

**PJSC Chelyabinsk zinc plant
Consolidated Interim Condensed
Financial Statements
for the six months ended 30 June 2016
(unaudited)**

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Independent Auditors' Report on Review of Consolidated Interim Condensed Financial Statements

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

Introduction

We have reviewed the accompanying consolidated interim condensed statement of financial position of PJSC "Chelyabinsk Zinc Plant" (the "Company") and its subsidiaries (the "Group") as at 30 June 2016, 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 this 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 this 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.

Basis for Qualified Conclusion

Management did not provide us with appropriate representations and documentation to conclude whether the Group has an ultimate controlling party. We were unable to satisfy ourselves as to whether the Group has an ultimate controlling party by alternative means. As a result, we were unable to conclude that related parties disclosure in Note 6 is accurately presented.



PJSC "Chelyabinsk Zink Plant"

Audit report

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Conclusion

Based on our review, except for the possible effects of the matter described in the Basis for Qualified Conclusion paragraph, nothing has come to our attention that causes us to believe that the consolidated interim condensed financial statements do not present fairly, in all material respects, the financial position of the Group as at 30 June 2016, and its financial performance and its cash flows for the six-month period then ended 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" – Ural Regional Center

29 August 2016

Ekaterinburg, Russian Federation

PJSC Chelyabinsk zinc plant
Consolidated Interim Condensed Statement of Financial Position as at 30 June 2016 (unaudited)

| '000 RUB | Note | 30 June 2016 | 31 December 2015 |
|--|------|-------------------|---------------------|
| Assets | | | |
| Property, plant and equipment | 7 | 7,691,637 | 7,682,989 |
| Financial assets | 10 | 5,007,130 | - |
| Advances for acquisition of business | | 3,400,000 | 3,400,000 |
| Other non-current assets | | 347,277 | 236,288 |
| Non-current assets | | 16,446,044 | 11,319,277 |
| | | | |
| Inventories | 8 | 3,647,076 | 3,014,997 |
| Trade and other receivables | 9 | 4,538,355 | 10,096,803 |
| Financial assets | 10 | 2,003,948 | 1,377,950 |
| Cash and cash equivalents | 11 | 895,804 | 251,555 |
| Current assets | | 11,085,183 | 14,741,305 |
| Total assets | | 27,531,227 | 26,060,582 |
| | | | |
| Equity | | | |
| Share capital | | 127,635 | 127,635 |
| Share premium | | 1,375,231 | 1,375,231 |
| Legal reserve | | 3,011 | 3,011 |
| Translation reserve | | (506,178) | 177,614 |
| Retained earnings | | 16,932,045 | 15,077,218 |
| Total equity | | 17,931,744 | 16,760,709 |
| | | | |
| Liabilities | | | |
| Borrowings | | 4,900,000 | 5,000,000 |
| Provision for asset retirement obligations | | 168,759 | 178,940 |
| Deferred income tax liabilities | 18 | 127,691 | 248,143 |
| Other non-current liabilities | | 81,385 | 74,168 |
| Total non-current liabilities | | 5,277,835 | 5,501,251 |
| | | | |
| Short-term financial liabilities | | - | 101,060 |
| Accounts payable, accrued expenses and advances from customers | 13 | 4,194,212 | 3,697,562 |
| Bank overdrafts | 11 | 127,436 | - |
| Total current liabilities | | 4,321,648 | 3,798,622 |
| Total liabilities | | 9,599,483 | 9,299,873 |
| Total equity and liabilities | | 27,531,227 | 26,060,582 |



PJSC Chelyabinsk zinc plant


Consolidated Interim Condensed Statement of Profit or Loss and Other Comprehensive Income for six months ended 30 June 2016 (unaudited)

| '000 RUB | Note | For the six months ended 30 June | |
|--|------|----------------------------------|------------------|
| | | 2016 | 2015 |
| Revenue | 14 | 12,531,146 | 12,036,478 |
| Cost of sales | 15 | (8,882,459) | (8,144,794) |
| Gross profit | | 3,648,687 | 3,891,684 |
| Other operating income | 17 | 119,659 | 1,094,472 |
| Commercial expenses | 16 | (621,043) | (536,410) |
| General and administrative expenses | 16 | (594,062) | (509,517) |
| Other operating expenses | 17 | (416,422) | (48,767) |
| Results from operating activities | | 2,136,819 | 3,891,462 |
| Finance income | | 405,282 | 65,686 |
| Finance expense | | (360,662) | (16,823) |
| Foreign exchange profit/(loss) | | 113,562 | (13,132) |
| Profit before income tax | | 2,395,418 | 3,927,193 |
| Income tax expense | 18 | (440,174) | (798,411) |
| Profit for the period | | 1,854,827 | 3,128,782 |
| Other comprehensive income | | | |
| <i>Total items that are or may be reclassified subsequently to profit or loss:</i> | | | |
| Foreign currency translation differences for foreign operations | | (683,792) | (119,680) |
| Total other comprehensive loss for the period | | (683,792) | (119,680) |
| Total comprehensive income for the period | | 1,171,035 | 3,009,102 |
| Profit is attributable to: | | | |
| Shareholders of the Company | | 1,854,827 | 3,128,782 |
| Total comprehensive income attributable to: | | | |
| Shareholders of the Company | | 1,171,035 | 3,009,102 |
| Earnings per share – basic and diluted (in RUB) | 12 | 34.2 | 57.7 |

These consolidated interim condensed financial statements were approved by management on 29 August 2016 and were signed on its behalf by:



 P.A. Izbekht
 General Director



 S.B. Kondakov
 Chief Accountant

The consolidated interim condensed statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 9 to 26.

