

JSC “Chelyabinsk Zinc Plant”

**Consolidated Interim Condensed
Financial Statements
for the six months ended 30 June 2014
(unaudited)**

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Auditors' Report on Review of Consolidated Interim Condensed Financial Statements

To the Shareholders and Board of Directors of JSC "Chelyabinsk Zinc Plant"

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of JSC "Chelyabinsk Zinc Plant" (the "Company") and its subsidiaries (the "Group") as at 30 June 2014, and the related consolidated interim condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and notes to the consolidated interim condensed financial statements (the "consolidated interim condensed financial statements"). Management is responsible for the preparation and presentation of these consolidated interim condensed financial statements in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*. Our responsibility is to express a conclusion on these consolidated interim condensed financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of consolidated interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Audited entity: JSC «Chelyabinsk Zinc Plant»

Registered by Administration of Kurchatovsky district of Chelyabinsk on 11 May 1993, Registration No. 208.

Registered in the Unified State Register of Legal Entities on 16 December 2002 by tax inspection authority of Kurchatovsky district of Chelyabinsk, Registration No. 1027402551880, Certificate series 74 No. 0185519.

24, Sverdlovsky trakt, Chelyabinsk, Russia, 454008

Independent auditor: ZAO KPMG, a company incorporated under the Laws of the Russian Federation, a part of the KPMG Europe LLP group, and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial statements as at 30 June 2014 and for the six-month period then ended are not prepared, in all material respects, in accordance with International Financial Reporting Standard IAS 34 *Interim Financial Reporting*.

Vakhidov N.U.

Director of Ekaterinburg Branch of CJSC "KPMG" Ural Regional Center, (power of attorney dated 8 October 2012)

ZAO KPMG – Ural Regional Center

28 August 2014

Ekaterinburg, Russian Federation



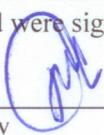
'000 RUB	Note	30 June 2014	31 December 2013
ASSETS			
Property, plant and equipment	7	5,541,452	5,119,417
Intangible assets		83,500	94,883
Advances for for acquisition of property, plant and equipment		204,834	179,814
Deferred tax asset	19	-	46,373
Financial assets	11	-	686,301
Other non-current assets		442	377
Non-current assets		5,830,228	6,127,165
Inventories	8	2,445,564	2,602,039
Trade and other receivables	9	3,642,914	2,456,636
Current income tax prepayment		2,821	60,536
Financial assets	11	410,971	460,730
Cash and cash equivalents	10	897,096	445,786
Current assets		7,399,366	6,025,727
Total assets		13,229,594	12,152,892

'000 RUB	Note	30 June 2014	31 December 2013
Equity			
Share capital		127,635	127,635
Share premium		1,375,231	1,375,231
Reserve capital		3,011	3,011
Translation reserve		(201,746)	(16,893)
Retained earnings		9,899,039	8,974,372
Total equity		11,203,170	10,463,356
Liabilities			
Provision for asset retirement obligations		90,494	100,693
Deferred income tax liabilities	19	191,350	137,984
Other non-current liabilities		54,438	55,317
Non-current liabilities		336,282	293,994
Accounts payable, accrued expenses and advances from customers	12	1,097,596	1,149,238
Current income tax payable		86,090	5,508
Other taxes payable	13	506,456	240,796
Current liabilities		1,690,142	1,395,542
Total liabilities		2,026,424	1,689,536
Total equity and liabilities		13,229,594	12,152,892

Consolidated Interim Condensed Statement of Profit or Loss and Other Comprehensive income for the six months ended 30 June 2014 (unaudited)

'000 RUB	Note	For the six months ended 30 June	
		2014	2013
Revenue	14	6,733,158	6,185,612
Cost of sales	15	(4,895,621)	(5,377,612)
Gross profit		1,837,537	808,000
Other operating income	17	338,529	-
Distribution costs	16	(376,976)	(342,086)
General and administrative expenses	16	(44,698)	(461,709)
Other operating expenses	17	(296,443)	(80,612)
Results from operating activities		1,058,949	(76,407)
Finance income		60,192	72,908
Finance expense		(6,393)	(40,583)
Foreign exchange gain/(loss)	18	105,501	(26,873)
Profit/(loss) before income tax		1,218,249	(70,955)
Income tax expense	19	(293,582)	(37,841)
Profit/(loss) for the period		924,667	(108,796)
Other comprehensive income			
<i>Total items that are or may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation to presentation currency		(184,853)	119,835
Total other comprehensive (expense)/income for the period		(184,853)	119,835
Total comprehensive income for the period		739,814	11,039
Profit/(loss) attributable to:			
Shareholders of the Company		924,667	(108,796)
Total comprehensive income attributable to:			
Shareholders of the Company		739,814	11,039
Earnings/(loss) per share – basic and diluted (in RUB)	20	17.1	(2.0)

These consolidated interim condensed financial statements were approved by management on 28 August 2014 and were signed on its behalf by:



 R.M. Shakirzyanov
 General Director



 S.B. Kondakov
 Chief Accountant

JSC “Chelyabinsk Zinc Plant”*Consolidated Interim Condensed Statement of Changes in Equity for the six months ended 30 June 2014 (unaudited)***'000 RUB**

	Share capital	Share premium	Reserve capital	Translation reserve	Retained earnings	Total equity
Balance at 1 January 2013	127,635	1,375,231	3,011	(162,680)	9,182,603	10,525,800
Net loss for the period	-	-	-	-	(108,796)	(108,796)
Other comprehensive income for the period	-	-	-	119,835	-	119,835
Total comprehensive income for the period	-	-	-	119,835	(108,796)	11,039
Balance at 30 June 2013	127,635	1,375,231	3,011	(42,845)	9,073,807	10,536,839
Balance at 1 January 2014	127,635	1,375,231	3,011	(16,893)	8,974,372	10,463,356
Net profit for the period	-	-	-	-	924,667	924,667
Other comprehensive loss for the period	-	-	-	(184,853)	-	(184,853)
Total comprehensive income for the period	-	-	-	(184,853)	924,667	739,814
Balance at 30 June 2014	127,635	1,375,231	3,011	(201,746)	9,899,039	11,203,170

The consolidated interim condensed statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 10 to 30.

