JSC CHELYABINSK ZINC PLANT

Consolidated Interim Condensed Financial Statements for the six months ended 30 June 2013

Contents

'000 RUB	Note	30 June 2013	31 December 2012, restated
ASSETS			
Non-current assets			
Property, plant and equipment	7	5,704,148	5,605,438
Advances for capital construction		191,190	25,232
Intangible assets		79,068	74,591
Bank deposits	9	720,040	-
Other non-current assets		386	577
Total non-current assets		**6,694,832**	**5,705,838**
Current assets			
Inventories	10	2,230,989	2,015,403
Trade and other receivables	11	1,745,064	1,917,416
Current income tax prepayment		80,516	48,277
Loans issued	8	368,936	354,480
Short-term financial assets		-	3,722
Bank deposits	9	558,928	1,489,345
Cash and cash equivalents		418,997	426,203
Total current assets		**5,403,430**	**6,254,846**
Total assets		**12,098,262**	**11,960,684**

The consolidated condensed statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 11 to 24.

'000 RUB	Note	30 June 2013	31 December 2012, restated
Equity			
Share capital		127,635	127,635
Share premium		1,375,231	1,375,231
Legal reserve		3,011	3,011
Cumulative currency translation reserve		(36,312)	(166,506)
Retained earnings		9,238,770	9,294,643
Total equity		**10,708,335**	**10,634,014**
Liabilities			
Non-current liabilities			
Provision for asset retirement obligations		120,219	107,272
Deferred income tax liabilities		250,756	247,601
Other non-current liabilities		55,766	53,783
Total non-current liabilities		**426,741**	**408,656**
Current liabilities			
Short-term financial liabilities		10,341	-
Accounts payable, accrued expenses and advances from customers	12	777,286	774,633
Current income tax payable		794	7,188
Other taxes payable		174,765	136,193
Total current liabilities		**963,186**	**918,014**
Total liabilities		**1,389,927**	**1,326,670**
Total equity and liabilities		**12,098,262**	**11,960,684**

The consolidated condensed statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 11 to 24.

'000 RUB	**Note**	**For the six months ended 30 June**	
		2013	**2012, restated**
Continuing operations			
Revenue	13	6,185,612	6,383, 651
Cost of sales	14	(5,279,863)	(5,095,776)
Gross profit		**905,749**	**1, 287,875**
Distribution costs	15	(342,086)	(270,709)
General and administrative expenses	15	(461,709)	(425, 921)
Taxes other than income tax		(106,116)	(63,263)
Other operating income and (expenses), net		(38,991)	13,606
Operating (loss)/profit		**(43,153)**	**541, 588**
Finance income		72,908	98, 654
Finance costs		(40,583)	(34,437)
Foreign exchange loss		(26,873)	(2,143)
(Loss)/profit before income tax		**(37,701)**	**603,662**
Income tax expense	16	(18,172)	(73,423)
(Loss)/profit for the period		**(55,873)**	**530,239**
(Loss)/profit attributable to:			
Shareholders of the Company		(55,873)	530,239
(Loss)/earnings per share – basic and diluted (RUB)		(1.0)	9.8

The consolidated condensed statement of profit or loss is to be read in conjunction with the notes to, and forming part of, the consolidated interim condensed financial statements set out on pages 11 to 24.

	For the six months ended 30 June	
’000 RUB	**2013**	**2012, restated**
(Loss)/Profit for the period	(55,873)	530,239
Other comprehensive income after income tax		
Total items that are or may be reclassified subsequently to profit or loss:		
Exchange differences on translation to presentation currency	130,194	43,252
Total other comprehensive income	130,194	43,252
Total comprehensive income for the period	**74,321**	**573,491**
Total comprehensive income attributable to:		
Shareholders of the Company	**74,321**	**573,491**

These consolidated interim condensed financial statements were approved by management on 29 August 2013 and was signed on its behalf by:

R.M. Shakirzyanov
General Director

S.B. Kondakov
Chief Accountant

The consolidated condensed statement of 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 11 to 24.

