, 2004	916
Goodwill arising on acquisition from minority shareholders	368
Translation to presentation currency	59
Elimination of amortization accumulated prior to the adoption of IFRS 3	(98)
As of December 31, 2004	1,245
Eliminated on disposal of subsidiary	(1,245)
Goodwill arising on the acquisition of subsidiaries	18,934
As of December 31, 2005	18,934

OPEN JOINT STOCK COMPANY INPROM AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (in USD and in thousands)

10. INVENTORIES

Inventories as of December 31, 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Finished goods and goods for resale	51,495	42,170
Other materials and spare parts	864	1,400
	<u>52,359</u>	<u>43,570</u>

As of December 31, 2005 and 2004, finished goods and goods for resale with a carrying amount of USD 29,694 thousand and USD 19,905 thousand, respectively, were pledged as security for certain of the Group's short-term bank loans (Note 17).

11. TRADE ACCOUNTS RECEIVABLE, NET

Trade accounts receivable as of December 31, 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Trade receivables – related parties	23,966	119
Trade receivables – third parties	12,778	12,049
Less: allowance for doubtful receivables	(238)	(150)
	<u>36,506</u>	<u>12,018</u>

Included in the trade receivables is receivable from the related party in the amount of USD 4,764 thousand occurred as a result of an agreement to sell the property rights. The amount is due to be settled in September 2008.

12. OTHER RECEIVABLES AND PREPAID EXPENSES, NET

Other accounts receivable and prepaid expenses as of December 31, 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Advances paid – third parties	13,052	6,982
VAT recoverable	6,627	4,373
Other receivables – third parties	674	1,005
Other taxes recoverable	570	1,490
Prepaid expenses	173	103
Advances paid and other receivables – related parties	160	172
Other receivables – related parties	-	3,626
Less: allowance for doubtful receivables	-	(265)
	<u>21,256</u>	<u>17,486</u>

Advances paid comprise advances to suppliers of goods, raw materials, services and utilities.

OPEN JOINT STOCK COMPANY INPROM AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (in USD and in thousands)

13. SHORT-TERM INVESTMENTS

Short-term investments as of December 31, 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Short-term loans receivable - related parties	1,345	-
Short-term notes receivable - third parties	12	-
Short-term notes receivable - related parties	-	6,014
Held for sale investments	-	767
Less: provision for impairment loss	-	(723)
	<u><u>1,357</u></u>	<u><u>6,058</u></u>

Held for sale investments in 2004 were represented by an interest in equity shares in OJSC “Upravlenie Mekhanizatsi”. The company was in the process of liquidation and the Group made an allowance for impairment loss of USD 723 thousand in respect of this investment.

Short-term notes in 2004 were represented by promissory notes receivable from LLC “RIAN”, a related party and were fully paid in 2005.

In 2005 the Group made loans to the related parties OOO “Koda” and OJSC “Krasnodarelectrostroytkonstruktsia”. The loan to OJSC “Krasnodarelectrostroytkonstruktsia” of USD 810 thousand bears an interest rate of 0.01% per annum and differs from the prevailing market rates.

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31, 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Cash in bank	1,877	656
Cash in bank, restricted use	277	-
Petty cash	25	9
	<u><u>2,179</u></u>	<u><u>665</u></u>

15. ASSETS CLASSIFIED AS HELD FOR SALE

In October 2005 the Group acquired as part of business combination chain of retail shops for a fair value of USD 2,202 thousand. In December 2005 the Group entered into a sale agreement with a related party about the sale of these assets. According to the agreement, the ownership and right to use passes to the purchaser within 6 months from the date of agreement.

OPEN JOINT STOCK COMPANY INPROM AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (in USD and in thousands)

16. SHARE CAPITAL

	<u>2005</u>	<u>2004</u>
Number of authorized ordinary shares of RUR 30 each	12,906,275	12,906,275
Issued ordinary shares with a par value of 30 each		
At the beginning of the year	10,039,800	4,906,275
Issued during the year	1,700,000	5,133,525
Issued at the end of the year	11,739,800	10,039,800

During 2005, the Group's issued share capital was increased by 1,700,000 shares. All shares were allocated to Cassar World Investments Company. Consideration for the shares was made in the form of metal cutting equipment acquired by Cassar World Investments Company, valued at fair value of the equipment contributed.

During 2004, the Group's issued share capital was increased by 5,133,525 ordinary shares. 5,093,725 shares were allocated to Cassar World Investments Company. These shares have been fully paid in cash. 39,800 shares were issued to the owners of OJSC Saratovmetaloport, OJSC Spetszhelezabeton and OJSC Sigmar (2,800; 33,000 and 4,000 respectively).

