

Company Number: 4897906

Aricom Plc
Annual Report and Accounts

2004



Aricom was founded to exploit the China and Russia TiO_2 opportunity.

The Group is developing two stand-alone projects that will ultimately combine to form a low-cost vertically-integrated titanium dioxide production and marketing business focused on the high-growth markets of China and Russia.

The first of these projects is a mining and beneficiation operation based on the Kuranakh deposit in the Far East of Russia producing ilmenite concentrate and iron ore, in the form of titanomagnetite concentrate.

The second project is the construction of a 70,000-80,000tpa titanium dioxide processing plant, which will source its ilmenite feedstock from Kuranakh and sell final TiO_2 products to the paint, plastics and paper sectors in China and Russia.

The Group's planned operations are in the Amur Region, in the Far East of Russia, close to the key Chinese market.

Aricom, a future low-cost vertically integrated producer of high-quality titanium dioxide, serving high-growth markets in China and Russia.

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Operational Highlights

Phase 1 of feasibility study on technical and economic feasibility of a TiO₂ business in Russia completed by Ferrostaal with technical input from Sachtleben

Completed Russian pre-feasibility studies on the mining and beneficiation operations at Kuranakh and Olekma

Confirmation of the economic presence of iron ore, in the form of titanomagnetite, at the Kuranakh deposit

Indications of the presence of gold and zircon at Kuranakh

Offtake agreements signed for the future sale of Aricom's mine products

Placing of 38.25m shares completed in March 2005, raising approximately US\$20m (US\$18m net of costs)

Chairman's Statement

Dear Shareholder,

It is a great pleasure to present our first Annual Report and Accounts covering the progress we have made during the period from September 2003 to December 2004. 2004 has been a busy year for the management of Aricom as it has sought to lay the foundations for the transformation of the Company into a fully fledged operating entity.

Sir Malcolm Field
Chairman

Future Strategy

In November 2004 we announced that following extensive research studies during 2004 we have been able to confirm not only the market opportunity described in the AIM Admission Document in December 2003 but also that there is substantial potential for us to fulfil our vision of becoming a vertically integrated TiO₂ producer.

The future strategic direction for Aricom is to be delivered in two stages:

- The construction and development of the mining operation at Kuranakh and the beneficiation plant at Olekma.
- The construction of a processing plant to produce 70,000-80,000 tonnes per annum of TiO₂ pigment.

Tom Swithenbank, our Chief Executive Officer, provides details of delivery of these plans in his CEO's Report. When both of these stages are completed we will have unlocked the benefits of being a vertically integrated TiO₂ producer.

The cash expenditure during 2004 is described by Peter Howes, our Finance Director, in his report. It has been a year mainly of investment expenditure on the future direction of the Group. Since the year end we have completed a successful placing of 38.25 million shares at 28p raising approximately US\$20 million (US\$18 million net of expenses), providing cash facilities to complete the technical and economic feasibility study for the mining project and to undertake certain preparatory works at Olekma and Kuranakh, in addition to funding ongoing operational expenditure for the Group through to the first quarter of 2006.

Work completed in 2004

- Review by Dalgeofizika of the historical work carried out on the resource base at Kuranakh
- Detailed exploration of Zone 3 of the Saikta deposit at Kuranakh by Dalgeofizika
- Mine plan by Gornoobogatitelni Technologies for the exploitation of Zone 3 of the Saikta deposit
- Economic plan on the development of Zone 3 by Vnippirom Technology
- Hydrogeological study by Gidek
- Study on the appropriate technology for the beneficiation of ilmenite and titanomagnetite ore at Kuranakh by VIMS
- Study on the technological properties and concentration of titanomagnetite ore from Kuranakh by DVIMS
- Study on the suitability of Kuranakh ore for the production of titanomagnetite and ilmenite concentrates by Studiengesellschaft für Eisenerzaufbereitung

"Since the year end we undertook a successful fundraising of US\$20m (US\$18m net of expenses)."

Sir Malcolm Field

Market Positioning

Aricom's plan is to become a low-cost vertically integrated producer of high-quality TiO_2 , serving the high-growth markets of Russia and China. We are encouraged by the planning and development work we have undertaken on the mining programme. We are enthusiastic about its potential to provide good-quality ilmenite ore and iron ore in the form of titanomagnetite. The presence of iron ore has substantially changed the economics of the mining project, with indicated returns exceeding management's original expectations. We are very enthusiastic about the prospects for the mine as a profitable and cash-generative business, particularly given the recently announced price increases in excess of 70% for existing iron ore producers. The recent discovery of gold and zircon, albeit not yet quantified, could offer another potential source of substantial revenue. Our plan for the mining operation as a stand-alone operation should provide good returns to investors and will be an important source of competitive advantage to our TiO_2 processing operation.

The key foundations for the establishment of a vertically integrated low-cost producer of high quality TiO_2 are being put in place and will be developed further in 2005. They cover the mine located at Olekma, close to the Chinese border, the favourable findings from our geological studies regarding our products, the suggested location of our TiO_2 processing plant at Tynda and the further development of our wholly-owned marketing and distribution company, Chemelt.

We have yet to finalise arrangements with a technology licence provider for our processing plant but I am pleased to report we are continuing our discussions with a number of very interested parties and expect to conclude a deal over the course of the coming year.

We remain confident with our assumptions of continuing strong growth in both the Russian and Chinese markets and increasing demand for our products.

Anglo-Russian Partnership

The strong links with Peter Hambro Mining Plc and its considerable experience and operational success in the Far East of Russia is helping Aricom to establish a strong Anglo-Russian partnership which is essential to our future success.

We are building a strong management team in both the UK and Russia. During the year we were delighted to welcome to the Board, Mr Yuri Makarov, who is responsible for developing and managing our mining operation.

Aricom Values

We are establishing a value-based culture founded on safe work practices for our employees and conducting business in a sustainable, socially and environmentally responsible way. We want our employees to experience the personal satisfaction that comes with high performance and recognition. We want our shareholders to realise superior returns on their investment and to know their company operates best practice corporate governance. This is the culture we intend to create across this young and growing company.

Future Investment

The successful fundraising of approximately US\$20m (US\$18m net of expenses) completed in March 2005 will enable us to fund the next stages of developing the mine at the Kuranakh deposit and part of the construction at the mine site of a beneficiation plant. The completion of this work is currently intended to be funded by further equity and/or debt financing to be sought later this year.

We are most grateful for the support of our shareholders and thank you for the confidence you have shown in us.

Sir Malcolm Field
Chairman

Aricom at a Glance

The market we work in

Titanium dioxide is a white pigment used primarily in the paints, plastics and paper industries. The global titanium dioxide market generates approximately US\$8bn of annual sales, based on the production of 4.5m tonnes per year. Following a wave of consolidation in the 1990s, the top five producers hold 73% of global production capacity, with 75% of total capacity located in North America and Western Europe.

Whilst the markets in Western Europe and North America are deemed to be mature, the developing markets of Russia and China are seeing very attractive growth in TiO₂ consumption. These are the markets that Aricom is focusing on.

The Aricom Plan

Aricom Operation

Mining & Beneficiation

Producing feedstock for Aricom's planned TiO₂ processing operations and iron ore for the iron and steel industries.

Vertical Integration

Traditionally the TiO₂ feedstock and production sectors have been distinct from one another, with TiO₂ producers in America, for example, often sourcing their raw material in Africa or Australia. Aricom is proposing to bridge this gap by becoming a vertically-integrated producer of titanium dioxide, producing ilmenite feedstock from its proposed mine at Kuranakh to feed its intended TiO₂ processing plant, a site for which has been identified at Tynda. The proximity of the operations to one another minimises transportation costs and should ensure a ready supply of raw material.

Processing

Producing high-quality titanium dioxide at low cost for sale into China and Russia.

Marketing

To manage the sales of Aricom's future production of TiO₂.

Aricom Locations

The Amur Region is located in the Far East of Russia on the border with China. Locating Aricom's operations in Amur allows the Group to benefit both from the cost advantages of locating in Russia as well as from the proximity to its key intended markets, Russia and China, thus reducing the costs of transporting the final product to the end customers. These should allow Aricom to be cost competitive in its chosen markets.

