



# **CHELYABINSK ZINC PLANT**

## **2006 Annual Results**

# CHELYABINSK ZINC

CZP is the largest producer of zinc and zinc alloys in Russia, both by production volume and sales revenues, and has some of the most technologically advanced production facilities in the global zinc industry



## Company overview:

Country: Russia

Sector: Non-Ferrous Industry

## Key contact:

Chairman: Sergei Moiseyev

IR: Tatyana Krasnousova

## Charter Capital Structure:

Charter capital: 5,419,541 RUR

Common Shares Outstanding: 5,419,541<sup>(1)</sup>

Ticker: CHZN

GDR:ORD ratio: 10:1

Stock: LSE, RTS

(1) 1,273,592 Shares are traded in the form of GDRs



## **Zinc Market Update**

# Global Zinc Metal Market Overview

Zinc industry is affected by a combination of factors including periods of economic growth and recession, worldwide production capacity, inflation

Zinc industry is cyclical in nature, with cycles averaging c.15 years

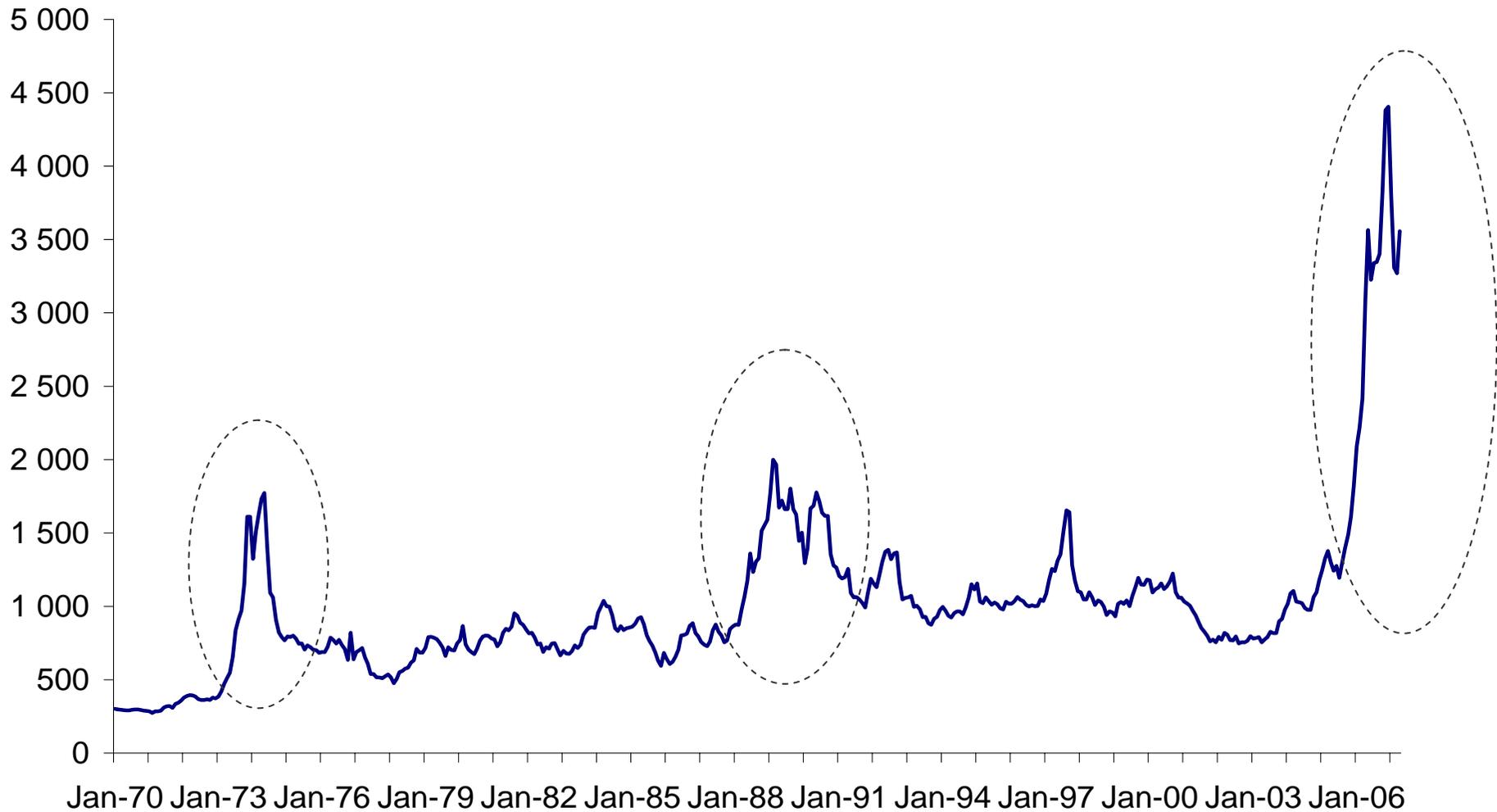
On November 23, 2006 LME zinc price hit new highs of US\$4,619

LME zinc inventories hit new lows and reached 84.8kt on December 1, 2006

2006 zinc price growth has been driven mainly by the extraordinary development in China

Increasing interest from funds helped drive base metal prices

# Global Zinc Metal Market Overview



Source: LME, Brook Hunt.

Note: Average cash LME price. Historical prices without adjustment for inflation



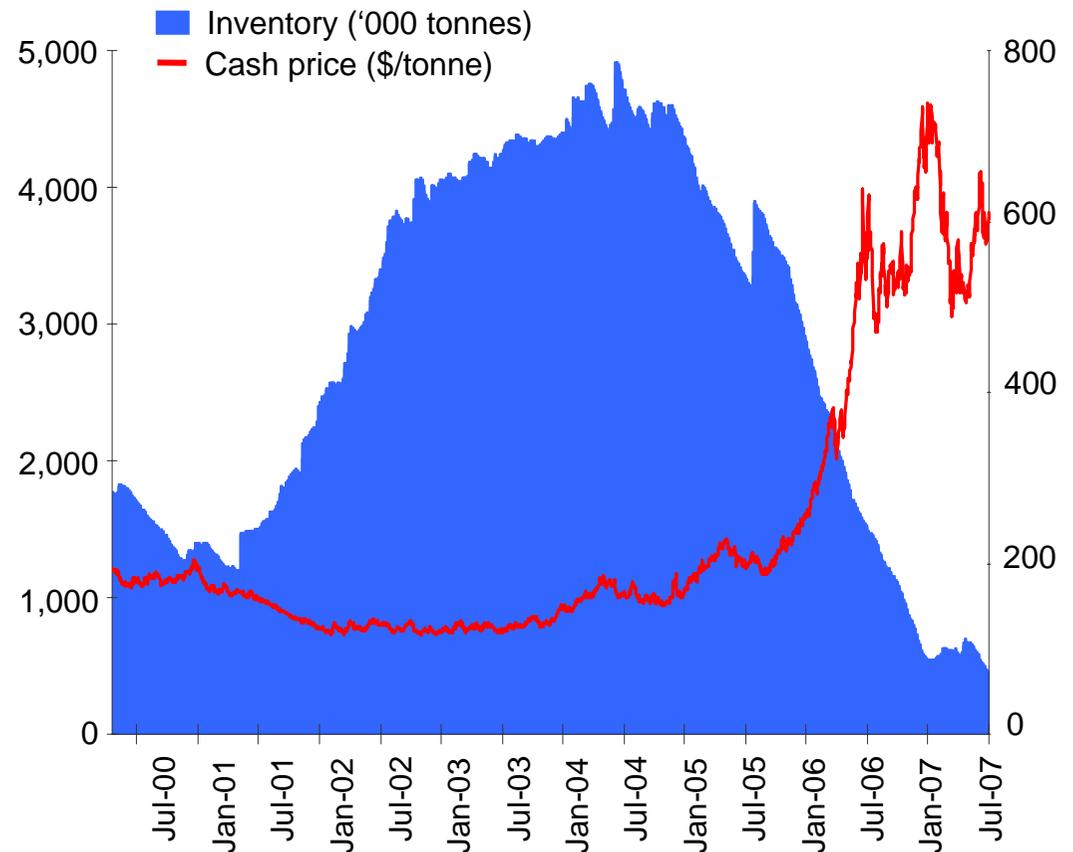
# Global Zinc Metal Market Overview

Underinvestment in zinc industry during the period of low prices (2001 – 2004) lead to restricted supply and a concentrates squeeze