тыс. руб.	For the six months ended 30 June	
	2014	2013
Cash flows from operating activities		
Profit/(loss) for the period	924,667	(108,796)
<i>Adjustments for:</i>		
Depreciation and amortisation	448,548	493,482
Net loss/(gain) on disposal of property, plant and equipment	23,965	(18,415)
Impairment of loans issued, trade and other receivables	913	2,096
Reversal of inventory provision	(88)	(7,021)
Net finance income	(53,799)	(32,325)
Unrealized foreign exchange	(11,325)	(3,141)
Reversal of impairment of property, plant and equipment and assets under construction	(318,918)	(1,464)
Adjustment of the expenses for electricity transmission services	(358,647)	-
Provision for ecological proceedings and taxes	261,588	46,203
Other non-monetary operating (income)/expenses	(4,015)	49,538
Income tax expense	293,582	37,841
	1,206,471	457,998
<i>Changes in:</i>		
Accounts receivable	(794,246)	167,640
Inventories	137,329	(164,452)
Accounts payable	(58,981)	(4,140)
Taxes payable	4,072	(829)
Restricted cash balance	(43)	(154)
Cash flows from operations	494,602	456,063
Interest paid	-	(287)
Income tax paid	(55,547)	(51,423)
Net cash from operating activities	439,055	404,353
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(671,038)	(556,194)
Capitalized stripping costs	(62,562)	(89,811)
Proceeds from sale of property, plant and equipment	-	604
Loans issued	(4,649)	(541)
Proceeds from repayment of loans issued	649	1,985
Interest income received	622	42,827
Placement of bank deposits	(451,000)	(1,109,000)
Proceeds from bank deposits repayment	1,202,970	1,303,580
Net cash from/(used in) investing activities	14,992	(406,550)
Effect of currency translation and exchange rate fluctuations on cash and cash equivalents	(2,780)	(5,163)
Net increase/(decrease) in cash and cash equivalents	451,267	(7,360)
Cash and cash equivalents at the beginning of the period	444,827	425,386
Cash and cash equivalents at the end of the period	896,094	418,026

1 Background

(a) Business Environment

Russian Federation and Republic of Kazakhstan

The Group’s operations are primarily located in the Russian Federation and the Republic of Kazakhstan. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation and the Republic of Kazakhstan which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation and the Republic of Kazakhstan. The consolidated interim condensed financial statements reflect management’s assessment of the impact of the business environment in the Russian Federation and the Republic of Kazakhstan on the operations and the financial position of the Group. The future business environment may differ from management’s assessment.

(b) Organization and operations

JSC “Chelyabinsk Zinc Plant” (the “Company”) was incorporated in May 1993 and is domiciled in the Russian Federation. The Company is an open joint stock company and was set up in accordance with the Russian legislation. The Group includes the Company and its subsidiaries.

As at 30 June 2014 and 31 December 2013 the Group’s immediate and ultimate parent was NF Holdings BV, incorporated in the Netherlands, which owns 58% of the Company’s shares. It is also the company which ultimately controls the Group. None of the shareholders of NF Holdings BV controls it individually or jointly.

The Company’s shares are listed on the Moscow Stock Exchange and the London Stock Exchange in the form of Global Depositary Receipts.

Principal activities. 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), Akzhal (the Republic of Kazakhstan) and Cannock (the United Kingdom). The Group includes a number of subsidiaries. The main Group companies are set up under the legislation of the Russian Federation (JSC Chelyabinsk Zinc Plant), the Republic of Kazakhstan (Nova Zinc LLP) and the United Kingdom (Brock Metal Ltd). As at 30 June 2014 the Group employed 3,186 employees (31 December 2013: 3,236 employees).

The Group has a license to mine lead and zinc ore at the Akzhal field in the Karaganda Region issued by the authorities of the Republic of Kazakhstan. The license expires in 2017, however, based on the analysis of the current licensing practices, the Group management believes that the license will be extended without any significant costs

Legal address of the Company: Russian Federation, 454008, Chelyabinsk, Sverdlovsky trakt, 24

2 Basis of accounting

(a) Statement of compliance

These consolidated interim condensed financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2013. These consolidated interim condensed financial statements do not include all the information required for full annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

(b) Use of estimates and professional judgment

The preparation of consolidated interim condensed financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

In preparing these consolidated interim condensed financial statements significant judgments made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as of and for the year ended 31 December 2013. Key sources of estimation uncertainty were also identical to those identified during the preparation of the consolidated financial statements for 2013.

(c) Functional and presentation currency

In preparing these consolidated condensed interim financial statements presentation and functional currencies of the Group entities used were the same as in preparing the consolidated financial statements for 2013.

To restore the external competitiveness of the Tenge exchange rate, and of the foreign trade balance of the Kazakh economy and to support a competitive position of the domestic manufacturers, on the 11 February 2014 the National Bank of the Republic of Kazakhstan decided not to maintain the Tenge exchange rate at the existing level, reduce the volumes of foreign currency interventions and reduce its interference in the process of setting up the exchange rate of the Tenge. This decision caused a substantive change of the Tenge exchange rate to the Russian ruble and US dollar.

	Average exchange rate for the 6 months ended June 30 of		Spot exchange rate as at	
	2014	2013	30 June 2014	31 December 2013
<u>Kazakh tenge</u>				
1 USA dollar	176.23	150.90	183.51	153.61
1 Russian ruble	5.0253	4.8613	5.4572	4.6929

This change in the Tenge exchange rate to the Russian ruble and US dollar had significantly affected exchange differences on translation to presentation currency and foreign exchange gain stated in the consolidated interim condensed statement of profit or loss and other comprehensive income as well as assets and liabilities of the mining segment of the Group translated to the presentation currency.

3 Significant accounting policies

The accounting policies applied by the Group to these consolidated interim condensed financial statements were consistent with those applied in the consolidated financial statements as at and for the year ended 31 December 2013.

(a) Changes in accounting policies

A number of new amendments to standards are initially applied in 2014:

- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statement relate to investment companies.
- Amendments to IAS 32 Financial Instruments: Disclosure and Presentation relate to offsetting of financial assets against financial liabilities.
- Amendments to IAS 36 Impairment of Assets relate to disclosure of recoverable amount of non-financial assets.
- Amendments to IAS 39 Financial instruments relate to novation of derivatives and hedge accounting.

All these amendments have not significantly affected consolidated condensed interim financial statements.

