

JSC CHELYABINSK ZINC PLANT

INTERNATIONAL ACCOUNTING STANDARD No. 34

**CONSOLIDATED INTERIM FINANCIAL
STATEMENTS AND REVIEW REPORT**

30 June 2006

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STATEMENT OF MANAGEMENT RESPONSIBILITIES

To the Shareholders of JSC "Chelyabinsk Zinc Plant":

International convention requires that management prepare financial statements, which present fairly, in all material respects, the state of affairs of JSC "Chelyabinsk Zinc Plant" its subsidiaries (together referred to as the "Group") at the end of each financial period and of the Group's results and its cash flows for each financial period.

Management is responsible for ensuring that the Group keeps accounting records, which disclose, with reasonable accuracy, the financial position and which enable them to ensure that the financial statements comply with International Financial Reporting Standards and that statutory accounting reports comply with Russian laws and regulations. They also have a general responsibility for taking such steps that are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Management considers that, in preparing the consolidated interim financial statements set out on pages 3 to 33, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that appropriate International Financial Reporting Standards have been followed.

The consolidated interim financial statements, which are based on the statutory accounting reports restated in accordance with International Financial Reporting Standards, are hereby approved on behalf of the Board of Directors.

For and on behalf of the Board of Directors


V.V. Geikhman

General Director

25 October 2006

**REVIEW REPORT OF INDEPENDENT ACCOUNTANTS
TO THE BOARD OF DIRECTORS OF JSC "CHELYABINSK ZINC PLANT"**

We have reviewed the accompanying consolidated interim balance sheet of JSC "Chelyabinsk Zinc Plant" (the "Company") and its subsidiaries (together, the "Group") as of 30 June 2006 and the related consolidated interim statements of income, cash flows and changes in equity for the six months then ended. These consolidated interim financial statements are the responsibility of the Group's management. Our responsibility is to issue a report on these consolidated interim financial statements based on our review.

We conducted our review in accordance with the International Standard on Review Engagements 2400. This Standard requires that we plan and perform the review to obtain moderate assurance about whether the consolidated interim financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial statements are not presented fairly, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

ZAO PricewaterhouseCoopers Audit

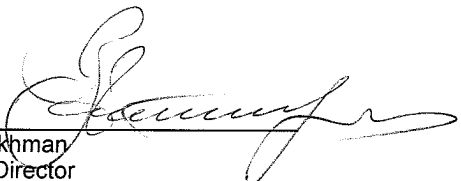
25 October 2006
Moscow, Russian Federation

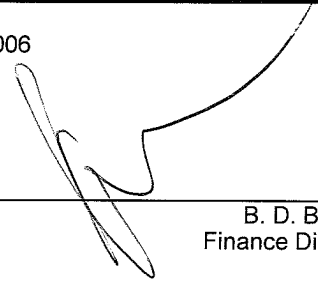
JOINT STOCK COMPANY CHELYABINSK ZINC PLANT
CONSOLIDATED INTERIM BALANCE SHEET AS OF 30 JUNE 2006



<i>In thousands of Russian Roubles</i>	Note	30 June 2006	31 December 2005
ASSETS			
Non-current assets			
Property, plant and equipment	8	7,439,467	3,311,755
Advances for capital construction		65,691	5,199
Goodwill	9	914,629	-
Other intangible assets	8	23,086	24,028
Available-for-sale investments		2,108	2,108
Other non-current assets		799	-
Total non-current assets		8,445,780	3,343,090
Current assets			
Inventories, net	10	1,855,524	1,478,985
Trade and other receivables, net	11	1,315,377	689,769
Loans receivable		28,800	26,000
Cash and cash equivalents	12	312,905	131,740
Restricted cash	12	2,990	4,073
Total current assets		3,515,596	2,330,567
TOTAL ASSETS		11,961,376	5,673,657
Equity			
Share capital	13	74,077	74,077
Share premium	13	51,826	48,192
Legal reserve	13	397	397
Cumulative translation reserve		210,524	-
Retained earnings		5,548,488	4,235,524
TOTAL EQUITY		5,885,312	4,358,190
LIABILITIES			
Non-current liabilities			
Borrowings	14	3,261,596	-
Provision for asset retirement obligation and site restoration	17	38,049	-
Deferred income tax liability	21	1,451,296	181,264
Other non-current liabilities		7,806	-
Total non-current liabilities		4,758,747	181,264
Current liabilities			
Borrowings	14	425,624	269,836
Accounts payable, accrued expenses and advances from customers	15	630,434	808,933
Current income tax payable		233,292	38,444
Other taxes payable	16	27,967	16,990
TOTAL CURRENT LIABILITIES		1,317,317	1,134,203
TOTAL LIABILITIES		6,076,064	1,315,467
TOTAL LIABILITIES AND EQUITY		11,961,376	5,673,657

Approved for issue and signed on behalf of the Board of Directors on 25 October 2006


V. V. Geikhman
General Director

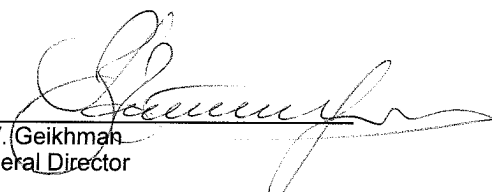

B. D. Birman
Finance Director

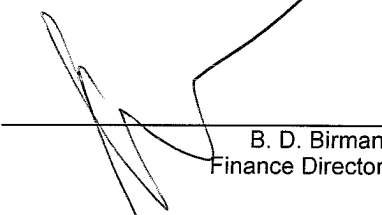
JOINT STOCK COMPANY CHELYABINSK ZINC PLANT
CONSOLIDATED INTERIM STATEMENT OF INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2006



<i>In thousands of Russian Roubles</i>	Note	Six months ended 30 June 2006	Six months ended 30 June 2005
Revenues	18	6,072,953	1,867,584
Cost of sales	19	(3,912,944)	(1,676,488)
Gross profit		2,160,009	191,096
Distribution costs	20	(83,423)	(44,388)
General and administrative expenses	20	(284,367)	(172,480)
Operating profit/(loss)		1,792,219	(25,772)
Finance income		2,017	10,472
Finance costs		(73,008)	(14,054)
Net foreign exchange gain/(loss)		45,609	(9,006)
Profit/(loss) before income tax		1,766,837	(38,360)
Income tax expense	21	(453,873)	(134)
Profit/ (loss) for the half year		1,312,964	(38,494)
Profit/(loss) is attributable to:			
Equity holders of the Company		1,312,964	(38,494)
Net profit/(loss) for the half year		1,312,964	(38,494)
Earnings/(loss) per share – basic and diluted			
(in RR)	22	258	(8)

Approved for issue and signed on behalf of the Board of Directors on 25 October 2006


V. V. Geikhman
General Director

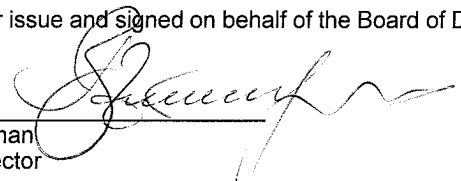

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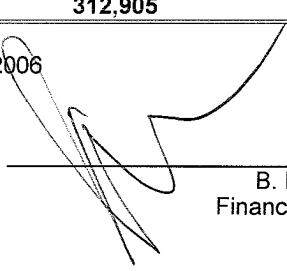
JOINT STOCK COMPANY CHELYABINSK ZINC PLANT
 CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2006



<i>In thousands of Russian Roubles</i>	Note	Six months ended 30 June 2006	Six months ended 30 June 200
Cash flows from operating activities			
Profit before income tax		1,766,837	(38,36)
Adjustments for:			
Depreciation and amortisation	8	331,546	207,78
Net loss on disposal of property, plant and equipment	20	44,338	11
Impairment of trade and other receivables	20	7,963	1,06
Finance gains and losses, net		70,991	3,58
Precious metals revaluation		(5,510)	(18,73)
Foreign exchange (gains)/losses		(56,354)	9,11
Other non-cash items		(1,396)	3,62
Operating cash flows before working capital changes		2,158,415	168,20
(Increase)/decrease in trade and other receivables		(565,869)	(56,35
(Increase)/decrease in inventories		(230,758)	(28,82
Increase/(decrease) in trade and other payables		(278,699)	210,58
Increase/(decrease) in taxes payable		(4,329)	1,41
Decrease/(increase) in restricted cash		1,083	2,50
Cash generated from operations		1,079,843	297,52
Interest paid		(78,363)	(15,34
Income taxes paid		(244,094)	(37,69
Net cash generated from operating activities		757,386	244,48
Cash flows from investing activities:			
Purchase of property, plant and equipment		(348,412)	(58,47
Proceeds from sale of property, plant and equipment		54,950	302
Loans provided		(68,000)	(245,00
Receipts from repayment of loans		65,200	303,99
Interest received		4,950	9,19
Net cash paid for purchase of subsidiary	23	(2,366,477)	-
Advance for purchase of minority interest	23	(1,349,200)	-
Net cash (used in)/generated from investing activities		(4,006,989)	10,02
Cash flows from financing activities			
Repayments of borrowings		(607,282)	(92,77
Proceeds from borrowings		4,070,566	-
Acquisition of treasury shares	13	(21,804)	-
Finance lease payments		(5,744)	-
Net cash generated from/(used in) financing activities		3,435,736	(92,77
Effect of translation and foreign exchange rate changes on cash and cash equivalents		(4,968)	1,694
Net (decrease)/increase in cash and cash equivalents		181,165	163,42
Cash and cash equivalents at the beginning of the period	12	131,740	188,207
Cash and cash equivalents at the end of the period	12	312,905	351,635