The latest bull run in zinc prices started in July 2005, driven by growing demand and declining LME stocks

Sky high prices were caused not only by tight fundamentals, but investment fund activity

### LME zinc price and inventory



Source: London Metal Exchange

# Global Zinc Metal Market Overview

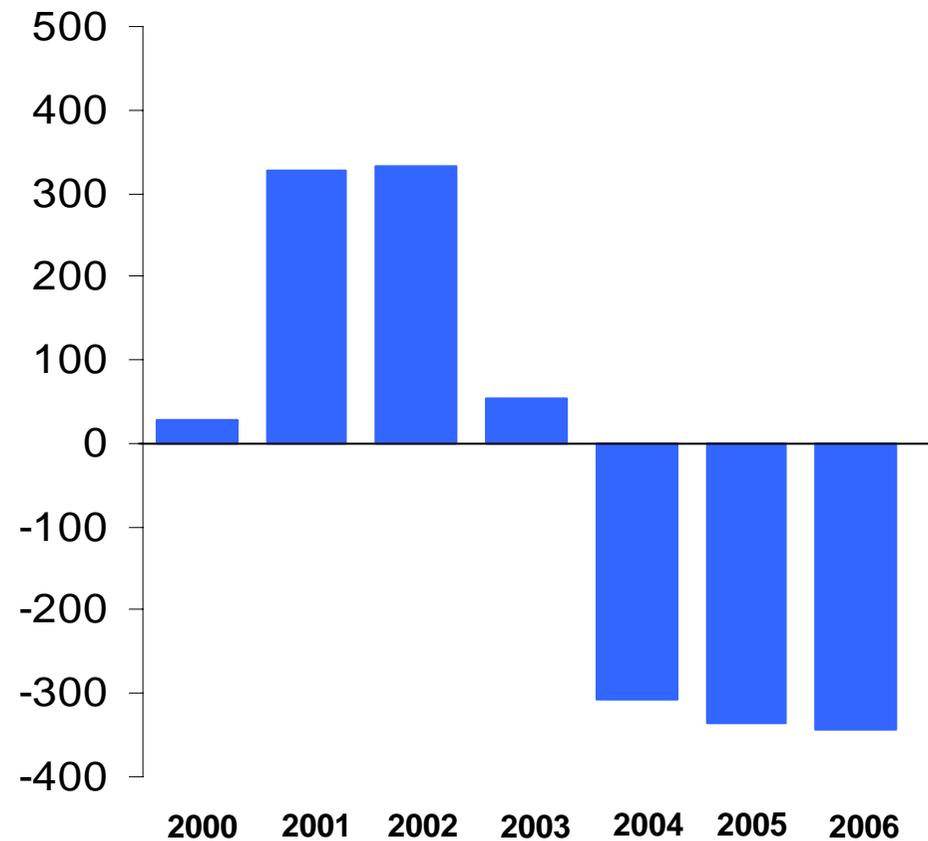
From 2004 zinc demand started to rise. Mine production capacity was insufficient to meet smelters' needs and, therefore, metal demand

Majority of the increased demand has come from zinc-coated steel production

Extraordinary development in Asia, mainly China, was the key industry driver

## Zinc Metal World Balance

(tonnes in thousands)



Source: International Lead and Zinc Study Group (ILSG)

# Chinese Impact on Global Zinc Market

China was the largest single producer in 2006 with 3.1 million tonnes of zinc (30% of global zinc production)

Both metal and concentrates production capacity is increasing

Forecasts of zinc production in China in the medium-term have to be taken with caution due to :

- energy shortage
- undeveloped infrastructure
- environmental issues
- government control



Source: International Lead and Zinc Study Group (ILSG)

# CIS Zinc Market Overview

Most zinc producers survived after collapse of USSR

One new plant was built – Balkhash

Overall CIS metal production is close to the level of the Soviet era

All plants, with the exception of Almalyk, were privatized and restructured

## Zinc metal production in CIS

*(tonnes in thousands)*

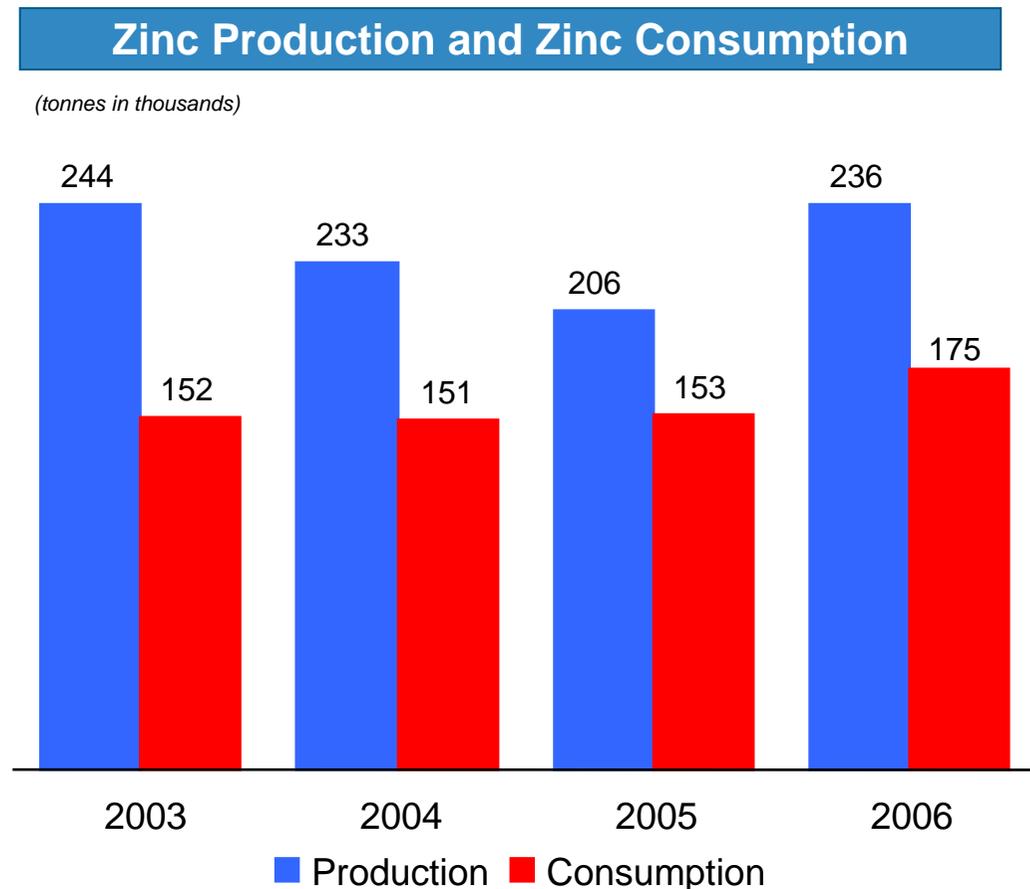
Producer	Projected capacity	Production	
		2005	2006
Chelyabinsk Zinc Plant <i>(Russia)</i>	200	116	148
Electrozinc (UMMC) <i>(Russia)</i>	100	90	88
Kazzinc <i>(Kazakhstan)</i>	300	287	289
Balkhash zinc plant <i>(Kazakhstan)</i>	100	51	59
Almalyk MMC <i>(Uzbekistan)</i>	120	42	46
<b>Total</b>	<b>820</b>	<b>586</b>	<b>630</b>