PJSC Chelyabinsk zinc plant

Consolidated Interim Condensed Statement of Changes in Equity for the six months ended 30 June 2016 (unaudited)

'000 RUB

| | Share capital | Share premium | Legal reserve | Translation reserve | Retained earnings | Total equity |
|--|----------------|------------------|---------------|---------------------|-------------------|-------------------|
| Balance at 1 January 2015 | 127,635 | 1,375,231 | 3,011 | 1,274,349 | 11,326,915 | 14,107,141 |
| Profit for the period | - | - | - | - | 3,128,782 | 3,128,782 |
| Other comprehensive loss | | | | (119,680) | - | (119,680) |
| Total comprehensive income for the period | - | - | - | (119,680) | 3,128,782 | 3,009,102 |
| Balance at 30 June 2015 | 127,635 | 1,375,231 | 3,011 | 1,154,669 | 14,455,697 | 17,116,243 |
| Balance at 1 January 2016 | 127,635 | 1,375,231 | 3,011 | 177,614 | 15,077,218 | 16,760,709 |
| Profit for the period | - | - | - | - | 1,854,827 | 1,854,827 |
| Other comprehensive loss | | | | (683,792) | - | (683,792) |
| Total comprehensive income for the period | - | - | - | (683,792) | 1,854,827 | 1,171,035 |
| Balance at 30 June 2016 | 127,635 | 1,375,231 | 3,011 | (506,178) | 16,932,045 | 17,931,744 |

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 9 to 26.

| '000 RUB | Note | For the six months ended 30 June | |
|---|------|----------------------------------|--------------------|
| | | 2016 | 2015 |
| Cash flows from operating activities | | | |
| Profit for the period | | 1,854,827 | 3,128,782 |
| <i>Adjustments for:</i> | | | |
| Depreciation and amortisation | 7 | 649,855 | 641,119 |
| Loss on disposal of property, plant and equipment | | 4,761 | 13,680 |
| Impairment of loans issued, trade and other receivables | | 4,866 | 6,393 |
| Reversal of impairment losses of inventory provision | | (253) | (76) |
| Net finance income | | (44,620) | (48,863) |
| Unrealized foreign exchange gains | | (155,263) | (6,528) |
| Impairment losses/(reversal of impairment losses) on fixed assets and assets under construction | | 5,216 | (970,397) |
| Adjustment of the expenses for electricity transmission services | | 321,726 | - |
| Accrual/(reversal of) taxes provision | | - | (106,324) |
| Revaluation of the fair value of financial instruments | | (87,568) | 19,314 |
| Other non-monetary operating expenses/(income) | | 345 | (5,057) |
| Income tax expense | | 440,174 | 798,411 |
| | | 2,994,066 | 3,470,454 |
| <i>Changes in:</i> | | | |
| Trade and other receivables | | 5,489,292 | (733,563) |
| Inventories | | (681,295) | (942,185) |
| Trade and other payables | | 284,421 | 19,168 |
| Restricted cash balance | | (2,192) | (112,897) |
| Cash flows from operations | | 8,084,292 | 1,700,977 |
| Interest paid | | (323,011) | - |
| Income tax paid | | (574,338) | (867,870) |
| Net cash from operating activities | | 7,186,943 | 833,107 |
| Cash flows from investing activities | | | |
| Acquisition of property, plant and equipment and intangible assets | | (1,045,686) | (740,042) |
| Capitalized stripping costs | | - | (81,359) |
| Loans issued | | (5,355,959) | (160,436) |
| Proceeds from repayment of loans issued | | 777 | 2,195 |
| Interest income received | | 19,236 | 2,362 |
| Acquisition of promissory notes | | - | (87,862) |
| Proceeds from sale of promissory notes | | 87,862 | 45,000 |
| Bank deposits placements | | (300,000) | - |
| Net cash used in investing activities | | (6,593,770) | (1,020,322) |
| Cash flows from financing activities | | | |
| Repayment of borrowings | | (100,000) | - |
| Net cash used in financing activities | | (100,000) | - |
| Effect of currency translation and exchange rate fluctuations on cash and cash equivalents | | 21,447 | 3,104 |
| Net increase/(decrease) in cash and cash equivalents | | 514,621 | (184,111) |
| Cash and cash equivalents at the beginning of the period | | 251,555 | 350,776 |
| Cash and cash equivalents at the end of the period | 11 | 766,176 | 166,665 |

The consolidated interim condensed statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 9 to 26.

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 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 be experiencing 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) Organisation and operations

PJSC "Chelyabinsk Zink Plant" (the "Company") was incorporated in May 1993 and is domiciled in the Russian Federation. The Company is a public 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 2016 and 31 December 2015 the Group's immediate parent company was NF Holdings BV, incorporated in the Netherlands, which owns 58% of the Company's shares.

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 (PJSC Chelyabinsk zinc plant), the Republic of Kazakhstan (LLP "Nova

Zinc”) and the United Kingdom (Brock Metal Ltd). As at 30 June 2016 the Group employed 3,099 employees (31 December 2015: 3,141 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 2015. 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) Functional and presentation currency

In preparing these consolidated interim condensed financial statements presentation and functional currencies of the Group entities used were the same as in preparing the consolidated financial statements for 2015.