- US\$8bn market
- 4.5m tpa TiO₂ production
- Top 5 producers hold 73% of the global market
- 75% production capacity in W.Europe and N.America
- Tightly held technology
- China and Russia seeing high growth in TiO₂ consumption

TiO₂ Global Market

1. DuPont	22%
2. Millenium	15%
3. Kerr McGee	13%
4. Huntsman	13%
5. Kronos	10%
6. ISK	5%
7. Kemira	3%
8. Others	19%

Business Activity	Products	Expected Start of Production
A proposed mining and beneficiation operation based at Kuranakh in the Amur Region producing 240,000tpa of ilmenite concentrate and 660,000tpa of iron ore, in the form of titano-magnetite concentrate, based on the annual extraction of 2.2mtpa of ore. The ilmenite concentrate is to feed Aricom's proposed titanium dioxide processing plant. The titano-magnetite concentrate, a form of iron ore, is to be sold to Chinese clients. Two conditional offtake agreements have been signed for the sale to China National Gold Corporation of a minimum of 3,300,000 tonnes of titano-magnetite concentrate and 360,000 tonnes of ilmenite concentrate once the mine comes on stream. The presence of gold and zircon has also been indicated in the tailings of the beneficiation process and additional work has been commissioned to ascertain the economic viability of extracting these two products.	Mine products Ilmenite concentrate. Titano-magnetite concentrate (Iron ore) Possible co-products Zircon Gold-containing ores	4Q07
Aricom is proposing to build a 70,000-80,000tpa titanium dioxide processing plant in the Amur Region. A pre-feasibility study carried out by Ferrostaal AG, the German engineering company, with technical input from Sachtleben, the German titanium dioxide producer, has shown the economic and technical feasibility of the project. The Company is currently in discussions with a number of parties regarding the provision of technology for the production of TiO ₂ . The plant is intended to produce a high-quality pigment at low cost for sale into the markets of China and Russia.	TiO ₂ processing products Titanium dioxide pigment Possible co-products Coppers Gypsum	4Q08
Aricom intends to focus its sales of TiO ₂ into the markets of China and Russia. A wholly-owned trading and distribution company, Chemelt, was established in Moscow in 2002, which currently trades third party titanium dioxide products in the Russian market. Chemelt has been posting encouraging growth and is laying the foundations of Aricom's distribution network in Russia for the sale of its intended future production of titanium dioxide.	End user info Paints Plastics Paper	Current

Mining

Kuranakh is located 35kms from the settlement of Olekma, which is on the Baikal Amur Magistral (BAM) railway. It is this proximity to a key Russian rail line which allows mine products to be moved economically.

Processing

A site has been identified for the location of the TiO₂ processing plant at Tynda, which is situated 440kms from Olekma via the BAM railway. Tynda has a population of 45,000 and offers the amenities and access to labour, water and energy required for the successful operation of a processing plant.

Marketing

Chemelt operates from Moscow, serving a Russian client base. Its location allows it to access the most important Russian clients, which are principally located in European Russia. It also maintains links with its key suppliers in Ukraine, Saudi Arabia and Israel.

Chief Executive's Review

I am pleased to report on Aricom's first year of development towards becoming a low-cost vertically-integrated producer of high-quality titanium dioxide to serve the markets of Russia and China.

Tom Swithenbank
Chief Executive

Since the admission to trading of Aricom's shares on the London Stock Exchange's AIM market in December 2003 and the associated acquisition of Peter Hambro Mining Group's titanium assets, we have been working hard to lay the foundations of our business.

An important step was achieved in March 2005 with the successful placing of an additional 38.25 million shares with investors in the UK and Europe, which raised approximately US\$20 million (US\$18m net of expenses) to fund the next stage of our development. These funds will be used to initiate the construction of the mining and beneficiation operations at Olekma and Kuranakh and to provide the Group with working capital.

Aricom looks to the success of Peter Hambro Mining plc as a model for its own development, combining skills available both in Russia and the UK to create a true Anglo-Russian partnership. During the last year the Company formed an operating subsidiary, OOO Aricom, which is located in Russia and headed by Yuri Makarov, who is primarily responsible for managing Aricom's mining and marketing operations in Russia.

What is Titanium Dioxide?

When most people think of titanium, they do so in its metallic form. In fact, over 90% of titanium feedstock is processed into titanium dioxide (TiO₂), a white pigment used extensively in the paints, plastics and paper industries as well as in a host of other products, such as pharmaceuticals and cosmetics. It is its hiding power – its ability to mask other colours – that makes it a prime ingredient for paints and other coatings. It is valued in the paper industry where "show-through" needs to be minimised and in plastics, where TiO₂ is used to cover up the translucency of the base resin.

The Market Opportunity

Titanium dioxide is a "quality of life" product – as people become wealthier, the appearance of the products they use becomes more important, and consumption of TiO₂ increases commensurately. This is particularly relevant to us as we address developing markets where we are witnessing the rapid growth of a middle class, such as Russia and China.

This is one of the key reasons why Aricom intends to focus primarily on the markets of Russia and China. These markets have posted strong economic growth over recent years, and we believe we have identified a real opportunity to participate in that growth.

Per capita consumption of titanium dioxide in Russia and China is very low compared to levels in the developed markets. We estimate per capita consumption in Russia to be around 0.4kg per capita, and in China around 0.35kg per capita. US and Western European per capita consumption of titanium dioxide are, respectively, 4.0kg and 2.6kg, suggesting that there is a considerable consumption gap to bridge. Whilst we do not believe that per capita consumption in these markets will attain US, or even Western European, levels anytime soon, we do see considerable growth opportunities for this product in both of these countries.

This is clearly reflected in the growth statistics available to us. Between 1997 and 2002, TiO₂ consumption in China grew by 21.9% per annum on a compound basis. The equivalent figure in Russia was 13.9%. In both instances, titanium dioxide consumption growth exceeded general economic growth (measured by GDP) suggesting that titanium dioxide provides an ideal vehicle to gain leveraged exposure to the growth of both of these dynamic economies.

The size of the markets in Russia and China are estimated at 70,000tpa and 450,000tpa respectively. Titanium dioxide is not currently produced on an industrial scale in Russia and users of the product import almost 100% of their needs. The Ukrainian producers, GAK Titan and OOO Sumikhimprom, are traditionally the most important suppliers of TiO₂ to the Russian market. In China, the domestic production base is fragmented amongst numerous small and inefficient producers of lower-grade pigments.

A proprietary study we commissioned in 2004 indicates that 54% of TiO_2 demand in China is now imported. Three quarters of global TiO_2 production capacity is located in the traditional markets of Western Europe and North America yet the highest growth market is in China. If current growth rates are maintained, China will surpass the US as the largest market for TiO_2 within a decade but concerns over technology leakage and the difficult operating environment in China have dissuaded major producers of TiO_2 from locating production in the market itself. We believe that this reluctance by the majors to move aggressively to satisfy Chinese demand has created an opportunity for Aricom.

The Plan

By locating our operations in Russia's Amur Region, we can develop a production facility to serve both the Chinese and the Russian markets. The ability to produce TiO_2 cost effectively is key to the success of the project, allowing us to price competitively relative to imported materials. Locating in Russia should allow us to operate more cost effectively than many other players in the market and by being in or close to the markets we wish to serve, we can reduce the cost of transportation to the end user. By producing our own feedstock we should be in a position to acquire the key raw material for the production of TiO_2 at a lower cost and more reliably than buying it from third parties. The construction of a modern plant should also allow us to maximise cost efficiency by designing from new.

The Aricom project is composed of three parts: mining, processing and marketing together providing the intended vertical integration. The mining operations, based on the ilmenite deposit at Kuranakh, are to supply the ilmenite feedstock to the planned titanium dioxide processing plant. A suitable site for the plant has been identified in Tynda, also in the Amur Region. The final products are to be supplied to end users through a marketing operation, founded on the current activities of Chemelt, Aricom's wholly owned titanium dioxide trading company based in Moscow.

Work carried out over 2004 on the economic presence of iron ore, in the form of titanomagnetite, at the deposit at Kuranakh suggests that Aricom can develop a mining operation which will not only produce ilmenite feedstock for a TiO_2 processing plant, but also titanomagnetite concentrate for sale to third parties. These findings point to a

promising profitable and cash-generative mining project. In addition, indications were received in the final quarter on the possible presence of gold and zircon in the tailings from the beneficiation process. We are currently working to ascertain how much of each element may be available at the deposit and how best to extract each of them from the tailings.

It is on the basis of these positive findings that management has developed a two-stage approach to the overall project. We are aggressively pursuing the development of the mine and beneficiation operations, which represent the first stage of the project, and look forward to achieving positive operating cash flows from late 2007.

Concurrent to this, we are developing the plan for the construction of the processing plant, which forms the second stage of Aricom's development programme. One of the key elements of this second stage is the choice of technology to be used to produce titanium dioxide. Aricom has received a technology proposal and is in discussions with a number of other parties for technology licensing. These discussions are expected to be concluded during 2005, at which point the design phase of the plan will be initiated. This phase is expected to last 9-12 months. Subject to obtaining the required funding, construction of the processing plant is expected to be initiated in 2006 so production can commence in late 2008, at which point Aricom would reach its objective of becoming a vertically-integrated producer of titanium dioxide.

GAK Titan

Aricom continues to express an interest in participating in a joint venture with GAK Titan, the Ukrainian TiO_2 producer. Aricom previously held an option to acquire Occidental Titanium Company Ltd., an English company, which based on a memorandum of understanding, was intended to be a participant in a proposed joint venture with GAK Titan. The proposal was, and remains, interesting to the management of Aricom as it would open up a further opportunity to capture a share of the regional TiO_2 pigment markets. However a lack of clarity and a substantial increase in the political risk ahead of the presidential elections in Ukraine resulted in no action being taken by Aricom in relation to these arrangements. We are currently considering the situation in light of the election of President Yushchenko in January 2005.

