

**JSC “Chelyabinsk Zinc Plant”**

**Consolidated Interim Condensed  
Financial Statements  
for the six months ended 30 June 2015  
(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 2015, 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 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: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, 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 2015 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*.

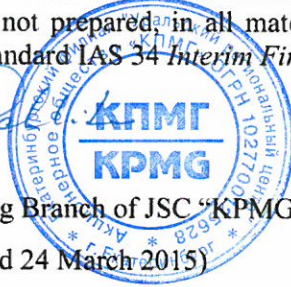
  
Vakhidov N.U.

Director of Ekaterinburg Branch of JSC "KPMG" – Ural Regional Center,  
(power of attorney dated 24 March 2015)

JSC "KPMG"

28 August 2015

Ekaterinburg, Russian Federation



'000 RUB	Note	30 June 2015	31 December 2014
<b>ASSETS</b>			
Property, plant and equipment	7	7,934,706	6,852,061
Advances for acquisition of business	8	3,400,000	3,400,000
Advances for acquisition of property, plant and equipment		91,446	103,830
Intangible assets		152,713	148,351
Other non-current assets		663	557
<b>Non-current assets</b>		<b>11,579,528</b>	<b>10,504,799</b>
Inventories	9	3,267,417	2,334,184
Trade and other receivables	10	3,912,576	3,181,629
Current income tax prepayment		252,380	1,420
Financial assets	12	267,740	56,694
Restricted cash	11	114,583	1,686
Cash and cash equivalents	11	495,916	446,064
<b>Current assets</b>		<b>8,310,612</b>	<b>6,021,677</b>
<b>Total assets</b>		<b>19,890,140</b>	<b>16,526,476</b>


'000 RUB	Note	30 June 2015	31 December 2014
<b>Equity</b>			
Share capital		127,635	127,635
Share premium		1,375,231	1,375,231
Reserve capital		3,011	3,011
Translation reserve		1,154,669	1,274,349
Retained earnings		14,455,697	11,326,915
<b>Total equity</b>		<b>17,116,243</b>	<b>14,107,141</b>
<b>Liabilities</b>			
Provision for asset retirement obligations		147,590	145,173
Deferred income tax liabilities	19	397,275	183,274
Other non-current liabilities		80,564	62,287
<b>Non-current liabilities</b>		<b>625,429</b>	<b>390,734</b>
Accounts payable, accrued expenses and advances from customers	13	1,615,308	1,491,972
Current income tax payable		3,499	38,179
Other taxes payable	14	200,410	403,162
Bank overdrafts	11	329,251	95,288
<b>Current liabilities</b>		<b>2,148,468</b>	<b>2,028,601</b>
<b>Total liabilities</b>		<b>2,773,897</b>	<b>2,419,335</b>
<b>Total equity and liabilities</b>		<b>19,890,140</b>	<b>16,526,476</b>




Consolidated Interim Condensed Statement of Profit or Loss and Other Comprehensive income for the six months ended 30 June 2015 (unaudited)

'000 RUB	Note	For the six months ended 30 June	
		2015	2014
Revenue	15	12,036,478	6,733,158
Cost of sales	16	(8,144,794)	(4,895,621)
<b>Gross profit</b>		<b>3,891,684</b>	<b>1,837,537</b>
Other operating income	18	1,094,472	350,577
Distribution costs	17	(536,410)	(376,976)
General and administrative expenses	17	(509,517)	(628,314)
Other operating expenses	18	(48,767)	(123,875)
<b>Results from operating activities</b>		<b>3,891,462</b>	<b>1,058,949</b>
Finance income		65,686	60,192
Finance expense		(16,823)	(6,393)
Foreign exchange (loss)/gain		(13,132)	105,501
<b>Profit before income tax</b>		<b>3,927,193</b>	<b>1,218,249</b>
Income tax expense	19	(798,411)	(293,582)
<b>Profit for the period</b>		<b>3,128,782</b>	<b>924,667</b>
<b>Other comprehensive income</b>			
<i>Total items that are or may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation to presentation currency		(119,680)	(184,853)
<b>Total other comprehensive loss for the period</b>		<b>(119,680)</b>	<b>(184,853)</b>
<b>Total comprehensive income for the period</b>		<b>3,009,102</b>	<b>739,814</b>
<b>Profit attributable to:</b>			
Shareholders of the Company		3,128,782	924,667
<b>Total comprehensive income attributable to:</b>			
Shareholders of the Company		3,009,102	739,814
<b>Earnings per share – basic and diluted (in RUB)</b>	20	<b>57.7</b>	<b>17.1</b>

These consolidated interim condensed financial statements were approved by management on 28 August 2015 and were signed on its behalf by:

  
 P.A. Izbrekht  
 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 2015 (unaudited)***'000 RUB**

	<b>Share capital</b>	<b>Share premium</b>	<b>Reserve capital</b>	<b>Translation reserve</b>	<b>Retained earnings</b>	<b>Total equity</b>
<b>Balance at 1 January 2014</b>	<b>127,635</b>	<b>1,375,231</b>	<b>3,011</b>	<b>(16,893)</b>	<b>8,974,372</b>	<b>10,463,356</b>
Net profit for the period	-	-	-	-	924,667	924,667
Other comprehensive loss for the period	-	-	-	(184,853)	-	(184,853)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(184,853)</b>	<b>924,667</b>	<b>739,814</b>
<b>Balance at 30 June 2014</b>	<b>127,635</b>	<b>1,375,231</b>	<b>3,011</b>	<b>(201,746)</b>	<b>9,899,039</b>	<b>11,203,170</b>
<b>Balance at 1 January 2015</b>	<b>127,635</b>	<b>1,375,231</b>	<b>3,011</b>	<b>1,274,349</b>	<b>11,326,915</b>	<b>14,107,141</b>
Net profit for the period	-	-	-	-	3,128,782	3,128,782
Other comprehensive loss for the period	-	-	-	(119,680)	-	(119,680)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(119,680)</b>	<b>3,128,782</b>	<b>3,009,102</b>
<b>Balance at 30 June 2015</b>	<b>127,635</b>	<b>1,375,231</b>	<b>3,011</b>	<b>1,154,669</b>	<b>14,455,697</b>	<b>17,116,243</b>

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 34.