Approved for issue and signed on behalf of the Board of Directors on 25 October 2006


 V. V. Geikhman
 General Director


 B. D. Birman
 Finance Director

**JOINT STOCK COMPANY CHELYABINSK ZINC PLANT
CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2006**



CHELYABINSK
ZINC PLANT

<i>In thousands of Russian Roubles</i>	Attributable to equity holders of the Company						Total equity
	Share capital	Treasury shares	Share premium/ discount	Legal reserve	Cumulative translation reserve	Retained earnings	
Balance at 1 January 2005	74,077	-	48,192	397	-	4,088,299	4,210,965
Net income for the year	-	-	-	-	-	38,494	38,494
Total recognised income for the period	-	-	-	-	-	38,494	38,494
Balance at 30 June 2005	74,077	-	48,192	397	-	4,126,793	4,249,459
Balance at 1 January 2006	74,077	-	48,192	397	-	4,235,524	4,358,190
Translation movement	-	-	-	-	210,524	-	210,524
Net income recognised directly in equity	-	-	-	-	210,524	-	210,524
Net income for the year	-	-	-	-	-	1,312,964	1,312,964
Total recognised income for the period	-	-	-	-	-	1,312,964	1,312,964
Acquisition of treasury shares (Note 13)	-	21,804	-	-	-	-	21,804
Sale of treasury shares (Note 13)	-	(21,804)	3,634	-	-	-	(18,170)
Balance at 30 June 2006	74,077	-	51,826	397	210,524	5,548,488	5,885,312

Approved for issue and signed on behalf of the Board of Directors on 25 October 2006


V. V. Geikhtman
General Director


B. D. Birman
Finance Director

The accompanying notes on pages 7 to 33 are an integral part of these consolidated interim financial statements

1 JSC Chelyabinsk Zinc Plant and its operations

These financial statements have been prepared in accordance with International Financial Reporting Standards for the six months ended 30 June 2006 for JSC Chelyabinsk Zinc Plant (the "Company") and its subsidiaries (together referred to as the "Group").

The Company was incorporated in May 1993 and is domiciled in the Russian Federation. The Company is an open joint stock company set up in accordance with Russian regulations.

At 30 June 2006 the Group's immediate parent is NF Holdings BV incorporated in Netherlands, which owns 87,99% of the Company's shares. The Group is ultimately controlled by Arkley Capital S.A.R.L. incorporated in Luxembourg.

The Company enters into transactions with related parties. Such transactions entered between the Group and its related parties (Note 7) may not be on arms-length terms.

Principal activity. The Group's principal business activity is the extraction and integrated processing of ore with the purpose of producing zinc and lead concentrates, production and distribution of zinc, zinc alloys and by-products. The Group's manufacturing facilities are based in Chelyabinsk (the Russian Federation) and Akzhal (the Republic of Kazakhstan). There is a number of subsidiaries including a newly acquired subsidiary (Note 23). The companies of the Group are incorporated under the Laws of the Russian Federation, the Republic of Kazakhstan, and Switzerland. At 30 June 2006 the Group employed approximately 2,739 employees (31 December 2005: 1,799).

Registered address and place of business. The Company's registered address is: Sverdlovsky trakt 24, Chelyabinsk, Russian Federation.

2 Basis of preparation and significant accounting policies

Basis of preparation. These consolidated interim financial statements for the six months ended June 30, 2006 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IAS 34 "Interim financial reporting" under the historical cost convention except for certain financial instruments that are presented at fair value. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

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

Accounting for the effects of hyperinflation. The Russian Federation and the Republic of Kazakhstan have previously experienced relatively high levels of inflation and was considered to be hyperinflationary as defined by IAS 29 "Financial Reporting in Hyperinflationary Economies" ("IAS 29"). IAS 29 requires that the financial statements prepared in the currency of a hyperinflationary economy be stated in terms of the measuring unit current at the balance sheet date. As the characteristics of the economic environment of the Russian Federation indicate that hyperinflation has ceased, effective from 1 January 2003 the Group no longer applies the provisions of IAS 29. Accordingly, the amounts expressed in the measuring unit current at 31 December 2002 are treated as the basis for the carrying amounts in these financial statements. The characteristics of the economic environment of the Republic of Kazakhstan indicate that hyperinflation has ceased effective from 1 January 1999. Accordingly, the amounts expressed in the measuring unit current at 31 December 1998 are treated as the basis for the carrying amounts in these financial statements.

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

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. The date of exchange is the acquisition date where a business combination is achieved in a single transaction, and is the date of each share purchase where a business combination is achieved in stages by successive share purchases.

2 Basis of preparation and significant accounting policies (continued)

The excess of the cost of acquisition over the fair value of the net assets of the acquiree at each exchange transaction represents goodwill. The excess of the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over cost ("negative goodwill") is recognised immediately in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any minority interest.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

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

Purchases of minority interests. Difference, if any, between the carrying amount of a minority interest and the amount paid to acquire it is recorded as goodwill. There is no step-up of net assets to fair value upon minority interest acquisition.

Property, plant and equipment. Property, plant and equipment are stated at historic acquisition or construction cost less accumulated depreciation and provision for impairment, where required. An independent appraisal company was engaged by the Group to estimate fair value of assets under construction and property, plant and equipment as of 1 January 1998, as historic information on cost of assets under construction and property, plant and equipment was not readily available. A remaining useful economic life of 5 years was designated to this property, plant and equipment, which were fully depreciated as of 31 December 2002. Subsequent additions to property, plant and equipment are accounted for at cost, restated to the equivalent purchasing power of the Russian Rouble at 31 December 2002 for assets acquired after 1 January 1998, but prior to 1 January 2003.

Independent appraisal company was engaged to estimate fair value of assets under construction and property, plant and equipment of the acquired subsidiary (Note 23), as well as their estimated remaining useful lives, as of 10 April 2006 (the acquisition date).

Costs of minor repairs and maintenance are expensed when incurred. Cost of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired.

Expenditure, including evaluation costs, incurred to establish or expand productive capacity, costs to conduct mining-construction and mining-capital works, as well as costs arising from mining preparation works during the development or mine reconstruction phase, are capitalised to mining assets as part of buildings and constructions.

At each reporting date the management assess whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the income statement. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

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

Depreciation. Land is not depreciated. Assets under construction are not depreciated before transfer into operation. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives:

	<u>Useful lives in years</u>
Buildings and infrastructure	10 to 50
Plant, machinery and equipment	5 to 30
Other	2 to 20

2 Basis of preparation and significant accounting policies (continued)

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Stripping costs. Stripping (i.e. overburden and other waste removal) costs incurred in the development of a mine before production commences are capitalised as part of the cost of constructing the mine and are subsequently amortised over the life of the operation.

Stripping costs incurred subsequently during the production stage of its operations are expensed.

Goodwill. Goodwill represents the excess of the cost of an acquisition over the fair value of the acquirer's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary or associate at the date of exchange. Goodwill on acquisitions of subsidiaries is presented separately in the consolidated balance sheet. Goodwill on acquisitions of associates is included in the investment in associates. Goodwill is carried at cost less accumulated impairment losses, if any.

The Group tests goodwill for impairment at least annually and whenever there are indications that goodwill may be impaired. Goodwill is allocated to the acquirer's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or group of units represent the lowest level at which the Group monitors goodwill and are not larger than a segment. Gains or losses on disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Intangible assets. All of the Group's intangible assets have definite useful lives and include capitalised cost of obtaining "CZP SHG" (Chelyabinsk Zinc Plant Special High Grade) certification, computer software and licences. Cost of obtaining CZP SHG certification and acquired computer software and licences are capitalised on the basis of the costs incurred to obtain or acquire these intangible assets and bring them to use.

Intangible assets are amortised using the straight-line method over their useful lives:

	<u>Useful lives in years</u>
Cost of obtaining CZP SHG certification	30
Computer software and licences	3 to 5

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and, when impaired, the asset is written down to the higher of value in use and fair value less costs to sell.

Classification of financial assets. The Group classifies its financial assets into the following measurement categories: trading, available-for-sale, held to maturity and loans and receivables.