In preparing the consolidated financial statements for the year ended 31 December 2013 the Group had adjusted the criteria for allocation of stripping costs in accordance with IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine compared to the criteria applied by the Group in preparing consolidated condensed interim financial statements for the six months ended 30 June 2013. In preparing these consolidated condensed interim financial statements the Management applied the same criteria for allocation of stripping costs as in preparing the consolidated financial statements for the year ended 31 December 2013. Therefore comparative amounts for the six months ended 30 June 2013 as disclosed in these consolidated interim condensed financial statements have been appropriately adjusted compared to the data disclosed in the consolidated interim condensed financial statements for the six months ended 30 June 2013 which lead to increase in cost of sales by RUB 33,254 thousand, income tax expense by RUB 19,669 thousand and decrease in exchange differences on translation to presentation currency by RUB 10,359 thousand for the six months ended 30 June 2013, decrease in retained earnings and increase in translation reserve as at 1 January 2013 by RUB 112,040 thousand and RUB 3,826 thousand correspondingly and to increase in cash flows from operating activities and decrease in cash used in investing activities by RUB 20,047 thousand for the six months ended 30 June 2013.

Besides the changes mentioned above related to capitalized stripping costs, expenses on taxes other than profit tax which were previously presented as a separate item in the consolidated condensed interim statement of profit or loss and other comprehensive income for the six months ended 30 June 2013, were allocated to cost of sales and other operating expenses for the six months ended 30 June 2014. The comparative amounts for the six months ended 30 June 2013 were appropriately adjusted which led to increase in cost of sales and other operating expenses presented in these consolidated interim condensed financial statements by RUB 59,504 thousand and RUB 46,621 thousand correspondingly compared to the consolidated condensed interim financial statements for the six months ended 30 June 2013.

4 Seasonality of operations

The sales of zinc are not subject to significant seasonal or cyclical fluctuations. However, a certain decrease in sales takes place in January due to long statutory holidays.

5 Operating segments

The Group is organized as a vertically integrated business and has three reportable operating segments:

- Mining segment is represented by Nova Zinc LLP, an operator of lead zinc mine “Akzhal” in the Republic of Kazakhstan, which produces zinc and lead concentrate.
- Smelting segment is represented by JSC Chelyabinsk Zinc Plant, which produces Special High Grade zinc of 99.995% metal purity and zinc-based alloys.
- Alloying segment is represented by Brock Metal Ltd, a British producer of die-cast zinc alloys.

The Board of Directors assesses performance and allocates resources based on financial information for these segments, which includes earnings before interest, tax, depreciation and amortisation, adjusted for impairment and foreign exchange differences on borrowings and deposits (segment EBITDA) as a key measure of profitability. Since this indicator is not a standard IFRS measure the Group’s definition of EBITDA may differ from that of other companies.

Integration of different levels exists between mining and smelting reporting segments. In particular, it includes the transfer of raw materials in the form of zinc concentrate.

The financial information reported on operating segments is based on management accounts which are derived from accounts prepared in accordance with national standards of accounting applied in the country of residence of a corresponding segment. There are differences in the reported amounts and the amounts presented in these consolidated condensed interim financial statements due to the differences in accounting policies.

The segment revenue and EBITDA provided to the Board of Directors for the six months ended 30 June 2014 and 30 June 2013, correspondingly, were as follows:

’000 RUB	Mining	Smelting	Alloying	Total
For the six months ended 30 June 2014				
Total segment revenue	960,965	5,086,765	1,472,639	7,520,369
Intersegment revenue	749,700	6,428	-	756,128
Revenue from external customers	211,265	5,080,336	1 472,640	6,764,241
Segment EBITDA	309,909	1,330,789	37,605	1,678,303
For the six months ended 30 June 2013				
Total segment revenue	700,145	5,051,209	953,100	6,704,454
Intersegment revenue	533,179	6,866	-	540,045
Revenue from external customers	166,966	5,044,343	953,100	6,164,409
Segment EBITDA	86,874	312,210	17,538	416,622

The following tables show a reconciliation of revenue and EBITDA used by the Board of Directors for decision-making process and profit or loss before tax per the consolidated condensed interim financial statements prepared in accordance with IFRS:

'000 RUB	For the six months ended 30 June	
	2014	2013
Revenue from external customers of reportable segments	6,764,241	6,164,409
Timing differences (iii)	22,583	65,887
Adjustments for other revenue	(9,494)	(13,958)
Revenue from precious metals primary processing (i)	(92,312)	(76,942)
Other business activities not in scope of the Board of Directors' review	48,140	46,216
IFRS revenue	6,733,158	6,185,612

'000 RUB	For the six months ended 30 June	
	2014	2013
Segment EBITDA	1,678,303	416,622
Accounting policy differences:		
Capitalization of expenses (iv)	103,535	123,458
Timing differences (iii)	22,454	39,582
Employee benefits (v)	(17,375)	(7,550)
Elimination of intersegment operations	(119,056)	(73,963)
Inventory adjustments (ii)	(219,732)	(32,359)
Provisions relating to the ecology and VAT (Note 21)	(261,588)	(44,067)
Other reconciling items	1,597	(10,744)
Items excluded from segment EBITDA:		
Impairment reversal / (impairment) of property, plant and equipment (Note 7)	318,918	(10,910)
Foreign exchange income/(loss), net (Note 18)	105,501	(26,873)
Finance income	60,192	72,908
Finance expense	(6,393)	(40,583)
Depreciation and amortization	(448,107)	(476,476)
IFRS profit/(loss) before tax	1,218,249	(70,955)

The reconciling items are attributable to the following:

- (i) Revenue related to primary processing precious metals contained in zinc concentrate into clinker or cake is adjusted in accordance with IFRS, as actually precious metals are owned by suppliers of concentrates, subsoil users;
- (ii) Inventory adjustments consist of provisions for slow-moving goods and materials, overhead absorption and other adjustments required to cost inventory in accordance with IFRS;
- (iii) Timing differences are both revenue and purchase transactions of zinc concentrate which are recognized in different accounting periods in IFRS as compared to the management accounts;

- (iv) Capitalization of expenses: certain costs and expenses in the management accounts are required to be capitalized under IFRS because they extend the remaining useful life of an asset (capitalization of capital repairs and anodes, the costs of stripping activity);
- (v) Employee benefits include directors' and key management's compensation which is recognized in different accounting periods in these consolidated condensed interim financial statements compared to the management accounts, accrual of unused vacation and pension plan benefits in accordance with IFRS.