# Russian Zinc Market Overview

Russian zinc production recovered, since the decline of the early 1990s, due to increased demand from the steel producers and the construction sector

Russian zinc accounted for 9% and 2% of the European and global zinc production in 2006, respectively  
*(Source: Brook Hunt)*

Consumption increased due to expansion of continuous galvanizing capacity



# Russian Zinc Market Overview



# Russian Zinc Market Overview

## Zinc in concentrates production and mines under construction

('000 tonnes)

Company	Mine	Location	2006	Expected start up	Expected production <sup>(1)</sup>
CZP	Akzhalsky	Rep. of Kazakhstan	32		
	Amurskoe	Chelyabinsk region	–	2010	50
UMMC	Altaisky	Altaisky kray	4		
	Gaisky	Orenburg region	9		
	Severny	Sverdlovsk region	–	2008	30
	Uchalinsky	Bashkortostan	119		
	Sibaisky	Bashkortostan	2		
RCC	Alexandrinsky	Chelyabinsk region	7		
	Orsky	Orenburg region	14		
	Priorsky	Rep. of Kazakhstan	–	2008	20
	Chebachie	Chelyabinsk region	–	2010	150
Dalpolimetal	–	Primorsky kray	16		
Metropol	Ozyornoe deposit	Altaisky kray	–	2012	250
	Kholodninskoe	Altaisky kray	–		250
Summa	Sardana	Yakutiya	–	2015	150
<b>Total</b>			<b>203</b>		

Source: CZP, Russian deposits cadastre

(1) Expected production at full capacity

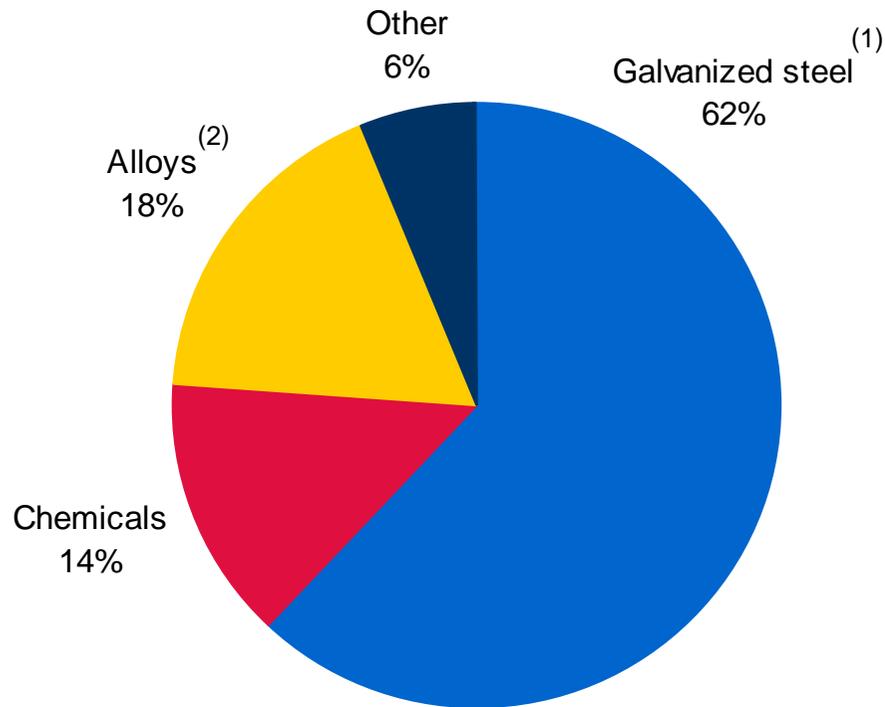
# Russian Zinc Market Overview

2006 :  
produced 236 000 tonnes of zinc metal  
produced 171 000 tonnes of zinc in concentrate  
consumed 175 000 tonnes of metal  
exported 75 000 tonnes of zinc  
imported more than 27 000 tonnes of zinc metal  
imported 28 000 tonnes of zinc in concentrate

In 3-7 Years:  
planning to double zinc metal production  
double or triple zinc concentrate production  
increase domestic consumption up to 300 000 tonnes

# Russian Zinc Market Overview

## Russian Zinc Market Structure

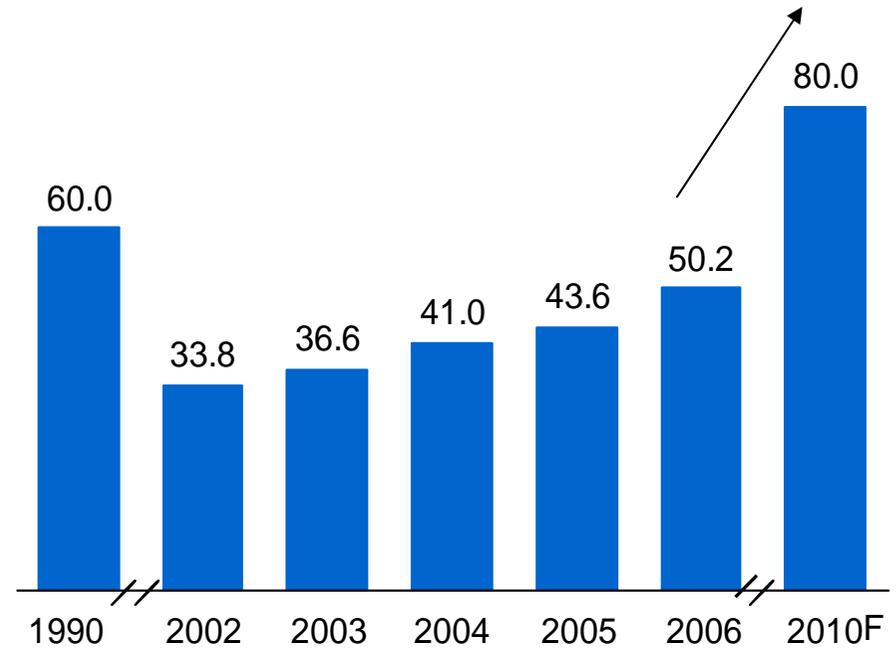


- (1) Includes 10% of galvanized steel produced using dipping method
- (2) Includes Brass

## Housing Construction in Russia

(million of sq m)