'000 RUB	For the six months ended 30 June	
	2015	2014
<b>Cash flows from operating activities</b>		
Profit for the period	3,128,782	924,667
<i>Adjustments for:</i>		
Depreciation and amortisation	641,119	448,548
Net loss on disposal of property, plant and equipment	13,680	23,965
Impairment of loans issued, trade and other receivables	6,393	913
Reversal of inventory provision	(76)	(88)
Net finance income	(48,863)	(53,799)
Unrealized foreign exchange	(6,528)	(11,325)
Reversal of impairment of property, plant and equipment and assets under construction	(970,397)	(318,918)
Adjustment of the electricity transmission services expenses	-	(358,647)
(Reversal)/accrual of provision for ecological proceedings	(106,324)	261,588
Other non-monetary operating income	(5,057)	(4,015)
Income tax expense	798,411	293,582
	<b>3,451,140</b>	<b>1,206,471</b>
<i>Changes in:</i>		
Accounts receivable	(733,563)	(794,246)
Inventories	(942,185)	137,329
Accounts payable	129,854	(58,981)
Taxes payable	(91,372)	4,072
Restricted cash	(112,897)	(43)
<b>Cash flows from operating activities</b>	<b>1,700,977</b>	<b>494,602</b>
Income tax paid	(867,870)	(55,547)
<b>Net cash flows from operating activities</b>	<b>833,107</b>	<b>439,055</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment and intangible assets	(740,042)	(671,038)
Capitalized stripping costs	(81,539)	(62,562)
Loans issued	(160,436)	(4,649)
Proceeds from repayment of loans issued	2,195	649
Interest income received	2,362	622
Acquisition of bank promissory notes	(87,862)	(45,000)
Proceeds from promissory notes redemption	45,000	-
Placement of bank deposits	-	(406,000)
Proceeds from bank deposits repayment	-	1,202,970
<b>Net cash from/(used in) investing activities</b>	<b>(1,020,322)</b>	<b>14,992</b>
Effect of currency translation and exchange rate fluctuations on cash and cash equivalents	3,104	(2,780)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(184,111)</b>	<b>451,267</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>350,776</b>	<b>444,827</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>166,665</b>	<b>896,094</b>

# 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 recent conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Rouble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may experience difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

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 of 30 June 2015 and 31 December 2014 the Group’s immediate parent company 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 individually or jointly with other shareholders controls the Group.

The Company is 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 were set up under the legislation of the Russian Federation (JSC Chelyabinsk zinc plant), the Republic of Kazakhstan (LLP “Nova Zinc”) and the United Kingdom (Brock Metal Ltd). As at 30 June 2015 the Group employed 3,152 employees (31 December 2014: 3,173 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 the financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2014. 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 accordance 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.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated interim condensed financial statements is included in the following notes:

- Note 6 – analysis of the relationship between the Group and the companies controlled by the shareholder which substantially decreased its interest in the Group in December 2014;
- Note 7 – analysis of the degree of probability of assessment of the physical volume of field mineral reserves and the economic assumptions used in the assessment whether extraction is commercially feasible, as well as determination of units of measure to be used in the calculation of depreciation of mining assets applying units-of-production method;
- Note 7 – analysis of the influence of approval of the project for the underground development of the Akzhal ore deposit on the accounting of the stripping asset, accounted for as part of the mining assets;
- Note 8 – analysis of the existence of the Group’s power to govern the relevant activities of JSC “Korbalikhinsk pit” and consequently the requirement to consolidate JSC “Korbalikhinsk pit” in the consolidated interim condensed financial statements for the six months ended 30 June 2015.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year is included in the following notes:

- Note 7 – key assumptions underlying recoverable amount of mining assets;
- Note 21 – recognition and measurement of provisions and contingencies: key assumptions underlying likelihood and magnitude of an outflow of resources.

**(c) Functional and presentation currency**

Presentation and functional currencies of the Group entities used in these consolidated interim condensed financial statements were the same as in the consolidated financial statements for 2014.

Change in exchange rates of Russian rouble to Kazakhstani tenge and English pound sterling significantly affected exchange differences on translation to presentation currency stated in the consolidated interim condensed statement of profit or loss and other comprehensive income as well as translation reserve stated in the consolidated interim condensed statement of financial position. The table below shows exchange rates used:

	Average exchange rate for the 6 months ended June 30 of		Spot exchange rate as at	
	2015	2014	30 June 2015	31 December 2014
<b>Russian Rouble</b>				
1 Kazakhstani Tenge	0.3113	0.1990	0.2982	0.3083
1 Pound Sterling	87.8372	58.5541	87.1727	87.4199

**3 Significant accounting policies**

The accounting policies applied by the Group to these consolidated interim condensed financial statements were consistent with those applied to the consolidated financial statements as at and for the year ended 31 December 2014.

**(a) Changes in accounting policies**

A number of new amendments to standards are initially applied in 2015:

- Defined benefit plans: employee contributions (amendments to IAS 19).
- Project “IFRS Improvements”. Period 2010-2012 years.
- Project “IFRS Improvements”. Period 2011-2013 years.

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

**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 on the annual basis assesses performance and allocates resources based on financial information for these segments, which includes earnings before interest, tax, depreciation and amortization, 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. The same key measures are assessed by the Governing Board of JSC “Chelyabinsk Zinc Plant” quarterly. The Board of Directors and the Governing Board of the Group are equally responsible for the operating decisions, allocation of resources and assessment of the Group’s segments activities.

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. There are differences in the reported amounts and the amounts presented in these consolidated interim condensed financial statements due to the differences in accounting policies.

The segment revenue and EBITDA provided to the Governing Board for the six months ended 30 June 2015 and to the Board of Directors for the six months ended 30 June 2014, correspondingly, were as follows:

<b>’000 RUB</b>	<b>Mining</b>	<b>Smelting</b>	<b>Alloying</b>	<b>Total</b>
<b>For the six months ended 30 June 2015</b>				
Total segment revenue	1,529,785	10,185,950	2,949,397	14,665,132
Intersegment revenue	1,237,081	1,162,429	-	2,399,510
Revenue from external customers	292,704	9,023,521	2,949,397	12,265,622
Segment EBITDA	497,728	2,743,125	9,926	3,250,779
<b>For the six months ended 30 June 2014</b>				
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	1 472,639	6,764,241
Segment EBITDA	309,909	1,330,789	37,605	1,678,303

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

<b>’000 RUB</b>	<b>For the six months ended 30 June</b>	
	<b>2015</b>	<b>2014</b>
Revenue from external customers of reportable segments	12,265,622	6,764,241
Timing differences (iii)	(173,838)	22,583
Adjustments of other revenue	(11,032)	(9,494)
Revenue from precious metals primary processing (i)	(97,156)	(92,312)
Other business activities not in scope of the Governing Board review	52,882	48,140
<b>IFRS revenue</b>	<b>12,036,478</b>	<b>6,733,158</b>

'000 RUB	For the six months ended 30 June	
	2015	2014
Segment EBITDA	3,250,779	1,678,303
Accounting policy differences:		
Capitalization of expenses (iv)	140,393	103,535
Timing differences (iii)	(41,732)	22,454
Employee benefits (v)	(85,931)	(17,375)
Elimination of intersegment operations	92,174	(119,056)
Inventory adjustments (ii)	65,657	(219,732)
Reversal/(accrual) of provision relating to the ecological proceedings (Note 17)	106,324	(261,588)
Other reconciling items	34,520	2,038
Items excluded from segment EBITDA:		
Impairment reversal of property, plant and equipment (Note 7)	970,397	318,918
Net foreign exchange (loss)/income	(13,132)	105,501
Finance income	65,686	60,192
Finance expense	(16,823)	(6,393)
Depreciation and amortization	(641,119)	(448,548)
<b>IFRS profit before tax</b>	<b>3,927,193</b>	<b>1,218,249</b>

During the six months ended 30 June 2015 revenue in the amount of RUB 363,195 thousand and the respective cost of sales in the amount of RUB 297,978 thousand were recognized in the management accounts, while were not accounted for in these consolidated interim condensed financial statements due to the fact that risks and rewards were not transferred to the buyers as at 30 June 2015. The effect of this difference was reflected in the timing differences line in the reconciliation of revenue, EBITDA and assets.