Trading investments are securities or other financial assets, which are either acquired for generating a profit from short-term fluctuations in price or trader's margin, or are included in a portfolio in which a pattern of short-term trading exists. The Group classifies financial assets into trading investments if it has an intention to sell them within a short period after acquisition, i.e. within 1 to 3 months. The Group did not hold any trading investments during the reported periods.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Held to maturity classification includes quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. The Group did not hold any held-to-maturity investments during the reported periods.

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

2 Basis of preparation and significant accounting policies (continued)

Initial recognition of financial instruments. Trading investments and derivatives are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial instrument. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading investments; and recognised in equity for assets classified as available for sale.

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

Available-for-sale investments. Available-for-sale investments are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from equity to profit or loss.

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

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with the legislation of the Russian Federation and the Republic of Kazakhstan enacted or substantively enacted by the balance sheet date. The income tax charge comprises current tax and deferred tax and is recognised in the consolidated income statement unless it relates to transactions that are recognised, in the same or a different period, directly in equity.

Current tax is the amount expected to be paid to or recovered from the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxes, other than on income, are recorded within operating expenses.

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

Deferred income tax is provided on post acquisition retained earnings of subsidiaries, except where the Group controls the subsidiary's dividend policy and it is probable that the difference will not reverse through dividends or otherwise in the foreseeable future.

2 Basis of preparation and significant accounting policies (continued)

Inventories. Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. Zinc ore is recognised as raw materials when delivered to the surface and is valued at the average cost of extraction. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

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

Cash and cash equivalents. Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of consideration received over the par value of shares issued is presented in the notes as a share premium.

Treasury shares. Where any Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Dividends. Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared before or on the balance sheet date. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the financial statements are authorised for issue.

Value added tax. Value added tax related to sales is payable to tax authorities upon collection of receivables from customers. Input VAT is generally reclaimable against sales VAT upon payment for purchases except for export sales related input VAT which is reclaimable upon confirmation of export and input VAT on construction in progress which can be reclaimed only upon transfer of a constructed asset into operation. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases which have not been settled at the balance sheet date (VAT deferred) is recognised in the balance sheet on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT. The related VAT deferred liability is maintained until the debtor is written off for tax purposes.

Borrowings. Borrowings are carried at amortised cost using the effective interest method. Borrowing costs are recognised as an expense on a time proportion basis using the effective interest method. The Group does not capitalise borrowing costs.

Trade and other payables. Trade payables are accrued when the counterparty performed its obligations under the contract and are carried at amortised cost using the effective interest method.

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

In the event that disclosure of a potential exposure could have a detrimental effect on the Company's ability to support its position, no disclosure of the specific details of the related exposure are provided.

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

2 Basis of preparation and significant accounting policies (continued)

Asset retirement obligations. Asset retirement costs include landfill site restoration and closure (dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas). Estimated landfill site restoration and closure costs are provided for and incurred in the cost of property, plant and equipment in the accounting period when the obligation arising from the related disturbance occurs during the mine development phase, based on the net present value of estimated future costs. Provisions for asset retirement obligations do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure and restoration plan. The cost estimates are calculated annually during the life of the operation to reflect known developments, e.g. updated cost estimates and revisions to the estimated lives of operations, and are subject to formal review at regular intervals.

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

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

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

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

Foreign currency translation. Functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Company's functional currency and the Company's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

Monetary assets and liabilities are translated into functional currency at the official exchange rate of the Central Bank of the Russian Federation at the respective balance sheet dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into functional currency at year-end official exchange rates of the Central Bank of the Russian Federation are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments. Effects of exchange rate changes on the fair value of equity securities are recorded as part of the fair value gain or loss.

At 30 June 2006 the principal rate of exchange used for translating foreign currency balances was US\$ 1 = RR 27.0789 (31 December 2005: US\$ 1 = RR 28.7825). The official Euro to RR exchange rate at 30 June 2006, as determined by the Central Bank of the Russian Federation, was 33.9759 (31 December 2005: 34.1850). As at 30 June 2006 exchange restrictions and controls existed relating to converting Russian Roubles into other currencies. Prior to July 2006 the Russian Rouble was not a freely convertible currency in most countries outside of the Russian Federation. Further, all transactions within the Russian Federation were required to be settled in Russian Roubles and 10% prior to July 2006 (25% prior to 27 December 2004 and 50% prior to 10 July 2003) of foreign currency receipts from transactions with foreign entities were required to be converted into Russian Roubles.

Translation from functional to presentation currency. The results and financial position of each group entity (functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

2 Basis of preparation and significant accounting policies (continued)

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. When a subsidiary is disposed of through sale, liquidation, repayment of share capital or abandonment of all, or part of, that entity, the exchange differences deferred in equity are reclassified to profit or loss.

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

Revenues are measured at the fair value of the consideration received or receivable. Sales are shown net of VAT and discounts.

Mining royalties are included within cost of sales.

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

Employee benefits. Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. These amounts principally represent an implicit cost of employing production workers and, accordingly, have been charged to the statement of income as cost of sales.

In the normal course of business the Group contributes to the state pension scheme of the respective states (the Russian Federation and the Republic of Kazakhstan) on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

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

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

Earnings per share. Earnings per share are determined by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of participating shares outstanding during the reporting year.

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

Changes in presentation. Where necessary, corresponding figures have been adjusted to conform with changes in the presentation of the current year.

3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies

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

Goodwill. The Group will finalise purchase price allocation of the newly acquired subsidiary (Note 23) within one year from the acquisition date. Goodwill amount will be assessed for impairment and based on the recoverable amount to be determined a significant portion or entire amount of the goodwill could be subject to impairment, which is immediately recognised in the income statement and is not subject to reversals in future periods.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 24.

3 Critical Accounting Estimates, and Judgements in Applying Accounting Policies (continued)

Assumptions to determine amount of provisions. The Group determines recoverability of accounts receivable and advances by comparing actual cash collection to the contractual payment schedule. In the case when a risk of non-collection is assessed as probable, a provision for the doubtful accounts receivable and advances is recognised.

Provision for asset retirement obligations. In accordance with the contracts on subsurface use the Company has a legal obligation to decommission its mining properties and restore a landfill site after its closure. Provision is made, based on net present values, for site restoration and rehabilitation costs as soon as the obligation arises from past mining activities. The provision for asset retirement obligation is estimated based on the current environmental legislation in the Republic of Kazakhstan. Asset retirement obligations are subject to potential changes in environmental regulatory requirements. As at 30 June 2006 the carrying amount of the provision for asset retirement obligations was RR 38 million.

Slow-moving and obsolete inventory. The Group has accumulated significant stock of zinc cakes (a by-product with approximately 20% zinc content, which requires substantial processing to extract zinc) due to the limited capacity of certain workshops. No slow-moving provision has been created against this stock, as there is a valid expectation that resumed construction of Waelz-kiln N 5 will allow the Group to process the accumulated stock of zinc cakes in 2007-2008. The Group records zinc cakes at historic production cost, which is substantially lower than its potential resale value and cost of zinc content (Note 10).

The provision for obsolete inventory is based on the Group's ability to identify obsolete inventory and assess future perspective of its utilisation.

4 Adoption of new or revised standards and interpretations

Certain new IFRSs became effective for the Group from 1 January 2006. Listed below are those new or amended standards or interpretations which are or in the future could be relevant to the Group's operations and the nature of their impact on the Group's accounting policies.

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

IAS 39 (Amendment) – Cash Flow Hedge Accounting of Forecast Intragroup Transactions (effective from 1 January 2006). The amendment allows the foreign currency risk of a highly probable forecast intragroup transaction to qualify as a hedged item in the consolidated financial statements provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect consolidated profit or loss. This amendment is not relevant for the Group.

IAS 39 (Amendment) – Financial Guarantee Contracts (effective from 1 January 2006). Issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, will have to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred and (ii) the expenditure required to settle the commitment at the balance sheet date. Different requirements apply for the subsequent measurement of issued financial guarantees that prevent derecognition of financial assets or result in continuing involvement accounting. This amendment is not relevant for the Group.

IAS 19 (Amendment) – Employee Benefits (effective from 1 January 2006). The amendment to IAS 19 introduces an additional option to recognise actuarial gains and losses arising in post-employment defined benefit plans in full directly in retained earnings in equity. It also requires new disclosures about defined benefit plans and clarifies accounting for a contractual agreement between a multi-employer plan and participating employers. This amendment has no impact on these consolidated interim financial statements.

4 Adoption of new or revised standards and interpretations (continued)

IAS 21 (Amendment) – Net Investment in a Foreign Operation (effective from 1 January 2006). This amendment requires foreign exchange gains and losses on quasi-equity intercompany loans to be reported in consolidated equity even if the loans are not in the functional currency of either the lender or the borrower. Currently, such exchange differences are required to be recognised in consolidated profit or loss. It also extends the definition of 'net investment in a foreign operation' to include loans between sister companies. This amendment is not relevant for the Group.

IFRS 6, Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). IFRS 6 allows an entity to continue using the accounting policies for exploration and evaluation assets applied immediately before adopting the IFRS, subject to certain impairment test requirements.