CAGR 2006-10F = 12.4%

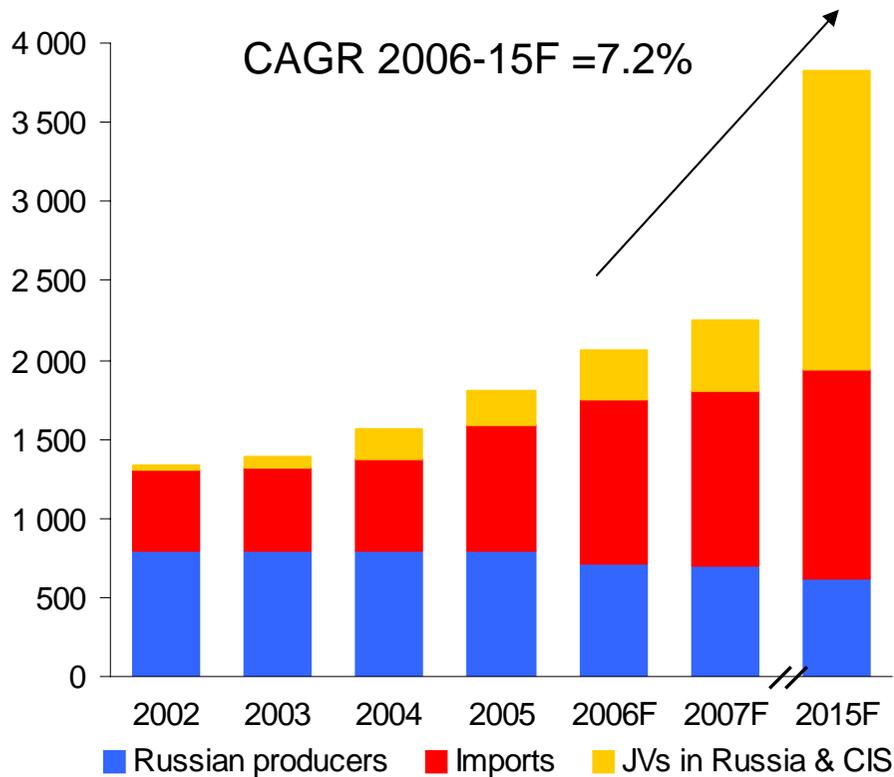


Source: The Federal Agency for Construction and Housing, [www.gostroy.gov.ru](http://www.gostroy.gov.ru)

# Russian Zinc Market Overview

## Russian Car Market

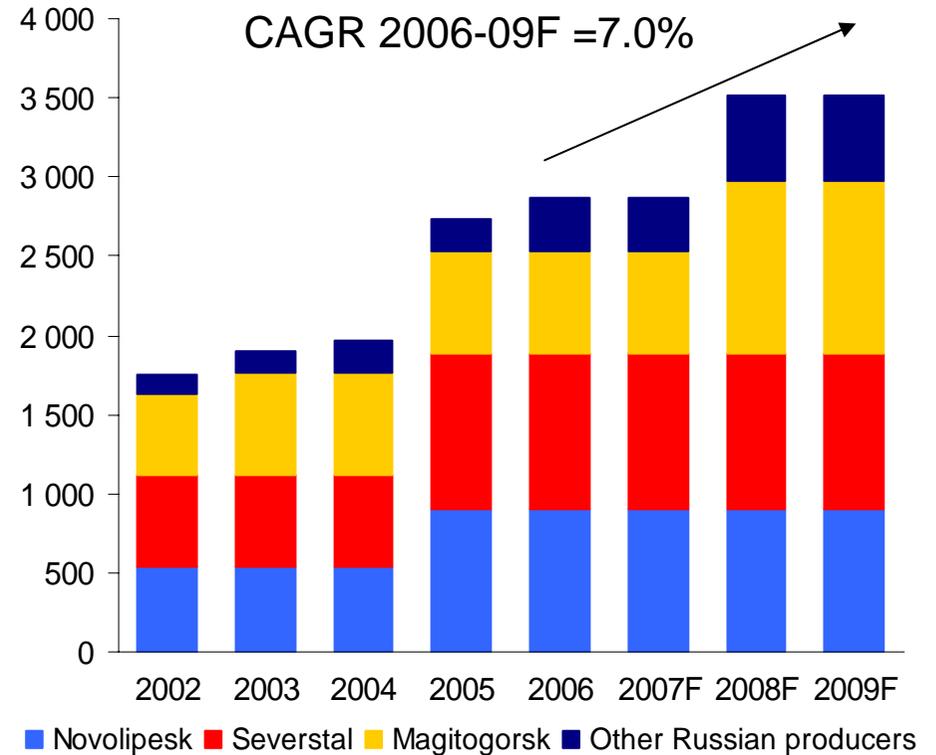
('000 units)



Source: GTK, Goskomstat, Company data, Deutsche UFG Research estimates

## Growth in Galvanizing Steel Capacity

('000 tonnes)



Source: www.metalinfo.ru



## **Operations Overview**

# Zinc Concentrate Supply

In 2006, deliveries of domestic concentrate represented 72% of CZP's requirements

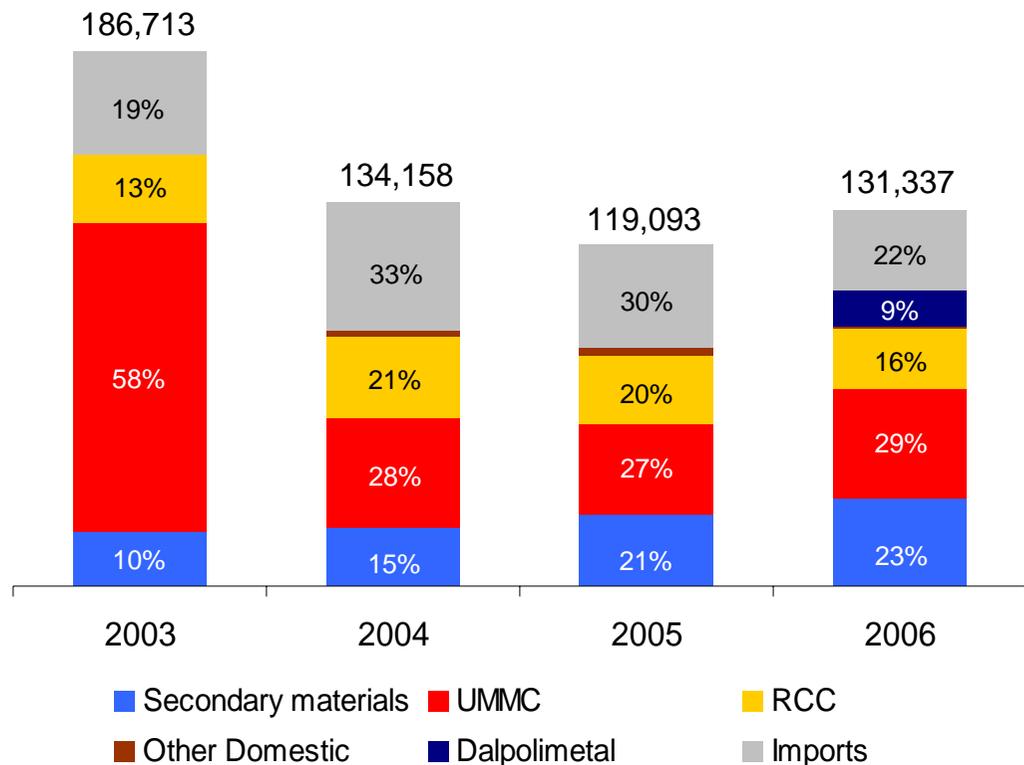
In 2006, CZP paid on average 60% of LME price for zinc concentrate

Shift to long-term contracts with core domestic suppliers – UMMC, RCC

CZP obtains additional feedstock from secondary materials

## Raw Materials Supply

(in tonnes)



# Zinc Operational Overview

CZP core products are SHG zinc and zinc alloys, indium and cadmium.