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, the effect arising from differences in inventories' levels, overhead absorption and other adjustments required to account inventory in accordance with IFRS;
- (iii) Timing differences are both revenue and zinc concentrate purchase transactions 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 interim condensed 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 Governing Board of the Group as at 30 June 2015 and to the Board of Directors as at 31 December 2014:

<b>’000 RUB</b>	<b>Mining</b>	<b>Smelting</b>	<b>Alloying</b>	<b>Total</b>
<b>As at 30 June 2015:</b>				
Inventories	229,001	2,508,200	137,559	2,874,760
Accounts receivable	1,697,533	2,584,057	1,319,097	5,600,687
<b>Total segments’ assets</b>	<b>1,926,534</b>	<b>5,092,257</b>	<b>1,456,656</b>	<b>8,475,447</b>
Accounts payable	249,576	2,454,582	183,586	2,887,744
<b>Total segments’ liabilities</b>	<b>249,576</b>	<b>2,454,582</b>	<b>183,586</b>	<b>2,887,744</b>
<b>As at 31 December 2014:</b>				
Inventories	224,446	2,038,656	121,689	2,384,791
Accounts receivable	1,345,736	1,597,024	1,024,105	3,966,865
<b>Total segments’ assets</b>	<b>1,570,182</b>	<b>3,635,680</b>	<b>1,145,794</b>	<b>6,351,656</b>
Accounts payable	299,690	2,218,869	87,706	2,606,265
<b>Total segments’ liabilities</b>	<b>299,690</b>	<b>2,218,869</b>	<b>87,706</b>	<b>2,606,265</b>

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

<b>’000 RUB</b>	<b>30 June 2015</b>	<b>31 December 2014</b>
Total segments’ assets	8,475,447	6,351,656
Intersegment eliminations	(1,264,180)	(1,035,884)
Elimination of income tax prepayment	(252,380)	(1,420)
Netting of accounts receivable and accounts payable	(107,263)	(26,563)
Inventory adjustments (ii)	135,061	70,400
Timing differences (iii)	(65,706)	(20,701)
Adjustment on input VAT related to electricity expenses under litigation	-	38,127
Other business activities not in scope of the Board of Directors and the Governing Boa review	19,475	18,715
Other differences	239,539	121,483
<b>IFRS inventories, trade and other receivables</b>	<b>7,179,993</b>	<b>5,515,813</b>

Other differences arise from early period closure for the purposes of management accounts. Reconciliation of reportable segment liabilities to the consolidated current liabilities stated in these consolidated interim condensed financial statements is shown in the table below:

'000 RUB	30 June 2015	31 December 2014
Total segments' liabilities	2,887,744	2,606,265
Intersegment eliminations	(1,193,947)	(874,137)
Settlements with employees	104,281	38,516
Timing differences (iii)	(2,009)	1,746
Netting of accounts receivable and accounts payable	(119,573)	(29,012)
Accruals of taxes payable	126,529	114,441
Provision relating to the ecological proceedings (Note 21)	7,213	54,660
Other business activities not reviewed by the Board of Directors and the Governing Board	32,036	27,115
Adjustment on input VAT related to electricity expenses under litigation	-	38,127
Other differences	(23,057)	(44,408)
<b>IFRS current liabilities</b>	<b>1,819,217</b>	<b>1,933,313</b>

## 6 Balances and transactions with related parties

### (a) Parent company

The Company's immediate parent company is NF Holdings BV. No publicly available financial statements are produced by the Company's immediate 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 accounted for in general and administrative expenses in the consolidated interim condensed statement of profit or loss and other comprehensive income in the amount of RUB 69,405 thousand and RUB 58,094 thousand for the six months ended 30 June 2015 and 30 June 2014, correspondingly. During the six months ended 30 June 2015 directors and key management personnel comprised 31 individuals (six months ended 30 June 2014: 28).

### (c) Other related party transactions

In December 2014 one of the shareholders significantly reduced its interest in the Group; therefore the transactions effected from the date of sales of shares and outstanding balances on the transactions with certain companies previously disclosed as transactions with related parties were not included in the related parties disclosure in the Group consolidated financial statements for the year ended 31 December 2014.

In June 2015 this shareholder acquired an additional interest in the Group from a third party and reestablished its ability to exercise significant influence over the Group. Consequently, the transactions effected from the date of purchase of shares and outstanding balances on the transactions with the companies controlled by this shareholder are included in the related parties disclosure. Transactions and balances with related parties are presented below. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

**Outstanding balances on the transactions with related parties**

'000 RUB	<u>30 June 2015</u>	<u>31 December 2014</u>
<b>Operating activity</b>		
Accounts receivable	719,515	-
Advances received	(276)	-
Accounts payable	(91,538)	(3,610)
Advances issued	1,774	-
<b>Total operating activity</b>	<u>629,475</u>	<u>(3,610)</u>
<b>Financial arrangements</b>		
Deposit contributions	210,000	-
Loans issued	159,347	-
<b>Total financial arrangements</b>	<u>369,347</u>	<u>-</u>
<b>Investing arrangements</b>		
Advances for acquisition of business	3,400,000	-
Liabilities for purchased property, plant and equipment	(2,403)	-
<b>Total investing arrangements</b>	<u>3,397,597</u>	<u>-</u>

As at 30 June 2015 the Group has contractual obligations with related parties related to the capital investments in fixed assets for the amount of RUB 12,971 thousand (31 December 2014: no obligations).

**Transactions with related parties**

'000 RUB	<u>For the six months ended 30 June</u>	
	<u>2015</u>	<u>2014</u>
<b>Operating activity</b>		
Revenue		
Tolling fee	148,030	1 007,273
Sales of goods	57,772	233,443
<b>Total revenue</b>	<u>205,802</u>	<u>1,240,716</u>
Purchases		
Purchases of inventory	(57,366)	(207,996)
Purchases of electric power and gas	(100,785)	(648,303)
<b>Total purchases</b>	<u>(158,151)</u>	<u>(856,299)</u>
Other operating expenses	(28,411)	(35,175)
<b>Total operating activity</b>	<u>19,240</u>	<u>349,242</u>
<b>Financial arrangements</b>		
Deposit contributions/ (withdrawal)	(419,000)	100,000
Loans issued	106,290	-
Interest on deposits	3,780	24,715
Interest on loans issued	432	-
<b>Total financial arrangements</b>	<u>(308,498)</u>	<u>124,715</u>
<b>Investing arrangements</b>		
Acquisition of property, plant and equipment	(2,036)	(10,644)
<b>Total investing arrangements</b>	<u>(2,036)</u>	<u>(10,644)</u>

Deposit balances as at 30 June 2015 in the amount of RUB 210,000 thousand are accounted for as cash and equivalents in the consolidated interim condensed statement of financial position (Note 11). Cash received from bank deposits withdrawal in the amount of RUB 419,000 thousand were not included in the consolidated interim condensed statement of cash flows for the six months ended 30 June 2015 as they are classified as cash. Cash outflow on deposit contribution in the amount of RUB 100,000 thousand is recorded as placement of the bank deposits in the consolidated interim condensed statement of cash flows for the six months ended 30 June 2014.