Segments' assets and liabilities

The table below shows the segments' assets and liabilities submitted to the Board of Directors as at 30 June 2014 and 31 December 2013:

'000 RUB	Mining	Smelting	Alloying	Total
As at 30 June 2014:				
Inventories	-	1,280,444	-	1,280,444
Accounts receivable	862,611	2,417,146	701,904	3,981,661
Total segments' assets	862,611	3,697,590	701,904	5,262,105
Accounts payable	176,554	1,443,392	100,291	1,720,237
Total segments' liabilities	176,554	1,443,392	100,291	1,720,237
As at 31 December 2013:				
Inventories	-	1,173,733	-	1,173,733
Accounts receivable	674,866	1,624,066	464,249	2,763,181
Total segments' assets	674,866	2,797,799	464,249	3,936,914
Accounts payable	175,557	1,311,839	114,012	1,601,408
Total segments' liabilities	175,557	1,311,839	114,012	1,601,408

Reportable segment assets are reconciled to consolidated inventory and trade and other receivable balances in these consolidated interim condensed financial statements as follows:

'000 RUB	30 June 2014	31 December 2013
Total segments' assets	5,262,105	3,936,914
Other inventories of smelting segment, which are not in scope of the Board of Directors review	1,087,236	1,204,293
Inventories of mining and alloying segments, which are not in scope of the Board of Directors' review	158,093	161,777
Timing differences (iii)	52,875	28,585
Netting off of the accounts payable and prepayments	(114,783)	(4,328)
Gross presentation of accounts payable from and prepayments to OJSC “FSC UES” (Note 12)	196,809	-
Adjustment on input VAT related to electricity expenses under litigation (Note 21)	32,735	84,075
Other business activities not in scope of the Board of Directors' review	27,749	17,589
Inventory adjustments	(36,475)	16,568
Elimination of income tax prepayment	(2,821)	(60,536)
Intersegment eliminations	(742,720)	(428,753)
Other differences	167,675	102,491
IFRS inventories, trade and other receivables	6,088,478	5,058,675

Reportable segment liabilities are reconciled to total current liabilities in these consolidated condensed interim financial statements as follows:

'000 RUB	30 June 2014	31 December 2013
Total segments' liabilities	1,720,237	1,601,408
Taxes payable, potential environment liability provision (Note 21)	395,375	107,166
Netting off of the accounts payable and prepayments	(131,100)	(17,414)
Gross presentation of accounts payable from and prepayments to OJSC “FSC UES” (Note 12)	196,809	-
Timing differences (iii)	47,864	42,979
Employee benefits (v)	42,607	28,334
Other business activities not reviewed by the Board of Directors	40,257	24,487
Adjustment on input VAT related to electricity expenses under litigation	32,735	84,075
Intersegment eliminations	(652,536)	(434,517)
Other differences	(2,106)	(40,976)
IFRS current liabilities	1,690,142	1,395,542

6 Balances and transactions with related parties

(a) Parent and ultimate controlling party

The Company's immediate parent company is NF Holdings BV. No publicly available financial statements are produced by the Company's ultimate parent company.

(b) Transactions with key management personnel

Total directors' and key management's compensation is represented by contractual salary and discretionary bonus. It is recorded in general and administrative expenses in the consolidated condensed interim statement of profit or loss and other comprehensive income in the amount of RUB 58,094 thousand and RUB 39,450 thousand for the six months ended 30 June 2014 and 30 June 2013, correspondingly. During six months ended 30 June 2014 directors and key management personnel comprised 28 individuals (six months ended 30 June 2013: 29).

(c) Other related party transactions

The Group has entered into significant transactions during the six months ended 30 June 2014 and 30 June 2013 and had significant balances outstanding as at 30 June 2014 and 30 June 2013 with related parties. Those related parties consisted of entities controlled by the Group shareholders having significant influence on the activities of the Group. The details of those transactions and outstanding balances are disclosed below. Related parties may enter into transactions, which unrelated parties might not enter in, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

(i) Data from consolidated interim condensed statement of financial position

'000 RUB	30 June 2014	31 December 2013
Accounts receivable	1,210,138	768,028
Bank deposits	100,000	744,301
Prepayments for capital construction	7,053	8,247
Prepayments	2,072	832
Total assets	1,319,263	1,521,408
Accounts payable	(39,918)	(190,939)
Advances received	-	(30)
Liabilities for purchased property, plant and equipment	(11,065)	(13,015)
Total liabilities	(50,983)	(203,984)

(ii) **Data from consolidated interim condensed statement of profit or loss and other comprehensive income**

'000 RUB	For the six months ended 30 June	
	2014	2013
Revenue		
Tolling fee	1 007 273	573 974
Sales of goods	233 443	283 858
Total revenue	1 240 716	857 832

'000 RUB	For the six months ended 30 June	
	2014	2013
Purchases of inventory	(207,996)	(888,114)
Purchases of electricity and gas	(648,303)	(564,009)
Total purchases	(856,299)	(1,452,123)
Other expenses	(35,175)	(30,899)
Total operating expenses	(35,175)	(30,899)
Interest income on deposits	24,715	25,469
Interest income on loans issued	-	15,724
Total finance income	24,715	41,193

During the six months ended 30 June 2014 the Group supplied to related parties 807 tonnes of zinc sulphate (six months ended 30 June 2013: 287 tonnes), 699 tonnes of copper-bearing cake (six months ended 30 June 2013: 672 tonnes) and 2,936 tonnes of lead cake (six month ended 30 June 2013: 3,582 tonnes).

During the six months ended 30 June 2014 the Group purchased from related parties 4,008 tonnes of zinc concentrate for a total amount of RUB 94,459 thousand (six months ended 30 June 2013: 30,416 tonnes for a total amount of RUB 804,993 thousand).

Significant decrease in purchases of zinc concentrate from related party is due to the decrease in zinc sales of the metallurgical segment of the Group. This decrease caused increase in the volume and respective revenue from tolling fees from related parties of metallurgical segment (Note 14).