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 | |
|------------------------------|--|--------|--------------------------|---------------------|
| | 2016 | 2015 | 30 June 2016 | 31 December 2015 |
| <u>Russian Rouble</u> | | | | |
| 1 Kazakhstani Tenge | 0.2028 | 0.3113 | 0.1896 | 0.2152 |
| 1 Pound Sterling | 100.62 | 87.84 | 86.05 | 107.98 |

(c) Use of estimates and professional judgments

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.

Significant judgements made by management in applying the Group’s accounting policies, used in preparation of these consolidated interim condensed financial statements were consistent with those

that applied to the Group's annual consolidated financial statements for 2015 prepared in accordance with IFRS.

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 19 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources.

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 2015.

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2016.

- Amendments to IFRS 11 - Accounting for Acquisition of Interests in Joint Operations;
- Amendments to IAS 1 – Disclosure Initiative;
- Amendments to IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation;
- Amendments to IAS 27 - Equity Method in Separate Financial Statements;
- Annual Improvements to IFRSs 2012-2014 Cycle.

Adoption of standards and amendments to standards stated above has no significant impact on 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 LLP “Nova Zinc”, an operator of lead zinc mine “Akzhal” in the Republic of Kazakhstan, which produces zinc and lead concentrate.
- Smelting segment is represented by PJSC 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 Governing Board assesses performance and allocates resources based on financial information for these segments, which includes earnings before interest, tax, depreciation and amortisation, adjusted for impairment, finance income and expenses 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.

There are varying levels of integration between reportable segments. This integration includes transfers of raw materials represented by zinc concentrate, zinc and zinc alloys.

The financial information reported on operating segments is based on management accounts. There are differences in the reported amounts and the amounts presented in this consolidated interim condensed financial statements in accordance with IFRS due to the differences in accounting policies.

The segment revenue and EBITDA provided to the Governing Board for the six months ended 30 June 2016 and for the six months ended 30 June 2015, respectively, were as follows:

| '000 RUB | Mining | Smelting | Alloying | Total |
|--|-----------|------------|-----------|------------|
| For the six months ended 30 June 2016 | | | | |
| Total segment revenue | 1,734,522 | 10,152,312 | 2,957,265 | 14,844,099 |
| Intersegment revenue | 1,378,799 | 13,189 | - | 1,391,988 |
| Revenue from external customers | 355,723 | 10,139,123 | 2,957,265 | 13,452,111 |
| Segment EBITDA | 817,697 | 2,391,567 | 91,163 | 3,300,427 |
| For the six months ended 30 June 2015 | | | | |
| 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 |

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

| '000 RUB | For the six months ended 30 June | |
|--|----------------------------------|-------------------|
| | 2016 | 2015 |
| Revenue from external customers of reportable segments | 13,452,109 | 12,265,622 |
| Timing differences (iii) | (841,294) | (173,838) |
| Adjustments for other revenue | (28,492) | (11,032) |
| Revenue from precious metals primary processing (i) | (110,839) | (97,156) |
| Other business activities | 59,661 | 52,882 |
| IFRS revenue | 12,531,146 | 12,036,477 |

| '000 RUB | For the six months ended 30 June | |
|--|----------------------------------|------------------|
| | 2016 | 2015 |
| Segment EBITDA | 3,300,427 | 3,250,779 |
| Accounting policy differences: | | |
| Capitalisation of expenses (iv) | 234,006 | 140,393 |
| Adjustment of the disputed electricity transmission services expenses | (321,726) | - |
| Timing differences (iii) | (310,189) | (41,732) |
| Employee benefits (v) | (43,637) | (85,931) |
| Elimination of intersegment operations | 466 | 92,174 |
| Inventory adjustments (ii) | (139,890) | 65,657 |
| Reversal of provision relating to the ecological proceedings | - | 106,324 |
| Revaluation of the fair value of financial instruments | 87,568 | (19,314) |
| Other reconciling items | (15,135) | 53,834 |
| Items excluded from segment EBITDA: | | |
| (Impairment losses)/reversal of impairment of property, plant and equipment and construction-in-progress | (5,216) | 970,397 |
| Foreign exchange profit/(loss), net | 113,562 | (13,132) |
| Finance income | 405,282 | 65,686 |
| Finance costs | (360,662) | (16,823) |
| Depreciation and amortisation | (649,855) | (641,119) |
| IFRS profit before tax based | 2,295,001 | 3,927,193 |

During the six months ended 30 June 2016 revenue in the amount of RUB 825,156 thousand and the respective cost of sales in the amount of RUB 627,623 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 2016. The effect of this difference was reflected in the timing differences line in the reconciliation of revenue, EBITDA, assets and liabilities.