'000 RUB

	Share capital	Share premium	Legal reserve	Cumulative currency translation reserve	Retained earnings	Total equity
Balance at 1January 2012, as previously stated	127,635	1,375,231	3,011	(40,506)	8,536,846	10,002,217
Net profit for the period, as previously stated	-	-	-	-	437,198	437,198
Impact of chages in accounting policy	-	-	-	-	93,041	93,041
Net profit for the period, as restated	-	-	-	-	530,239	530,239
Other comprehensive income for the period, as previously stated	-	-	-	37,226	-	37,226
Impact of chages in accounting policy	-	-	-	(2,962)	-	(2,962)
Other comprehensive income for the period, as restated	-	-	-	43,252	-	43,252
Total comprehensive income, as previously stated	-	-	-	37,226	437,198	474,424
Impact of chages in accounting policy	-	-	-	(34,480)	93,041	58,561
Total comprehensive income, as restated	**-**	**-**	**-**	**2,746**	**530,239**	**532,985**
Balance at 30 June 2012, as previously stated	127,635	1,375,231	3,011	(3,280)	8,974,044	10,476,641
Impact of chages in accounting policy	-	-	-	6,025	93,041	99,066
Balance at 30 June 2012, as restated	**127,635**	**1,375,231**	**3,011**	**2,746**	**9,067,085**	**10,575,707**
Balance at 1 January 2013, as previously stated	127,635	1,375,231	3,011	(159,720)	9,066,143	10,412,300
Impact of chages in accounting policy	-	-	-	(6,786)	228,500	221,714
Balance at 1 January 2013, as restated	**127,635**	**1,375,231**	**3,011**	**(166,506)**	**9,294,643**	**10,634,014**
Net profit for the period	-	-	-	-	(55,873)	(55,873)
Other comprehensive income for the period	-	-	-	130,194	-	130,194
Total comprehensive income for the period	-	-	-	**130,195**	**(55,873)**	**74,321**
Balance at 30 June 2013	**127,635**	**1,375,231**	**3,011**	**(36,312)**	**9,238,770**	**10,708,335**

The consolidated 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 11 to 24.

	For the six months ended 30 June	
'000 RUB	**2013**	**2012, restated**
Cash flows from operating activities		
(Loss)/Profit before income tax	(37,701)	603,662
Adjustments for:		
Depreciation and amortisation	480,275	480,938
Net gain on disposal of property, plant and equipment	(18,415)	(26,232)
Impairment of loans issued, trade and other receivables	2,096	1,292
(Decrease)/increase in inventory provision	(7,021)	245
Finance income, net	(32,325)	(64,217)
Foreign exchange (gains) and losses, net	(3,141)	(13,409)
(Reversal of impairment)/impairment of assets under construction	(1,464)	18,499
Other non-monetary operating expenses/(income), net	95,741	1,516
Operating cash flows before changes in working capital	**478,045**	**1,002,293**
Decrease/(increase) in trade and other receivables	167,640	(699,779)
Increase in inventories	(164,452)	(47,784)
(Decrease)/increase in trade payables	(4,140)	132,982
(Decrease)/increase in taxes payable	(829)	93,045
Increase in restricted cash balance	(154)	(12,511)
Cash generated from operations	**476,610**	**468,247**
Interest paid	(287)	(1,015)
Income tax paid	(51,425)	(111,503)
Net cash generated from operating activities	**424,399**	**355,728**
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	(521,156)	(469,485)
Overburden operations expenses	(144 896)	(145 513)
Proceeds from sale of property, plant and equipment	604	7,696
Loans issued	(541)	(717)
Proceeds from repayment of loans	1,985	701,774
Interest income received	42,827	18,894
Decrease/ (increase) in short-term bank deposits	914,620	(754,842)
Increase in long-term bank deposits	(720,040)	-
Net cash used in investing activities	**(426,597)**	**(642,193)**
Effect of currency translation and exchange rate fluctuations on cash and cash equivalents	(5,163)	10,154
Net decrease in cash and cash equivalents	**(7,361)**	**(276,310)**
Cash and cash equivalents at the beginning of the period	**425,386**	**539,897**
Cash and cash equivalents at the end of the period	**418,026**	**263,587**

The consolidated 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 11 to 24.