For the period from the date of the acquisition of the shares by the shareholder which significantly reduced its interest in the Group in December 2014 till 30 June 2015 Group delivered to the related parties 154 tons of zinc sulphate (six months ended 30 June 2014: 807 tons), 87 tons of cooper cake (six months ended 30 June 2014: 699 tons) and 518 tons of lead cake (six months ended 30 June 2014: 2,936 tons).

From the date of shares acquisition till 30 June 2015 the Group acquired 793 tons of zinc concentrate from related parties (six months ended 30 June 2014: 4,008 tons).

Due to significance of transactions with the companies controlled by this shareholder of the Group for the period from the date of sales of shares till the date of shares acquisition management of the Group decided to disclose these transactions for information purposes in the additional note to this disclosure.

'000 RUB	From the date of sales of shares till 31 December 2014	31 December 2014	From 1 January 2015 till the date of acquisition of shares
<b>Operating activity</b>			
Accounts receivable	x	125,622	x
Advances received	x	(6,475)	x
Accounts payable	x	(207,802)	x
Advances issued	x	333	x
Revenue			
Tolling fee	82,575	x	632,134
Sales of goods	43,107	x	334,057
<b>Total revenue</b>	<b>125,682</b>	<b>x</b>	<b>966,191</b>
Purchases			
Purchases of inventory	(122,999)	x	(472,122)
Purchases of electric power and gas	(99,562)	x	(508,357)
<b>Total purchases</b>	<b>(222,561)</b>	<b>x</b>	<b>(980,479)</b>
Other operating expenses	(15,295)	x	(10,546)
<b>Total operating activity</b>	<b>(112,174)</b>	<b>(88,322)</b>	<b>(24,834)</b>
<b>Financial arrangements</b>			
Deposit contributions	-	-	629,000
Loans issued	-	-	53,057
Interest on deposits	756	-	18,557
<b>Total financial arrangements</b>	<b>756</b>	<b>-</b>	<b>700,614</b>

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'000 RUB	From the date of sales of shares till 31 December 2014	31 December 2014	From 1 January 2015 till the date of acquisition of shares
<b>Investing arrangements</b>			
Advances for acquisition of business	3,400,000	3,400,000	x
Purchases of property, plant and equipment	(13,879)	x	(2,558)
<b>Total investing arrangements</b>	<b>3,386,121</b>	<b>3,400,000</b>	<b>(2,558)</b>

As at 31 December 2014 Group had contractual obligations with companies controlled by the shareholder for the capital investments in fixed assets in the amount of RUB 15,951 thousand.

For the period from 1 January 2015 till the date of acquisition of the shares the Group delivered 576 tons of zinc sulphate, 556 tons of cooper cake and 2,589 tons of lead cake to these companies.

For the period from the date of shares sales till 31 December 2014 the Group delivered 27 tons of zinc sulphate, 107 tons of cooper cake and 517 tons of lead cake to these companies.

## 7 Property, plant and equipment

'000 RUB	Land	Buildings and infrastructure	Plant, machinery and equipment	Other	Mining assets	Construction-in-progress	Total
Cost at 1 January 2014	45,419	3,619,080	6,553,601	1,145,253	3,287,117	878,005	15,528,475
Accumulated depreciation and impairment	-	(1,791,657)	(4,696,313)	(797,500)	(3,031,558)	(92,030)	(10,409,058)
<b>Carrying amount at 1 January 2014</b>	<b>45,419</b>	<b>1,827,423</b>	<b>1,857,288</b>	<b>347,753</b>	<b>255,559</b>	<b>785,975</b>	<b>5,119,417</b>
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	2,928,520	1,028,476	15,404,933
Accumulated depreciation and impairment	-	(1,760,768)	(4,751,777)	(701,745)	(2,557,161)	(92,030)	(9,863,481)
<b>Carrying amount at 30 June 2014</b>	<b>45,419</b>	<b>1,819,286</b>	<b>1,973,764</b>	<b>395,179</b>	<b>371,358</b>	<b>936,446</b>	<b>5,541,452</b>
Cost at 1 January 2015	45,419	4,050,483	7,710,470	1,325,365	4,914,712	1,305,737	19,352,186
Accumulated depreciation and impairment	-	(2,049,739)	(5,384,729)	(804,392)	(4,173,034)	(88,231)	(12,500,125)
<b>Carrying amount at 1 January 2015</b>	<b>45,419</b>	<b>2,000,744</b>	<b>2,325,741</b>	<b>520,973</b>	<b>741,678</b>	<b>1,217,506</b>	<b>6,852,061</b>
Additions and transfers of assets under construction	-	99,665	183,829	76,809	82,603	380,159	823,065
Reversal of impairment	-	-	-	-	970,397	-	970,397
Disposals	-	(93)	(1,938)	(7,232)	-	(4,417)	(13,680)
Depreciation charge	-	(98,642)	(389,623)	(69,923)	(81,909)	-	(640,097)
Translation to presentation currency	-	(9,632)	(6,387)	(11,325)	(24,278)	(5,418)	(57,040)
Cost at 30 June 2015	45,419	4,116,226	7,770,743	1,329,947	4,832,153	1,676,061	19,770,548
Accumulated depreciation	-	(2,124,184)	(5,659,121)	(820,645)	(3,143,661)	(88,231)	(11,835,842)
<b>Carrying amount at 30 June 2015</b>	<b>45,419</b>	<b>1,992,042</b>	<b>2,111,622</b>	<b>509,302</b>	<b>1,688,491</b>	<b>1,587,830</b>	<b>7,934,706</b>



## Reversal of impairment loss on property, plant and equipment

As at 31 December 2008 the management of the Group performed an analysis of the carrying amount and calculated the recoverable amount of the property, plant and equipment of the Group. As a result of impairment test the impairment loss in the amount of RUB 1,973,442 thousand was recognized in relation to the mining assets of the subsidiary company of the Group.

In the April 2015 management of the Group approved the underground mining project for Akzhal ore deposit, providing mining of ore until 2038, with the Committee of Geology and Subsoil Use of the Ministry of Investment and Development of the Republic of Kazakhstan. Management of the Group started the implementation phase of the underground mining project and intends to develop the field in accordance with the approved project in the long term.

Recoverable amount of the mining assets of the subsidiary company of the Group was determined based on the fair value less costs to sell. For the purpose of fair value determination the forecasted discounted cash flows model was prepared which includes open and underground mining of Akzhal ore deposit. Costs to sell were estimated at 1% of the fair value.