The reconciling items are attributable to the following:

- (i) Revenue related to primary processing of precious metals contained in zinc concentrate into clinker or cake which was netted-off in accordance with IFRS, as in fact 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 account inventory in accordance with IFRS;
- (iii) Timing differences are both revenue and zinc concentrates purchase transactions which are recognised in different accounting periods in IFRS as compared to the management accounts;
- (iv) Capitalisation of expenses: certain costs and expenses in the management accounts which are required to be capitalised under IFRS as they extend the remaining useful life of an asset (capitalization of capital repairs and anodes, stripping costs);
- (v) Employee benefits include directors' and key management's compensation which is recognised in different accounting periods in these consolidated interim condensed financial

statements as 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 2016 and as at 31 December 2015:

| '000 RUB | Mining | Smelting | Alloying | Total |
|--------------------------------|------------------|-------------------|------------------|-------------------|
| <i>As at 30 June 2016:</i> | | | | |
| Inventories | 186,328 | 2,600,945 | 105,752 | 2,893,025 |
| Accounts receivable | 1,656,857 | 3,039,557 | 1,151,570 | 5,847,984 |
| Segments' assets | 1,843,185 | 5,640,502 | 1,257,322 | 8,741,009 |
| Accounts payable | 297,783 | 3,277,593 | 169,685 | 3,745,061 |
| Segments' liabilities | 297,783 | 3,277,593 | 169,685 | 3,745,061 |
| <i>As at 31 December 2015:</i> | | | | |
| Inventories | 166,968 | 2,632,576 | 79,799 | 2,879,343 |
| Accounts receivable | 2,169,724 | 8,295,369 | 1,167,944 | 11,633,037 |
| Segments' assets | 2,336,692 | 10,927,945 | 1,247,743 | 14,512,380 |
| Accounts payable | 598,804 | 3,680,771 | 81,959 | 4,361,534 |
| Segments' liabilities | 598,804 | 3,680,771 | 81,959 | 4,361,534 |

Reportable segments' 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 2016 | 31 December 2015 |
|--|------------------|---------------------|
| Total segments' assets | 8,741,008 | 14,512,380 |
| Intersegment eliminations | (1,583,275) | (1,891,506) |
| Netting of accounts receivable and accounts payable | (54,415) | (7,440) |
| Inventory adjustments (ii) | 175,080 | 312,756 |
| Timing differences (iii) | 630,067 | (47,733) |
| Other business activities | 24,536 | 19,779 |
| Other differences | 252,429 | 213,564 |
| IFRS inventories, trade and other receivables | 8,185,431 | 13,111,800 |

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

| '000 RUB | 30 June 2016 | 31 December 2015 |
|--|-------------------------|-----------------------------|
| Total segments' liabilities | 3,745,061 | 4,361,534 |
| Intersegment eliminations | (1,486,661) | (1,748,743) |
| Settlements with employees | 66,495 | 35,356 |
| Timing differences (iii) | 942,053 | (53,521) |
| Netting of accounts receivable and accounts payable | (62,354) | (45,261) |
| Taxes payable | 174,520 | 165,965 |
| Provision for ecological litigation | 72,862 | 82,700 |
| Other business activities | 24,618 | 19,023 |
| Other business activities not in scope of the Governing Board review | 9,574 | 11,297 |
| Provision for upcoming expenses and payments (Note 13) | 656,942 | 870,269 |
| Other differences | 51,102 | 49,158 |
| Short-term liabilities' items excluded from segments' liabilities: | | |
| Overdraft balance | 127,436 | - |
| Financial instruments at fair value | - | 50,845 |
| IFRS current liabilities | 4,321,648 | 3,798,622 |

6. 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 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 interim condensed statement of profit or loss and other comprehensive income in the amount of RUB 25,912 thousand and RUB 23,237 thousand for the six months ended 30 June 2016 and 30 June 2015, respectively. During the six months ended 30 June 2016 directors and key management personnel comprised 16 individuals (six months ended 2015: 16).

(c) Other related party transactions

In June 2015 shareholder, who reduced its interest in the Group earlier, 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 | 30 June 2016 | 31 December 2015 |
|---|-------------------------|-----------------------------|
| Operating activity | | |
| Accounts receivable | 953,814 | 1,163,835 |
| Advances received | (227) | (269) |
| Accounts payable | (99,693) | (135,733) |
| Advances issued | (4,347) | 5,002,954 |
| Total operating activity | 858,241 | 6,030,787 |
| Financial arrangements | | |
| Deposits | 35,000 | 38,000 |
| Loans issued | 6,619,301 | 1,271,283 |
| Total financial arrangements | 6,654,301 | 1,309,283 |
| Investing arrangements | | |
| Advances for acquisition of business | 3,400,000 | 3,400,000 |
| Advances for capital construction | 6,052 | 1,076 |
| Liabilities for purchased property, plant and equipment | (5,224) | (2,826) |
| Total investing arrangements | 3,400,828 | 3,398,250 |

In January 2016 an advance provided to a related party for acquisition of concentrate in the amount of RUB 5,000,000 thousand was returned in cash.

During the six months ended 30 June 2016 a loan was issued to a related party in the amount of RUB 5,000,000 thousand till 1 September 2017 at interest rate of 13% per annum.

Under an amendment signed in January 2016 the Group undertakes to provide additional funding to a related party for the purpose of construction of the Korbalkhinsk pit facilities in the amount of RUB 689,976 thousand by several tranches till 31 December 2016 at interest rate of 13.5% per annum. During the six months ended 30 June 2016 the Group provided funding in the amount of RUB 348,018 thousand.