Chief
Executive's
Review
continued

Phase 1: The Kuranakh Mine
We are proposing to develop an open-pit mining operation at Kuranakh, and construct a beneficiation plant at the mine site to produce the concentrates of ilmenite and titanomagnetite.

mining

Expected Products

Ilmenite concentrate

Titano-magnetite concentrate

Possible Co-products

Zircon

Gold

Mining

Olekminsky Rudnik, a 74% owned subsidiary of Aricom plc, holds an exploration and mineral licence to develop the ilmenite-titanomagnetite deposit at Kuranakh in the north west of the Amur Region in the Far East of Russia. The licence extends to 2027. The deposit is situated on the north western flank of the Kalarskiy massive, approximately 35km from the settlement of Olekma. Crucially, Olekma is on the Baikal Amur Magistral (BAM), the railway which links to the Russian eastern seaboard, as well as to the Trans-Siberian railway and into China and Western Russia. This railway will be used to transport the mine products to the proposed titanium dioxide processing plant and to third party consumers.

Aricom is proposing to develop an open-pit mining operation at Kuranakh, and construct a beneficiation plant at the mine site to produce the concentrates of ilmenite and titanomagnetite, as well as a transfer station and living quarters at Olekma. A road and electricity transmission line will also be laid to link the mine and Olekma. A business plan prepared by Vniiprom points to a capital cost of US\$56 million to develop mining operations capable of extracting 2.2 million tonnes per annum of ore and processing these into 240,000 tonnes per annum of ilmenite concentrate and 660,000 tonnes per annum of iron ore, in the form of titanomagnetite concentrate. Based on these target production rates, the cash costs are currently estimated at US\$24 per tonne of ilmenite concentrate and US\$13 per tonne of titanomagnetite concentrate. The recently announced price increases in excess of 70% for existing iron ore producers confirm our enthusiasm for the prospects for the mine as a profitable and cash-generative business. The completion of the placing in March 2005, raising approximately US\$20 million (before expenses), has allowed Aricom to initiate the development of these operations. The remaining capital costs of the project will require further funding.

The beneficiation process is being developed by two related Russian institutes, VIMS and DVIMS, based on widely available technology which is being adapted to suit the characteristics of the Kuranakh ore. The technology to be used is well-proven and the mining and beneficiation operations are being designed to operate all year round. It was a prerequisite for the viability of the proposed project that the quality of the ilmenite concentrate to be produced through the beneficiation process would be suitable for the production of TiO₂.

A study by the specialist German ore research centre, Studiengesellschaft für Eisenerzaufbereitung, and tests by Sachtleben GmbH have confirmed that the ore can be processed into a feedstock suitable for TiO₂ production.

Tests on samples from the tailings from the beneficiation works have shown that gold and zircon may also be present at the Kuranakh deposit. If these are confirmed to be available in economic quantities, this could add to the projected revenues from Aricom's mining business. Additional costs of extraction could be low given that both elements are already concentrated into the tailings of the beneficiation process. Further work has been commissioned to investigate the resources available and the potential costs of extraction.

The Kuranakh licence area covers three major ore zones, called Saikta, Baltyakh and Saibalakh. Most of the work carried out so far has been on the ore zones in the Saikta deposit, which is made up of a series of at least eight discrete ore bodies. Exploration on Saikta was initiated in 1982 by Soviet state geological institutes and has been continued by Aricom over the course of the past 18 months. Dalgeofizika, one of the independent Russian research institutes working with Aricom, has completed a review of the exploration works carried out to date and has concluded that Aricom has sufficient reserves under the Russian reserves classification system to last for an initial 16 years of production at 2.2m tonnes per annum of ore extraction. The estimated resource base yields sufficient resources for at least 50 years of production at the same target production levels.

A five-year exploration plan for the Kuranakh licence area has been developed to extend the proven reserves and resources available to the Group for future production.

Wardell Armstrong International, the UK based energy and minerals consultant, has completed a technical review of the geological work carried out to date as well as the proposed mine plan and beneficiation process and have confirmed that they support the conclusions drawn to date.

Aricom's mining and beneficiation operations are expected to come into production in late 2007. Conditional offtake agreements were signed in January 2005 with China National Gold Corporation. These agreements are described in the marketing section of this report.

Chief
Executive's
Review
continued

Phase 2: The TiO₂ Processing Plant

The plant will be designed to produce high quality pigments for domestic and export markets, with a focus on Russia and China.

processing

Processing

The second stage of Aricom's strategy involves the construction of a 70,000-80,000 tonnes per annum titanium dioxide processing plant. It is intended that the plant will be designed to produce high quality pigments for domestic and export markets, with a focus on Russia and China.

The first phase of a bankable feasibility study was completed in December 2003 by the German engineering company, Ferrostaal AG, with technical input from the German titanium dioxide producer, Sachtleben GmbH. This concluded that the development of a vertically-integrated titanium dioxide project was technically and economically feasible in the Amur Region, based on the production of ilmenite concentrate at Kuranakh. The plan originally envisaged the development of a 50,000 tonne per annum plant with a view to a subsequent doubling of capacity. Discussions with Ferrostaal have led to the conclusion that an initial 70,000-80,000 tonnes of annual capacity would be equally feasible and this now forms the basis of Aricom's plans for the processing plant.

The global TiO_2 production sector is highly concentrated with the top 5 producers representing 73% of global capacity and the restricted availability of technology is one of the key barriers for new entrants into the TiO_2 sector. Aricom is seeking to acquire sulphate route production

technology from existing producers and is currently in discussions with a number of parties regarding the licensing of such technology. The Group has an offer in place but is considering all options before reaching a final decision on technology. We believe that this is an area where we will be fully rewarded for taking the appropriate time to conclude the best agreement.

A suitable site has been identified for the location of the processing plant at Tynda, 440kms on the BAM Railway from Olekma. This direct rail link between the mine and the processing plant should allow the cost effective transport of feedstock. Tynda is a town with a population of 45,000 and offers the amenities and infrastructure required for the operation of a plant of this nature and size. The local authorities are keen to attract investment into the area and are assisting Aricom with its plans.

Chief
Executive's
Review
continued

Chemelt:
Chemelt, Aricom plc's wholly-owned titanium dioxide trading company, was established in 2002 to test the market for titanium dioxide in Russia.

marketing

Marketing

Chemelt, Aricom plc's wholly-owned titanium dioxide trading company, was established in 2002 to test the market for titanium dioxide in Russia.

By becoming actively involved in the market, Aricom has been able to develop an understanding of the dynamics and practices of the market, not only in Russia but also in the wider global arena.

The Russian market has been traditionally dominated by the Ukrainian producers, the historic source of TiO_2 under the Soviet system. It is for this same historic reason that Russia has no domestic production of titanium dioxide on an industrial scale, forcing Russian consumers to import virtually all of their needs. Although the Ukrainian hold on these markets has been diminishing in recent years, their role remains important. We estimate that the Ukrainians continue to supply approximately 60% of Russian demand. Chemelt has been acting as an official distributor for GAK Titan, the larger of the two Ukrainian producers, since 2003 and has been appointed as a favoured partner for 2005.

By representing such an important player on the Russian market, Chemelt has successfully increased the penetration of its distribution network, developing its client list to 125 over the course of 2004 and increasing its sales by 50% over the same period. Chemelt has been aggressive in its pricing tactics to gain an initial foothold in the Russian market but is expected to break even in 2005.

The company has also worked to increase the range of products it offers to its customers. Chemelt has introduced to the Russian markets the products of Cristal, the Saudi Arabian TiO_2 producer, addressing the increasing demand for higher quality products from its clients. It is currently exploring the possibility of distributing Chinese products in the Russian market and examining complementary products to sell into the Russian paints and plastics sectors.

Chemelt's role is an important one as, whilst developing into a successful business in its own right, it is laying the foundations and establishing the relationships that Aricom will require when it looks to distribute its own titanium dioxide products in the Russian market. We are very pleased with the progress the Company is making.

Aricom is currently examining its options for distribution into China. Clearly this is an important step for the Group and is potentially related to the licensing route that the Group ultimately chooses. We intend to develop our distribution strategy for China over the course of 2005.

Aricom has also been active in marketing the products it expects to produce from its mining and beneficiation operations at Kuranakh. Aricom's subsidiary, OOO Aricom, signed two conditional offtake agreements in January 2005 with China National Gold Corporation, a Group headquartered in Beijing, with substantial interests in gold mining, international minerals trading and engineering contracting. These agreements provide for OOO Aricom to supply China National Gold Corporation a total of at least 360,000 tonnes of ilmenite concentrate over one and a half years and at least 3,300,000 tonnes of titanomagnetite concentrate over five years. The agreements will come into effect once Aricom secures the required financing to complete its Kuranakh mining project, and deliveries are scheduled to start in late 2007 when the planned mining operations are expected to come on stream. It is intended that all of the production of the planned Kuranakh mine will be supplied to China National Gold Corporation for the life of these agreements. The shorter duration of the ilmenite contract reflects Aricom's objective to establish its own TiO_2 plant to which the ilmenite would be supplied once it becomes operational.