1. Background

(a) Operating Environment of the Group

Russian Federation and Republic of Kazakhstan

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

(b) Organisation and operations

JSC "Chelyabinsk Zink 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 2013 and 31 December 2012 the Group's immediate and ultimate parent was NF Holdings BV, incorporated in the Netherlands, which owns 58% of the Company's shares. It is also the company which ultimately controls the Group. None of the shareholders of NF Holdings BV controls it individually or jointly.

The Company 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 (Nova Zinc LLP) and the United Kingdom (Brock Metal Ltd). As of 30 June 2013 the Group employed 3,183 employees (31 December 2012: 3,221 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 2020, 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 preparation

(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 2012. 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) Going concern

Preparing the consolidated interim condensed financial statements in accordance with IFRS requires Management to make judgements, estimates, assumptions that affect the application of accounted policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these consolidated interim condensed financial statements significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as of and for the year ended 31 December 2012.

3. Significant accounting policies

Except for the adoption of the new standards and interpretations effective as of 1 January 2013, the accounting policies applied by the Group were consistent with those applied in the consolidated financial statements as at and for the year ended 31 December 2012.

(a) Changes in accounting policies

The Group applies, for the first time, certain standards and amendments that require restatement of previous financial statements. These include IAS 19 (Revised 2011) *Employee Benefits*, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 13 *Fair Value Measurement*, IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine,* and amendments to IAS 1 *Presentation of Financial Statements*.

Several other new standards and amendments apply for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Group or the consolidated interim condensed financial statements of the Group.

As required by IAS 34, the nature and the effect of the significant changes are disclosed below.

IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*

Under the interpretation, production stripping costs that provide access to ore to be mined in the future are capitalized as non-current assets if:

- the component of the ore body for which access has been improved can be identified,
- future benefits arising from the improved access are probable,

- the costs related to the stripping activity associated with the component of the ore body are reliably measurable.

The interpretation also addresses how capitalized stripping costs should be depreciated and how capitalized amounts should be allocated between inventory and the stripping activity asset. Previously the Group expensed these costs.

The following table summarises the adjustments made to the consolidated condensed interim statement of financial position as at 31 December 2012 due to the implementation of the new accounting policy.

'000 RUB	**As previously stated**	**Impact of changes in accounting policy**	**As restated**
Property, plant and equipment	5,311,993	293,445	5,605,438
Deferred income tax assets	11,991	(11,991)	-
Inventory	2,012,523	2,880	2,015,403
Total assets	**11,676,350**	**284,334**	**11,960,684**
Cumulative currency translation reserve	(159,720)	(6,786)	(166,506)
Retained earnings	9,066,143	228,500	9,294,643
Deferred income tax liabilities	184,981	62,620	247,601
Total equity and liabilities	**11,676,350**	**284,334**	**11,960,684**

The impact of chages in accounting policy on the cosolidated condensed statement of profit or loss, consolidated condensed statement of other comprehensive income, consolidated condensed statement of cash flows for the six months ended 30 June 2012 were as follows:

Consolidated condensed statement of profit or loss	**As previously stated**	**Impact of changes in accounting policy**	**As restated**
'000 RUB			
Cost of sales	(5,217,116)	121,340	(5,095,776)
Gross profit	1,166,535	121,340	1,287,875
Profit/(loss) before income tax	482,322	121,340	603,662
Income tax expense	(45,124)	(28,299)	(73,423)
Profit for the period	**437,198**	**93,041**	**530,239**

Consolidated condensed statement of other comprehensive income	**As previously stated**	**Impact of changes in accounting policy**	**As restated**
'000 RUB			
Net profit for the period	437,198	93,041	530,239
Exchange differences on translation to presentation currency	37,226	(34,480)	2,746
Total comprehensive income for the period	**474,424**	**58,561**	**532,985**