7 Property, plant and equipment

'000 RUB	Land	Buildings and infrastructure	Plant, machinery and equipment	Other	Mineral resources	Construction-in-progress	Total
Cost at 1 January 2013	45,419	3,384,668	6,172,079	1,037,351	2,954,774	868,760	14,463,051
Accumulated depreciation and impairment	-	(1,518,172)	(4,108,290)	(627,877)	(2,659,959)	(93,494)	(9,007,792)
Carrying amount at 1 January 2013	45,419	1,866,496	2,063,789	409,474	294,815	775,266	5,455,259
Additions and transfers of assets under construction	-	183,519	225,828	80,039	92,465	(143,567)	438,284
Reversal of impairment	-	-	-	-	-	1,464	1,464
Disposals	-	-	(571)	(477)	-	(4,274)	(5,322)
Depreciation charge	-	(97,633)	(313,577)	(50,970)	(30,394)	-	(492,574)
Translation to presentation currency	-	12,292	14,800	15,808	22,796	9,383	75,079
Cost at 30 June 2013	45,419	3,603,474	6,448,157	1,141,014	3,218,889	730,302	15,187,255
Accumulated depreciation and impairment	-	(1,638,800)	(4,457,888)	(687,140)	(2,839,207)	(92,030)	(9,715,065)
Carrying amount at 30 June 2013	45,419	1,964,674	1,990,269	453,874	379,682	638,272	5,472,190
Cost at 1 January 2014	45,419	3,619,080	6,553,601	1,145,253	3,308,137	878,005	15,549,495
Accumulated depreciation and impairment	-	(1,791,657)	(4,696,313)	(797,500)	(3,052,578)	(92,030)	(10,430,078)
Carrying amount at 1 January 2014	45,419	1,827,423	1,857,288	347,753	255,559	785,975	5,119,417
Additions and transfers of assets under construction	-	47,733	377,163	48,850	67,830	167,005	708,581
Reversal of impairment	-	54,296	67,476	71,344	125,802	-	318,918
Disposals	-	(13,773)	(5,902)	(3,383)	-	(907)	(23,965)
Depreciation charge	-	(78,446)	(299,332)	(41,321)	(29,008)	-	(448,107)
Translation to presentation currency	-	(17,947)	(22,929)	(28,064)	(48,825)	(15,627)	(133,392)
Cost at 30 June 2014	45,419	3,580,054	6,725,541	1,096,924	2,929,859	1,028,476	15,406,273
Accumulated depreciation and impairment	-	(1,760,768)	(4,751,777)	(701,745)	(2,558,501)	(92,030)	(9,864,821)
Carrying amount at 30 June 2014	45,419	1,819,286	1,973,764	395,179	371,358	936,446	5,541,452

Reversal of impairment loss on property, plant and equipment

As at 31 December 2013 an impairment loss was recognized in the amount of RUB 386,895 thousands, related to the subsidiary LLP “Nova Zinc”. The value in use of the fixed assets of the subsidiary as at 31 December 2013 was determined by the method of projected cash flows.

Due to changes in forecasts of the market data, such as the Tenge exchange rate to the US dollar and projected zinc and lead LME (London Metal Exchange) prices, there are indicators that previously recognized impairment loss should be reversed.

Information on independent market analysts’ forecasts on average annual zinc and lead prices on London Metal Exchange (LME) used by management in calculation of the recoverable amount of property, plant and equipment of LLP “Nova Zinc” as at 30 June 2014 and 31 December 2013 is provided below:

	2014	2015	2016	2017	2018	2019
As at 30 June 2014						
Average price of zinc metal, USD per ton	2,087	2,242	2,424	2,515	2,555	2,606
Average rate of Kazakh tenge to the USD	179.1	182.7	182.9	182	181.1	180.2
As at 31 December 2013						
Average price of zinc metal, USD per ton	2,002	2,171	2,290	2,347	2,365	2,412
Average rate of Kazakh tenge to the USD	153.8	154.2	153.8	154	154.6	154.9

All remaining major assumptions used in impairment test of property, plant and equipment were consistent with those used in impairment test of property, plant and equipment as at 31 December 2013.

The Management of the Group calculated the recoverable amount of the property, plant and equipment of the Group company as at 30 June 2014 which exceeded the carrying value, which led to the recovery of the carrying amount of assets to their book value, that would have had been should the impairment loss had not been recognized as at 31 December 2013.

Thus the reversal of previously accrued impairment loss of RUB 318,918 thousand was recognized in other operating income in the consolidated interim condensed statement of profit or loss and other comprehensive income for the reporting period.

The management of the Group performed a sensitivity analysis of the results of the impairment test to changes in the assumptions used:

- A 10% weakening of the forecasted Kazakh tenge to USD exchange rate in all forecasted periods leads to the recoverable amount of fixed assets exceeding their carrying amount by RUB 1,143,932 thousand. A 10% strengthening of the forecasted Kazakh tenge to USD exchange rate in all forecasted periods leads to the recoverable amount of fixed assets exceeding their carrying amount by RUB 428,253 thousand;
- A 10% increase in the forecasted zinc prices leads to the recoverable amount of fixed assets exceeding their carrying amount by RUB 1,318,233 thousand. A 10% decrease in the forecasted zinc prices leads to the recoverable amount of fixed assets exceeding their carrying amount by RUB 321,694 thousand.

Property, plant and equipment under construction

Property, plant and equipment under construction mainly comprise expenditures on acquisition of equipment, construction and assembling works related to modernization and re-equipment of the main production workshops of JSC “Chelyabinsk Zinc Plant”, as well as construction of new production facilities. These expenditures should enable the Company to achieve new level of production capacity in the medium-term period.

8 Inventories

'000 RUB	<u>30 June 2014</u>	<u>31 December 2013</u>
Raw materials and consumables	844,265	1,271,011
Work in progress	574,567	752,525
Finished goods and goods for resale	1,021,260	573,008
Other inventories	9,397	9,660
Inventory provision	<u>(3,925)</u>	<u>(4,165)</u>
Total inventories	<u>2,445,564</u>	<u>2,602,039</u>

Major changes in the structure of the inventories are associated with changes in the structure of revenue of the smelting segment of the Group (Note 14), which led to the increase of finished goods and reduce of raw materials balances as at 30 June 2014.

9 Trade and other receivables

'000 RUB	<u>30 June 2014</u>	<u>31 December 2013</u>
Trade receivables	2,648,111	1,910,642
Prepayments	594,478	79,442
Tax receivables	339,335	384,320
Other receivables	<u>60,990</u>	<u>82,232</u>
Total	<u>3,642,914</u>	<u>2,456,636</u>

As at 30 June 2014 significant increase in trade receivables balance is caused mainly by the increase in accounts receivable from related party for tolling (Note 6 and 14).

As at 30 June 2014 total prepayments include prepayments made to OJSC “MRSK Ural” in the amount of RUB 253,901 thousand and to OJSC “FSK UES” in the amount of RUB 209,117 thousand. These prepayments represent prepayments for electricity transmission services that are subject to litigation proceedings (Note 21).

Tax receivables balance as at 30 June 2014 includes VAT recoverable balance in the amount of RUB 169,643 thousand, accounted by the subsidiary LLC “Nova Zinc” in respect to which tax authorities denied to perform timely refund. Based on the existing court practice and argumentation available, management believes that subsequent VAT refund is probable, despite the fact that the company is currently in the process of litigation, disputing the decision of tax authorities (Note 21).