Paint and plastics producers are the key consumers of TiO_2 .

Finance Director's Review

The Company was formed on 12 September 2003. These financial statements are for the period from formation to 31 December 2004.

Peter Howes
Finance Director

Reporting Period

The Company was formed on 12 September 2003. These financial statements are for the period from formation to 31 December 2004.

Acquisitions

On 31 December 2003, the Company acquired 100% of the shares in Russian Titan Company Limited ("RTC") which on the same date had acquired 100% of the shares in OOO Chemelt and 74% of the shares in OOO Olekminsky Rudnik. The companies were acquired from Peter Hambro Mining Group.

Turnover

Group turnover consists of the turnover from the trading operations of Chemelt in Russia. Chemelt was acquired on 31 December 2003 and consolidated from that date. Chemelt's turnover for 2004 is shown in these financial statements and represents an increase of 50% over 2003. Chemelt's turnover for 2003 was reported as US\$2,126,000 in the financial statements of Peter Hambro Mining plc for the year ended 31 December 2003.

Titanium dioxide revenues accounted for 90% of turnover with 10% coming from the sale of other pigments. Total tonnage of TiO₂ sold reached 1,947t compared to 1,600t in 2003.

Results of Operations

Losses after tax and minority interests were \$4.254m which represents a loss per share of \$0.06.

Chemelt broke even at the operating level. This is a good result which will form the base for the planned expansion in 2005 as the company builds on the relationships and contacts it has made to convert these into sales. 2004 saw an increase in the working capital needs as Chemelt started to buy in stock from the Middle East and also China to provide customers in Russia with a choice of products from both sulphate and chloride route manufacturers.

Interest

The Group incurred interest charges of US\$283,000 as a result of debt incurred to invest in the purchase of the mine licence and the development of both the mine project and the plans for the processing plant.

Interest of US\$23,000 has been capitalised to the project. Exchange gains on monetary assets totalled US\$220,000 and interest receivable amounted to US\$67,000 resulting in a net interest receivable of US\$27,000 in the profit and loss account.

Capital Expenditure

Capital expenditure during the period was US\$5.4m including the acquisition of the mining licence at Kuranakh and the Bankable Feasibility Study phase 1 for the construction of a TiO₂ processing plant.

Net Assets

Net assets of the Group at 31 December 2004 were US\$2.8m. Retained losses for the period were US\$4.3m. Net debt at 31 December 2004 was US\$2.7m.

Firm Placing and Open Offer

During the period the Company raised, in aggregate, US\$7.7m. After the balance sheet date, the Company raised a further US\$20m before expenses through a placing of 38,250,000 shares at 28p, which was approved at an EGM on 11 March 2005.

Currency Movements

The Group's main currency exposure is to the Russian Rouble, Sterling and the Euro.

During the period the Rouble appreciated against the Dollar which also weakened against Sterling and the Euro.

The main US dollar exchange rates at 31 December 2003 and 31 December 2004 were:

	31 December 2003	31 December 2004
US\$: Rouble	29.45	27.75
Sterling : US\$	1.7842	1.9160
Euro : US\$	1.2597	1.3538

All of the Group's loans are denominated in US dollars. Available cash is put on deposits of appropriate maturities in the main operating currencies of the Group in order to protect against adverse exchange rate movements.

Exchange gains from holding Euro and Sterling cash during the year, offset the losses from the Euro and Sterling liabilities incurred, resulting in a net exchange gain for the period of US\$220,000.

Taxation

There was a small tax charge for the year as the Russian operations generated a tax profit on some transactions. No deferred tax asset has been recognised.

Balance Sheet

Total shareholder funds were US\$2.3m.

The expenditure on the feasibility studies for the mine and the intended processing plant at Tynda has been capitalised as has the cost of geological exploration leading to an increase in the reserve and resource base. All expenditure of a non capital nature has been expensed.

Cash Resources and Borrowings

The cash and bank balances were US\$1.2m at 31 December 2004. The balances were held in a mixture of currencies. The Net Debt position was US\$2.7m.

On 17 March 2005 borrowings were reduced by repaying substantially all of the Peter Hambro Mining Plc loan.

Following the placing which was approved by shareholders on 11 March 2005, funds and facilities are sufficient to allow the Group to carry on its business for at least 12 months from the date of approval of these financial statements. However, in order to fund the development of the mine and the processing plant additional funds will have to be raised during 2005.

Board of Directors

01 Sir Malcolm Field Chairman

Sir Malcolm Field was formerly Chief Executive of WH Smith PLC retiring in 1996 and a non-executive Director of Scottish and Newcastle, MEPC, the Stationery Office and Evolution Beeson Gregory as well as a number of private companies. He was Chairman of the Civil Aviation Authority (CAA) between 1996 and 2001, and is currently Chairman of Tube Lines Ltd, one of the London Underground consortia. He is also an external policy adviser to the Department of Transport.

02 Tom Swithenbank Chief Executive

Tom Swithenbank has been active as an investor in the Central and Eastern European region since 1995, initially as a proprietary trader for West Merchant Bank and subsequently as an Asset Manager for WestLB Asset Management until 2001. He has also worked as a consultant advising private equity investors on Eastern European strategy. He has a joint honours Bachelor's degree in Russian and German from Durham University and a Masters in Finance from London Business School. He speaks fluent Russian, German and French.

03 Peter Howes Finance Director

Peter Howes has over eight years of experience working and living in Russia and Eastern Europe, initially as an audit manager and management consultant at Coopers & Lybrand, and subsequently as Finance Director of the Latvian operations of RMC Group plc. He was Divisional Finance Director of the UK cement division of RMC Group plc before setting up his own consultancy company in 2003, predominantly advising large corporations on internal financial controls and procedures. Peter qualified as a chartered accountant in 1993, having gained a joint honours Bachelor's degree in Russian

and German from London University's School of Slavonic and East European Studies. Peter speaks fluent Russian and German.

04 Yuri Makarov Executive

Yuri Makarov was appointed to the Board on 26 April 2004. Until this appointment, Yuri was the adviser to the President of OJSC Pokrovsky Rudnik, a subsidiary of Peter Hambro Mining plc. Prior to this, he was the Commercial Director of NT Computers in Moscow, Russia. He has been actively involved in the development of the Company's titanium dioxide business since 2002. Yuri is a qualified systems engineer from the Moscow State Aircraft Technology Institute.

05 Peter Hambro Non-Executive

Peter Hambro has been Executive Chairman of Peter Hambro Mining Plc since 1994 and is a director of OJSC Pokrovsky Rudnik. Peter was formerly a banker and gold trader.

06 Pavel Maslovsky Non-Executive

Pavel Maslovsky has been Deputy Chairman of Peter Hambro Mining Plc since 1994 and is Chairman of OJSC Pokrovsky Rudnik. Pavel was formerly assistant professor at Moscow State Aircraft Technology Institute.

Director's Report

For the period ended 31 December 2004

Report and financial statements

The Directors present their report and the audited financial statements for the period from the date of incorporation, 12 September 2003, to 31 December 2004.

Principal activity

The principal activity of the Group is the development of a vertically integrated mining, processing and marketing titanium dioxide Group based in Russia and predominantly serving the Russian and Chinese markets.

Results, review of the business and future prospects

The consolidated profit and loss account is set out on page 20. The Directors' report should be read in conjunction with the Chairman's statement, Chief Executive's review and Financial review on pages 2 to 15 which include information about the Group's business and performance during the period and an indication of future prospects.

The Directors have not recommended a dividend.

Supplier payment policy

The Group does not follow any specific external code or standard on payment terms. Instead, responsibility for determining payment terms is delegated to the individual businesses within the Group which take into account local market and industry practice. As a Group, the policy for determining payment terms is either to agree terms of payment at the start of a binding contract or to ensure that the supplier is aware of the individual businesses' usual payment terms. Payment is made in accordance with contractual and other legal obligations, and reflects local market practices.

The Company is a holding company and, as such, has few suppliers.

Directors

The Directors who held office during the period are set out below.