Consolidated condensed statement of cash flows	**As previously stated**	**Impact of changes in accounting policy**	**As restated**
’000 RUB			
Cash flows from operating activities	322,734	145,513	468,247
Cash flows from investing activities	(496,680)	(145,513)	(642,193)

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

4. Seasonality of operations

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

5. Operating segments

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

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

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

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

The segment revenue and EBITDA provided to the Board of Directors for the six months ended 30 June 2013 and 30 June 2012, respectively, were as follows:

'000 RUB	**Mining**	**Smelting**	**Alloying**	**Total**
Six months ended 30 June 2013				
Total segment revenue	700,145	5,051,209	953,100	6,704,454
Intersegment revenue	533,179	6,866	-	540,045
Revenue from external customers	166,966	5,044,343	953,100	6,164,409
Segment EBITDA	86,874	312,210	17,538	416,622
Six months ended 30 June 2012				
Total segment revenue	853,872	5,139,187	1,171,705	7,164,764
Intersegment revenue	586,810	11,209	-	598,019
Revenue from external customers	267,062	5,127,978	1,171,705	6,566,745
Segment EBITDA	134,451	657,365	34,446	826,262

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

	For the six months ended 30 June	
'000 RUB	**2013**	**2012**
Revenue from external customers of reportable segments	6,164,410	6,566,745
Timing differences (iii)	65,887	(93,803)
Adjustments for other revenue	(13, 958)	(46,947)
Revenue from precious metals primary processing (i)	(76,942)	(80,494)
Other business activities not in scope of the Board of Directors review	46,216	38,150
Revenue based on IFRS financial statements	**6,185,612**	**6,383,651**

	For the six months ended 30 June	
'000 RUB	**2013**	**2012**
Segment EBITDA	**416,622**	**826, 262**
Accounting policy differences:		
Inventory adjustments (ii)	(62,447)	13,878
Timing differences (iii)	39,582	(3,565)
Capitalisation of expenses (iv)	181,023	195,925
Elimination of intersegment operations	(73,963)	(34,509)
Employee benefits (v)	(7,550)	(1,806)
Mineral extraction tax	4,371	(6,438)
(Accrual)/reversal of VAT provision	(44,067)	29,345
Other reconciling items	(5,539)	19,934
Items excluded from segment EBITDA:		
Depreciation and amortisation	(480,275)	(480,938)
Impairment and write-off of property, plant and equipment and research and development	(10,910)	(16,500)
Exploration and evaluation costs	-	-
Foreign exchange loss, net	(26,873)	(2,143)
Finance income	72,908	98,654
Finance costs	(40,583)	(34,437)
(Loss)/ profit before tax based on IFRS financial statements	**(37,701)**	**603,662**

The reconciling items are attributable to the following:

(i) Revenue related to primary processing precious metals contained in zinc concentrate into clinker or cake which was netted-off for presentation purposes in accordance with IFRS;

(ii) Inventory adjustments consist of provisions for slow-moving goods and materials, overhead absorption and other adjustments required to cost inventory in accordance with IFRS;

(iii) Timing differences are both revenue and purchase transactions 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, because they extend the remaining useful life of an asset, are required to be capitalised under IFRS;

(v) Employee benefits include directors' and key management's compensation which is recognised in different accounting periods in this consolidated condensed interim financial information as compared to the management accounts, accrual of unused vacation and pension plan benefits in accordance with IFRS.