IFRIC 4, Determining whether an Arrangement contains a Lease (effective from 1 January 2006). IFRIC 4 requires that determining whether an arrangement is, or contains, a lease be based on the substance of the arrangement. It requires an assessment of whether (a) fulfilment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. IFRIC 4 has no impact on these consolidated interim financial statements.

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

IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment (effective for periods beginning on or after 1 December 2005, that is from 1 January 2006). The Interpretation states that a liability shared among market participants in proportion to their respective market share, in particular the liability for the decommissioning of historical waste electrical and electronic equipment in the European Union, should not be recognised because participation in the market during the measurement period is the obligating event in accordance with IAS 37. This amendment is not relevant for the Group.

IFRS 1 (Amendment) – First-time Adoption of International Financial Reporting Standards and IFRS 6 Exploration for and Evaluation of Mineral Resources (effective from 1 January 2006). This minor amendment to IFRS 1 clarifies that the IFRS 6 comparative information exemption applies to the recognition and measurement requirements of IFRS 6, as well as the disclosure requirements.

Adoption of new or revised standards and interpretations did not have a material impact on these consolidated financial statements.

5 New accounting pronouncements

Certain new standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2007 or later periods and which the entity has not early adopted:

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

IFRIC 7, Applying the Restatement Approach under IAS 29 (effective for periods beginning on or after 1 March 2006, that is from 1 January 2007). The Interpretation clarifies application of IAS 29 in the reporting period in which hyperinflation is first identified. It states that IAS 29 should initially be applied as if the economy has always been hyperinflationary. It further clarifies calculation of deferred income taxes in the opening balance sheet restated for hyperinflation in accordance with IAS 29. Management does not expect the interpretation to be relevant for the Group.

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

5 New accounting pronouncements (continued)

IFRIC 9, Reassessment of Embedded Derivatives (effective for annual periods beginning on or after 1 June 2006). The Interpretation clarifies certain aspects of the treatment of embedded derivatives under IAS 39 Financial Instruments: Recognition and Measurement. IFRIC 9 concludes that reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Interpretation shall be applied retrospectively. Management is currently assessing the impact of IFRIC 9 on the Group's operations.

IFRIC 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). Management is currently assessing the impact of IFRIC 10 on the Group's operations.

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

6 Segment information

The Group has only one business segment – production of zinc and lead concentrate, zinc and zinc alloys. With regards to the secondary geographical segments, sales are based on the country in which the customer is located, while total assets and capital expenditures are based on where the assets are located. All of the Group's assets and capital expenditures are located in the Russian Federation and the Republic of Kazakhstan. For the geographical segments of the Group's sales refer to Note 18.

7 Balances and Transactions with Related parties

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

Related parties of the Group are predominantly comprised of parties under the control of the Group's shareholders or acting as agents on behalf of the parties controlled by the Group's shareholders. Related parties may enter into transactions which unrelated parties may not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions for the six months ended 30 June 2006 and 2005 or had significant balances outstanding at 30 June 2006 and 31 December 2005 are detailed below.

(i) Balance sheet caption

<i>In thousands of Russian Roubles</i>	Note	30 June 2006	31 December 2005
Assets			
Receivable from OJSC CTRP		7,398	49
Receivable from OJSC PNTZ		104	-
Total receivable	11	7,502	49
Interest receivable from CJSC GROUP CTRP	11	-	2,933
Loans to CJSC GROUP CTRP		-	26,000
Total assets		7,502	28,982
Liabilities			
Payable to CJSC SKS METRIS		(85)	(380)
Advances received from OJSC CTRP		-	(10)
Total liabilities	15	(85)	(390)

7 Balances and Transactions with Related parties (continued)

(ii) Income statement caption

	Note	Six months ended 30 June 2006	Six months ended 30 June 2005
<u>Revenue</u>			
Sales to OJSC CTRP		82,943	39,592
Sales to OJSC PNTZ		107	-
Total sales	18	83,050	39,592
<u>Purchases</u>			
Purchases from CJSC SKS METRIS		(4,568)	(2,462)
Purchases from OJSC CTRP		(2,819)	-
Total purchases		(7,387)	(2,462)
<u>Finance income and charges</u>			
Interest on loan provided to OJSC CTRP		-	1,545
Interest on loan provided to CJSC SKS METRIS		-	8
Interest on loan provided to CJSC GROUP CTRP		353	1,686
Interest on loan provided to CJSC CTRP-META		-	2,314
Interest on loan provided to CJSC SOT		-	821
Interest on loan provided to CJSC CTRP-KTS		-	1,043
Interest on loan provided by OJSC PNTZ		(4,693)	-
Total finance income and charges		(4,340)	7,417

(iii) Cash Flow statement caption

		Six months ended 30 June 2006	Six months ended 30 June 2005
<i>In thousands of Russian Roubles</i>			
<u>Operating activities</u>			
Cash receipts from OJSC CTRP		87,901	48,545
Payments to CJSC SKS METRIS		(4,863)	(2,896)
Interest paid to OJSC PNTZ		(4,693)	-
Total cash flows from operating activities		78,345	45,649
<u>Investing activities</u>			
Interest received from OJSC CTRP		-	1,545
Interest received from CJSC SKS METRIS		-	8
Interest received from CJSC GROUP CTRP		3,286	160
Interest received from CJSC CTRP-META		-	3,660
Interest received from CJSC SOT		-	160
Interest received from CJSC CTRP-KTS		-	767
Total interest received		3,286	6,300
Loan to CJSC CTRP-META		-	(105,000)
Loan to CJSC SOT		-	(25,000)
Loan to CJSC CTRP-KTS		-	(95,000)
Total loans given		-	(225,000)

7 Balances and Transactions with Related parties (continued)

(iii) Cash Flow statement caption (continued)

<i>In thousands of Russian Roubles</i>	Six months ended 30 June 2006	Six months ended 30 June 2005
Loan redeemed by CJSC SOT	-	3,000
Loan redeemed by CJSC CTRP-META	-	120,000
Loan redeemed by OJSC CTRP	-	80,000
Loan redeemed by CJSC GROUP CTRP	26,000	19,000
Loan redeemed by CJSC CTRP-KTS	-	82,000
Total loans redeemed	26,000	304,000
Total cash flows from investing activities	29,286	85,300
Financing activities		
Loan from OJSC PNTZ	300,000	-
Loan repaid to OJSC PNTZ	(300,000)	-
Total cash flows used in financing activities	-	-

OJSC CTRP (CTRP), CJSC GROUP CTRP (GROUP CTRP), CJSC SKS METRIS (METRIS), CJSC CTRP-META (CTRP-META), CJSC SOT (SOT), CJSC CTRP-KTS (CTRP KTS), OJSC PNTZ (PNTZ)

These companies are controlled by the Group's shareholders.

During six months ended 30 June 2006 the Group supplied 887 tons of zinc and zinc alloys (six months ended 30 June 2005: 1,337 tons) in accordance with the agreements with CTRP and PNTZ at the price determined as the LME official quotation for the metric ton of SHG zinc averaged over the quotation period and adjusted for the coefficient 1.12 for zinc and 1.15 for zinc alloys. As at 30 June 2006 the Group had a net receivable balance of RR 7,502 thousand (31 December 2005: RR 39 thousand) from CTRP and PNTZ.

During six months ended 30 June 2006 the Group did not provide any loans to the related parties (six months ended 30 June 2005: RR 105 million, RR 25 million and RR 95 million to CTRP-META, SOT and CTRP-KTS, respectively). During six months ended 30 June 2006 the loan amounting to RR 26 million was redeemed by Group CTRP (six months ended 30 June 2005: RR 80 million, RR 19 million, RR 3 million, RR 120 million, RR 82 million by CTRP, Group CTRP, SOT, CTRP-META and CTRP KTS, respectively). At 30 June 2006 there were no outstanding balances in respect of the loans provided to related parties (31 December 2005: RR 26 million from GROUP CTRP).

The loans bear interest of 10-11% p.a. during the six months ended 30 June 2006 and 2005. Management believes that the actual interest rates do not differ significantly from the market interest rates. For the six months ended 30 June 2006 the interest income on the loans given amounted to RR 0.4 million (six months ended 30 June 2005: RR 7.4 million). At 30 June 2006 there was no outstanding interest receivable due from related parties (31 December 2005: RR 2.9 million due from Group CTRP).

During six months ended 30 June 2006 the Group made purchases of inventory (pipe-bends, pipes) from METRIS and CTRP totalling RR 7.4 million. During the six months ended 30 June 2005 the Group made purchases of inventory (pipe-bends, pipes) from METRIS for the total amount of RR 2.5 million. At 30 June 2006 the Group had a net payable balance of RR 0.1 million (31 December 2005: RR 0.4 million) to METRIS.

(iv) Directors' and key management's compensation

Total directors' and key managements' compensation is represented by contractual salary. It is recorded in general and administrative expenses in the statement of income in the amount of RR 11.6 million and RR 6.5 million for the six months ended 30 June 2006 and 2005, respectively. There were 19 members of the directors and key management group for the six months ended 30 June 2006 (30 June 2005: 14 members).