The discounted cash flows were projected for the period from 1 July 2015 to 2038, when the underground mining of Akzhal ore deposit is expected to cease, based on actual operating results, the budget for the year 2015 and the data in the approved technical and economic feasibility study of the underground mining project for Akzhal ore deposit.

The forecasted cash flows model was prepared in US dollars as sales revenue is linked to market prices on metals denominated in US dollars. Operating costs forecast was based on Kazakhstan inflation ratio and translated into US dollars using corresponding forecast exchange rate of tenge to US dollar.

Information on independent market analysts’ forecasts on average annual zinc prices on London Metal Exchange (LME) and rates of tenge to US dollar used in calculation of the recoverable amount of mineral assets of LLP “Nova Zinc” as at 30 June 2015 and 31 December 2014 is provided below:

	2015	2016	2017	2018	2019
<b>As at 30 June 2015</b>					
Average price of zinc metal, USD per ton	2,259	2,410	2,585	2,578	2,646
Average rate of Kazakh tenge to the USD	188.6	203.3	218.2	224.9	227.7
<b>As at 31 December 2014</b>					
Average price of zinc metal, USD per ton	2,280	2,379	2,469	2,403	2,402
Average rate of Kazakh tenge to the USD	201.4	211.8	212.9	212.1	209.2

Information on the average annual price of zinc on the LME for the period from 2020 to 2038 was calculated based on the assumption that LME quotes will change in line with the level of USA inflation rates due to the fact that LME prices are nominated in USD dollars. Forecast USA inflation rates were obtained from independent market analysts’s sources.

The remaining assumptions used in determination of the recoverable amount of the mining assets are provided below:

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- the forecast volume of open ore extraction was calculated based on actual proven ore reserves and mining plan for the years 2012-2020 approved in 2012;
- the forecast volume of underground ore extraction was calculated based on actual proven ore reserves and Akzhal ore deposit underground mining project approved in April 2015. In accordance with the project first ore will be mined in 2016 and subsidiary company is planning to reach the full capacity by the 2024;
- net present value of expected capital investments in underground mining of Akzhal ore deposit was estimated in the amount of RUB 5,943,114 thousand;
- management believes that the existing license for mineral resources extraction will be renewed in 2017 till the end of the forecast period without significant additional costs;
- exchange rates of Kazakhstan tenge to US dollar were estimated based on independent market analysts' forecasts;
- post-tax discount rate used was 15.5% (31 December 2014: pre-tax discount rate 16.75%)

As at 30 June 2015 the recoverable amount exceeds the carrying amount of mining assets, 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 2008.

Thus the reversal of previously accrued impairment loss of RUB 970,397 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 35% 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 4,330,175 thousand. A 15% strengthening of the forecasted Kazakh tenge to USD exchange rate in all forecasted periods leads to the carrying amount of fixed assets exceeding their recoverable amount by RUB 1,465,260 thousand;
- A 15% increase in the forecasted zinc prices leads to the recoverable amount of fixed assets exceeding their carrying amount by RUB 3,032,830 thousand. A 25% decrease in the forecasted zinc prices leads to the carrying amount of fixed assets exceeding their recoverable amount by RUB 2,341,526 thousand;
- A 2% increase in discount rate leads to the recoverable amount of property, plant and equipment exceeding the carrying value by RUB 438,408 thousand. A 2% decrease in discount rate leads to the recoverable amount exceeding the carrying value of property, plant and equipment by RUB 1,978,639 thousand. If discount rate is 19,15%, the carrying value of assets will be equal to its recoverable amount.

### **Mining assets**

Till May 2015 management of the Group calculated depreciation of the mining assets applying the units-of-production method based on the ratio of the ore mined by means of open pit from the balance, off-balance reserves and ore from production stockpiles. Starting from April 2015 after approval of the underground mining project, balance ore reserves relating to the underground mining are additionally used in the depreciation calculations.

Depreciation of the stripping assets is calculated applying units-of-production method based on the ratio of ore mined by open pit from balance and off-balance ore reserves. Approval of the underground mining project did not affect the accounting of the stripping assets capitalized in the

mining assets as at 30 June 2015, as stripping works performed before the reporting date have not enhanced access to the ore planned to be developed underground.

### **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 Advances for acquisition of business**

In December 2014, the Group signed an agreement on financing with the company controlled by one of the shareholders of the Group, which significantly reduced its interest in the Group in December 2014 (Note 6). The subject of the financing agreement is the complex of actions required for the Group to acquire rights for the development and extraction on Korbalkhinsk pit in Altay region. The payment of RUB 3,400,000 thousand made by the Group was accounted for as an advance for acquisition of business in the Group consolidated financial statements for the year ended 31 December 2014.

Korbalkhinsk pit is the largest deposit of polymetallic ores in Russia. Estimated reserves amount approximately 26 mln.tonnes of ore with high content of zinc, as well as copper, lead, gold and silver. The pit is currently operating and being further developed, extraction is expected to be approximately 1 mln. tonnes of ore per year when it achieves its full production capacity. All the ore extracted is currently processed at the facilities of the company controlled by one of the shareholders of the Group, which significantly reduced its interest in the Group in December 2014, and all zinc concentrate produced is sold to the Group.

In May 2015, the Group signed loan agreement under which the Group will issue loans of RUB 707,501 thousand to the same company in several tranches for the purpose of financing the construction of the underground facilities of the Korbalkhinsk pit (Note 12). The amount of loan issued equals to the amount of financed capital investments agreed by the parties.

Following the terms of the agreement on financing the Group concluded another agreement on purchase of 100% shares of JSC “Korbalkhinsk pit” with the same company in June 2015. In accordance with the terms of the purchase agreement, the title for the shares is transferred to the Group after the certain contingent conditions are met. The Group believes that among those conditions the most important are: transfer of license for the right of development and extraction on the pit from the company controlled by one of the shareholders of the Group, which significantly reduced its interest in the Group in December 2014 to the JSC “Korbalkhinsk pit” and receipt of the approval from federal antimonopoly service on the acquisition of 100% shares of JSC “Korbalkhinsk pit” by the Group. None of these conditions are met as at the reporting date.

The purchase agreement stipulates that above mentioned commitments shall be met until 1st June 2016. In case this deadline is not met, the term of the agreement is automatically prolonged until 30 December 2016, further prolongation of the agreement may be made by the mutual agreement of the parties.

## 9 Inventories

'000 RUB	<u>30 June 2015</u>	<u>31 December 2014</u>
Raw materials and consumables	1,618,083	1,130,126
Work in progress	774,075	843,228
Finished goods and goods for resale	872,924	358,774
Other inventories	10,326	10,269
Inventory provision	(7,991)	(8,213)
<b>Total inventories</b>	<b><u>3,267,417</u></b>	<b><u>2,334,184</u></b>

Major changes in the structure of inventories are associated with the changes in the structure of revenue of the smelting segment of the Group (Note 15), which led to the increase of finished goods balances as at 30 June 2015. Significant increase in raw materials and consumables' balances is a result of increase in volumes of raw materials as well as change in prices of concentrates due to the increase of LME zinc quotations and weakening of RUB against the US dollar.