As at 30 June 2016 the Group has contractual obligations with related parties regarding capital investments in fixed assets for the amount of RUB 16,751 thousand (31 December 2015: RUB 6,921 thousand).

| '000 RUB | Note | For the six months ended 30 June | |
|-------------------------------------|-------------|---|------------------|
| | | 2016 | 2015 |
| Revenue | | | |
| Tolling fee | 14 | 667,631 | 148,030 |
| Sales of goods | | 376,915 | 57,772 |
| Total revenue | | 1,044,546 | 205,802 |
| Purchases | | | |
| Purchases of inventory | | (310,661) | (57,366) |
| Purchases of electric power and gas | | (653,871) | (100,785) |
| Total purchases | | (964,532) | (158,151) |
| Other operating expenses | | (81,081) | (28,411) |
| Total operating arrangements | | (1,067) | 19,240 |

| '000 RUB | Note | For the six months ended 30 June | |
|--|------|-------------------------------------|------------------|
| | | 2016 | 2015 |
| Financial arrangements | | | |
| Deposit withdrawal | | (3,000) | (419,000) |
| Loans issued | | 5,348,018 | 106,290 |
| Interest on deposits | | 2,550 | 3,780 |
| Interest on loans issued | | 371,083 | 432 |
| Total financial arrangements | | 5,718,651 | (308,498) |
| Investing arrangements | | | |
| Acquisition of property, plant and equipment | | (3,322) | (2,036) |
| Total investing arrangements | | (3,322) | (2,036) |

During the six months ended 30 June 2016 the Group supplied to related parties 800 tonnes of zinc sulphate (for the period from the date of the acquisition of the shares till 30 June 2015: 154 tonnes), 537 tonnes of copper-bearing cake (for the period from the date of the acquisition of the shares till 30 June 2015: 87 tonnes) and 2,659 tonnes of carbonated lead cake (for the period from the date of the acquisition of the shares till 30 June 2015: 518 tonnes of lead cake).

During the six months ended 30 June 2016 the Group acquired 4 413 tons of zinc concentrate from related parties (from the date of shares acquisition till 30 June 2015: 793 tons).

Due to the significance of transactions with the companies controlled by the shareholder who reestablished its ability to exercise significant influence over the Group in June 2015, management of the Group decided to disclose transactions with these companies for the period from 1 January till the date of the shares acquisition for information purposes in the additional note to this disclosure.

| '000 RUB | From 1 January 2015 till the date of acquisition of shares |
|--|---|
| Operating activity | |
| Revenue | |
| Tolling fee | 632,134 |
| Sales of goods | 334,057 |
| Total revenue | 966,191 |
| Purchases | |
| Purchases of inventory | (472,122) |
| Purchases of electric power and gas | (508,357) |
| Total purchases | (980,479) |
| Other operating expenses | (21,263) |
| Total operating activity | (24,834) |
| Financial arrangements | |
| Deposit placement | 629,000 |
| Loans issued | 53,057 |
| Interest on deposits | 18,557 |
| Total financial arrangements | 700,614 |
| Investing arrangements | |
| Purchases of property, plant and equipment | (2,558) |
| Total investing arrangements | (2,558) |

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 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) |
| Carrying amount at 1 January 2015 | 45,419 | 2,000,744 | 2,325,741 | 520,973 | 741,678 | 1,217,506 | 6,852,061 |
| 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 | 4,832,152 | 1,676,061 | 19,770,548 |
| Accumulated depreciation and impairment | - | (2,124,184) | (5,659,121) | (820,645) | (3,143,661) | (88,231) | (11,835,842) |
| Carrying amount at 30 June 2015 | 45,419 | 1,992,042 | 2,111,622 | 509,302 | 1,688,491 | 1,587,830 | 7,934,706 |
| Cost at 1 January 2016 | 45,419 | 4,143,662 | 7,814,276 | 1,164,593 | 3,579,053 | 1,708,381 | 18,455,384 |
| Accumulated depreciation and impairment | - | (1,990,203) | (5,568,962) | (773,466) | (2,352,211) | (87,553) | (10,772,395) |
| Carrying amount at 1 January 2016 | 45,419 | 2,153,459 | 2,245,314 | 391,127 | 1,226,842 | 1,620,828 | 7,682,989 |
| Additions and transfers of assets under construction | - | 23,081 | 418,515 | 65,934 | 3,363 | 407,395 | 918,288 |
| Impairment | - | - | - | - | - | (5,216) | (5,216) |
| Disposals | - | - | (194) | (146) | - | (4,421) | (4,761) |
| Depreciation charge | - | (88,637) | (400,453) | (61,780) | (98,390) | - | (649,260) |
| Translation to presentation currency | - | (23,070) | (40,625) | (27,505) | (139,831) | (19,373) | (250,404) |
| Cost at 30 June 2016 | 45,419 | 4,081,272 | 7,977,541 | 1,146,242 | 3,152,452 | 2,091,982 | 18,494,908 |
| Accumulated depreciation and impairment | - | (2,016,438) | (5,754,983) | (778,612) | (2,160,469) | (92,769) | (10,803,271) |
| Carrying amount at 30 June 2016 | 45,419 | 2,064,834 | 2,222,558 | 367,630 | 991,983 | 1,999,213 | 7,691,637 |

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 PJSC 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 | 30 June 2016 | 31 December 2015 |
|-------------------------------------|------------------|------------------|
| Raw materials and consumables | 1,293,165 | 1,641,861 |
| Work in progress | 992,924 | 1,131,671 |
| Finished goods and goods for resale | 1,354,237 | 235,226 |
| Other inventories | 10,181 | 9,939 |
| Inventory provision | (3,431) | (3,700) |
| Total inventory | 3,647,076 | 3,014,997 |

Significant increase in finished goods balance is caused by the large volume of finished goods being in transit, where risks and rewards were not transferred to the buyers as at 30 June 2016.