Lucienne James Limited

(appointed 12 September 2003, resigned 12 September 2003)

The Company Registration Agents Limited

(appointed 12 September 2003, resigned 12 September 2003)

Philip W. Leatham

(appointed 12 September 2003, resigned 12 December 2003)

Andrey Maruta

(appointed 12 September 2003, resigned 12 December 2003)

Sir Malcolm Field

(appointed 12 December 2003)

Tom Swithenbank

(appointed 12 December 2003)

Peter Hambro

(appointed 12 December 2003)

Dr Pavel Maslovsky

(appointed 12 December 2003)

Peter Howes

(appointed 31 December 2003)

Yuri Makarov

(appointed 26 April 2004)

Directors' interests

The beneficial interests of the Directors and connected parties in the share capital of the Company as at 31 December 2004, and at 18 March 2005, were as follows:

	31 Dec 04	18 Mar 05
Ordinary Shares of £0.001 each		
Sir Malcolm Field	500,000	500,000
Peter Hambro	11,485,461	12,135,461
Dr. Pavel Maslovsky	32,618,730	33,268,730

No shares were held by any Directors at incorporation other than subscriber shares. The shares held on 18 March 2005 reflect holdings post the share placing on 16 March 2005.

The Directors held no interests in any other Group companies.

Auditors

Following incorporation, the Board of Directors initially appointed Moore Stephens as the Group's auditors on 16 October 2003. During the period, Deloitte & Touche LLP were appointed by the Board to fill a casual vacancy after Moore Stephens stepped down. A resolution to approve the appointment of Deloitte & Touche LLP and to authorise the Directors to fix their remuneration will be proposed at the forthcoming Extraordinary General Meeting.

Signed on behalf of the board



Sir Malcolm Field
Chairman

Approved by the board on 18 March 2005

Statement of Directors' Responsibilities

United Kingdom company law requires the Directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial period and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed; and

- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and the Group will continue in business.

The Directors are responsible for maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, safeguarding the assets of the Company and the Group and hence for taking reasonable steps to prevent and detect fraud and other irregularities.

Corporate Governance

The Directors are aware of the Combined Code applicable to listed companies. As a company which is quoted on AIM, the Company is not required to comply with the Combined Code but all the Directors intend to comply with its main provisions as far as is practicable having regard to the size of the Group.

Board structure and its committees

The board comprises 3 Executive Directors and 3 Non-Executive Directors, including the Chairman. The board meets regularly throughout the year and as issues arise which require board attention.

Biographies of the Directors are set out on page 16 of this annual report.

The Chairman conducts board and shareholder meetings and ensures that all Directors are properly briefed in a timely manner. The Directors are responsible for formulating, reviewing and approving the Group's strategy, budgets, major items of capital expenditure and senior personnel appointments. There is an agreed procedure for the Directors to take independent professional advice at the Company's expense, to have access to the Company Secretary and to receive appropriate training where necessary.

There are formal and transparent procedures for the appointment of new Directors to the Board in place and appointments are made on merit against objective criteria. All Directors are required to retire by rotation at least every three years when they can offer themselves for re-election if eligible. In view of the size of the Company, the Directors do not consider the Combined Code recommendation to establish a Nomination Committee appropriate at present. The Company has established Audit and Remuneration Committees.

Audit committee

An Audit Committee has been established and currently comprises Peter Hambro and Pavel Maslovsky with the Chief Executive and Finance Director in attendance. It meets at least twice a year and is responsible for ensuring that the financial performance of the Group is properly reported on and monitored. It liaises with the auditors and reviews the reports from the auditors relating to the accounts and internal control systems.

Remuneration committee

A Remuneration Committee has been established and currently comprises Peter Hambro and Pavel Maslovsky with the Chairman

in attendance. It reviews the performance of the Executive Directors and sets the scale and structure of their remuneration on the basis of their service agreements with due regard to the interests of the Shareholders and the performance of the Group. The Remuneration Committee also makes recommendations to the board concerning employee incentives, including the allocation of share options to employees. Directors of the Group are not permitted to participate in discussions or decisions of the committee concerning their own remuneration.

Relations with shareholders

Communications with shareholders are considered important by the Directors. The Executive Directors regularly speak to investors and analysts during the year. Press releases have also been issued throughout the year, and since the balance sheet date, in relation to proposals and keeping investors informed about the Group's progress.

The Company also maintains a website on the internet – www.aricom.plc.uk which is regularly updated and contains a wide range of information about the Group.

Internal controls

The board acknowledges that it is responsible for establishing and maintaining the Group's system of internal controls and for reviewing its effectiveness. The procedures, which are reviewed on a regular basis, include financial, operational and compliance matters. The internal control system is an ongoing process for identifying, evaluating and managing the significant risks faced by the Group and is designed to meet the needs of the Group. It can only provide reasonable and not absolute assurance against material misstatement or loss. The board has considered the need for an internal audit function but does not consider it necessary at the current time.

Going concern

After making enquiries, the Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

Independent Auditor's Report

To the shareholders of Aricom plc

We have audited the financial statements of Aricom plc for the period ended 31 December 2004 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement and related notes 1 to 25. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

This report is made solely to the Company's members as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and United Kingdom Accounting Standards are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all of the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company and the Group is not disclosed.

We read the Directors' report and other information contained in the Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

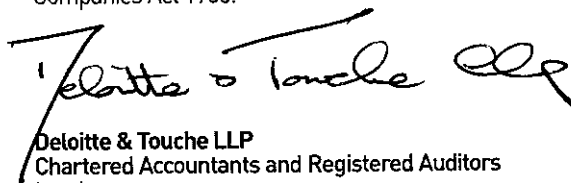
Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and the Group as at 31 December 2004 and of the Group's loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

18 March 2005

Consolidated Profit and Loss Account

For the period ended 31 December 2004

	Notes	2004 \$000
Turnover	2	3,199
Cost of Sales		(3,003)
Gross profit		196
Selling expenses		(162)
Administrative expenses		(2,776)
Other operating expenses, net		(1,556)
Operating loss		(4,298)
Net interest receivable	6	27
Loss on ordinary activities before taxation	3	(4,271)
Taxation	7	(9)
Loss on ordinary activities after taxation		(4,280)
Minority interest	15	26
Loss on ordinary activities after taxation and minority interest		(4,254)
	Notes	2004
Basic and diluted loss per ordinary share	20	\$(0.06)
Proforma basic loss per ordinary share	20	\$(0.04)

There are no recognised gains or losses other than those included in the profit and loss account.

The above results all relate to continuing operations. Aside from certain management and administrative functions, all operations were acquired in the period (see note 17).

The notes on pages 24 to 36 form an integral part of these financial statements.

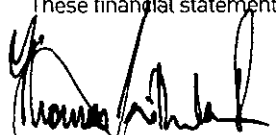
The Company has taken advantage of Section 230 of the Companies Act 1985 not to publish its individual profit and loss account. The Company's result for the period is disclosed in note 14.


Consolidated Balance Sheet

At 31 December 2004

	Notes	2004 \$000
Fixed assets		
Tangible assets	8	5,435
		5,435
Current assets		
Stock		572
Debtors: due within one year	9	492
Debtors: due after more than one year	9	297
Cash at bank and in hand		1,157
		2,518
Creditors: amounts falling due within one year	10	(1,753)
Net current assets		765
Total assets less current liabilities		6,200
Creditors: amounts falling due after one year	11	(3,400)
Net assets		2,800
Capital and reserves		
Called up equity share capital	12	169
Share premium	13	6,403
Profit and loss account	13	(4,254)
Equity shareholders' funds	13	2,318
Minority interests	15	482
Total capital employed		2,800

These financial statements were approved by the Board of Directors on 18 March 2005 and signed on its behalf by:


 T Swithenbank
 Director


 P Howes
 Director

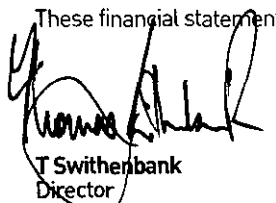
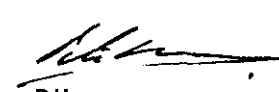
The notes on pages 24 to 36 form an integral part of these financial statements.

Company Balance Sheet

At 31 December 2004

	Notes	2004 \$000
Fixed assets		
Tangible assets	8	1,067
Investments	19	4
		1,071
Current assets		
Debtors	9	5,480
Cash at bank and in hand		715
		6,195
Creditors: amounts falling due within one year	10	(955)
Net current assets		5,240
Total assets less current liabilities		6,311
Creditors: amounts falling due after one year	11	(3,400)
Net assets		2,911
Capital and reserves		
Called up equity share capital	12	169
Share premium	14	6,403
Profit and loss account	14	(3,661)
Equity shareholders' funds	14	2,911

These financial statements were approved by the Board of Directors on 18 March 2005 and signed on its behalf by:

T Swithenbank
Director

P Howes
Director

The notes on pages 24 to 36 form an integral part of these financial statements.