The holders of ordinary shares have voting rights but no guarantee of dividends. Distributable profits are determined on the basis of profits reported in the statutory financial statements of the Company. These profits may differ from profits recorded under IFRS.

No dividends were declared or paid during the years ended December 31, 2005 and December 31, 2004.

In 2005 the shareholders of the Group contributed USD 300 thousand towards salary costs. This amount has been recorded as additional paid in capital.

17. LONG-TERM AND SHORT-TERM BORROWINGS

Long-term and short-term borrowings as of December 31, 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Bank loans	54,192	38,037
Non-bank loans	683	3,215
Promissory notes	12,441	4,589
Bonds, carrying value	54,064	18,487
	121,380	64,328
The borrowings are repayable as follows:		
On demand or within one year	67,316	45,841
In the second year	17,794	18,487
In the third to fifth years inclusive	36,270	-
Less: Amount due for settlement within 12 months (shown under current liabilities)	67,316	45,841
Amount due for settlement after 12 months	54,064	18,487

OPEN JOINT STOCK COMPANY INPROM AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (in USD and in thousands)

17.1 Long-term borrowings

	Issue date	Maturity date	Interest rate	2005	2004
Bonds					
1 st issue, face value	April, 2004	April, 2007	13.54%	17,372	18,019
2 nd issue, face value	June, 2005	June, 2010	12%	34,743	-
Total bonds, issued face value				52,115	18,019
Interest payable, 1 st issue				422	468
Interest payable, 2 nd issue				1,862	-
Total Bonds and interest payable				54,399	18,487
Less bonds with Group entities				(335)	-
Total Bonds, excluding bonds held intercompany				54,064	18,487

The proceeds from the 1st bond issue were used to repay long term debts.

The proceeds from the 2nd bond issue were used to finance the acquisition of subsidiaries.

17.2 Short-term borrowings

	Currency of Origination	Interest rate 2005	Interest rate 2004	2005	2004
Sberbank	RUR	10%-14%	11-12%	42,244	20,416
Trust Bank	RUR	12%	-	3,475	-
PCHRB	RUR	12-13%	-	3,116	-
Homos Bank	RUR	13%	13.5	2,829	1,081
PetrocommerzBank	RUR	12%-13%	13.5-17%	1,614	5,045
Gasprombank	RUR	11%	13%	914	2,162
VneshtorgBank	RUR	-	14.5%	-	720
Rosbank	RUR	-	14.5-16%	-	2,162
Bank of Moscow	RUR	-	14%	-	6,450
Short-term loan from related party	RUR	2%	0%	683	3,215
Short-term promissory notes	RUR	12-14%	Various	12,441	4,590
Total				67,316	45,841

At December 31, 2005, the promissory notes payable to third parties are repayable on demand, but not earlier than the maturity date.

OPEN JOINT STOCK COMPANY INPROM AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (in USD and in thousands)

At December 31, 2005 and 2004 the following assets of the Group have been pledged as collateral for short-term loans:

	<u>2005</u>	<u>2004</u>
Property, plant and equipment	25,642	14,192
Inventories	29,694	19,905
	<u>55,336</u>	<u>34,097</u>

18. TRADE ACCOUNTS PAYABLE

Trade accounts payable as of December 31, 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Trade accounts payable – third parties	18,382	2,521
Trade accounts payable – related parties	1,115	3,824
	<u>19,497</u>	<u>6,345</u>

19. OTHER PAYABLES AND ACCRUED EXPENSES

Other accounts payable and accrued expenses as of December 31, 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Advances received - third parties	3,265	3,086
Advances received - related parties	476	32
Accrued salaries and wages	181	180
Other accounts payable - third parties	1,918	50
Other accounts payable - related parties	1,011	444
	<u>6,851</u>	<u>3,792</u>

20. TAXES PAYABLE

Taxes payable as of December 31, 2005 and 2004 consisted of the following:

	<u>2005</u>	<u>2004</u>
Value added tax	6,590	2,058
Income tax	326	-
Property tax	300	91
Unified social tax	33	251
Other taxes	165	526
	<u>7,414</u>	<u>2,926</u>

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (in USD and in thousands)

21. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended December 31, 2005 and 2004 comprised the following:

	<u>2005</u>	<u>2004</u>
Transportation and related expenses	6,045	3,509
Payroll and unified social tax	2,969	1,737
Depreciation and amortization	2,732	1,747
Repair and maintenance	967	234
Taxes other than income tax	789	65
Rent expenses	536	673
Insurance expenses	503	49
Telecommunication expenses	436	310
Bank services	293	65
Advertising	264	372
(Reversal) / Allowance for doubtful receivables	(177)	185
Other	1,579	1,704
	<u><u>16,936</u></u>	<u><u>10,650</u></u>