9. Trade and other receivables

| '000 RUB | 30 June 2016 | 31 December 2015 |
|-------------------------------|------------------|-------------------|
| Trade receivables | 3,087,724 | 4,125,051 |
| Prepayments | 170,618 | 5,099,700 |
| Tax receivables | 725,251 | 610,887 |
| Current income tax prepayment | 102,745 | 131,984 |
| Other receivables | 452,018 | 129,180 |
| Total | 4,538,355 | 10,096,803 |

Significant decrease in trade receivables and advances given as at 30 June 2016 is caused both by return of the advance given to a related party (Note 6) and by repayment of trade receivables with third parties.

10. Financial assets

| '000 RUB | Note | 30 June 2016 | 31 December 2015 |
|---|------|------------------|------------------|
| Long-term financial assets | | | |
| Long-term loans issued | 6 | 5,007,130 | - |
| Total long-term financial assets | | 5,007,130 | - |
| Short-term financial assets | | | |
| Bank deposit (Kazakhstan) | | 334,908 | - |
| Total Short-term deposits | | 334,908 | - |
| Promissory note denominated in USD | | - | 103,493 |

| '000 RUB | Note | 30 June 2016 | 31 December 2015 |
|--|------|------------------|---------------------|
| Short-term loans issued denominated in KZT | | 2,688 | 3,174 |
| Short-term loans issued denominated in RUB | 6 | 1,619,301 | 1,271,283 |
| Other short-term financial assets | | 47,051 | - |
| Total short-term financial assets | | 2,003,948 | 1,377,950 |
| Total financial assets | | 7,011,078 | 1,377,950 |

Short-term deposits as at 30 June 2016 are denominated in rubles with maturity in 2017.

Increase in short-term loans issued denominated in rubles as at 30 June 2016 is caused by transferring of additional finance to a related party under to the contract concluded earlier (Note 6).

The carrying amount of the financial instruments is a reasonable approximation of its fair value.

11. Cash and cash equivalents, overdrafts

| '000 RUB | 30 June 2016 | 31 December 2015 |
|---|------------------|---------------------|
| RUB denominated bank balances payable on demand and petty cash | 217,433 | 20,806 |
| RUB denominated deposits | 35,000 | 179,000 |
| KZT denominated bank balances payable on demand and petty cash | 3,704 | 222 |
| USD denominated bank balances/(overdrafts) | 637,406 | 37,838 |
| USD denominated bank balances/(overdrafts) | - | (51,076) |
| EUR denominated bank balances/(overdrafts) | 4 | (337,696) |
| GBP denominated bank balances payable on demand | - | 402,388 |
| Swiss francs denominated bank balances payable on demand | 64 | 73 |
| Total cash and cash equivalents | 893,612 | 251,555 |
| Restricted cash | 2,192 | - |
| Total cash and cash equivalents | 895,803 | 251,555 |
| GBP denominated bank balances | 542,958 | - |
| USD denominated balances overdrafts | (134,320) | - |
| EUR denominated balances overdrafts | (536,074) | - |
| Total balance of overdrafts | (127,436) | - |
| Total balances of cash and cash equivalents within the Statement of cash flows | 766,176 | 251,555 |

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

The Group includes overdraft in the cash and cash equivalents based on the legally enforceable right and management intention to offset overdraft against cash balances denominated in other currencies placed with this bank.

As at 30 June 2016 net amount of overdraft liabilities is presented separately in the consolidated financial statements due to total overdraft liabilities exceeding the cash balances placed with this bank.

12. Earnings per share

Earnings per share as at 30 June 2016 were calculated by dividing the profit attributable to the shareholders of the Company in the amount of RUB 1,854,827 thousand (for the six months ended 30 June 2015: RUB 3,128,782 thousand) by the weighted average number of ordinary shares

outstanding of 54,195,410 shares (31 December 2015: 54,195,410 shares). The Company has no financial instruments that may dilute equity.

13. Accounts payable, accrued expenses and advances from customers

| '000 RUB | <u>30 June 2016</u> | <u>31 December 2015</u> |
|---------------------------|-------------------------|-------------------------|
| Trade payables | 1,915,768 | 1,976,206 |
| Employee benefits payable | 224,489 | 211,078 |
| Advances received | 796,952 | 8,305 |
| Other taxes payable | 322,737 | 305,807 |
| Income tax payable | 134,955 | 186,124 |
| Other payables | 799,311 | 1,010,042 |
| Total | <u>4,194,212</u> | <u>3,697,562</u> |

Advances received as at 30 June 2016 include advances for goods in transit, risks and rewards upon which had not been transferred to the buyer (Note 8).

Other payables as at 30 June 2016 include provision on ecological litigation in the amount of RUB 72,862 thousand (31 December 2015: RUB 82,700 thousand).

Additionally other payables as at 30 June 2016 include provision for upcoming expenses and payments in the amount of RUB 656,942 thousand (31 December 2015: RUB 870,269 thousand), accrued for electricity and energy power transmission services, rendered by OJSC "MRSK Urala" over the period from 1 January to 31 July 2014 as well as with interest, penalties and lost profits caused by late payment (Note 19).