Segments' assets and liabilities

Total segments' assets and liabilities were as follows:

'000 RUB	Mining	Smelting	Alloying	Total
As of 30 June 2013:				
Inventories		1,398,290		1, 398,290
Accounts receivable	550,000	1,202,000	432,000	2,184, 000
Total segments' assets	**550,000**	**2,600,290**	**432,000**	**3,582,290**
Accounts payable	158,000	979,000	38,000	1,175,000
Total segments' liabilities	**158,000**	**979,000**	**38,000**	**1,175,000**
As of 31 December 2012:				
Inventories	-	864,285	-	864,285
Accounts receivable	536,503	1,526,111	318,635	2,381,249
Total segments' assets	**536,503**	**2, 390,396**	**318,635**	**3,245,534**
Accounts payable	160,073	898,163	45,667	1,103,903
Total segments' liabilities	**160,073**	**898,163**	**45,667**	**1,103,903**

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

'000 RUB	30 June 2013	31 December 2012
Total segments' assets	3,582,290	3,245,534
Intersegment eliminations	(350,515)	(271,881)
Other inventories of smelting segment, which are not in scope of the Board of Directors review	784,230	962,624
Inventories of mining and alloying segments, which are not in scope of the Board of Directors review	112,228	135,523
Netting of accounts receivable and accounts payable	(191,684)	(141,439)
Inventory adjustments	(36,856)	11,426
Timing differences	(129,937)	87,035
Other business activities not in scope of the Board of Directors review	20,808	11,875
Other differences	266,005	(59,601)
Total inventories, trade and other receivables and income tax prepayments based on IFRS consolidated financial statements	**4,056,569**	**3,981,096**

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

’000 RUB	**30 June 2013**	**31 December 2012**
Total segments’ liabilities	1,175,000	1,103,903
Intersegment eliminations	(302,099)	(277,003)
Settlements with employees	43,784	36,213
Timing differences	212,262	201,561
Netting of accounts receivable and accounts payable	(191,684)	(141,439)
Taxes payable	60,930	26,667
Other business activities not reviewed by the Board of Directors	30,380	17,792
Other differences	(65,387)	(49,680)
Total current liabilities based on IFRS financial statements	**963,186**	**918,014**

6. Balances and transactions with related parties

According to IAS 24 (revised in 2009) *Related Party Disclosures*, parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence or control over the other party in making financial and operational decisions. In considering each possible related party relationship, attention is paid to the substance of the relationship, not merely the legal form.

The Group has entered into significant transactions during the six months ended 30 June 2013 and 2012 and had significant balances outstanding as of 30 June 2013 and 31 December 2012 with related parties. Those related parties consisted of entities under the control of indirect shareholders of the Group with significant influence. The details of those transactions and outstanding balances are disclosed 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.

(i) Consolidated condensed statement of financial position data

’000 RUB	**Note**	**30 June 2013**	**31 December 2012**
Assets			
Accounts receivable		141,374	300,686
Advances issued		2,453	-
Advances for capital construction		1,827	1,514
Bank deposits	9	670,040	688,978
Loans issued		366,660	352,351
Total assets		**1,182,354**	**1,343,529**
Liabilities			
Accounts payable		(116,177)	(54,022)
Advances received		(72,576)	(42,110)
Total liabilities		**(188,753)**	**(96,132)**

(ii) Consolidated condensed statement of profit or loss data

		For the six months ended 30 June	
'000 RUB	**Note**	**2013**	**2012**
Revenue			
Tolling fee		573,974	741,281
Sales of goods		283,858	270,121
Total revenue		**857,832**	**1,011,402**
Purchases			
Purchases of inventory		(888,114)	(95,077)
Purchases of electric power and gas		(564,009)	(467,597)
Total purchases		**(1,452,123)**	**(562,674)**
Operating expenses			
Information services		-	(13)
Other expenses		(30,899)	(124,046)
Total operating expenses		**(30,899)**	**(124,059)**
Finance income/(costs)			
Interest on deposits		25,469	-
Interest on loans issued		15,746	39,418
Other finance costs/income		(22)	20
Total finance income		**41,193**	**39,438**

During the six months ended 30 June 2013 the Group supplied 287 tonnes of zinc sulphate (six months ended 30 June 2012: 275 tonnes), 672 tonnes of copper-bearing cake (six months ended 30 June 2012: 649 tonnes) and 3,582 tonnes of lead cake (six month ended 30 June 2012: 3,127 tonnes) to related parties.