22. OTHER INCOME / (EXPENSES), NET

Other income / (expenses) for the years ended December 31, 2005 and 2004 comprised the following:

	<u>2005</u>	<u>2004</u>
Gain on sale of property rights	3,576	-
Gain on dealing with promissory notes	249	(69)
Surpluses identified during stock-take	300	(59)
Gain / (Loss) on disposal of property, plant and equipment	192	(188)
Reversal of allowance for impairment loss on short-term investments	-	(414)
Other	9	-
	<u><u>4,326</u></u>	<u><u>(730)</u></u>

In December 2005, the Group entered into an agreement to sell property rights on certain of the Group's building with a carrying value of USD 2,200 thousand for a consideration of USD 5,800 thousand payable in various forms and recorded a gain of USD 3,576 thousand on this transaction.

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23. (LOSS) / PROFIT FOR THE YEAR FROM DISCONTINUED OPERATIONS

(Loss) / profit from disposal group held for sale for the years ended December 31, 2005 and 2004 comprised the following:

	<u>2005</u>	<u>2004</u>
Sales	887	3,545
Cost of sales	(801)	(3,205)
Depreciation of property, plant and equipment (Note 7)	(69)	(278)
Selling, general and administrative expenses	(58)	(230)
Financial expenses, net	(5)	(20)
Other expenses, net	115	497
Profit before tax from discontinued operations	69	309
Income tax expense	(78)	(45)
(Loss) / profit from discontinued operations	(9)	264

24. INCOME TAX

The Group provides for taxes based on the statutory financial statements, which are maintained and prepared in Russian Roubles and in accordance with Russian statutory regulations which differ from IFRS.

Deferred taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes. Temporary differences as of December 31, 2005 and 2004 relate mostly to the different methods of income and expense recognition as well as to recorded values of certain assets.

The income tax expense for the years ended December 31, 2005 and 2004 comprised the following:

	<u>2005</u>	<u>2004</u>
Continuing operations		
Current income tax expense	1,686	1,855
Deferred income tax benefit	(263)	(198)
	1,423	1,657
Discontinued operations		
Current income tax expense	-	21
Deferred income tax expense	78	24
	1,501	1,702
Deferred tax charged to equity	6,065	1,164
Total	7,566	2,866

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (in USD and in thousands)

A reconciliation of expected income tax expense to actual tax expense for the years ended December 31, 2005 and 2004 is as follows:

	<u>2005</u>	<u>2004</u>
Profit before tax from continuing and discontinued operations	2,579	5,413
Theoretical income tax expense (at statutory tax rate of 24%)	(619)	(1,299)
Non-deductible expenses, net	(882)	(403)
Income tax expense	<u>(1,501)</u>	<u>(1,702)</u>

Deferred tax assets and liabilities as of December 31, 2005 and 2004, and the movement for the year then ended consisted of the following:

	<u>2005</u>	<u>2004</u>
Deferred tax liabilities at the beginning of the year	<u>2,315</u>	<u>1,203</u>
Recognized in the income statement for the year	-	(174)
Change in deferred tax liability due to acquisition of subsidiaries (Note 5)	5,202	-
Change in deferred tax liability due to disposal of subsidiaries (Note 6)	(1,375)	-
Change in deferred tax liability due to revaluation of fixed assets, charged to equity	6,065	1,164
Translation to presentation currency	(83)	122
Deferred tax liabilities at the end of the period	<u>12,124</u>	<u>2,315</u>

	<u>2005</u>	<u>2004</u>
Deferred tax assets at the beginning of the year	<u>-</u>	<u>-</u>
Loss carried forward	-	755
Receivables valuation	-	100
Change in deferred tax asset due to acquisition of subsidiaries (Note 5)	231	-
Interest expense on promissory notes	185	-
	<u>416</u>	<u>855</u>
Less: valuation allowance	-	(855)
Deferred tax assets at the end of the period	<u>416</u>	<u>-</u>
Net deferred tax liability	<u>11,708</u>	<u>2,315</u>

The unutilized tax losses amounting to USD 755 thousand in 2004, were tax losses of OJSC "Krasnodarelectrostroykonstruksiya", the subsidiary which was disposed off in 2005.

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25. RELATED-PARTY TRANSACTIONS

The Group enters into a variety of transactions with related parties. The most significant of these transactions, which are not specifically disclosed elsewhere in these consolidated financial statements, are the following:

	<u>2005</u>	<u>2004</u>
Sales of goods and services	7,840	10,117
Purchase of goods and services	38,875	173,789
Promissory notes	6,064	1,479
Sales of shares in subsidiaries	1,948	-

For related party balances outstanding as of December 31, 2005 and 2004 see Notes 12, 13, 17, 18, 19.