Consolidated Cash Flow Statement

For the period ended 31 December 2004

	Notes	2004 \$000
Net cash outflow from operating activities	16a	(3,915)
Returns on investments and servicing of finance		
Interest received		67
Interest paid		(283)
Net cash outflow from returns on investments and servicing of finance		(216)
Taxation		-
Capital expenditure and financial investment		
Purchase of tangible fixed assets		(2,508)
Acquisitions and disposals		
Purchase of subsidiary undertakings	17	(2,617)
Cash acquired with subsidiaries	17	24
Net cash outflow on acquisitions and disposals		(2,593)
Cash outflow before financing		(9,232)
Financing		
Receipts from borrowings		3,597
Gross receipts from issuing ordinary and preference shares		7,827
Preference shares redeemed		(88)
Share issue costs		(1,167)
Net cash inflow from financing activities		10,169
Increase in cash at bank and in hand	16b	937

Notes to the Financial Statements

1. Principal accounting policies

The Company was incorporated on 12 September 2003 and on 31 December 2003 obtained admission to the AIM market of the London Stock Exchange.

The Group presents its first Financial Statements for the period from 12 September 2003 to 31 December 2004. The year end is 31 December.

a) Principles of consolidation

The Company has two subsidiaries: Brasenose Services Limited and Russian Titan Company Limited (RTC) which are holding companies incorporated in Cyprus and are 100% beneficially owned by Aricom plc.

Indirect Russian incorporated subsidiaries: 000 Chemelt is 100% and 000 Olekminsky Rudnik is 74% owned by RTC. 000 Aricom is 100% owned by Brasenose Services Limited. The results and balances of all Group entities are consolidated in these Financial Statements from the date of acquisition or formation. 000 Chemelt and 000 Olekminsky Rudnik were acquired from Peter Hambro Mining Plc on 31 December 2003. 000 Aricom was registered on 18 August 2004.

b) Acquisitions

On the acquisition of a business, including an interest in a subsidiary undertaking, fair values are attributed to the net separable assets. Where the cost of acquisition exceeds the fair values attributable to such net assets, the excess purchase consideration is capitalised in the balance sheet in the year of acquisition.

To the extent that such excess purchase consideration relates to the acquisition of mining properties and leases, that amount is capitalised within tangible fixed assets as mining properties and leases. Other excess purchase consideration relating to the acquisition of subsidiaries is capitalised as goodwill within intangible fixed assets and is amortised over its estimated useful life up to a maximum of 20 years. Provision is made for any impairment.

c) Comparative figures

Comparative figures have not been provided as this is the Group's first accounting period.

d) Basis of accounting

The Financial Statements have been prepared under the historical cost convention and in accordance with applicable UK Accounting Standards and law.

e) Currency of Financial Statements

The Financial Statements have been presented in US dollars as this is the Group's functional currency. The US dollar is also the functional currency of all Group subsidiaries and consequently there are no unrecognised foreign exchange gains or losses on consolidation.

In the financial statements of individual Group companies, transactions in currencies other than the local functional currency are translated into local currency at the exchange rates ruling at the date of transaction or, where forward exchange contracts are in place, at contractual rates. Monetary assets and liabilities denominated in other currencies at the balance sheet date are translated into local currency at year end exchange rates, or at a contractual rate if applicable.

All exchange differences are included in the profit and loss account.

The US dollar rates of exchange applicable to the period are as follows:

	Closing	Average
US\$: Russian roubles	27.7487	28.5714
Pound sterling : US\$	1.9160	1.79546
Euro : US\$	1.3538	1.22675

f) Tangible fixed assets – mining properties and leases

The costs of mining properties and leases, which include the cost of acquiring and developing mining properties and mineral rights, are capitalised as tangible fixed assets in the year in which they are incurred.

When a decision is taken that a mining property is viable for commercial production, all further pre-production expenditure is capitalised until the mining property is capable of commercial production. From that point, capitalised mining properties and lease costs are amortised on a unit of production basis over the total estimated remaining commercial reserves of each property or Group of properties.

In circumstances where a property is abandoned, the cumulative capitalised costs relating to the property are written off in the period.

Commercial reserves are proved and probable reserves. Changes in the commercial reserves affecting unit of production calculations are dealt with prospectively over the revised remaining reserves.

Notes to the Financial Statements

Continued

1. Principal accounting policies continued

g) Exploration and evaluation costs

Exploration and evaluation expenditure is charged to the profit and loss account as incurred except in respect of deposits where:

- It is expected that the expenditure will be recouped by future exploitation or sale; or
- Substantial exploration and evaluation activities have identified a mineral resource and these activities have reached a stage which permits a reasonable assessment of the existence of commercially exploitable reserves.

Where either of the above conditions are met direct expenditure is capitalised. Once production begins capitalised costs are written off to the profit and loss account so as to spread them over total proven and probable reserves on a units-of-production basis.

h) Other tangible fixed assets and depreciation

Other tangible fixed assets are recorded at cost, net of accumulated depreciation. Depreciation is provided on all such tangible fixed assets at rates calculated to write off the cost or valuation of each asset on a straight-line basis over its expected useful life or the life of the relevant licence, whichever is less, as follows:

	Average life
Plant and machinery	10-20
Office equipment	3-10
Computer equipment	4

Until they are brought into use fixed assets and equipment to be installed are included within assets under construction. The cost of maintenance, repairs and replacement of minor items of tangible fixed assets are charged to the profit and loss account. Renewals and betterments are capitalised. Upon sale or retirement of tangible fixed assets, the cost and related accumulated depreciation are eliminated from the Financial Statements. Any resulting gains or losses are included in the profit and loss account.

i) Investments

Investments are stated at cost less provision for impairment.

j) Stock and work in progress

Titanium dioxide and other pigments ready for sale are valued at the lower of cost and net realisable value.

k) Revenue recognition

Revenue is recognised at the point of transfer of ownership of finished products as specified in the sales contracts.

l) Cost of sales

Cost of sales includes the cost of purchased product, transport, and other direct expenses.

m) Taxation

Provision is made for all foreseeable taxation liabilities.

Deferred taxation is calculated so as to recognise the expected future tax consequences of transactions and events recognised in the financial statements of the current and previous periods with the following exceptions:

- Provision is made for the tax that would arise on remittance of the retained earnings of overseas subsidiaries only to the extent that, at the balance sheet date, dividends have been declared and accrued as receivables; and
- Deferred tax assets are recognised only to the extent that the Directors consider that it is more likely than not that there will be taxable profit from which the future reversal of the timing differences can be deducted.

Deferred tax is measured at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantially enacted at the balance sheet date.

There is no recognised deferred tax at 31 December 2004.

Notes to the Financial Statements

Continued

1. Principal accounting policies continued

n) Financial instruments

Financial assets and liabilities are recognised on the Group's balance sheet when the Group has become party to the contractual provisions of the instrument.

o) Interest capitalisation

Where appropriate interest incurred in financing the acquisition of specific assets is capitalised and included in the cost of the asset. The interest is amortised over the useful life of the asset, in line with the Group depreciation policy for that asset class and once the asset comes into use.

p) Pensions

The Group does not operate either a defined benefit or a defined contribution scheme for its employees. Contributions are made to individuals' personal pension schemes where applicable under the terms of their employment contracts.

2. Turnover

The turnover is attributable to the one principal trading activity which is carried on through Chemelt. All proceeds are receivable in the ordinary course of business and are recorded exclusive of VAT.

3. Loss on ordinary activities before taxation

The loss on ordinary activities before taxation is stated after charging:

	2004 \$000
Directors' emoluments	915
Staff costs	495
Total staff costs (note 4)	1,410
Depreciation of owned assets	21
Auditors' remuneration – Deloitte & Touche LLP	
– Group	53
– Company	20

4. Employee information

	2004 \$000
Staff costs:	
Wages and salaries	1,260
Social security	120
Other pension costs	30
	1,410

The average number of persons employed during the period, including executive Directors, was made up as follows:

United Kingdom	3
Russia	26
	29

The period over which the average has been calculated was since incorporation for employees in the UK and since the acquisition of the operating companies for employees in Russia.

5. Directors' emoluments

	2004 \$000
Emoluments	895
Company contributions to pension schemes	20
	915

Notes to the Financial Statements

Continued

5. Directors' emoluments continued

Elements of remuneration

The main elements of the remuneration of the Chairman and the Directors were paid in sterling and were as follows:

	Basic salary £000	Pension £000	Other benefits £000	Total emoluments for Directors £000
Tom Swithenbank *	126	6	1	133
Peter Howes **	95	5	5	105
Yuri Makarov ***	48	-	-	48
Sir Malcolm Field	100	-	-	100
Dr Pavel Maslovsky	40	-	-	40
Peter Hambro	40	-	-	40
Total	449	11	6	466

* Tom Swithenbank's annualised salary is £120,000 p.a.

** Other benefits for Peter Howes include meeting part of the costs of relocation amounting to £3,769

*** Yuri Makarov's remuneration is for the period from 26 April 2004 at which point he became an executive Director of the Company. Mr Makarov's annualised salary is £50,000 per annum from the Company and an additional rouble salary of RuR1,800,000 per annum from OOO Aricom.

The remuneration of the highest paid Director was £133,000.

No other Director received any remuneration from the Company for their services as a Director.