In addition tax receivables balance as at 30 June 2014 includes VAT recoverable balance in the amount of RUB 32,735 thousand relating to electricity transmission services accrued applying tariffs of OJSC “FSK UES”, which has not been yet submitted for recovery by management due to absence of the signed contract and primary documents between OJSC “FSK UES” and OJSC

“Chelyabinsk Zinc Plant”. As at 31 December 2013 tax receivables balance included VAT recoverable balance in the amount of RUB 84,075 thousand relating to electricity transmission services accrued applying tariffs of OJSC “MRSK Ural”, which has not been yet submitted for recovery by management due to absence of signed primary documents between OJSC “MRSK Ural” and OJSC “Chelyabinsk Zinc Plant” (Note 21).

10 Cash and cash equivalents

'000 RUB	30 June 2014	31 December 2013
RUB denominated deposits in OJSC “Sberbank Rossii”	700,000	-
RUB denominated deposits in OJSC “Chelindbank”	100,400	109,000
RUB denominated deposits in LLC “CB Koltso Urala”	-	58,000
Bank balances and cash on hand	95,682	277,827
Other cash assets	12	-
Total cash and cash equivalents	896,094	444,827
Restricted cash	1,002	959
Total cash and cash equivalents	897,096	445,786

All deposits classified by the Group as cash and cash equivalents have contractual maturities less than three months with an option of early withdrawal.

Significant growth of cash and cash equivalents balance as at 30 June 2014 was caused by placement of the deposit as at 25 June 2014 in the amount of RUB 600,000 thousand for the period of 7 days.

11 Financial assets

'000 RUB	30 June 2014	31 December 2013
Long-term deposits		
LLC “CB Koltso Urala”	-	686,301
Total long-term financial assets	-	686,301
Short-term deposits		
OJSC “Sberbank Rossii”	256,000	301,000
LLC “CB Koltso Urala”	100,000	-
OJSC “Gazprombank”	-	102,000
OJSC “Sberbank Rossii” (promissory note)	45,000	-
DB JSC “Sberbank” (Kazakhstan)	-	49,969
Total short-term bank deposits	401,000	452,969
Short-term loans issued	6,058	2,125
Other short-term financial assets	3,913	5,636
Total short-term financial assets	410,971	460,730
Total financial assets	410,971	1,147,031

Deposits outstanding as of 30 June 2014 are denominated in RUB and will mature in 2014-2015.

During the six months ended 30 June 2014 deposits in LLC "CB Koltso Urala" amounting to RUB 700,000 thousand as at 31 December 2013 were fully repaid. Received cash was placed as deposits at market terms with LLC "CB Koltso Urala" in the amount of RUB 100,000 thousand and with OJSC "Sberbank Rossii" in the amount of RUB 600,000 thousand (Note 10).

12 Accounts payable, accrued expenses and advances from customers

'000 RUB	30 June 2014	31 December 2013
Trade payables	903,519	945,497
Employee benefits payable	154,233	160,742
Advances received	10,417	18,589
Other payables	29,427	24,410
Total	1,097,596	1,149,238

As at 30 June 2014 trade payables include payables for electricity transmission services accrued applying existing OJSC "FSK UES" tariffs (Note 21) in the amount of RUB 229 544 thousand for the period from May 2013 to June 2014. These payables were not off-set against prepayments provided to OJSC "FSK UES" (Note 9) due to absence of the contract with OJSC "FSK UES" as at the reporting date. As at 31 December 2013 payables for electricity transmission services were accrued applying tariffs of OJSC "MRSK Ural" net of prepayments provided to OJSC "MRSK Ural" and OJSC "FSK UES" in the amount of RUB 182,777 thousand.

13 Other taxes payable

Other taxes payable balance as at 30 June 2014 includes provision on ecological litigation in the amount of RUB 240,826 thousand (Note 21).

In addition other taxes payable balance as at 30 June 2014 and as at 31 December 2013 includes provision on repayment of previously refunded VAT in the amount of RUB 39,255 thousand and 45,649 thousand correspondingly (Note 21).

14 Revenue

'000 RUB	For the six months ended 30 June	
	2014	2013
Zinc and zinc alloys	4,778,604	4,473,924
Tolling fee	1,007,273	573,974
Lead concentrate	249,225	270,285
Other revenue	698,056	867,429
Total revenue	6,733,158	6,185,612

During the six months ended 30 June 2014 there was a decrease in sales of zinc of smelting segment of the Group due to decrease of demand from one of the largest customers of the Group. At the same time revenue of smelting segment from tolling services has increased. Also during the six months ended 30 June 2014 sales of zinc alloy of alloying segment of the Group have significantly increased due to the recovery of the European economy and attraction of new customers.

15 Cost of sales

'000 RUB	For the six months ended 30 June	
	2014	2013
Raw materials and consumables	3,068,005	3,118,919
Utilities and fuel	596,535	1,088,806
Depreciation and amortisation	393,577	447,046
Personnel costs	460,811	413,986
Repairs and maintenance	327,864	390,842
Mineral extraction tax	113,473	91,706
Other taxes	64,697	64,496
Production overheads	47,170	43,262
Change in work-in-progress	174,094	190,971
Inventory provision	(88)	(7,021)
Change in finished goods	(427,190)	(551,759)
Other expenses	76,673	86,358
Total cost of sales	4,895,621	5,377,612

During six months ended 30 June 2014 utilities and fuel expenses decreased significantly due to decrease of expenses on electricity transmission services. For the six months ended 30 June 2014 expenses for electricity transmission services were accrued applying tariffs of OJSC “FSK UES” while during the six months ended 30 June 2013 applying tariffs of OJSC “MRSK-Ural”. In addition cost of sales for the six months ended 30 June 2014 includes adjustment for the expense for electricity transmission services accrued for the period from 1 May 2013 till 31 December 2013 for the amount of RUB 358 647 thousand due to finalization of litigation proceedings between OJSC “Chelyabinsk Zinc Plant” and OJSC “FSK UES” (Note 21).

16 Distribution, general and administrative expenses

(a) Distribution expenses

'000 RUB	For the six months ended 30 June	
	2014	2013
Transportation and custom duties	354,759	320,089
Package materials	18,733	18,513
Depreciation and amortisation	3,484	3,484
Total distribution expenses	376,976	342,086

(b) General and administrative expenses

'000 RUB	For the six months ended 30 June	
	2014	2013
Wages and salaries	208,851	192,887
Security costs	31,279	46,452
Depreciation and amortization	38,059	25,946
Utilities and fuel	30,018	17,438
Audit, consulting, information and other professional services	22,490	28,683
Repairs	15,133	11,278
Other general and administrative expenses	97,868	139,025
Total general and administrative expenses	443,698	461,709

17 Other operating income and expenses

'000 RUB	For the six months ended 30 June	
	2014	2013
Reversal of previously accrued impairment (Note 7)	318,918	-
Other operating income	19,611	-
Total other operating income	338,529	-
Provision on ecological litigation (Note 21)	261,588	-
Social activities expenses	29,130	29,820
Penalties and tax provisions (Note 21)	5,725	45,572
Other operating expenses	-	5,220
Total other operating expenses	296,443	80,612

18 Foreign exchange gain/(loss)

Major part of foreign exchange gain for the six months ended 30 June 2014 was caused by significant weakening of the Kazakh tenge exchange rate to US dollar and a significant inter-segment revenue of mining and smelting segments nominated in US dollars.