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8 Property, plant and equipment

Property, plant and equipment and related accumulated depreciation consist of the following:

<i>In thousand Russian Roubles</i>	Note	Land	Buildings and infrastructure	Plant, machinery and equipment	Other	Mineral property	Intangible assets	Construction in progress	Total
Cost at 1 January 2005		45,419	1,692,627	2 657 245	227,363	-	27,508	295,108	4,945,270
Accumulated depreciation		-	(328,945)	(834,945)	(121,795)	-	(2,700)	-	(1,288,385)
Carrying amount at 1 January 2005		45,419	1,363,682	1,822,300	105,568	-	24,808	295,108	3,656,885
Additions/Transfers		-	-	17,116	7,870	-	-	32,825	57,811
Disposals		-	-	(66)	(1,283)	-	-	(2,278)	(3,627)
Depreciation charge		-	(43,664)	(150,790)	(12,843)	-	(490)	-	(207,787)
Carrying amount at 30 June 2005		45,419	1,320,018	1,688,560	99,312	-	24,318	325,655	3,503,282
Cost at 30 June 2005		45,419	1,692,627	2,668,026	231,254	-	27,508	325,655	4,990,489
Accumulated depreciation		-	(372,609)	(979,466)	(131,942)	-	(3,190)	-	(1,487,207)
Carrying amount at 30 June 2005		45,419	1,320,018	1,688,560	99,312	-	24,318	325,655	3,503,282
Cost at 1 January 2006		45,419	1,711,718	2,684,679	245,271	-	27,508	304,538	5,019,133
Accumulated depreciation		-	(417,836)	(1,118,622)	(143,412)	-	(3,480)	-	(1,683,350)
Carrying amount at 1 January 2006		45,419	1,293,882	1,566,057	101,859	-	24,028	304,538	3,335,783
Acquisition through business combinations	23	-	425,573	477,767	194,393	2,919,487	56	18,018	4,035,294
Additions/Transfers		-	396	37,047	40,928	-	486	174,170	253,027
Disposals		-	-	(11,375)	(31,098)	-	-	(9,472)	(51,945)
Depreciation charge		-	(55,561)	(171,824)	(27,946)	(74,728)	(1,487)	-	(331,546)
Changes in estimates of asset retirement obligation		-	692	-	-	-	-	-	692
Translation to presentation currency		-	23,516	26,057	9,808	161,073	3	791	221,248
Carrying amount at 30 June 2006		45,419	1,688,498	1,923,729	287,944	3,005,832	23,086	488,045	7,462,553
Cost at 30 June 2006		45,419	2,162,209	3,190,810	456,485	3,082,905	28,053	488,045	9,453,926
Accumulated depreciation		-	(473,711)	(1,267,081)	(168,541)	(77,073)	(4,967)	-	(1,991,373)
Carrying amount at 30 June 2006		45,419	1,688,498	1,923,729	287,944	3,005,832	23,086	488,045	7,462,553

The accompanying notes on pages 7 to 33 are an integral part of these consolidated interim financial statements

8 Property, plant and equipment (continued)

At 30 June 2006 and 31 December 2005 the gross carrying value of fully depreciated property, plant and equipment still in use approximated RR 319 million and RR 322 million, respectively.

At 30 June 2006 the Bayerische Hypo- und Vereinsbank AG, CJSC International Moscow Bank and Banque Commerciale pour l'Europe du Nord-Eurobank held a pledge over the equipment of the Group with the total replacement value of RR 1,600 million and net book value of RR 1,012 million (Note 14). There was no equipment pledged at 31 December 2005.

Intangible assets include cost of obtaining "CZP SHG" (Chelyabinsk Zinc Plant Special High Grade) certification with the carrying value of RR 22.4 million. The product was officially registered at the London Metal Exchange in December 2004.

9 Goodwill

Goodwill is related to acquisition of 100% of shares in Nova Trading and Commerce AG (Note 23).

Movements in goodwill arising on the acquisition of subsidiaries are:

<i>In thousands of Russian Roubles</i>	2006
Carrying amount at 1 January	-
Acquisition of subsidiary	866,146
Translation adjustment	48,483
Carrying amount at 30 June	914,629

10 Inventories

<i>In thousands of Russian Roubles</i>	30 June 2006	31 December 2005
Raw materials and consumables	1,306,038	1,192,611
Work in progress	314,662	163,410
Finished products	194,205	86,584
Precious metals	21,511	11,454
Goods for resale	45,583	43,095
Provision for obsolete and slow-moving inventory	(26,475)	(18,169)
Total inventories, net	1,855,524	1,478,985

At 30 June 2006 the Group has accumulated zinc cakes (a by-product with approximately 20% zinc content, which requires substantial processing to extract zinc) in excess of 108.0 thousand tons (31 December 2005: 100.8 thousand tons), which has not been processed due to the limited capacity of certain workshops. It is expected that reduced production output will allow the Group to further decrease the accumulated stock of zinc cakes in 2006 with the existing capacity. It is also possible to introduce improvements to the existing production process in order to avoid zinc cakes stock build up when projected production output is maintained and ensure processing of the stock which has already been accumulated. The Group approved installation of such processing equipment during the period from 2003 to 2005. However, in 2005 this program was suspended due to reduction of production output and only resumed at the end of 2005. The expected commission date is 1 May 2007 with the estimated cost to completion of US\$ 15.2 million (RR 411.6 million). The carrying value of zinc cakes is substantially lower than its potential resale value and cost of zinc content. The carrying value of zinc cakes, included in consumables, amounted to RR 36 million (31 December 2005: RR 36 million). At 31 December 2005 the EBRD held a pledge over the 100.8 thousand tons of zinc cakes of the Group as a guarantee over the loan facility (Note 14).

There is no inventory pledged at 30 June 2006. Apart from the zinc cakes, at 31 December 2005 there is no other inventory pledged by the Group.

10 Inventories (continued)

The precious metals are stated at net realisable value ("NRV"). NRV is determined by reference to the Central Bank of the Russian Federation quotations. The change in NRV of the precious metals balance for the period is included within cost of sales (Note 19).

Increase of provision for obsolete and slow-moving inventory is primarily attributable to the purchase of Nova Zinc subsidiary (Note 23). It is represented mainly by the obsolete auxiliary materials and spare parts.

11 Trade and other receivables

<i>In thousands of Russian Roubles</i>	Note	30 June 2006	31 December 2005
Trade receivables RR denominated – third parties		57,101	42,377
Trade receivables RR denominated – related parties	7	7,502	49
Trade receivables US\$ denominated		428,399	186,507
Less provision for impairment of trade receivables		(9,641)	(1,481)
VAT and other taxes recoverable		440,271	330,762
Interest receivable – related parties	7	-	2,933
Property insurance prepaid		13,589	36,792
Other prepayments		340,862	90,427
Other receivables		39,642	1,403
Less provision for impairment of other receivables		(2,348)	-
Total trade and other receivables, net		1,315,377	689,769

12 Cash and cash equivalents

<i>In thousands of Russian Roubles</i>	30 June 2006	31 December 2005
RR denominated bank balances payable on demand and cash on hand	8,036	6,391
US\$ denominated bank balances payable on demand	285,254	1,925
EURO denominated bank balances payable on demand	116	-
KZT denominated bank balances payable on demand and cash on hand	19,199	-
RR term deposits	250	50,538
US\$ term deposits	-	69,078
Promissory notes	50	3,808
Total cash and cash equivalents	312,905	131,740
Restricted cash	2,990	4,073

At 31 December 2005 short-term deposits denominated in Roubles include cash deposited with the Uralsky Kommerchesky Bank in the amount RR 50 million at 5% p.a. maturing in January 2006.

At 31 December 2005 short-term deposits denominated in US Dollars include cash deposited with the Chelindbank in the amount RR 28.8 million (equivalent of US\$ 1 million) at 1% p.a. maturing 16 January 2006 and cash deposited with the Uralvneshtorgbank in the amount RR 40.3 million (equivalent of US\$ 1.4 million) at 7% p.a. maturing 15 March 2006.

The balance of restricted cash as at 30 June 2006 includes a promissory note of the Kreditny Agroprombank for RR 2.8 million pledged with this bank as a guarantee for payments to customs authorities. This promissory note is non-interest bearing. It matures in January 2007. The remaining amount of RR 0.2 million is represented by a bank deposit for a special fund for the retirement of assets in accordance with the requirements of the contract of subsurface use concluded by Nova Zinc subsidiary.

The balance of restricted cash as at 31 December 2005 includes a promissory note of the Kreditny Agroprombank for RR 2.8 million pledged with this bank as a guarantee for payments to customs authorities. This promissory note is non-interest bearing. It matures in January 2007. The remaining amount of RR 1.3 million is represented by a letter of credit opened with the Chelindbank in favour of G. Diefenbach S.r.l. for supply of equipment. This letter of credit matured 11 March 2006.