14. Revenue

| '000 RUB | Note | <u>For the six months ended 30 June</u> | |
|----------------------|------|---|--------------------------|
| | | <u>2016</u> | <u>2015</u> |
| Zinc and zinc alloys | | 10,613,921 | 9,699,275 |
| Tolling fee | 6 | 667,631 | 780,164 |
| Lead concentrate | | 395,840 | 346,343 |
| Other | | 853,755 | 1,210,696 |
| Total revenue | | <u>12,531,147</u> | <u>12,036,478</u> |

Other revenue for the six months ended 2016 mainly comprises sales of by-products and precious metals. Decrease in other revenue was caused by decrease in volume of sales of precious metals for the six months ended 30 June 2016.

15. Cost of sales

| '000 RUB | For the six months ended 30 June | |
|--|----------------------------------|------------------|
| | 2016 | 2015 |
| Raw materials and consumables used in production | 6,662,893 | 5,395,083 |
| Utilities and fuel | 1,046,347 | 1,034,658 |
| Wages and salaries | 655,265 | 644,805 |
| Depreciation of property, plant and equipment | 603,065 | 573,409 |
| Taxes | 306,343 | 281,754 |
| Change in work-in-progress and finished goods | (954,205) | (410,989) |
| Other cost of sales items | 562,751 | 626,072 |
| Total cost of sales | 8,882,459 | 8,144,794 |

16. Commercial, general and administrative expenses

(a) Commercial expenses

| '000 RUB | For the six months ended 30 June | |
|---|----------------------------------|----------------|
| | 2016 | 2015 |
| Transportation and customs duties | 591,161 | 506,912 |
| Packing materials | 27,663 | 27,001 |
| Depreciation of property, plant and equipment | 2,218 | 2,497 |
| Total commercial expenses | 621,042 | 536,410 |

(b) General and administrative expenses

| '000 RUB | For the six months ended 30 June | |
|--|----------------------------------|----------------|
| | 2016 | 2015 |
| Wages and salaries | 302,748 | 296,354 |
| Security costs | 48,274 | 48,658 |
| Utilities and fuel | 24,098 | 22,785 |
| Depreciation and amortisation | 44,572 | 51,562 |
| Audit, consulting, information and other professional services | 25,188 | 22,752 |
| Repairs | 13,914 | 16,591 |
| Accrual of provision for ecological proceedings | - | (47,666) |
| Other general and administrative expenses | 135,268 | 98,481 |
| Total general and administrative expenses | 594,062 | 509,517 |

17. Other operating income and expenses

| '000 RUB | For the six months ended 30 June | |
|--|----------------------------------|------------------|
| | 2016 | 2015 |
| Reversal of previously accrued impairment | - | 970,397 |
| Penalties received | - | 2,409 |
| Refund of amount under ecological proceedings | - | 58,658 |
| Revaluation of the fair value of financial instruments | 87,567 | - |
| Other operating income | 32,092 | 63,008 |
| Total other operating income | 119,659 | 1,094,472 |
| Social expenses | 32,895 | 28,060 |
| Penalties and tax provisions | 360,793 | - |
| Impairment of construction in progress | 5,216 | - |
| Other operating expenses | 17,518 | 20,707 |
| Total other operating expenses and income, net | 416,422 | 48,767 |

Penalties and tax provisions include provision for upcoming expenses and payments in the amount of RUB 321,726 thousand, accrued in regard to litigation proceedings between PJSC “Chelyabinsk Zinc Plant” and OJSC “MRSK Urala” for interest, penalties and lost profits caused by late payment for electricity and energy power transmission services, rendered by OJSC “MRSK Urala” (Note 19).

18. Income taxes expense

Income tax expense comprises the followings:

| '000 RUB | For the six months ended 30 June | |
|--|----------------------------------|----------------|
| | 2016 | 2015 |
| Current tax expenses | 560,627 | 584,410 |
| Deferred tax expenses – origination and reversal of timing differences | (120,453) | 214,001 |
| Income tax expense for the year | 440,174 | 798,411 |

The effective income tax rate for the Group for the six months ended 30 June 2016 was 24%. The combined income tax rate on profit of Russian and Kazakh companies is 20%.

Deferred tax assets and liabilities are attributable to the following:

| '000 RUB | Assets | | Liabilities | | Net | |
|---|-----------------|------------------------|-----------------|---------------------|-----------------|------------------------|
| | 30 June 2016 | 31 December 2015 | 30 June 2016 | 31 December 2015 | 30 June 2016 | 31 December 2015 |
| Property, plant and equipment | - | - | (392,450) | (373,679) | (392,450) | (373,679) |
| Inventories | - | - | (166,902) | (31,972) | (166,902) | (31,972) |
| Trade and other receivables | - | - | 44,819 | (13,219) | 44,819 | (13,219) |
| Provision for asset retirement obligation | 33,752 | 35,788 | - | - | 33,752 | 35,788 |
| Trade and other payables | 351,612 | 131,768 | - | - | 351,612 | 131,768 |
| Other | 1,477 | 3,170 | - | - | 1,477 | 3,170 |
| Tax assets/(liabilities) | 386,841 | 170,726 | (514,533) | (418,870) | (127,691) | (248,144) |
| Set off of tax | (386,841) | (170,726) | 386,842 | 170,726 | - | - |
| Net tax assets/(liabilities) | - | - | (127,691) | (248,144) | (127,691) | (248,144) |

Increase in deferred tax as at 30 June 2016 attributable to accounts payable, accounts receivable and inventory was caused by the temporary differences in the recognition of revenue and corresponding cost of sales of finished goods in these financial statements and tax accounting.