## 10 Trade and other receivables

'000 RUB	<u>30 June 2015</u>	<u>31 December 2014</u>
Trade receivables	2,973,392	2,176,963
Prepayments	133,041	374,862
Tax receivables	748,564	559,328
Other receivables	57,579	70,476
<b>Total</b>	<b><u>3,912,576</u></b>	<b><u>3,181,629</u></b>

Significant increase in trade receivables balance as at 30 June 2015 is caused mainly by the increase in accounts receivable from related party for tolling (Note 6 and 15). As at 31 December 2014 this company was controlled by the shareholder who significantly decreased its interest in the Group in December 2014.

Tax receivables balance as at 30 June 2015 includes VAT recoverable balance in the amount of RUB 302,545 thousand (31 December 2014: RUB 312,793 thousand), accounted for by the subsidiary LLP "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).

Besides increase in tax receivable balance as at 30 June 2015 is explained by the increase in VAT recoverable balance of the smelting segment relating to unconfirmed export and concentrate purchases from the companies operating in the countries of Custom union.

## 11 Cash and cash equivalents

'000 RUB	30 June 2015	31 December 2014
RUB denominated bank balances receivable on demand and petty cash	134,680	210,192
RUB denominated deposits	210,000	157,700
KZT denominated bank balances receivable on demand and petty cash	5,902	40,048
USD denominated bank balances	137,106	22,100
EUR denominated bank balances	8,092	15,927
GBP denominated bank balances receivable on demand	136	97
<b>Total cash and cash equivalents</b>	<b>495,916</b>	<b>446,064</b>
Restricted cash	114,583	1,686
<b>Total cash and cash equivalents, including restricted cash</b>	<b>610,499</b>	<b>447,750</b>
GBP denominated bank balances/(overdrafts)	(273,374)	193,023
USD denominated bank balances/(overdrafts)	85,517	35,492
EUR denominated bank balances/(overdrafts)	(141,394)	(323,803)
<b>Total balance of overdrafts</b>	<b>(329,251)</b>	<b>(95,288)</b>
<b>Total balances of cash and cash equivalents in the statement of cash flows</b>	<b>166,665</b>	<b>350,776</b>

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

Restricted cash as at 30 June 2015 is represented by a letter of credit, given to the supplier of the concentrate as the enforcement of obligations. The expiry date of the letter of credit is 31 August 2015, it is issued in US dollars with a value of USD 2,033 thousand.

## 12 Financial assets

'000 RUB	30 June 2015	31 December 2014
OJSC Sberbank Rossii (promissory note denominated in RUB)	-	45,000
OJSC Sberbank Rossii (promissory note denominated in USD)	78,844	-
Short-term loans issued denominated in KZT	3,987	5,446
Short-term loans issued denominated in RUB	159,347	-
Other short-term financial assets	25,562	6,248
<b>Total financial assets</b>	<b>267,740</b>	<b>56,694</b>

In March 2015 the Group acquired a promissory note of OJSC Sberbank Rossii for the amount of USD 1,420 thousand. The promissory note bears interest rate of 4.46%. Maturity is on demand, but not earlier than 31 March 2016 and not later than 02 April 2016. The acquired promissory note is a pledge under the bank guarantee agreement, concluded with OJSC Sberbank Rossii. Bank guarantee valid till 28 February 2016 for the amount of USD 1,400 thousand is provided as an enforcement of Group's obligations for a timely payment for supplied zinc concentrate.

Short-term loans issued in RUB as at 30 June 2015 are represented by a loan given to related party in the amount of RUB 159,347 thousand (Note 6). In May 2015, the Group concluded a loan agreement under which the Group will issue loans of RUB 707,501 thousand to the company controlled by the shareholder which significantly reduced its interest in the Group in December 2014

(Note 6) in several tranches for the period till 30 April 2016 at interest rate of 13.5% per annum for the purpose of financing the construction of the underground facilities of the Korbalkhinsk pit (Note 8). Due to the fact that as at the reporting date the parties have not agreed on the terms of the loan settlement and different options of loan settlement are considered, management of the Group believes that this loan meets a definition of a financial instrument and therefore should be recognised in financial assets for the purpose of consolidated interim condensed financial statements for the six months ended 30 June 2015.

### 13 Accounts payable, accrued expenses and advances from customers

'000 RUB	<u>30 June 2015</u>	<u>31 December 2014</u>
Trade payables	1,293,921	1,141,093
Employee benefits payable	244,937	210,005
Advances received	26,003	27,440
Other payables	50,447	113,434
<b>Total trade and other payables</b>	<b><u>1,615,308</u></b>	<b><u>1,491,972</u></b>

Other payables as at 30 June 2015 include provision on ecological proceedings in the amount of RUB 7 213 thousand (31 December 2014: RUB 54 660 thousand) (Note 21).

### 14 Other taxes payable

Other taxes payable as at 30 June 2015 and as at 31 December 2014 includes provision on repayment of previously refunded VAT in the amount of RUB 63 882 thousand and RUB 66 046 thousand correspondingly (Note 21). Significant amount of VAT payable of smelting segment as at 31 December 2014 was paid out by the Group during the six months ended 30 June 2015.

### 15 Revenue

'000 RUB	<u>For the six months ended 30 June</u>	
	<u>2015</u>	<u>2014</u>
Zinc and zinc alloys	9,699,275	4,778,604
Tolling fee	780,164	1,007,273
Lead concentrate	346,343	249,225
Other revenue	1,210,696	698,056
<b>Total revenue</b>	<b><u>12,036,478</u></b>	<b><u>6,733,158</u></b>

During the six months ended 30 June 2015 sales of zinc by smelting segment of the Group increased due to increase of LME zinc quotations and weakening of RUB against USD. At the same time revenue of smelting segment from tolling services has decreased due to decrease of processed volumes. Also during the six months ended 30 June 2015 sales of zinc alloy of alloying segment of the Group have significantly increased due to development of sales in Europe.

Other revenue for the six months ended 30 June 2015 mainly comprises sales of by-products and precious metals. During the six months ended 30 June 2015 there was an increase in other revenue due to precious metals sales in the amount of RUB 337,459 thousand. During the six months ended



30 June 2014 there was no precious metals sales. Increase in sales of by-products for the six month ended 30 June 2015 was caused by weakening of RUB against USD.

## 16 Cost of sales

'000 RUB	For the six months ended 30 June	
	2015	2014
Raw materials and consumables	5,501,118	3,068,005
Utilities and fuel	1,034,658	596,535
Depreciation	573,409	393,577
Personnel costs	644,805	460,811
Repairs and maintenance	381,189	327,864
Mineral extraction tax	190,357	113,473
Other taxes	91,398	64,697
Production overheads	58,962	47,170
Change in work-in-progress	67,802	174,094
Inventory provision	(76)	(88)
Change in finished goods	(478,791)	(427,190)
Other expenses	79,963	76,673
<b>Total cost of sales</b>	<b>8,144,794</b>	<b>4,895,621</b>

During the six months ended 30 June 2015 expenses on raw materials and consumables increased significantly due to increase of LME zinc quotations and weakening of RUB against USD.