Bank balances payable on demand were at 0.0 - 0.5% p.a.

13 Shareholders' equity

Total number of common shares issued comprises:

In thousands of Russian Roubles	Number of ordinary shares	Ordinary shares	Treasury shares	Share premium	Total
At January 1, 2005	636,796	637	-	48,192	48,829
At June 30, 2005	636,796	637	-	48,192	48,829
At January 1, 2006	636,796	637	-	48,192	48,829
Treasury shares purchased	-	-	(7)	-	(7)
Treasury shares sold	-	-	7	3,634	3,641
At June 30, 2006	636,796	637	-	51,826	52,463

The nominal registered amount of the Company's issued share capital prior to restatement of capital contributions made before 1 January 2003 to the purchasing power of the Russian Rouble at 31 December 2002 is RR 637 thousand (2005: RR 637 thousand). At 30 June 2006 and 31 December 2005 authorized, issued and fully paid share capital consists of 636,796 ordinary shares with a nominal value of RR 1 each. Each ordinary share carries one vote.

Share premium represents the excess of contributions received over the nominal value of shares issued. In March-April 2006 the Company repurchased 7,268 of its ordinary shares at RR 3,000 per share, which represent 1.06% of the charter capital for RR 21.8 million. In June 2006 they were sold for RR 25.4 million. The gain from the operations with treasury shares was recorded as the increase in share premium.

In May 2006 the Board of Directors approved issuance of an additional 4,457,572 common shares with the par value of 1 RR per share. These shares were distributed after the end of the reporting period (Note 22, 27) to the existing shareholders for no additional consideration.

The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Russian legislation identifies the basis of distribution as the net profit. For the six months ended 30 June 2006, the current year net statutory profit for the Company as reported in the published annual statutory reporting forms was RR 977 million (six months ended 30 June 2005: RR 30 million). However, this legislation and other statutory laws and regulations dealing with the distribution rights are open to legal interpretation and accordingly management believes at present it would not be appropriate to disclose an amount for the distributable reserves in these financial statements.

The legal reserve is stipulated by the Law for Joint Stock Companies and equals 15% of authorized share capital value in the Russian statutory financial statements. The legal reserve of RR 96 thousand recorded in the statutory financial statements is different from the respective reserve in these consolidated financial statements due to inflation effect.

In April 2006 the annual shareholders meeting decided not to pay dividends for 2005. There were no dividends declared in 2005 for 2004. The amounts of unpaid approved and declared dividends, relating to prior periods, as of 30 June 2006 and 31 December 2005 were nil.

14 Borrowings

<i>In thousands of Russian Roubles</i>	30 June 2006	31 December 2005
Long-term bank loans denominated in US\$	3,250,361	-
Current portion of long-term US\$ loans	419,470	269,836
Finance lease payable	17,389	-
Total borrowings	3,687,220	269,836

14 Borrowings (continued)

<i>In thousands of Russian Roubles</i>	30 June 2006	31 December 2005
1 to 2 years	863,789	-
2 to 3 years	863,789	-
3 to 4 years	863,789	-
4 to 5 years	658,994	-
Total long-term borrowings	3,250,361	-

At 30 June 2006 long-term bank loans denominated in US\$ are represented by two loans obtained from Bayerische Hypo- und Vereinsbank and consortium of CJSC International Moscow Bank and Banque Commerciale pour l'Europe du Nord-Eurobank for financing acquisition of Nova Trading & Commerce AG shares, general working capital purposes and pre-export financing. The total amounts of these loans were US\$ 69 million (RR 1,867 million) and US\$ 67.5 million (RR 1,827 million), respectively. Both loans bear interest of LIBOR+3.6% p.a. and should be repaid in equal instalments during 2006 – 2011. Total amount repaid by 30 June 2006 is US\$ 862 thousand (RR 24 million).

These banks hold a pledge over the over the equipment of the Group with the total replacement value of RR 1,600 million and NBV of RR 1,012 million (Note 8).

The loans are collateralised by 100% shares of Nova Zinc subsidiary and 87.99% shares of the Company, owned by the Group's immediate parent NF Holdings BV incorporated in Netherlands (Note 1).

The loans contain covenants on adequacy of financial ratios, capital expenditure, dividend payments, property insurance and certain other clauses. At 30 June 2006 the Group was in compliance with all covenants.

At 31 December 2005 current portion of long-term borrowings was represented by a loan from the European Bank of Reconstruction and Development (EBRD) for financing the plant renovation program. The EBRD loan was denominated in US\$. It bore an interest rate of LIBOR+4.25% (2004: LIBOR+4.5%) for the first two tranches of the loan in the amounts US\$ 8 million (RR 222 million) and US\$ 7 million (RR 194.3 million), respectively, and LIBOR+4.5% (2004: LIBOR+4.75%) for the third and fourth tranches in the amounts US\$ 7 million (RR 194.3 million) and US\$ 5 million (RR 138.8 million), respectively.

The EBRD held a pledge over 100.8 thousand tons of zinc cakes of the Group as a guarantee over the loan facility. The carrying value of the zinc cakes pledged as guarantee for the loan was RR 36 million (Note 10).

The EBRD loan was collateralised by the Company's shares. The EBRD loan contained covenants on adequacy of capital expenditure, dividend payments, property insurance, operations with related parties and certain other clauses. Due to a failure to comply with all of the debt covenants as of 31 December 2005 the loan was classified as current. In March 2006 the Group repaid the remaining amount of the EBRD loan ahead of schedule.

Management believes that the effective interest rates do not differ significantly from the nominal interest rates disclosed above.

Management believes that the fair value of the loans outstanding at 30 June 2006 does not differ significantly from the carrying amount.

14 Borrowings (continued)

The Group did not enter into any hedging arrangements in respect of its foreign currency obligations or interest rate exposures.

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

<i>In thousands of Russian Roubles</i>	30 June 2006	31 December 2005
Finance lease liabilities – minimum lease payments		
- not later than 1 year	9,940	-
- later than 1 year and not later than 5 years	14,492	-
- later than 5 years	-	-
	24,432	-
 Future finance charges on finance lease	 (7,043)	 -
 Present value of finance lease liabilities		
- not later than 1 year	6,154	-
- later than 1 year and not later than 5 years	11,235	-
- later than 5 years	-	-
	17,389	-

15 Accounts payable, Accrued expenses and Advances from customers

<i>In thousands of Russian Roubles</i>	Note	30 June 2006	31 December 2005
Trade payables RR denominated – third parties		394,885	378,125
Trade payables RR denominated – related parties	7	85	380
Trade payables US\$ denominated – third parties		26,955	313,445
Trade payables KZT denominated – third parties		20,976	-
Advances from customers RR denominated – third parties		74,433	30,462
Advances from customers RR denominated – related parties	7	-	10
Advances from customers US\$ denominated – third parties		41,294	43,892
Advances from customers KZT denominated – third parties		18,360	-
Payroll and social tax payable		22,838	12,759
Interest payable		-	6,531
Accrued liabilities and other creditors		30,608	23,329
 Accounts payable, accrued expenses and advances from customers		630,434	808,933

16 Other Taxes Payable

<i>In thousands of Russian Roubles</i>	30 June 2006	31 December 2005
VAT payable	367	-
Property tax	17,758	14,304
Personal income tax	2,084	1,829
Other taxes	7,758	857
Total other taxes payable	27,967	16,990

17 Provisions for Asset Retirement Obligations

The Group has an obligation to landfill site restoration during the mining operations and decommissioning of its mining property after its expected closure in 2017.

Movements in provisions for asset retirement obligations are as follows:

<i>In thousands of Russian Roubles</i>	Site restoration cost
Carrying amount at 1 January 2005	-
Changes in estimates adjusted against property, plant and equipment	-
Unwinding of the present value discount	-
Carrying amount at 30 June 2005	-
Carrying amount at 1 January 2006	-
Emerged through acquisition of subsidiary	35,279
Changes in estimates adjusted against property, plant and equipment	692
Unwinding of the present value discount	159
Translation loss	1,919
Carrying amount at 30 June 2006	38,049

The discount rates for the calculation of the net present value of the estimated future costs for asset retirement obligations at 30 June 2006 were 7.97 percent per annum.

18 Revenues

<i>In thousands of Russian Roubles</i>	Note	Six months ended 30 June 2006	Six months ended 30 June 2005
Zinc and zinc alloys – third parties		5,214,670	1,577,251
Zinc and zinc alloys – related parties	7	83,050	39,592
Zinc concentrate – third parties		387,055	-
Lead concentrate – third parties		80,646	-
Zinc tolling – third parties		-	75,408
Other – third parties		307,532	175,333
Total sales		6,072,953	1,867,584

During the six months ended 30 June 2006 56.7% of the Group's sales were to the Russian Federation, 2.4% to the Republic of Kazakhstan, 3.3% to other CIS countries and 37.5% to Europe (six months ended 30 June 2005: 91.2% to the Russian Federation, 0.2% to the Republic of Kazakhstan and 8.6% to Europe).