During the six months ended 30 June 2013 the Group purchased from related parties 30,416 tonnes of zinc concentrate for a total amount of RUB 804,993 thousand (six months ended 30 June 2012: none).

(iii) Directors' and key management's compensation

Total directors' and key management's compensation is represented by contractual salary and discretionary bonus. It is recorded in general and administrative expenses in the consolidated condensed statement of profit or loss in the amount of RUB 39,450 thousand and RUB 44,400 thousand for the six months ended 30 June 2013 and 30 June 2012, respectively. There were 29 members of the directors and key management group for the six months ended 30 June 2013 (six months ended 30 June 2012: 28 members of the directors and key management group).

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 2012	45,419	3,331,550	5,951,827	1,003,009	2,971,371	548,989	13,852,165
Accumulated depreciation and impairment	-	(1,365,253)	(3,591,438)	(593,828)	(2,786,766)	(88,734)	(8,426,019)
Carrying value at 1 January 2012	**45,419**	**1,966,297**	**2,360,389**	**409,181**	**184,605**	**460,255**	**5,426,146**
Additions and transfers of assets under construction	-	29,037	144,547	75,622	146,888	157,513	553,607
Impairment charge	-	-	-	-	-	(18,499)	(18,499)
Disposals	-	-	(1,330)	(4,514)	-	(5,618)	(11,462)
Depreciation charge	-	(99,667)	(323,045)	(42,834)	(12,844)	-	(478,390)
Translation to presentation currency	-	1,480	2,208	4,419	11,019	508	19,634
Cost at 30 June 2012	45,419	3,366,853	6,068,295	1,072,355	3,165,408	701,392	14,419,722
Accumulated depreciation and impairment	-	(1,469,706)	(3,885,526)	(630,481)	(2,835,739)	(107,233)	(8,928,685)
Carrying value at 30 June 2012	**45,419**	**1,897,147**	**2,182,769**	**441,874**	**329,668**	**594,159**	**5,491,036**
Cost at 1 January 2013	45,419	3,384,645	6,172,079	1,048,255	3,079,294	868,760	14,598,452
Accumulated depreciation and impairment	-	(1,518,149)	(4,108,290)	(638,781)	(2,634,300)	(93,494)	(8,993,016)
Carrying value at 1 January 2013	**45,419**	**1,866,496**	**2,063,789**	**409,474**	**444,994**	**775,266**	**5,605,438**
Additions and transfers of assets under construction	**-**	183,519	225,828	80,039	147,642	(143,567)	493,461
Impairment charge	**-**	-	-	-	-	1,464	1,464
Disposals	**-**	-	(571)	(477)	-	(4,274)	(5,322)
Depreciation charge	**-**	(97,633)	(313,577)	(50,970)	(17,187)	-	(479,367)
Translation to presentation currency	-	12,294	14,802	15,808	36,192	9,383	88,477
Cost at 30 June 2013	45,419	3,603,476	6,448,157	1,141,014	3,440,781	730,302	15,409,148
Accumulated depreciation and impairment	-	(1,638,800)	(4,457,888)	(687,140)	(2,829,141)	(92,030)	(9,704,999)
Carrying value at 30 June 2013	**45,419**	**1,964,676**	**1,990,269**	**453,874**	**611,641**	**638,272**	**5,704,148**

8. Loans issued

Maturity date of a loan issued in the amount of RUB 365,722 thousand as of 30 June 2013 (31 December 2012: RUB 350,012 thousand) was extended to 31 December 2013. Due to transfer of liabilities of CJSC Capital Invest under the loan agreement with the Group to CJSC Claas-Stroy, the latter becomes a borrower under this loan agreement starting from1 July 2013.