In addition CZP produces and sells various by-products

## Product Mix

*(in tonnes, except otherwise noted)*

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
Zinc (incl. Zinc Alloys)	177,336	151,974	116,366	148,384
Indium (kg)	6,572	3,603	3,622	3,326
Cadmium	486.7	372.3	417.7	464.3
Sulphuric Acid	311,200	249,430	157,090	240,050
Zinc in Sulphate	3,015	2,418	2,373	3,020
Lead Cake	5,919	6,726	7,234	9,622
Copper Clinker	72,904	72,923	74,346	73,820

# Zinc Operational Overview

## CZP is focused on its core domestic market

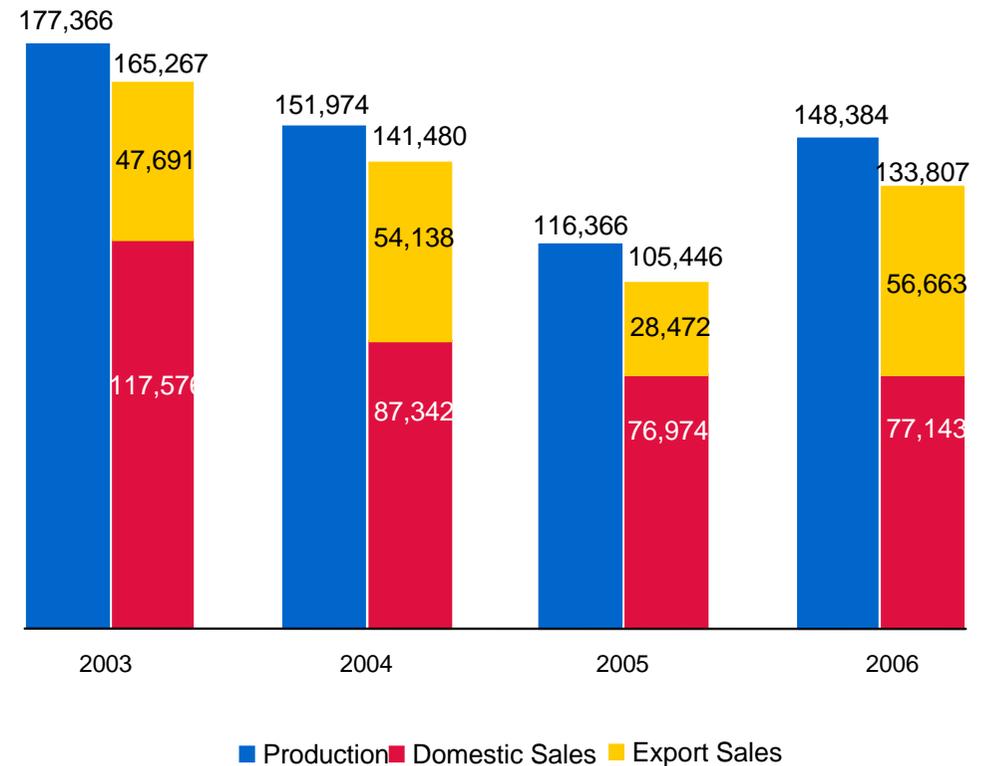
In 2006, Russia accounted for 58% of zinc sales by volume and for approximately 60% of total sales revenues

## CZP enjoys long standing relationship with its largest customers

Three largest domestic customers represented more than 50% of total sales by volume

## Zinc Production and Sales

(in tonnes)



# Zinc Operational Overview

SHG zinc is sold to most Russian flat steel producers

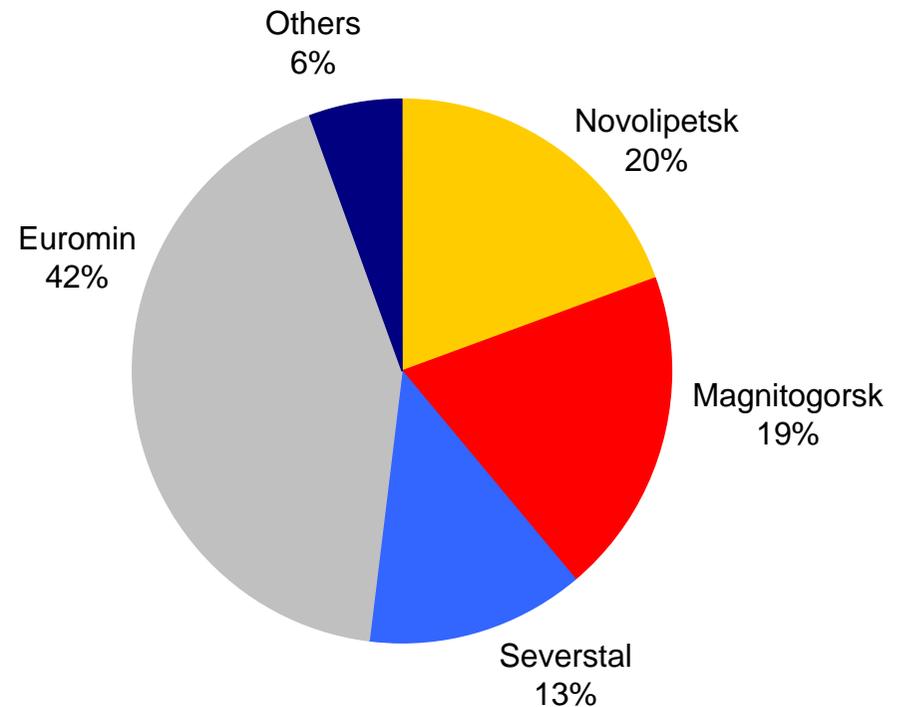
The alloys were introduced to accommodate large customers who showed preference for zinc aluminium alloys over pure zinc

Jointly with Euromin, CZP is developing a long-term strategy for expansion of the customer base abroad

On June 8<sup>th</sup> CZP acquired Brock Metal to secure 20,000 tonnes sales in the UK

## Zinc Sales by Customer (2006)

(in tonnes)





## **Financial Review**

# Income Statement Highlights

(RUB in millions)

	Standalone			Consolidated
	2003	2004	2005	2006
Sales	4,101	3,972	4,791	14,985
Gross Profit	692	607	747	4,859
<i>Margin, %</i>	17%	15%	16%	32%
EBITDA	707	623	658	4,922
<i>Margin, %</i>	17%	16%	14%	33%
Net Income	205	148	147	2,872
<i>Margin, %</i>	5%	4%	3%	19%

Note: EBITDA and Net Income for 2004 are adjusted for an extraordinary item in the amount of RUB 209.3 mln that represented property insurance

Source: CZP's audited IFRS financial statements for the years ended 31 December 2003, 31 December 2004, and 31 December 2005  
 CZP's audited IFRS consolidated financial statements for the year ended 31 December 2006