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

19 Cost of sales

<i>In thousands of Russian Roubles</i>	Note	Six months ended 30 June 2006	Six months ended 30 June 2005
Materials and consumables used		2,999,611	929,881
Transportation		12,376	-
Utilities and fuel		421,566	269,111
Production overheads		103,820	70,801
Repairs and maintenance		93,733	70,763
Depreciation and amortisation	8	331,546	207,787
Staff costs		79,790	54,731
Change in work-in-progress		(86,315)	3,355
Change in finished goods		(75,734)	8,415
Inventory obsolescence provision, net		(1,398)	3,628
Social costs		14,618	7,965
Precious metals revaluation		(11,274)	(18,736)
Cost of goods and materials for resale		30,605	68,787
Total cost of sales		3,912,944	1,676,488

20 Distribution, General and Administrative expenses

<i>In thousands of Russian Roubles</i>	Six months ended 30 June 2006	Six months ended 30 June 2005
Transportation and customs duties	83,423	44,388
Total distribution expenses	83,423	44,388
Staff costs	50,334	37,305
Repairs and maintenance	20,579	19,881
Property insurance – third parties	27,713	28,646
Property tax	30,996	32,508
Land tax	8,346	10,163
Other taxes	4,513	844
Impairment of trade and other receivables	7,963	1,069
Loss on disposal of property, plant and equipment	44,338	115
Other income and expenses, net	89,585	41,949
Total general and administrative expenses	284,367	172,480

Total depreciation expense and staff costs (including social expenses) in cost of sales and general and administrative expenses amounted to RR 331,546 (six months ended 30 June 2005: RR 207,787) and RR 144,742 (six months ended 30 June 2005: RR 100,001), respectively.

21 Income Taxes

Income tax expense comprises the following:

<i>In thousands of Russian Roubles</i>	Six months ended 30 June 2006	Six months ended 30 June 2005
Current tax charge	384,171	34,007
Deferred tax charge/(credit)	69,702	(33,873)
Income tax expense for the year	453,873	134

21 Income Taxes (continued)

A reconciliation between the expected and the actual taxation charge is provided below.

<i>In thousands of Russian Roubles</i>	Six months ended 30 June 2006	Six months ended 30 June 2005
IFRS profit/(loss) before tax	1,766,837	(38,360)
Theoretical tax charge/(credit) at effective statutory rates*	430,841	(9,206)
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Social expenses	6,377	3,810
- Business interruption insurance expenses	1,323	1,414
- Other non deductible expenses	15,332	4,116
Income tax expense for the year	453,873	134

* Profit before taxation on operations performed in the Russian Federation is assessed based on effective rate of 24% (30 June 2005: 24%), in the Republic of Kazakhstan – 30% (30 June 2005: 30%).

Differences between IFRS and statutory taxation regulations of the countries where the Group's companies are located give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at effective rates stated above.

<i>In thousands of Russian Roubles</i>	31 December 2005	Charged/ (credited) to profit or loss	Business combinations	30 June 2006
Tax effects of deductible temporary differences:				
Accounts receivable	177	529	879	1,585
Accounts payable and accruals	19,998	(17,582)	7,072	9,488
Provision for asset retirement obligations	-	831	10,584	11,415
	20,175	(16,222)	18,535	22,488
Tax effects of taxable temporary differences:				
Property, plant and equipment	(163,911)	(20,796)	(1,157,447)	(1,342,154)
Inventories	(37,528)	(80,626)	265	(117,889)
Other	-	(13,741)	-	(13,741)
	(201,439)	(115,163)	(1,157,182)	(1,473,784)
Translation gain	-	61,683	-	-
Total net deferred tax liability	(181,264)	(69,702)	(1,138,647)	(1,451,296)

<i>In thousands of Russian Roubles</i>	31 December 2004	Charged/ (credited) to profit or loss	30 June 2005
Tax effects of deductible temporary differences:			
Accounts receivable	804	(298)	506
Accounts payable and accruals	2,215	5,799	8,014
	3,019	5,501	8,520
Tax effects of taxable temporary differences:			
Property, plant and equipment	(166,018)	(6,750)	(172,768)
Inventories	(18,156)	35,122	16,966
	(184,174)	28,372	(155,802)
Total net deferred tax liability	(181,155)	33,873	(147,282)

22 Earnings per share

Basic earnings per share were calculated by dividing the profit attributable to equity holders of the Company of RR 1,312,964 thousand (six months ended 30 June 2005: loss of RR 38,494 thousand) by the weighted average number of ordinary shares in issue during the year (636,796 shares) and shares issued and distributed to the existing shareholders for no additional consideration (Notes 13, 27) after the end of the reporting period (4,457,572 shares) which comprised 5,094,368 shares in total during six months ended 30 June 2006 (six months ended 30 June 2005: 5,094,368 shares).

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

23 Business combinations

On 10 April 2006 the Group acquired 51% of the share capital of Nova Trading and Commerce AG, company that holds and manages a zinc-lead mine in the Republic of Kazakhstan, for a cash consideration of US\$ 86.5 million (RR 2,404 million).

The acquired business contributed revenues of RR 478,258 thousand and net profit of RR 55,425 thousand to the Group for the period from acquisition date to 30 June 2006. If the acquisition had occurred on 1 January 2006, consolidated revenue and consolidated profit for the six months ended 30 June 2006 would have been RR 6,364,809 thousand and RR 1,240,835 thousand, respectively.

Details of net asset acquired and goodwill arising are as follows:

<i>In thousands of Russian Roubles</i>	IFRS carrying amount immediately before business combination	Provisional fair value
Cash and cash equivalents	37,396	37,396
Inventory	73,677	138,872
Property, plant and equipment	700,948	4,035,294
Trade and other receivables	22,710	22,710
Other assets	973	973
Trade and other payables	(85,731)	(85,731)
Taxes payable	(70,076)	(70,076)
Provision for asset retirement obligations	(35,279)	(35,279)
Deferred tax liability	(118,785)	(1,138,647)
Other liabilities	(18,585)	(18,585)
Fair value of acquired interest in net assets of subsidiary	507,248	2,886,927
Goodwill arising from the acquisition		866,146
Total purchase consideration		3,753,073
Less: cash and cash equivalents of subsidiary acquired		(37,396)
Outflow of cash and cash equivalents on acquisition		3,715,677

The purchase consideration comprises cash and cash equivalents paid of RR 2,403,873 thousand

The goodwill is primarily attributable to the mine's profitability and the significant synergies expected to arise after its acquisition by the Group.

On 31 May 2006 the Company made an advance payment for the remaining 49% of the share capital of Nova Trading and Commerce AG in the amount US\$ 50 million (RR 1,349 million) to a related party, which acquired 49% of the share capital of Nova Trading and Commerce AG in April 2006 from a third party with an intention to sell 49% of the share capital of Nova Trading and Commerce AG to the Company for US\$ 50 million (RR 1,349 million). The title for these shares was transferred to the Company on 10 August 2006.

In substance upon payment of the advance the Company acquired all the risks and rewards of ownership of the remaining 49% of the subsidiary and therefore acquisition of 51% and 49% in the subsidiary was treated as one acquisition of 100% and no minority interest was recognised.

The Company plans to finalise purchase price allocation prior to 31 December 2006. No impairment was recognised in relation to goodwill, the goodwill number is provisional and no impairment test is required at the acquirer's level as of 30 June 2006, as the management has one year to confirm that purchase price allocation was performed and was finalised.

24 Contingencies, commitments and operating risks

i Legal proceedings

During the six months ended 30 June 2006, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of the management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in these interim consolidated financial statements.

ii Tax legislation

Both Russian and Kazakhstan tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities.

Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed.

Fiscal periods remain open to review by the authorities in respect of taxes for three and five calendar years preceding the year of review in Russia and Kazakhstan, respectively. Under certain circumstances reviews may cover longer periods.

The Russian transfer pricing legislation introduced 1 January 1999 provides the possibility for the Russian tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price established by the parties differs from the market price by more than 20%.

Controllable transactions include transactions with interdependent parties, as determined under the Russian Tax Code, and all cross-border transactions (irrespective whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differs by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. There is no formal guidance as to how these rules should be applied in practice. The arbitration court practice with this respect is contradictory.

Additionally, in the current Russian tax environment, where the form and the accompanying documentation of a transaction generally meet the literal requirements of the applicable tax legislation, but the substance of the transaction may bring a different result, such transactions are generally not challenged by tax authorities. However, it is possible with the evolution of the interpretation of tax law in the Russian Federation and the changes in the approach of the Russian tax authorities, that such transactions could be challenged in the future. The impact of such challenges has been estimated by management in the amount of 64 million roubles.

Management has assessed the Group's overall tax position based upon their understanding of the tax regulations and experience in working with the tax authorities. As a result, the Group's management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at 30 June 2006 no provision for potential tax liabilities had been recorded (2005: no provision).

iii Capital expenditure commitments

At 30 June 2006 the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling RR 212 million (31 December 2005: RR 1.4 million).