Changes in utilities and fuel expenses for the six months ended 30 June 2015 were caused by the fact that cost of sales for the six month ended 30 June 2014 included the adjustment for the expense for electricity transmission services accrued for the period from 1 May 2013 till 31 December 2013 in the amount of RUB 358 647 thousand due to finalization of litigation proceedings between JSC “CZP” and OJSC “FSK UES”. In 2015 expenses for electricity transmission services were accrued applying tariffs of OJSC “FSK UES” (Note 21).

The increase in personnel costs during the six months ended 30 June was due to the indexation of wages.

## 17 Distribution, general and administrative expenses

### (a) Distribution expenses

'000 RUB	For the six months ended 30 June	
	2015	2014
Transportation and custom duties	506,912	354,759
Package materials	27,001	18,733
Depreciation	2,497	3,484
<b>Total distribution expenses</b>	<b>536,410</b>	<b>376,976</b>

Transportation and custom duties expenses mainly comprise expenses for delivering sulfuric acid to the customers. Increase in the transportation expenses of sulfuric acid for the six months ended 30 June 2015 was caused by a change in geography of deliveries, as well as indexation of transportation

tariffs. Besides, transportation costs and customs duties increased due to increase of share of export sales of zinc and zinc alloys.

**(b) General and administrative expenses**

'000 RUB	For the six months ended 30 June	
	2015	2014
Wages and salaries	296,354	208,851
Security costs	48,658	31,279
Depreciation and amortization	51,562	38,059
Utilities and fuel	22,785	30,018
Audit, consulting, information and other professional services	22,752	22,490
Repairs	16,591	15,133
(Reversal)/ accrual of provision for ecological proceedings (Note 21)	(47,666)	184,616
Other general and administrative expenses	98,481	97,868
<b>Total general and administrative expenses</b>	<b>509,517</b>	<b>628,314</b>

In preparing consolidated interim financial statements for the six months ended 30 June 2014 the Group accounted provision for ecological proceedings, tax and administrative penalties relating to ecological issues in other operating expenses. In preparing consolidated financial statements for 2014 the Group had adjusted the criteria for the classification of accruals for environmental proceedings and recognized accruals relating to ecological proceedings in general and administrative expenses while tax and administrative penalties relating to ecological issues in other operating expenses. In preparing these consolidated interim condensed statements, management has used the same criteria for the classification of accruals for environmental proceedings and tax and administrative penalties relating to ecological issues as in the consolidated financial statements for 2014. Therefore, comparative amounts for the six months ended 30 June 2014, 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 2014.

**18 Other operating income and expenses**

'000 RUB	For the six months ended 30 June	
	2015	2014
Reversal of previously accrued impairment (Note 7)	970,397	318,918
Penalties received	2,409	-
Refund of amount under ecological proceedings (Note 21)	58,658	-
Other operating income	63,008	31,659
<b>Total other operating income</b>	<b>1,094,472</b>	<b>350,577</b>
Provision on ecological proceedings (Note 21)	-	76,972
Social activities expenses	28,060	29,130
Penalties paid	-	5,725
Other operating expenses	20,707	12,048
<b>Total other operating expenses</b>	<b>48,767</b>	<b>123,875</b>

## 19 Income tax expense

Income tax expense comprises the following:

'000 RUB	For the six months ended 30 June	
	2015	2014
Current tax expenses	584,410	195,530
Deferred tax expenses – origination and reversal of timing differences	214,001	98,052
<b>Income tax expense for the period</b>	<b>798,411</b>	<b>293,582</b>

The effective income tax rate for the Group for the six months ended 30 June 2015 was 20.3%. The combined income tax rate on profits of Russian and Kazakh companies is 20%.

Deferred tax assets and liabilities are attributable to the following:

'000 RUB	Assets		Liabilities		Net	
	30 June	31 December	30 June	31 December	30 June	31 December
	2015	2014	2015	2014	2015	2014
Property, plant and equipment	-	-	(465,255)	(265,344)	(465,255)	(265,344)
Inventories	-	-	(91,864)	(5,738)	(91,864)	(5,738)
Accounts receivable	63,799	857	-	(13,313)	63,799	(12,456)
Provision for asset retirement obligation	29,518	29,034	-	-	29,518	29,034
Accounts payable	65,268	71,065	-	-	65,268	71,065
Other	1,259	165	-	-	1,259	165
Tax assets/(liabilities)	159,844	101,121	(557,119)	(284,395)	(397,275)	(183,274)
Set off of tax	(159,844)	(101,121)	159,844	101,121	-	-
Net tax assets/(liabilities)	-	-	(397,275)	(183,274)	(397,275)	(183,274)

Increase in deferred tax liability as at 30 June 2015 attributable to property, plant and equipment was caused by reversal of previously recognized impairment of property, plant and equipment (Note 7).

Increase in deferred tax asset as at 30 June 2015 attributable to accounts receivable and increase in deferred tax liability as at 30 June 2015 attributable to inventories was caused by the temporary differences in the recognition of revenue and related cost of sales of finished goods in these financial statements and tax accounting.

## 20 Earnings per share

Earnings per share as at 30 June 2015 was calculated by dividing the profit attributable to the equity holders of the Company in the amount of RUB 3,128,782 thousand (for the six months ended 30 June 2014: RUB 924,667 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 2015 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 year ended 31 December 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 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 year ended 31 December 2014 and the six months ended 30 June 2015.

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 346,645 thousand for the services on electricity and energy power transmission provided for the period from August 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 August 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”.

On 17 November 2014, claim of JSC “Chelyabinsk Zinc Plant” was partially upheld by the Court of arbitration and OJSC “MRSK Ural” was enforced to pay amount of RUB 234,209 thousand as unjust enrichment. OJSC “MRSK Ural” appeal this decision in the Court of Arbitration. On 17 February 2015 previously made court decision was upheld by the Court of Appeal. On 25 February 2015, OJSC “MRSK Ural” has paid the claimed amount to JSC “Chelyabinsk Zinc Plant”. OJSC “MRSK Ural” appealed to the Arbitration Court of the Ural district on cancellation of two instance’s decisions. On 1 June 2015 judicial decisions of courts of two instances remain unchanged by Court of Cassation, the complaint of OJSC “MRSK Ural” was not satisfied.

On 15 July 2015 OJSC “MRSK Ural” appealed to cassation instance of the Supreme Court of the Russian Federation on cancellation of the judicial decisions made on the case. As at the date of the financial statements authorization the cassation appeal is not accepted for the judicial proceedings.

### (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 2015 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 made provisions for related taxes, interest and penalties.