# Factors Contributing to Revenue Growth

**CZP demonstrated significant growth in sales revenue:**

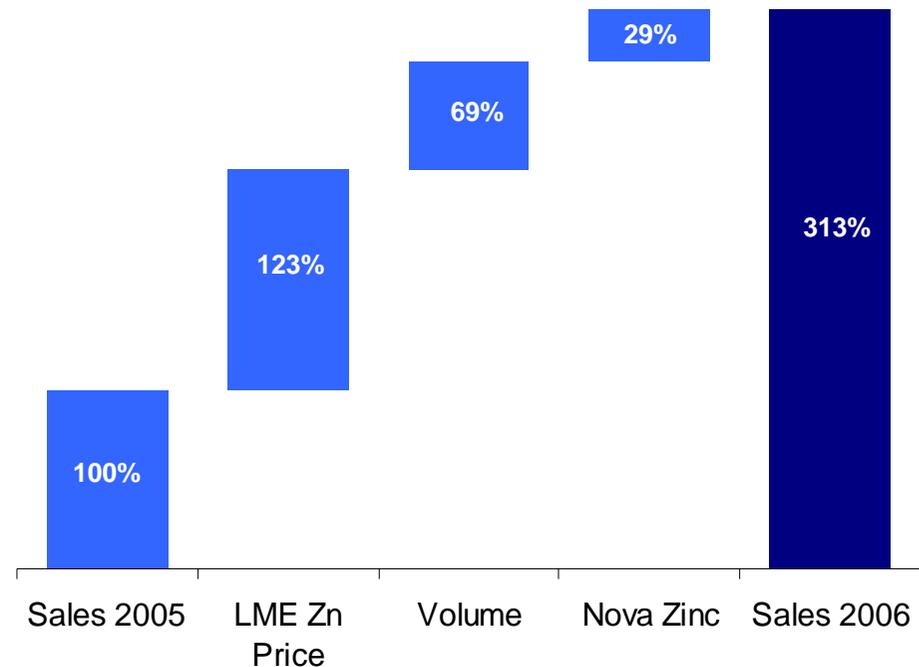
LME annual average zinc price increased from \$1,382 in 2005 to \$3,273 in 2006

Zinc production increased by 27% to 148,400 tons (2005: 116,400)

Acquisition of Nova Zinc became revenue accretive, contributing over 9% in sales revenue

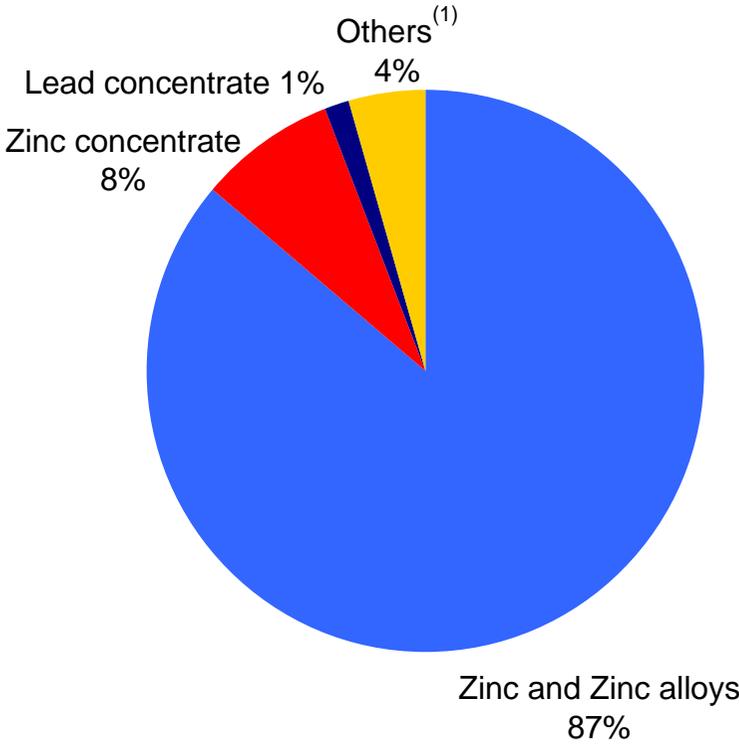
## Underlying Factors of Revenue Growth

(%)

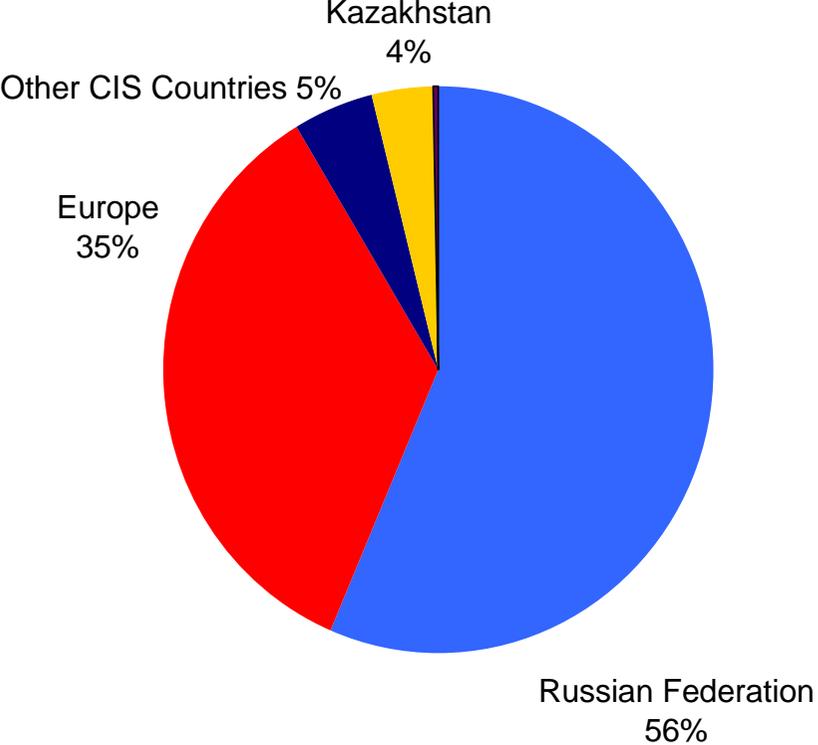


# Consolidated Revenue Structure

**Sales Analysis by Product (2006)**



**Sales Analysis by Destination (2006)**



(1) Other revenue comprised sales of zinc production process by-product including: indium, cadmium, sulphuric acid and other products

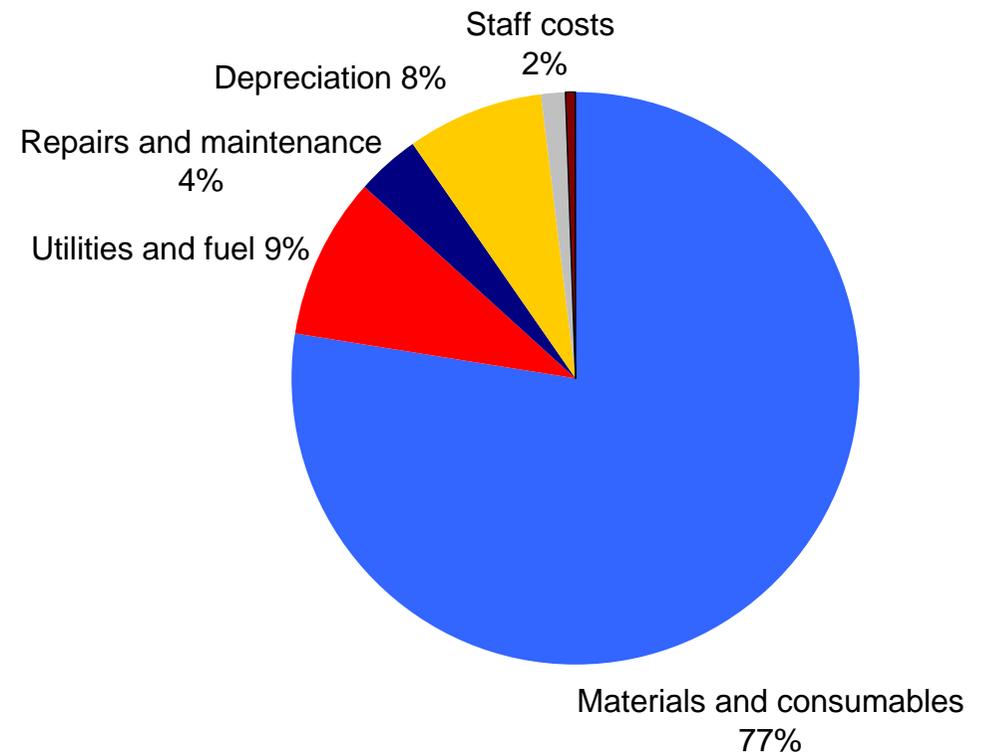
# Consolidated Cost Structure

The cost of zinc concentrate, secondary raw materials and auxiliary materials used in the production process makes up the majority of the cost of materials and consumables