Share options

The executive Directors and the non-executive Chairman have been awarded options as follows over the Company's shares:

	Date of grant	Number of shares under option	Exercise price	Period over which exercisable	
Sir Malcolm Field	31/12/2003	1,000,000	£0.15	31/12/2006	30/12/2013
Tom Swithenbank	31/12/2003	850,000	£0.15	31/12/2006	30/12/2013
Peter Howes	31/12/2003	400,000	£0.15	31/12/2006	30/12/2013

None of the Directors' options were exercised or lapsed during the period.

These options were issued in accordance with the Aricom plc Unapproved Share Option Scheme.

The remuneration committee will in its discretion determine which eligible Directors and employees are to be granted options and the number of shares to be comprised in such options.

Options will not normally be exercisable until three years from the date of its grant and then only if the participant remains in employment with the Group.

The mid-market price of the Company's ordinary shares at 31 December 2004 was £0.375. The range of prices of the Company's Ordinary Shares during the period since admission to AIM was £0.206 to £0.51.

Notes to the Financial Statements

Continued

6. Net interest receivable

	2004 \$000
Interest payable and similar charges	
Bank loan interest	(90)
Other loan interest and charges	(193)
	(283)
Less finance cost capitalised	23
	(260)
Foreign exchange gain	220
Interest receivable	67
	27

7. Tax on loss on ordinary activities

	2004 \$000
Current taxation	9
Deferred taxation	-
	9
Factors affecting tax charge for the current period	
Loss on ordinary activities before tax	(4,271)
Tax at 30% thereon	(1,281)
Expenditure for which no tax benefit is recognised at 30% thereon	1,290
Current tax charge for the period	9

Factors that may effect tax charges of future periods

At the end of the period the Group had accumulated tax losses amounting to \$1,300,000 in the holding company and \$600,672 in the Russian subsidiary companies which may be available to carry forward to offset against future income.

No deferred tax asset has been recognised in respect of the losses. The asset would be recoverable if suitable taxable profits were to arise in future periods.

8. Tangible fixed assets

a) Group

	Equipment, fixtures and fittings \$000	Plant and machinery \$000	Mining properties and leases \$000	Assets under construction \$000	Total \$000
Cost at 12 September 2003	-	-	-	-	-
Acquisitions	7	26	2,080	816	2,929
Additions	72	-	8	2,451	2,531
Write-downs	(4)	-	-	-	(4)
Cost at 31 December 2004	75	26	2,088	3,267	5,456
Accumulated depreciation at 12 September 2003	-	-	-	-	-
Charge for the period	(21)	-	-	-	(21)
Accumulated depreciation at 31 December 2004	(21)	-	-	-	(21)
Net book value at 12 September 2003	-	-	-	-	-
Net book value at 31 December 2004	54	26	2,088	3,267	5,435

At 31 December 2004 \$23,000 cumulative capitalised interest was included within Assets under construction in the above table.

Notes to the Financial Statements

Continued

8. Tangible fixed assets continued

b) Company

	Equipment, fixtures and fittings \$000	Assets under construction \$000	Total \$000
Cost at 12 September 2003	–	–	–
Additions	43	1,032	1,075
Cost at 31 December 2004	43	1,032	1,075
Accumulated depreciation at 12 September 2003	–	–	–
Charge for the period	(8)	–	(8)
Accumulated depreciation at 31 December 2004	(8)	–	(8)
Net book value at 12 September 2003	–	–	–
Net book value at 31 December 2004	35	1,032	1,067

Included in assets under construction is US\$1.03 million relating to the acquisition of a feasibility study from Peter Hambro Mining Group in respect of mining and processing the titanium deposits in OOO Olekminsky Rudnik.

9. Debtors

	Group 2004 \$000	Company 2004 \$000
Trade debtors	217	–
VAT recoverable within one year	136	32
Amounts due from Group companies	–	5,444
Other debtors	3	–
Prepayments and accrued income	136	4
	492	5,480
VAT recoverable after one year	297	–
	789	5,480

The VAT recoverable after one year principally relates to the VAT incurred in respect of the mine project in Russia, which can only be reclaimed once the asset comes into use.

10. Creditors: amounts falling due within one year

	Group 2004 \$000	Company 2004 \$000
Bank loans	499	–
Trade creditors	271	245
Tax and social security	25	33
Other creditors	10	–
Accruals and deferred income	948	677
	1,753	955

Bank loans represent a draw down of \$499,000 under an unsecured credit facility from Expobank, which is repayable in full on 29 December 2005. The facility attracts interest at a rate of 15% p.a.

Notes to the Financial Statements

Continued

11. Creditors: amounts falling due after one year

	Group 2004 \$000	Company 2004 \$000
Loan from Peter Hambro Mining Plc	3,400	3,400

This loan bears interest at 8% and is repayable on 31 December 2008. It is secured by a charge over the ordinary shares in RTC.

12. Called up equity share capital

The Company was incorporated with an authorised share capital of £3,000,000 divided into 3,000,000 ordinary shares of £1 each of which two were issued to the subscribers to the memorandum of association. On 16 October 2003, the share capital of the Company was decreased from 3,000,000 ordinary shares to 300,000 by the cancellation of 2,700,000 shares of £1 each. On the same date, the existing 300,000 ordinary shares, issued and to be issued, were subdivided into 300,000,000 ordinary shares of £0.001 each.

On 12 December 2003, the authorised share capital of the Company was increased by the creation of an additional 200,000,000 ordinary shares of £0.001 and 66,755,962 ordinary shares were issued for cash at par value.

On 31 December 2003, under a Placing and Open Offer, an additional 26,694,055 ordinary shares of £0.001 were issued for £0.15 per share.

As part of the Placing and Open Offer, an option to subscribe for 1,666,667 ordinary shares was granted. This option was exercised at £0.15 per share on 10 February 2004 increasing the issued share capital to 95,118,684 ordinary shares.

As a result of these transactions a share premium of \$6,402,663 after expenses of \$1,166,790 was created.

On 16 October 2003, the authorised share capital of the Company was increased by the creation of 50,000 redeemable preference shares of £1 each. These shares were issued on the same date for £12,500. On 12 December 2003, the balance of £37,500 due for the shares was paid. On the same date, the shares were redeemed and cancelled.

	Redeemable preference shares 2004 \$000	Ordinary shares 2004 \$000
Allotted, called up and fully paid:		
Issued during the period	88	169
Redeemed during the period	(88)	-
At the end of the period	-	169
Par value	£1.00	£0.001

	No of shares Thousands	No of shares Thousands
Authorised	50	500,000
Issued during the period	50	95,119
Redeemed during the period	(50)	-
At the end of the period	-	95,119

Share options held by Directors are disclosed in note 5: Directors' emoluments.

Notes to the Financial Statements

Continued

13. Group combined statement of reserves and reconciliation of movement in shareholders' funds

	Share capital \$000	Share premium \$000	Profit and loss account \$000	Total \$000
At 12 September 2003	-	-	-	-
Loss for the period	-	-	(4,254)	(4,254)
Issue of share capital	169	7,570	-	7,739
Share issue costs incurred in period	-	(1,167)	-	(1,167)
At 31 December 2004	169	6,403	(4,254)	2,318

14. Company combined statement of reserves and reconciliation of movement in shareholders' funds

	Share capital \$000	Share premium \$000	Profit and loss account \$000	Total \$000
At 12 September 2003	-	-	-	-
Loss for the period	-	-	(3,661)	(3,661)
Issue of share capital	169	7,570	-	7,739
Share issue costs incurred in period	-	(1,167)	-	(1,167)
At 31 December 2004	169	6,403	(3,661)	2,911

15. Minority interest

	\$000
At 12 September 2003	-
Minority interest on acquisition of subsidiary undertaking	508
Minority interest in net loss of subsidiary undertaking	(26)
At 31 December 2004	482

16. Notes to the cash flow statement

a) Reconciliation of operating loss to net cash outflow from operating activities

	2004 \$000
Operating loss	(4,298)
Depreciation charges	21
Write down of fixed assets	4
Increase in debtors	(349)
Increase in creditors	1,231
Increase in stock	(524)
Net cash outflow from operating activities	(3,915)

b) Analysis of change in net debt

	Opening balance \$000	Cash flow \$000	Acquisition (excluding cash) \$000	Foreign exchange movement \$000	Closing balance \$000
Cash at bank and in hand	-	937	-	220	1,157
Debt due after more than one year	-	(3,400)	-	-	(3,400)
Debt due within one year	-	(197)	(302)	-	(499)
	-	(2,660)	(302)	220	(2,742)

Notes to the Financial Statements

Continued

16. Notes to the cash flow statement continued

c) Reconciliation of net cash flow to movement in debt

	\$000
Increase in cash	937
Increase in debt	(3,597)
Increase in net debt resulting from cash flows	(2,660)
Loans and acquired with subsidiaries	(302)
Foreign exchange movements	220
Increase in net debt for the period	(2,742)
Net debt at beginning of period	-
Net debt at end of period	(2,742)

17. Acquisition of subsidiary undertakings

Russian Titan Company Limited (RTC)