19 Income tax expense

Income tax expense comprises the following:

'000 RUB	For the six months ended 30 June	
	2014	2013
Current tax expenses	195,530	16,740
Deferred tax expenses – origination and reversal of timing differences	98,052	21,101
Income tax expense for the period	293,582	37,841

The effective income tax rate for the Group for the six months ended 30 June 2014 was 24%. The combined income tax rate on profits of Russian and Kazakh companies is 20%.

The excess of the effective income tax rate over the combined rate was mainly caused by the additional accrual of tax liability on the excess profits of LLP “Nova Zinc” for the six months ended 30 June 2014 in the amount of RUB 13,374 thousand and by recognition of part of the expenses relating to fines and penalties on the environmental disputes as non-deductible expenses, the tax effect of these expenses for the six months ended 30 June 2014 was RUB 38,112 thousand.

Deferred tax assets and liabilities are attributable to the following:

'000 RUB	Assets		Liabilities		Net	
	30 June 2014	31 December 2013	30 June 2014	31 December 2013	30 June 2014	31 December 2013
Property, plant and equipment	-	5,938	(204,684)	(133,532)	(204,684)	(127,594)
Inventories	-	-	(65,928)	(84,806)	(65,928)	(84,806)
Accounts receivable	-	612	(12,438)	(6,067)	(12,438)	(5,455)
Provision for asset retirement obligation	18,099	20,139	-	-	18,099	20,139
Accounts payable	45,872	103,942	-	-	45,872	103,942
Other	27,729	2,163	-	-	27,729	2,163
Tax assets/(liabilities)	91,700	132,794	(283,050)	(224,405)	(191,350)	(91,611)
Set off of tax	(91,700)	(86,421)	91,700	86,421	-	-
Net tax assets/(liabilities)	-	46,373	(191,350)	(137,984)	(191,350)	(91,611)

Increase in deferred tax liability as at 30 June 2014 attributable to property, plant and equipment was caused by reversal of previously recognized impairment of property, plant and equipment (Note 7).

Decrease in deferred tax assets as at 30 June 2014 attributable to accounts payable was caused by a decrease in the difference between the liability for electricity transmission services in these financial statements and tax accounting. This liability has not yet been recognized in tax accounting due to absence of primary documents (Note 21).

20 Earnings/(loss) per share

Earnings/(loss) per share was calculated by dividing the profit attributable to the equity holders of the Company in the amount of RUB 924,667 thousand (for the six months ended 30 June 2013 - loss in the amount of RUB 108,796 thousand) by the weighted average number of ordinary shares outstanding of 54,195,410 shares (as at 30 June 2013: 54,195,410 shares). The Company has no dilutive potential ordinary shares.

21 Contingencies and commitments

(a) Legal proceedings

During the six months ended 30 June 2014 the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) that arose in the ordinary course of business. On the basis of management’s opinion, there are no current legal proceedings or other claims outstanding, except for described below, that 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

consolidated condensed interim financial statements.

Legal proceedings with OJSC “FSK UES” and OJSC “MRSK-Ural”

During the six months ended 30 June 2014 OSC “Chelyabinsk Zinc Plant” won legal proceeding against OJSC “FSC-UES” compelling to conclude the contract on electricity and energy power transmission for the period from 1 May 2013 to 31 December 2013 in the courts of Appeal and Cassation. According to the terms of the draft contract contractual obligations should be extended for each subsequent year under the same conditions if before the end of the term neither of the parties declares termination, modification or conclusion of a new contract.

Based on the decisions of courts management of JSC “Chelyabinsk Zinc Plant” accrued electricity and energy power transmission services applying tariffs of OJSC “FSC-UES” for the six months ended 30 June 2014, as well as adjusted cost of sales for the amount of expenses on the transmission of electricity services for the period from 1 May 2013 to 31 December 2013 (Note 15).

Due to absence of signed contract and primary documents confirming the provision of these services between JSC “Chelyabinsk Zinc Plant” and OJSC “FSC-UES” the Group management has not yet accounted for these expenses for income tax purposes (Note 19) and VAT reimbursement (Note 9) and presents prepayments provided to OJSC “FSC-UES” and accrued payables gross amount (Notes 9 and 12).

Currently, JSC “Chelyabinsk Zinc Plant” is involved in legal proceedings with OJSC “MRSK-Ural”, as part of which OJSC “MRSK-Ural” submitted the claim to the court on collection from JSC “Chelyabinsk Zinc Plant” debt in the amount of RUB 552,403 thousand for the services on electricity and energy power transmission provided for the period from May to December 2013.

Management of JSC “Chelyabinsk Zinc Plant” considers that no electricity and energy power transmission services were provided by OJSC “MRSK-Ural” to JSC “Chelyabinsk Zinc Plant” during the period starting from 1 May 2013 till 31 December 2013 and therefore excess payments in the amount of RUB 251,302 thousand made by JSC “Chelyabinsk Zinc Plant” in favor of OJSC “MRSK-Ural” should be treated as unjust enrichment of OJSC “MRSK Ural”.

These legal proceedings are expected to be finalized in the court not earlier than September 2014.

As at 30 June 2014 the Group management has not provided for the amount of prepayments made to OJSC “MRSK-Ural” for electricity transmission services (Note 9), as it estimates the possibility of court decision in favor of JSC “Chelyabinsk Zinc Plant” and thus recovery of the debt from OJSC “MRSK-Ural” as high based on previous decisions on related legal proceedings with OJSC “FSC-UES”.

(b) Tax legislation

Both Russian and Kazakhstan tax, currency and customs legislation is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be successfully challenged by relevant authorities

The tax authorities may be taking a more assertive position in interpretation of the legislation and assessments, and it is possible that some transactions and activities, which earlier weren't contested, can be challenged. As a result, significant additional taxes, penalties and interest can be accrued.