In 2006 the average cost of electricity increased by 11% to RUR1.11 a kWh (2005: RUR1.00 a kWh)

CZP employed 2,955 people, of whom 1,126 were employed at Nova-Zinc

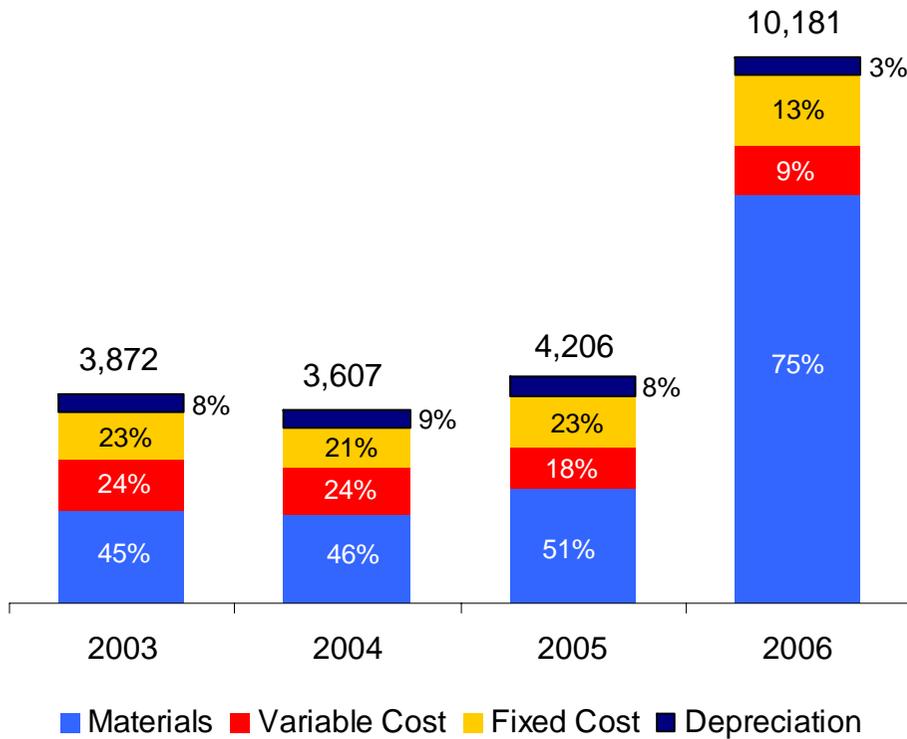
## COGS Structure (2006)



# Cost Composition

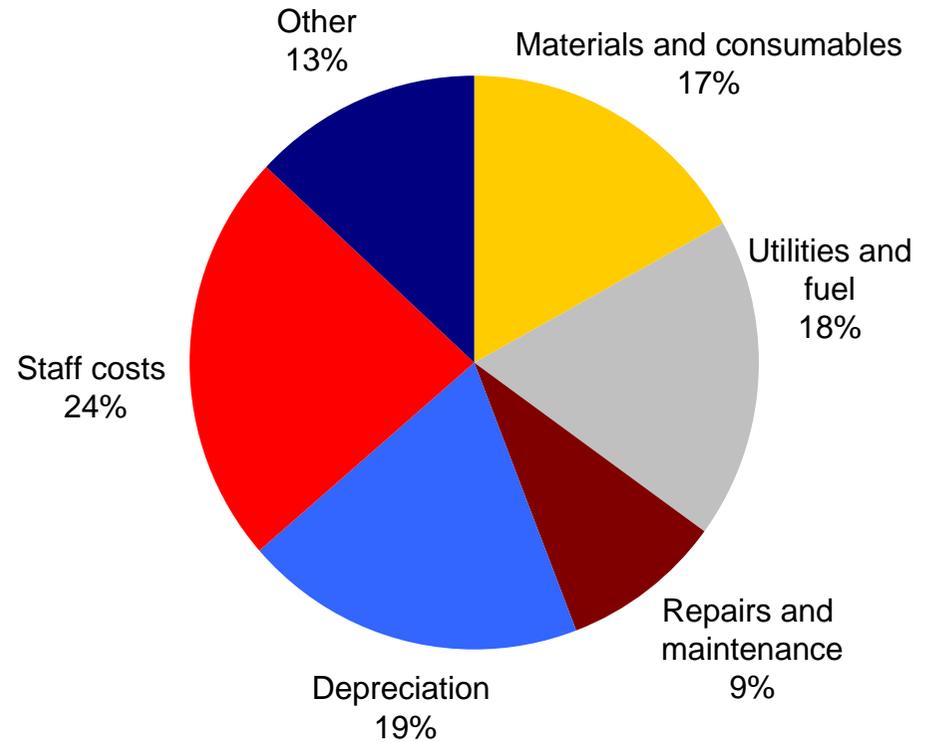
## Smelting Segment

(RUB in millions)