During the years ended December 31, 2005 and 2004 transactions with related parties were performed by the Group on terms not necessarily comparable with third party commercial transactions.

26. PENSIONS AND RETIREMENT PLANS

During the years ended December 31, 2005 and 2004 the Group made contributions to the Pension fund of the Russian Federation as a part of unified social tax ("UST"). UST is allocated to three social funds, including the Pension fund, where the rates of contribution to the Pension fund vary between 26% to 2%, depending on the annual gross salary of each employee. The contributions are expensed as incurred. As of December 31, 2005 and 2004, the Group was not liable for any supplementary pensions, post retirement health care, insurance benefits, or retirement indemnities to its current or former employees.

Total expense recognised in the income statement in respect of the above pension scheme in 2005 and 2004 are USD 335 thousand and USD 276 thousand, respectively.

27. COMMITMENTS AND CONTINGENCIES

Taxation Contingencies in the Russian Federation

The taxation system in the Russian Federation is at a relatively early stage of development, and is characterised by numerous taxes, frequent changes and inconsistent enforcement at federal, regional and local levels.

The Government of the Russian Federation has recently commenced a revision of the Russian tax system and passed certain laws implementing tax reform. The new laws reduce the number of taxes and overall tax burden on businesses and simplify tax laws. However, these new tax laws continue to rely heavily on the interpretation of local tax officials and fail to address many existing problems. Many issues associated with the practical application of new legislation are unclear and complicate the Group's tax planning and related business decisions.

In terms of Russian tax legislation, authorities have a period of up to three years to re-open tax declarations for further inspection. Changes in the tax system, that may be applied retrospectively by authorities, could affect the Group's previously submitted and assessed tax declarations.

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While management believes that it has adequately provided for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities in the Russian Federation could take differing positions with regard to issues of interpretation. This uncertainty may expose the Group to additional taxation, fines and penalties that could be significant.

Russian Federation Operating Environment

Over the past decade the Russian Federation has undergone substantial political, economic and social changes. As an emerging market, the Russian Federation does not possess a fully developed business and regulatory infrastructure that would generally exist in a more mature market economy.

The current Government is attempting to address these issues; however, it has not yet fully implemented the reforms necessary to create banking, judicial and regulatory systems that usually exist in more developed markets. As a result, operations in the Russian Federation involve risks that are not typically associated with those in more developed markets. Such risks persist in the current environment with results that include, but are not limited to, a currency that is not freely convertible outside of the country, various currency controls, low liquidity levels for debt and equity markets, and continuing inflation. Furthermore, substantially all privatisations in the Russian Federation in the early 1990's were flawed in some manner, and even the most minor administrative flaw in the privatisation documents may be invoked as a basis for challenging the validity of the privatisation process as a whole and thus the title to assets acquired as a result of privatisation. The environment is such that the state, local authorities and administration, the former owners of property and other interested parties can attempt to obstruct normal business operations of a company. Accordingly, the stability and success of the Group's business will depend upon the Government's ability to institute supervisory, judicial and other regulatory reforms.

Guarantees Issued

The Group guaranteed loans for several employees and related parties. The total amount outstanding under these loans as of December 31, 2005 and 2004 was USD 512 thousand and USD 2,514 thousand, respectively.

28. RISK MANAGEMENT POLICIES

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to ensure that it has adequate cash available to meet its payment obligations.

Credit Risk

Credit risk is a risk that counterparty may default or not meet its obligations to the Group on a timely basis, leading to financial loss to the Group. The Group minimizes its exposure to the risk by ensuring that credit risk is spread across a number of counterparties, by subjecting all customers to credit checks and establishing credit limits.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2005 (in USD and in thousands)

Interest Rate Risk

The Group is exposed to interest rate risk as more than half of its borrowings are short term in nature, and the Group's refinancing activities are subject to risks associated with changes in the applicable interest rate.

Management of the Group has adopted a strategy to obtain long-term financing in order to mitigate this risk.

29. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of application of the entity's accounting policies, which are described in Note 4, management has made the following judgments that have the most significant effect on the amounts recognized in the financial statements.

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of Goodwill – Goodwill related to the current year's acquisitions will be tested for impairment at 31 December 2006 which will require an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Compliance with Tax Legislation – As discussed above in Note 27, compliance with tax legislation, particularly in the Russian Federation, is subject to significant degree of interpretation and can be routinely challenged by the tax authorities.

30. SUBSEQUENT EVENTS

In March 2006, a decision was taken to increase the Group's share capital by USD 2,000 thousand by issuance of new shares to Cassar World Investments Inc.

In May 2006, the Group issued bonds with a face value of RUR 1,300 million (approx. USD 48,170 thousand at the exchange rate on the date of issue). The bonds bear interest of 10.70% per annum and mature in May 2011.