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

iv Sales commitments

At 30 June 2006 the Group has entered into a number of agreements for zinc supply in 2006 totalling approximately 73.8 thousand tons (31 December 2005: 31.6 thousand tons), with a price to be agreed on the date of sale.

At 31 December 2005 the Group has entered into a sale agreement for gold in the second half of 2006 totalling approximately 22,926 g, with a price to be agreed on the date of sale (31 December 2005: sale agreement for silver for approximately 1,585,540 g).

24 Contingencies, commitments and operating risks (continued)

v Inventory purchase commitments

At 30 June 2006 the Group has entered into a number of agreements for zinc concentrate purchase in the second half of 2006 totalling approximately 30 thousand tons (31 December 2005: 3 thousand tons to be purchased in 2006), with a price to be agreed on the date of purchase.

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

vi Operating lease commitments

Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases of land are as follows:

<i>In thousands of Russian Roubles</i>	30 June 2006
Not later than 1 year	200
Later than 1 year and not later than 5 years	802
Later than 5 years	1,303
Total operating lease commitments	2,305

vii Other obligations under Zinc-Lead Extraction Contract and Licenses

In accordance with provisions stipulated in the License and Zinc-Lead Extraction Contract there are a number of other obligations the Nova Zinc subsidiary should comply with, such as:

- to perform the work plan and the work program in accordance with their terms;
- to employ appropriate and advance technology and business management expertise to mining operations in accordance with Good Practice in the development of the fields;
- to comply with agreed technological plans and projects for conduction of Mining Operations, which provide for safety of personnel and general public;
- to give preference to equipment, materials, and finished products manufactured in Kazakhstan, if they are competitive, in the Group's opinion, with regard to their technological properties, environmental an operational safety, prices, working parameters, and delivery terms;
- to give preference when conducting Mining Operations to local companies in Kazakhstan when procuring services, if they are competitive, in the Group's opinion, with regard to their technological properties, environmental an operational safety, prices, working parameters, and delivery terms;
- to give preference to hiring Kazakhstan citizens;
- to prepare and perform training programs for the professional training of Kazakhstan citizens and specialists engaged in operations under the Contract;
- to restore the Contract Territory which was disturbed as a consequence of the Mining Operations or other activities of the subsidiary to a condition suitable for further use in accordance with requirements of the legislation of Kazakhstan.

In April 2006 Committee of Geology and Subsurface Protection under the Ministry of Energy and Mineral Resources (the "Committee") and Centranedra conducted the audit of the Company's fulfilment of license conditions in regard of the Contract. According to the act of working group of the Committee the Group should develop a plan how to reduce the lag in stripping operations by 15 May 2006.

The management of the Group does not expect any significant impacts on its operations and financial position as a result of the audit performed by the Committee.

24 Contingencies, commitments and operating risks (continued)

viii Guarantees

Guarantees are irrevocable assurances that the Group will make payments in the event that another party cannot meet its obligations.

As at 30 June 2006 there are no guarantees issued by the Group.

In June 2005 the Group entered into a suretyship agreement with the EBRD to guarantee the obligations of CTRP, a party controlled by the shareholders of the Group, in respect of a loan agreement with the EBRD dated 19 November 2004 for the amount of US\$ 190 million (RR 5,468 million). As at 31 December 2005 the outstanding loan principal payable by CTRP amounted to US\$ 121.7 million (RR 3,503 million). Under the suretyship agreement the obligations of the Company were up to a maximum aggregate amount of US\$ 23.5 million (RR 676 million). The suretyship agreement was terminated in March 2006.

ix Insurance policies

Under the bank loan covenants (Note 14), the Group is to insure the assets of the Company during the loan period. The Group has insured most of its manufacturing property, plant and equipment during the six months ended 30 June 2006 for a maximum of RR 2,923 million (six months ended 30 June 2005: RR 2,923 million). The Group also has business interruption insurance for a period of 90 days. However, the insurance does not cover the risks of damage to third parties. Management does not assess exposure to such risks to be significant.

x Environmental matters

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

xi Operating environment of the Group

Whilst there have been improvements in economic trends in the Russian Federation and the Republic of Kazakhstan, its economies continue to display certain characteristics of an emerging market. These characteristics include, but are not limited to, the existence of a currency that is not freely convertible in most countries outside of the Russian Federation and the Republic of Kazakhstan, restrictive currency controls, and relatively high inflation. The tax, currency and customs legislation within the Russian Federation is subject to varying interpretations, and changes, which can occur frequently.

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

The future economic direction of the Russian Federation and the Republic of Kazakhstan is largely dependent upon the effectiveness of economic, financial and monetary measures undertaken by the Governments of these countries, together with tax, legal, regulatory, and political developments.

xi Operating risks concentrations

Significant volume of zinc and zinc alloys sales is made by the Group to four customers: Trade House NLMK LLC., OJSC MMK, Transal LLC (former CJSC Alf-Trading), and Euromin S.A.. These customers account for 87% of the Group's total revenue from zinc and zinc alloys sales for the six months ended 30 June 2006 (six months ended 30 June 2005: 77%). All sales of zinc and lead concentrate are made by the Group to two customers: OJSC Kazzinc and Glencore International AG, which account for 100% of the Group's total revenue from zinc and lead concentrate sales for the six months ended 30 June 2006. The Group's management believes that exposure to the risk of total or partial loss of business relationship with these customers is not significant.

25 Financial risk management

i Credit risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. At 30 June 2006 the Group had one debtor with the outstanding balance of RR 427 million, or 32% of the total trade and other receivables. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provisions already recorded.

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

ii Market risk

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

iii Foreign exchange risk

The Group exports production to European and CIS countries and attracts a substantial amount of foreign currency denominated long-term borrowings and is thus exposed to foreign exchange risk. Foreign currency denominated assets (Note 11, 12) and liabilities (Note 14, 15) give rise to foreign exchange exposure.

The Group does not have formal arrangements to mitigate foreign exchange risks of the Group's operations. However, management believes that the Group is secured from foreign exchange risks as foreign currency denominated sales are used to cover repayment of foreign currency denominated borrowings.

iv Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest-bearing long-term borrowings. The interest rates on long-term borrowings are disclosed in Note 14. The Group has no significant interest-bearing assets, other than disclosed in Note 11.

v Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities.

26 Fair Value of Financial Instruments

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

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

Financial instruments carried at fair value. Trading and available-for-sale investments are carried on the consolidated balance sheet at their fair value. Cash and cash equivalents are carried at amortised cost which approximates current fair value.

26 Fair Value of Financial Instruments (continued)

Fair values were determined based on quoted market prices except for certain investment securities available for sale for which there were no available external independent market price quotations. These securities have been fair valued by the Group on the basis of results of recent sales of equity interests in the investees between unrelated third parties, consideration of other relevant information such as discounted cash flows and financial data of the investees and application of other valuation methodologies. Valuation techniques required certain assumptions that were not supported by observable market data. Changing any such used assumptions to a reasonably possible alternative would not result in a significantly different profit, income, total assets or total liabilities.

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

Liabilities carried at amortised cost. The fair value is based on quoted market prices, if available. The estimated fair value of fixed interest rate instruments with stated maturity, for which a quoted market price is not available, was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity. The fair value of liabilities repayable on demand or after a notice period ("demandable liabilities") is estimated as the amount payable on demand, discounted from the first date that the amount could be required to be paid. Estimated fair values of borrowings are presented in Note 14.

27 Events after balance sheet date

Transactions with shareholders. In August 2006, the Company distributed 4,457,572 common shares with the par value of 1 Rouble per share by private offering to the existing shareholders for no additional consideration (Notes 13, 22), the shareholders meeting approved declaration of the right to issue 50,000,000 additional ordinary shares with the par value of RR 1 each and the Board of Directors approved issuance of an additional 325,173 common shares with the par value of 1 Rouble per share.

In March 2006, the Company entered into two loan facility agreements (Note 14) under which it borrowed US\$ 136.5 million (RR 3,694 million). These facilities, under an addendum to the agreement dated 31 July 2006, required the Company to provide certain guarantees, pledges and other security in favour of the lenders, including a pledge by the Company's subsidiary, Nova Trading and Commerce AG, over its shares in its Kazakh mining subsidiary, Nova Zinc. Nova Trading and Commerce AG has not granted this pledge to the lenders and the Company has not fully complied with certain other terms. Although the lenders have granted waivers in respect of this failure to pledge and other breaches, these waivers are subject to certain conditions. These conditions require certain corporate actions to be performed by the Company and Nova Trading and Commerce AG by no later than 30 October 2006 and 10 November 2006, respectively. In addition the Company is required under the waiver to become the direct shareholder of Nova Zinc by no later than April 2008. In the event that the Company fails to comply with any of these conditions it would be in default which may result in the immediate repayment of the facilities. Management believes that the Company will be able to fully comply with the requirements.