9. Bank deposits

’000 RUB	Interest rate, %	30 June 2013	31 December 2012
Long-term			
LLC CB Koltso Urala	3.5	670,040	-
OJSC Sberbank Rossii	8.5	50,000	-
Total long-term	**-**	**720,040**	**-**
Short-term			
LLC CB Koltso Urala	3.5	,-	688,978
OJSC Gazprombank	7.2-9.0	308,000	400,000
OJSC Sberbank Rossii	6.4-9.0	201,000	250,000
DB JSC Sberbank (Kazakhstan)	6.5-7.0	49,928	150,367
OJSC Tyumenenergobank	11.8	37,579	37,579
Provision on deposit in OJSC Tyumenenergobank	-	(37,579)	(37,579)
Total short-term	**-**	**558,928**	**1,489,345**
Total bank deposits	**-**	**1,278,968**	**1,489,345**

Deposits outstanding as of 30 June 2013 are denominated in RUB and will mature in 2013-2014, including long-term deposits which will mature in October 2014.

In June 2013 the Group signed a supplement which prolongs RUB denominated deposits with CB Koltso Urala in the amount of RUB 700,000 thousand. As a result of measuring the deposits upon recognition at fair value, the Group recognised finance costs of RUB 32,258 thousand in the profit and loss. When measuring fair value the Group estimated future cash flows at a rate of 8.5% p.a.

These deposits with CB Koltso Urala guarantee obligations under credit provided by the bank to a third party in the same amount and for the same period, for the purpose of granting a loan to the Group related party, which has a significant influence on its activities.

10. Inventories

’000 RUB	30 June 2013	31 December 2012
Raw materials and consumables	774,369	911,922
Finished goods and goods for resale	826,382	267,549
Work in progress	620,660	826,895
Other	9,578	9,037
Total	**2,230,989**	**2,015,403**

11. Trade and other receivables

'000 RUB	**30 June 2013**	**31 December 2012**
Trade receivables	1,249,476	1,503,024
Advances given	109,024	143,204
Tax receivables	313,273	211,064
Other receivables	73,291	60,124
Total trade and other receivables	**1,745,064**	**1,917,416**

12. Trade and other payables

'000 RUB	**30 June 2013**	**31 December 2012**
Trade payables	449,468	483,949
Employee payables	152,404	152,814
Advances received	97,310	59,249
Other payables	78,104	78,621
	777,286	**774,633**

13. Revenue

'000 RUB	**For the six months ended 30 June**	
	2013	**2012**
Zinc and zinc alloys	4,473,924	4,573,894
Tolling fee	573,974	741,281
Lead concentrate	270,285	306,616
Other	867,429	761,860
Total revenue	**6,185,612**	**6,383,651**

14. Cost of sales

’000 RUB	For the six months ended 30 June	
	2013	2012, restated
Raw materials and consumables used in production	3,107,992	2,992,431
Utilities and fuel	1,061,683	943,393
Depreciation and amortisation	450,844	452,453
Personnel costs	399,789	360,345
Repairs and maintenance	390,842	330,330
Mineral extraction tax	91,706	96,146
Cost of goods and materials for resale	87,824	54,938
Production overheads	39,430	43,371
(Reversal of impairment)/impairment of assets under construction	(1,464)	18,499
Inventory provision	(7,021)	245
Change in work-in-progress	208,400	(71,039)
Change in finished goods	(550,162)	(125,336)
Total cost of sales	**5,279,863**	**5,095,776**

15. Distribution, general and administrative expenses

’000 RUB	For the six months ended 30 June	
	2013	2012
Transportation and customs duties	320,089	246,070
Package materials	18,513	21,155
Depreciation and amortisation	3,484	3,484
Total distribution expenses	**342,086**	**270,709**
Wages and salaries	192,887	183,395
Security costs	46,452	31,776
Audit, consulting, information and other professional services	28,683	35,828
Depreciation and amortisation	25,946	25,001
Utilities and fuel	17,438	15,296
Repairs	11,278	20,850
Other general and administrative expenses	139,025	113,775
Total general and administrative expenses	**461,709**	**425,921**

16. Income tax expense

Income taxes expenses comprise the following:

	For the six months ended 30 June	
’000 RUB	**2013**	**2012**
Current tax expenses	16,740	41,692
Deffered tax expenses	1,432	31,731
Income tax expense for the period	**18,172**	**73,423**

During the six month ended 30 June 2012 the Group reversed income tax provision created in prior periods at amount of RUB 58,385 thousand.