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

These circumstances may lead to higher tax risks in the Russian Federation and Kazakhstan than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian and Kazakhstan tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated interim condensed financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

As at 30 June 2014 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes that it is probable that certain tax positions taken by the Group may not be sustained if challenged by the tax authorities, the Group has recorded provisions for related taxes, interest and penalties.

Management believes that there is a risk of tax obligations of RUB 298,062 thousand as at 30 June 2014 (31 December 2013: RUB 279,820 thousand) related mostly to the income tax with the probability assessed as remote.

In addition as at 30 June 2014 LLC “Nova Zinc” disputes a number of tax authorities’ decisions relating to refuses of VAT refund:

- The decision of the tax authorities on return of previously refunded VAT for the period from 2008 to 2010 in the amount of RUB 39,255 thousand as at 30 June 2014. In October 2013 and April 2014 decisions of the Court of first instance and the Court of Appeals were made in favor of the company, however the Court of Cassation returned the case back for further consideration by the Court of Appeal. Having considered the ambiguous court practice and complexity of the case management believes that there is a risk of cash outflows on the dispute with the tax authorities, therefore as at 30 June 2014 and 31 December 2013 accrued provision in the amount of RUB 39,255 thousand and RUB 45,649 thousand correspondingly (Note 13).
- The decision of the tax authorities on the refusal to refund VAT for the period from October 2011 to June 2013 in the amount of RUB 72,044 thousand as at 30 June 2014. During the six months ended 30 June 2014 the decisions of the Court of first instance and the Court of Appeals were made in favor of the company. Based on the existing court practice and argumentation available, management believes that the probability of subsequent VAT refund is high (Note 9).
- The decision of the tax authorities, issued in August 2014, on the refusal to refund VAT for the period from April 2012 to March 2014 in the amount of RUB 97,599 thousand as at 30 June 2014. Based on the existing court practice and argumentation available, management believes that the probability of subsequent VAT refund is high (Note 9).

(c) Environmental matters

The enforcement of environmental legislation 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 recognized immediately in the consolidated financial

statements. Potential liabilities, which might arise as a result of changes in existing regulations, litigation or legislation, cannot be estimated precisely but could be material.

Observance of environmental norms in the Republic of Kazakhstan.

In March 2014, the Committee for ecological regulation and control of the Ministry of Environmental Protection of the Republic of Kazakhstan issued an act based on the audit of compliance of LLP “Nova Zinc” with the requirements of environmental norms in the Kazakhstan for the period from 1 January 2013 to 29 November 2013. As a result of the audit, breach of the requirements of the Environmental Code of the Republic of Kazakhstan was revealed relating to the late obtaining of the emission and waste disposal permissions, which expired on 8 July 2013. These permissions were not received in time due to the non-compliance of applications filed by management of the company with new requirements of the Environmental Code of the Republic of Kazakhstan.

According to the issued act the company shall pay a fine of RUB 110,412 thousand as at 30 June 2014 for conducting emission and waste disposal without appropriate permissions. During the six months ended 30 June 2014 the company was unable to defend its position in the courts.

Audit of compliance of LLP “Nova Zinc” with the requirements of environmental norms in the Republic of Kazakhstan for the six months ended 30 June 2014 was not performed by the relevant authorities. However due the fact that the permission for the placement of tailings was obtained only on 9 June 2014 management believes that there may be an accrual of penalties for non-compliance with the Environmental Code requirements for the six months ended 30 June 2014.

In this regard management of the Group has estimated the maximum potential liabilities of the subsidiary LLP “Nova Zinc” relating to the environmental disputes as at 30 June 2014 including environmental, tax and administrative fines and penalties for the period from 1 January 2013 to 30 June 2014. The risk of accrual of these liabilities was estimated by management as high, therefore the Group management accrued the provision for the amount of RUB 240,826 thousand (Note 13) as at 30 June 2014.

(d) Commitments under the Contract of Akzhal minefield subsoil use

In accordance with Law of the Republic of Kazakhstan No. 291-IV dated 24 June 2010 “On Subsoil and Subsoil Management”, when a mineral developer conducts subsoil use operations in the Republic of Kazakhstan, the developer is vested with obligations to buy goods, work and services from Kazakh companies. There are a number of commitments that are required to be met by LLP “Nova Zinc”, the Group’s subsidiary, in accordance with the provisions set forth in the subsoil use contract:

- Meet the working schedule and the work program requirements;
- Apply corresponding modern technologies and business management knowledge during mining operations according to the field development standards;
- Comply with agreed upon technological plans and mining projects that provide for the ensuring health and safety of both staff and local population;
- Use, in the first place, equipment, materials and finished products manufactured in Kazakhstan, provided that they are competitive, in Group’s opinion, in terms of their technological characteristics, environmental and operational safety, prices, operational characteristics, delivery time frame and terms;

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- Engage, in the first place, local companies operating in Kazakhstan to perform certain assignments during mining operations, provided that they are competitive, in Group’s opinion, in terms of their technological characteristics, environmental and operational safety, prices, operational characteristics, delivery time frame and terms;
- Employ Kazakh citizens in the first place;
- Prepare and apply professional training programmes for citizens and professionals of Kazakhstan, employed under the contract;
- Remediate the contractual territory that was damaged due to the mining operations or other activity of the subsidiary to the condition necessary for its further use according to Kazakhstan legislation.

In August 2013 LLP “Nova Zinc” signed an addendum to the contract in which required share of purchased goods and services from Kazakhstan companies is reduced from 25% to 18%. In addition, in accordance with the signed addendum the Group committed to finance the research and development expenditures in the amount of 1% of total contracted income of the company. This addendum is valid as at 30 June 2014. During the six months ended 30 June 2014 the share of purchased goods comprised 26.5% (During the year 2013: 23%), while financing of the research and development does not reach 1% of the total comprehensive income of the company from contractual activity.

Management of the Group is taking all necessary actions to ensure that all contractual and statutory requirements are met.

(e) Capital expenditure commitments

As at 30 June 2014 the Group had contractual commitments relating to capital investments in property, plant and equipment for a total amount of RUB 597,084 thousand (31 December 2013: RUB 571,396 thousand). Capital commitments mainly comprise commitments on purchases of equipment and, construction, assembling and project works related to re-equipment of production facilities of the plant, and the project related to increase in production capacity of JSC “Chelyabinsk Zinc Plant”.

22 Subsequent events

In the end of August 2014 JSC “Chelyabinsk Zinc Plant” has received the contract on electricity and energy power transmission services signed by OJSC “FSC-UES” (Note 21).

Numbered, bound and sealed 30 (thirty) sheets.

Vakhidov N.U.

Director of Ekaterinburg Branch of
ZAO KPMG - Ural Regional Center