Source: CZP Management Accounts

## Mining Segment (2006)

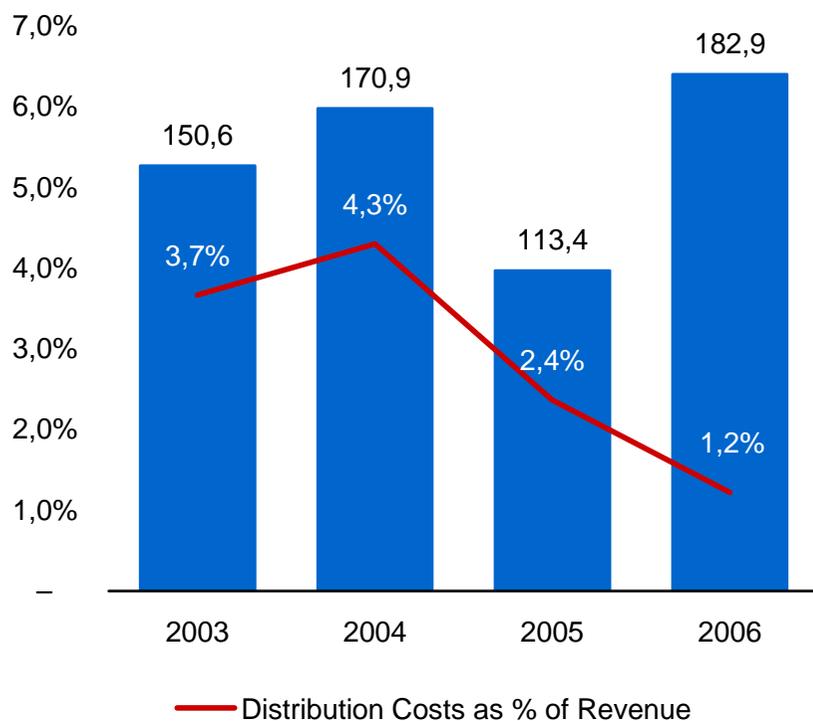


Source: CZP Management Accounts

# Distribution, General and Administrative Expenses

## Distribution Cost

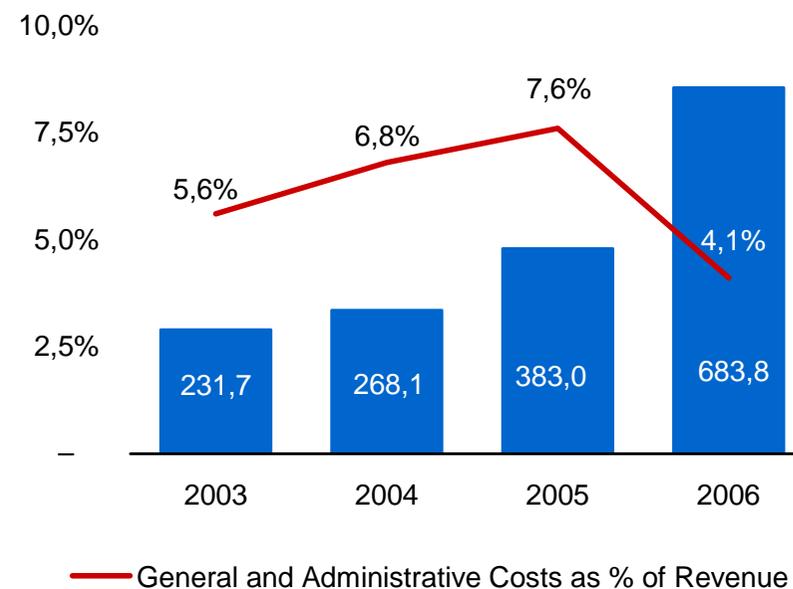
(Rbls in millions)



Source: CZP's audited IFRS financial statements for the years ended 31 December 2003, 31 December 2004 and 31 December 2005  
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## General and Administrative Costs

(Rbls in millions)



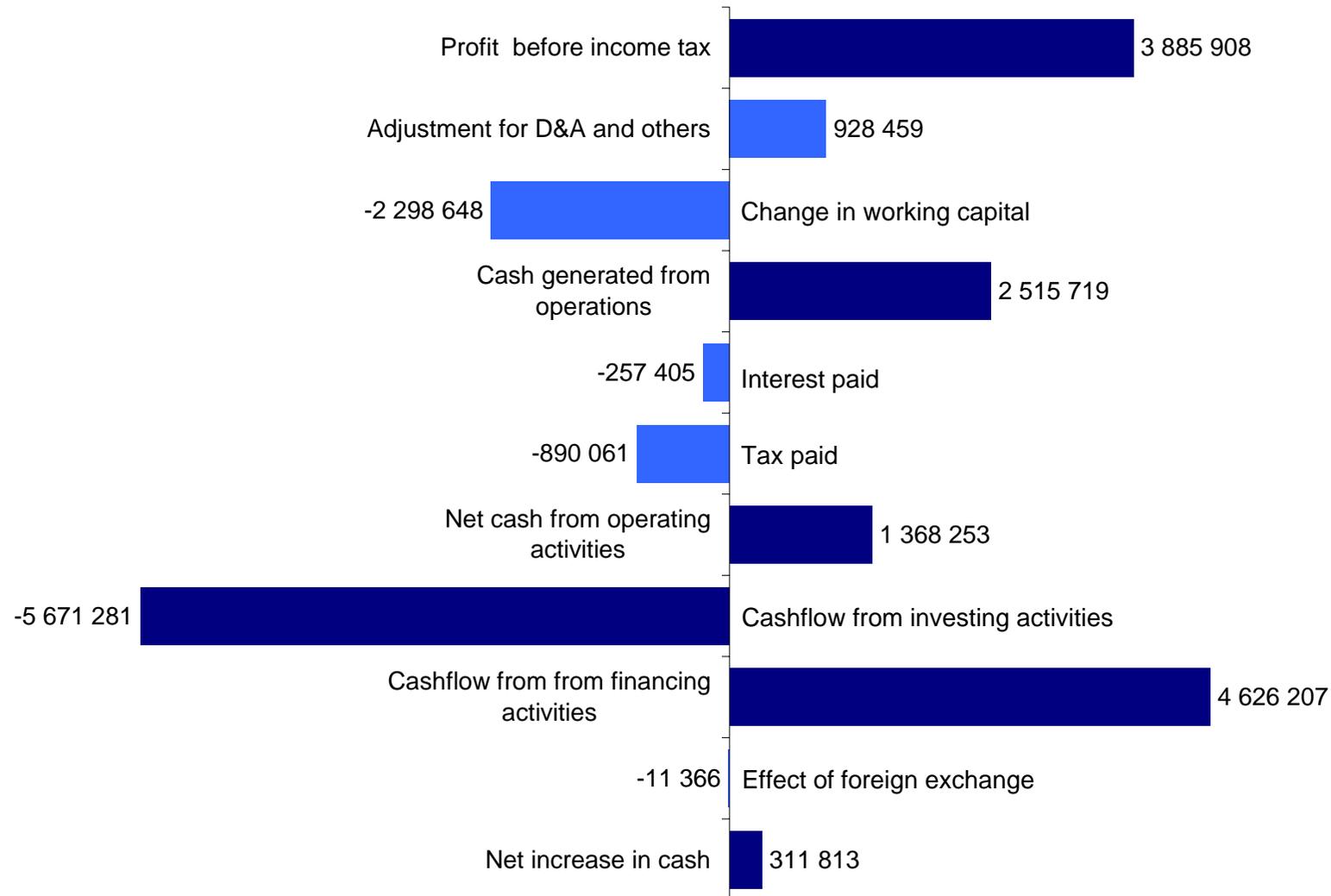
Note: G&A costs for 2004 exclude an extra-ordinary item in the amount of Rbls 209.3 million (representing property insurance)

# Balance Sheet and Cash Flow Highlights

(RUB in millions)	Standalone			Consolidated
	2003	2004	2005	2006
<b>Balance Sheet</b>				
Total Assets	5,380	5,030	5,674	14,165
Total Debt	642	447	270	3,470
Net Debt	549	259	138	1,534
Shareholder's Equity	4,273	4,211	4,358	8,368
<b>Cash Flow Statement</b>				
Net cash from operating activities	309	561	65	1,368
Net cash from/(used in) investing activities	(346)	(306)	64	(5,671)
Net cash from/(used in) financing activities	27	(155)	(188)	4,626

Source: CZP's audited IFRS financial statements for the years ended 31 December 2003, 31 December 2004 and 31 December 2005  
 CZP's audited IFRS consolidated financial statements for the year ended 31 December 2006

# Cash Flow Analysis





## **Strategy**

# CZP Tomorrow – Delivering Further Value

<b>Continued Focus on Capturing Margin</b>	<p>De-bottlenecking to deliver increased yields and profitability</p> <p>Developing mining business</p> <p>Maintaining Substantial premium to LME zinc price on domestic sales</p> <p>Ongoing rationalisation of cost base</p>
<b>Capitalise on Natural Location Advantages</b>	<p>Proximity to zinc concentrate suppliers and zinc customers</p> <p>Growing domestic zinc market</p> <ul style="list-style-type: none"><li>- Construction boom</li><li>- Growing galvanising capacity</li></ul>

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