Additionally, increase in deferred tax asset as at 30 June 2016 attributable to accounts payable was caused by the temporary difference in the recognition of expenses relating to electricity transmission services in these financial statements and tax accounting due to continuing litigation proceedings between PJSC "Chelyabinsk Zinc Plant" and OJSC "MRSK Urala" (Note 19). Management believes that the probability of realization of the temporary difference is high and recognizes asset as at 30 July 2016.

19. Contingencies and commitments

(a) Legal proceedings

During the six months ended 30 June 2016 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 PJSC "FSK UES" and OJSC "MRSK-Urala"

On 19 January 2016 Arbitrage Appeal court enforced PJSC "CZP" to pay OJSC "MRSK-Urala" the amount of RUB 535,053 thousand for the services on electricity and energy power transmission provided for the period from 1 May 2013 to 31 December 2013. On 26 April 2016 Arbitrage court of Ural district declined to satisfy the cassation complaint of PJSC "CZP". On 31 May 2016 PJSC "CZP" paid RUB 535,053 thousand towards OJSC "MRSK-Urala".

As at the reporting date OJSC "MRSK-Urala" made a claim towards PJSC "CZP" requiring to pay for the services on electricity and energy power transmission provided for the period from April to July 2014 as well as interest, penalties and lost profits caused by late payment for electricity and energy power transmission services, rendered by OJSC "MRSK Urala" during the period from 1 May 2013 to 31 July 2014, and later applied to Arbitrage court of Chelyabinsk region with corresponding claim.

As at 30 June 2016 with regard to the risks of future legal proceedings concerning OJSC "MRSK-Urala" claims, the Group management has accrued provision for the services of electricity and energy power transmission provided by OJSC "MRSK Urala" for the period of 1 January 2014 to 31 July 2014, interest, penalties and lost profits caused by late payment for electricity and energy power transmission services, rendered by OJSC "MRSK Urala" during the period from 1 May 2013 to 31 July 2014, in the total amount of RUB 656,942 thousand (as at 31 December 2015 provision for the services rendered by OJSC "MRSK Urala" amounted to RUB 870,269 thousand).

(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.

As at 30 June 2016 management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency and customs positions will be sustained.

Management believes that there is a risk of tax obligations of RUB 190,998 thousand as at 30 June 2016 (31 December 2015: RUB 178,086 thousand) mostly related to the income tax, occurrence of which is possible.

PJSC Chelyabinsk zinc plant

Notes to the Consolidated Interim Condensed Financial Statements for the six months ended 30 June 2016

In addition during the six months ended 30 June 2016 the following changes occurred in respect to LLC “Nova Zinc” disputes with tax authorities relating to VAT refund issues, which were not disclosed in the consolidated financial statements for the year 2015:

- The decision of the tax authorities on refusal to refund VAT for the period from October 2011 to June 2012 in the amount of RUB 74,543 thousand as at 30 June 2016. During 2014-2015 decisions of the Court of first instance and the Court of Appeals were made in favor of the company. On February 2016 the company filed the second demand on the refund of VAT. On 24 May 2016 tax authorities made the decision to refuse to refund VAT. On 4 July 2016 the company filed the claim into the Court. Based on the existing court practice and argumentation available, management believes that the probability of subsequent VAT refund is probable.
- The decision of the tax authorities, issued in 2015, on refusal to refund VAT for the 2014 in the amount of RUB 37,342 thousand. In 2015 the company filed the claim into the Court. By the court decision of 22 January 2016 claims were denied. On 19 February 2016 the company filed the appeal in regional Court. On 24 May 2016 Appeal Board made a decision in favor of the company. As at 30 June 2016 the claims of the company were fully satisfied, tax authorities of the Republic of Kazakhstan performed a refund to the bank account of the company.

LLP "Nova Zinc" was not involved in litigations relating to VAT refund issues for subsequent periods.

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

In accordance with Law of Kazakhstan Republic No. 291-IV of 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.

Subsoil contractual requirements are monitored on a year basis. Management of the Group is convinced that all requirements will be met as at 31 December 2016.

(d) Capital expenditure commitments

As at 30 June 2016 the Group had contractual commitments pertaining to capital investments in property, plant and equipment for a total of RUB 530,552 thousand (31 December 2015: RUB 621,546 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 on increase in the production capacity of PJSC “Chelyabinsk Zinc Plant”. Besides, in June 2015 the Group concluded contract for construction of a large object in the amount of RUB 1,235,557 thousand, which was suspended for an indefinite period.

20. Subsequent events

On 19 August 2016 the Company received a claim from PJSC “FSK UES” with the requirement to pay an outstanding amount of RUB 82,778 thousand for the services on electricity and energy power transmission provided for the period from 1 May 2013 to 22 July 2016.

Numbered, bound and sealed 26 (twenty six) sheets.

[Handwritten signature]

Vakhidov N.U.

Director of Ekaterinburg branch of
JSC KPMG - Ural Regional Center