From 1 January 2009 the new law on transfer pricing was introduced in Kazakhstan which replaces the previous one. This law provides for government control of cross-border transactions. This law prescribes Kazakhstan companies to maintain and, if required, to provide economic rationale and method of the determination of prices used in cross-border transactions, including documentation supporting the prices and differentials. Additionally, differentials could not be applied to the cross-border transactions with companies registered in off-shore jurisdictions. If the transaction price differs from the market price, the tax authorities have the right to adjust taxable items and to assess additional taxes, penalties and interest.

New transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

The new transfer pricing rules introduce an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe new basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level. The new transfer pricing rules eliminated the 20-percent price safe harbour that existed under the previous transfer pricing rules applicable to transactions on or prior to 31 December 2011.

The new transfer pricing rules primarily apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code. In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB 3 billion in 2012, RUB 2 billion in 2013, and RUB 1 billion in 2014 and thereon).

Since there is no practice of applying the new transfer pricing rules by the tax authorities and courts, management of the Group believes that tax authorities may accrue additional tax obligations, however currently it is difficult to predict the effect of the existing transfer pricing rules on these consolidated interim condensed financial statements.

Management believes that there is a risk of tax obligations of RUB 106,777 thousand as at 30 June 2015 (31 December 2014: RUB 92,751 thousand) related mostly to the income tax with the probability assessed as remote.

In addition as at 30 June 2015 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 63,882 thousand as at 30 June 2015. In October 2013, April and September 2014 decisions of the Court of first instance and the Court of Appeals were made in favor of the company. The second Cassation Board left the Appeal Court decision unchanged on 30 April 2015. However 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 2015 and 31 December 2014 accrued provision in the amount of RUB 63,882 thousand and RUB 66,046 thousand, correspondingly (Note 14).
- The decision of the tax authorities on the refusal to refund VAT for the period from October 2011 to June 2012 in the amount of RUB 117,240 thousand as at 30 June 2015 (31 December 2014: RUB 121,211 thousand). During 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 10).
- The decision of the tax authorities, issued in August 2014, on the refusal to refund VAT for the period from July 2012 to September 2013 in the amount of RUB 158,831 thousand as at 30 June 2015 (31 December 2014: RUB 164,211 thousand). In November 2014 the Court of first instance made a decision in favor of the company, in February and June 2015 the Court of Appeal and the Court of Cassation made a decision in favor of the company as well. As at the date of authorization of these consolidated interim condensed financial statements the claims of the Company were fully satisfied, tax authorities of the Republic of Kazakhstan offset VAT against the other taxes in the amount of submitted claims (Note 10).
- The decision of the tax authorities, issued in November 2014, on the refusal to refund VAT for the 4 quarter of 2013 in the amount of RUB 26,474 thousand as at 30 June 2015 (31 December 2014: RUB 27,371 thousand). In December 2014 the company filed the claim into the Court. By the court decision of 23 June 2015 claims regarding unconfirmed amount of VAT claimed for refund were satisfied in full. On 19 August 2015 Appeal Board ruled that the decision of the first instance court remains unchanged. As at the date of authorization of these consolidated interim condensed financial statements the Company is working on VAT refund (Note 10).

**(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 should have paid a fine of RUB 123,480 thousand as at 31 December 2014 for conducting emission and waste disposal without appropriate permissions, as well as tax and administrative fines and penalties in the amount of RUB 56,194 thousand.

Amount of tax and administrative fines and penalties was paid out by the company during 2014.

During 2014 management failed to justify its position in the Courts of first, appeal and cassation instances. However, on 29 December 2014 the Government of the Republic of Kazakhstan issued amendments to several laws, including amendments to the Environmental Code, which were putted into forces retrospectively starting form 2011. Considering this fact the Supreme Court of the Republic of Kazakhstan upheld position of the company.

During the six months 2015 based on the court decisions the company claimed tax authority for a refund of the amount of tax and administrative fines and penalties paid in amount RUB 56,194 thousand. As at the date of authorization of these financial statements this refund was offset against the liability of the company for mineral extraction tax (Note 18).

In addition, the company filed a claim into the Court of Appeal which partially upheld the claim of LLP “Nova Zinc” and reduced the amount of the fine for conducting emission and waste disposal without appropriate permissions to RUB 54,660 thousand as at 31 December 2014.

During the six months 2015 the company filed a claim into the Appeal Court for civil and administrative cases to review the decision of the court based on newly discovered facts. The claim was partially satisfied, amount of fine for conducting emission and waste disposal without appropriate permissions was reduced from RUB 54,660 thousand to RUB 7,213 thousand.

The risk of accrual of additional liabilities was estimated by management as remote, therefore as at 30 June 2015 the Group management reduced the provision made in 2014 to the amount of RUB 7,213 thousand (Note 13).

**(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.

LLP “Nova Zinc”, the Group’s subsidiary in accordance with the provisions set forth in the subsoil use contract is required to meet a number of commitments connected with application of

technologies, safeguarding during mining process, usage of goods, works and services manufactured and rendered by companies operating in Kazakhstan and remediation of contractual territories.

In 2012 LLP “Nova Zinc” signed an addendum to the existing subsoil use contract. The addendum established requirements for the content of goods, work and services to be purchased from Kazakh companies in the total amount of purchased goods and services (the required ratio for Kazakh goods is no less than 25% and for services no less than 95% of the total amount of purchased goods and services, respectively). Non-compliance with the requirements of the subsoil use contract could lead to penalties or contract cancellation by government authorities.

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 accepted obligations to finance the research and development expenditure of 1% from the total income of the company under contractual activities.

In 2014 LLP “Nova Zinc” met the requirements of subsoil contract in terms of share of purchased goods and services, but did not reach necessary level of financing of the research and development expenditures.

Verification of compliance with contract terms is held on an annual basis, as at 30 June 2015 LLP “Nova Zinc” has not complied with the terms of contract, however, management of the Group believes that as at 31 December 2015 all obligations will be fulfilled.

**(e) Capital expenditure commitments**

As at 30 June 2015 the Group had contractual commitments relating to capital investments in property, plant and equipment for a total amount of RUB 918,898 thousand (31 December 2014: RUB 198,775 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 in the amount of RUB 558,748 thousand (31 December 2014: RUB 185,502 thousand) relating to the project of expanding the production capacity of JSC “Chelyabinsk Zinc Plant” and in the amount of RUB 360,150 thousand (31 December 2014: RUB 7,776 thousand) relating to capital commitments of LLP “Nova Zinc”.

**22 Subsequent events**

On 20 August 2015 the Government and the National Bank of the Republic of Kazakhstan decided on the transition to the floating exchange rate regime. As a result the official exchange rate of tenge to the US dollar, which is stated by the National Bank, grew by 35.5%. Since mining segment of the Group is operating on the territory of the Republic of Kazakhstan, and revenue of the segment is nominated in the US dollars, while major expenses in tenge, the weakening of the national currency will have a favourable effect on the operating results of the Group.

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sheets. )

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Vakhidov N.U.

Director of Ekaterinburg branch of  
JSC KPMG - Ural Regional Center