On 31 December 2003, the Company acquired 100% of the shares in RTC, a company based in Cyprus, which on the same date had acquired 100% of the shares in 000 Chemelt and 74% of the shares in 000 Olekminsky Rudnik. These companies were acquired from the Peter Hambro Mining Group. Details of net assets acquired by RTC are as follows:

	000 Chemelt \$000	Fair value adjustment \$000	Total \$000	000 Olekminsky Rudnik \$000	Fair value adjustment \$000	Total \$000
Mining properties and leases	-	-	-	6	2,074	2,080
Assets under construction	-	-	-	816	-	816
Other fixed assets	6	-	6	27	-	27
Stocks	32	-	32	16	-	16
Debtors	301	(31)	270	170	-	170
Cash	24	-	24	-	-	-
Creditors due within one year	(312)	-	(312)	(4)	-	(4)
Long term loan	(32)	-	(32)	(1,151)	-	(1,151)
Net assets	19	(31)	(12)	(120)	2,074	1,954
Aricom share of assets acquired			(12)			1,446
Consideration						
Consideration and payment			20			2,597
Receipt of rights to long term loan			(32)			(1,151)
			(12)			1,446
Goodwill arising on acquisition			-			-

The loss after tax for 000 Chemelt and 000 Olekminsky Rudnik for the year ending 31 December 2003 were respectively \$5,071 (2002: \$nil) and \$51,000 (2002: \$38,000 loss)

Notes to the Financial Statements

Continued

18. Related parties

The operations of Aricom plc were formerly part of Peter Hambro Mining Group and, as such, there are a number of continuing arms length contracts which were reviewed and approved by the Directors and shareholders before being entered into. The transactions and balances with Peter Hambro Mining Group are set out below:

Related party	Description	Income/ (expenditure) \$000	Amount due from/(due to) 2004 \$000
Peter Hambro Mining Plc and subsidiaries	Loan facility	-	(3,400)
Peter Hambro Mining Plc and subsidiaries	Feasibility study	1,212	-
Peter Hambro Mining Plc and subsidiaries	Recharge of expenses	624	(70)
Peter Hambro Mining Plc and subsidiaries	Purchase of subsidiaries	2,617	-
Peter Hambro Mining Plc and subsidiaries	Management services	109	(56)
Peter Hambro Mining Plc and subsidiaries	Interest on loan	193	-
Peter Hambro Mining Plc and subsidiaries	Professional advice	(9)	-
Peter Hambro Mining Plc and subsidiaries	Spare parts	5	-
Peter Hambro Mining Plc and subsidiaries	Recharge of expenses	194	(194)
Peter Hambro Mining Plc and subsidiaries	Cessation agreement	105	-
Peter Hambro Mining Plc and subsidiaries	Rent	91	26

The Group also has an unsecured loan with Expobank. Peter Hambro and Pavel Maslovsky have options over part of the share capital of Expobank. The transactions and balances with Expobank are set out below:

	Description	Income/ (expenditure) \$000	Amount due from/(due to) 2004 \$000
Expobank	Loan facility	-	(499)
Expobank	Interest	(90)	-

Peter Hambro Mining Plc and its subsidiaries and Expobank are considered to be related parties due to Peter Hambro's and Pavel Maslovsky's interests in both those companies and in Aricom plc.

19. Investments

	2004 \$000
Shares in subsidiaries at cost	4

The Company and the Group have the following material subsidiaries and other significant investments that were consolidated in these financial statements

Principal subsidiary	Country of incorporation	Principal activity	Principal country of operation	Effective proportion of shares held
Brasenose Services Ltd	Cyprus	Holding Company	Cyprus	100%
Russian Titan Company Limited	Cyprus	Holding Company	Cyprus	100%
000 Chemelt	Russia	Trading Company	Russia	100%
000 Aricom	Russia	Management Company	Russia	100%
000 Olekminsky Rudnik	Russia	Mining	Russia	74%

20. Loss per ordinary share

a) Basic and diluted loss per ordinary share

Loss for the year (\$000)	(4,254)
Weighted Average number of ordinary shares	75,632,851
Basic and diluted loss per ordinary share	(\$ 0.06)

Basic and diluted EPS are the same because the only outstanding share options are anti-dilutive as the Group has made a loss.

Notes to the Financial Statements

Continued

20. Loss per ordinary share continued

b) Proforma loss per ordinary share

Loss for the year (\$'000)	[4,254]
Proforma Weighted Average number of ordinary shares	94,910,351
Proforma loss per ordinary share	(\$ 0.04)

The Group did not trade until its shares were admitted to trading on AIM on 31 December 2003 and made the acquisitions as disclosed in note 17. The proforma weighted average has been calculated as if the period began on 31 December 2003 and not the date of the Company's formation.

21. Commitments and contingent liabilities

The Group and the Company had no commitments or contingent liabilities at the balance sheet date.

22. Currency and commodity price risk

Although the Group is headquartered in the United Kingdom, Sterling denominated monetary assets and liabilities at 31 December 2004 were not significant.

Because of the location of its operating activities in Russia, the Russian subsidiary undertakings are necessarily involved in Russian rouble transactions and have rouble denominated balances. The Group incurs operating costs in roubles and the Group's borrowings at 31 December 2004 were largely denominated in US dollars. Available cash is put on deposits of appropriate maturities in the main operating currencies of the Group in order to protect against adverse exchange rate movements in so far as is possible.

The world market for titanium dioxide is principally denominated in US dollars.

23. Financial instruments

a) Financial assets and liabilities

The interest rate profile for Group's financial liabilities was:

	2004 Fixed rate borrowing \$'000	Interest free \$'000	Total \$'000
US dollar	3,899	-	3,899
	3,899	-	3,899

The weighted average interest rate on the Group's interest bearing borrowings for the period was 8.9%.

The interest rate profile for Group's financial assets was:

	Fixed rate \$'000	Floating rate \$'000	2004 Interest free	Total \$'000
Euro	-	471	-	471
GBP	-	225	-	225
Rouble	-	431	-	431
US dollar	-	30	-	30
	-	1,157	-	1,157

The fair values and book values of the Group's financial assets and liabilities are not materially different.

Notes to the Financial Statements

Continued

23. Financial instruments continued

b) Undrawn borrowing facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available at 31 December 2004 were as follows:

	2004 \$000
Expiry date:	
One to two years	351
More than two years	2,600
	2,951

c) Net foreign currency monetary assets and liabilities

The main currencies of the Group include the US dollar, UK pounds sterling, Russian rouble and the Euro. The analysis of the net monetary assets and liabilities below indicates the Group's exposures in various operating companies that are denominated in currencies other than the functional currency of the Company. These exposures represent the transactional exposures that may give rise to net currency gains and losses recognised in the profit and loss account.

As at 31 December 2004	Net foreign currency monetary assets/(liabilities)		
	US\$ \$000	EUR \$000	Total \$000
Functional currency of entity			
US\$	-	471	471
Total	-	471	471

d) Maturity of financial liabilities

	2004 \$000
In one year or less	499
In more than two years but not more than five years	3,400
	3,899

Notes to the Financial Statements

Continued

24. Segmental information

a) By class of business	Turnover \$000	Loss before tax and minority interest \$000	Net assets \$000
Trading	3,199	(223)	416
Mine development	–	(389)	5,953
Corporate	–	(3,659)	(3,569)
Total turnover	3,199		
Loss on ordinary activities before taxation		(4,271)	
Net assets			2,800

b) Geographical analysis by origin	Turnover \$000	Loss before tax and minority interest \$000	Net assets \$000
United Kingdom	–	(3,659)	(3,569)
Russia	3,199	(612)	6,369
Total turnover	3,199		
Loss on ordinary activities before taxation		(4,271)	
Net assets			2,800

Turnover by destination was not materially different from turnover by origin.

25. Post balance sheet events

After the period end the Company raised further capital through a placing of 38,250,000 shares at 28p to provide the Company with sufficient funds to continue the development of its plans.

In January 2005 OOO Aricom signed conditional offtake agreements with China National Gold Corporation. The agreement provides for OOO Aricom to supply to China National Gold Corporation a total of at least 360,000 tonnes of ilmenite concentrate over one and a half years and at least 3,300,000 tonnes of titanomagnetite concentrate over five years starting in 2007.

On 5 March 2005 Olekminsky Rudnik, a subsidiary, entered into finance leasing arrangements with Expo-leasing, a branch of Expobank. The capital value of the lease amounts to \$2.5m.

On 17 March 2005 the Group reduced the balance of the loan outstanding to Peter Hambro Mining Plc to \$10. The balance as at 31 December 2004 was \$3.4m. The \$6m loan facility with Peter Hambro Mining Plc remains in place and expires on 31 December 2008.

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Tom Swithenbank
Chief Executive Officer

Peter Howes
Finance Director

Yuri Makarov
Executive Director

Peter Hambro
Non-Executive Director

Pavel Maslovsky
Non-Executive Director

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