17. Contingencies and commitments

Litigations

During the six months ended 30 June 2013, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding which could have a material effect on the results of operations or the financial position of the Group and which have not been accrued or disclosed in this consolidated condensed interim financial information.

Tax legislation

The taxation system in the Russian Federation and Kazakhstan continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation and Kazakhstan suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

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

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.

Management’s estimate of the amount of potential liabilities that can be subject to different interpretations of the tax laws and regulations and are not accrued in the accompanying financial statements could be up to approximately RUB 117 million as at 30 June 2013 (31 December 2012: RUB 104 million). Management believes that it is possible that the ultimate outcome of such matters would result in a liability.

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 Kazakhstani 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.

Amended Russian transfer pricing legislation took effect from 1 January 2012. The new transfer pricing rules appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organization for Economic Cooperation and Development (OECD). The new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not arm's length. Significant difficulties exist in interpreting and applying that transfer pricing legislation in practice.

The transfer pricing legislation that is applicable to transactions prior to 31 December 2011, also provided the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions included transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differed by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. In addition, the pricing rules relate to domestic transactions with related parties in case when total annual turnover between these parties exceeds a specific amount (RUB 3 billion in 2012, RUB 2 billion in 2013, RUB 1 billion in 2014 and later years).

Given that the practice of implementation of the new transfer pricing rules has not yet developed, the impact of any challenge of the Group’s transfer prices cannot be reliably estimated; however, it may be significant to the financial conditions and/or the overall operations of the Group.

The Group’s management believes that its pricing policy is arm's length and it has implemented internal controls to be in compliance with the new transfer pricing legislation. The management believes that they will be able to sustain their transfer pricing policy and provide all documents to support their pricing policy to the government authorities, if necessary. Therefore, no additional tax liability was recorded in these consolidated condensed interim financial statements of the Group.

As at 30 June 2013 management believes that its interpretation of the relevant legislation is generally appropriate and the Group's tax, currency and customs positions will be sustained. Where management believes that it is probable that certain tax positions taken by the Group may not be sustained if challenged by the tax authorities, the Group has recorded provisions for related taxes, interest and penalties.

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.

There are a number of commitments that are required to be met by Nova Zinc LLP, the Group's subsidiary, in accordance with the provisions set forth in the subsoil use contract:

- Meet the working schedule and the work program requirements;
- Apply corresponding modern technologies and business management knowledge during mining operations according to the field development standards;
- Comply with agreed upon technological plans and mining projects that provide for the ensuring health and safety of both staff and local population;
- Use, in the first place, equipment, materials and finished products manufactured in Kazakhstan, provided that they are competitive, in Group's opinion, in terms of their technological characteristics, environmental and operational safety, prices, operational characteristics, delivery time frame and terms;
- Engage, in the first place, local companies operating in Kazakhstan to perform certain assignments during mining operations, provided that they are competitive, in Group's opinion, in terms of their technological characteristics, environmental and operational safety, prices, operational characteristics, delivery time frame and terms;
- Employ Kazakh citizens in the first place;
- Prepare and apply professional training programmes for citizens and professionals of Kazakhstan, employed under the contract;
- Remediate the contractual territory that was damaged due to the mining operations or other activity of the subsidiary to the condition necessary for its further use according to Kazakhstan legislation.

In June 2011, the Geology and Subsoil Use Committee at the Kazakhstan Ministry of Industry and Innovative Technologies conducted examination of compliance by Nova Zinc LLP with licensing obligations under a contract for production of zinc and lead. Based on findings from the examination, the Committee has identified schedule delay in stripping operations. The Group does not expect the findings from the aforementioned examination to significantly affect its consolidated condensed interim financial statements.

Capital expenditure commitments

As at 30 June 2013 the Group had contractual commitments pertaining to capital investments in property, plant and equipment for a total of RUB 476,513 thousand (31 December 2012: RUB 102,024 thousand).