Half-year repor 2010

vimetco

Contents

Half-year report

"We are very pleased with the progression of the Company and the results for the first half of the year. The successful continuation of our vertical integration strategy, combined with the investment made in China and a tight focus on cost control has had a positive impact on the business. We have continued our policy of securing raw material and energy sources along with continuously improving our technology and the range and quality of our products. We remain, as always, committed to improving our reliability and to increase customer satisfaction."

Overview

During the first six months of 2010, Vimetco continued to pursue its strategy of full vertical integration, ensuring the stability of its entire production chain, and the predictability of the production costs. Moreover, the Company closely monitored the international market conditions and maintained tight cost controls across all operations.

The Company continues its programme of securing raw materials and focusing on higher added value products. Vimetco also continued to benefit of the synergies of its units, transferring best practices and knowledge in particular areas of the business. The Company is also implementing a unitary procurement system that will lead to lower purchasing costs.

In the first half of 2010, the aluminium market showed signs of recovery, with LME pricing increasing to an average of USD 2,129/tonne in H1 2010 from approx USD 1,423/tonne in H1 2009. The increase in demand, which led to the higher aluminium price, also resulted in a higher output registered by Vimetco in H1 2010 compared to the same period of 2009. The Company produced 429,000 tonnes of aluminium in H1 2010, 54% more than in H1 2009. Consequently, the costs for raw materials including coal, bauxite, and utilities related to the incurred sales increased by approximately 55%.

Moreover, Vimetco Romania almost doubled the sales value of processed aluminium in H1 2010, compared to H1 2009. The Chinese operations further focused on developing the higher added value production. In Q1 2010, the Chinese subsidiary Henan Zhongfu Industry Co., Ltd entered into a joint venture with aluminium producer Chalco Henan Aluminium Co., Ltd for producing added value processed aluminium products.

Vimetco also continued to secure the supply of raw materials. After reopening its alumina refinery in Romania, in Q4 of 2009, Vimetco Romania secured a long-term electricity supply contract for three TWh/year until 2018. Giving that production in Romania was kept at 75% of capacity, the entire quantity of electricity is being used in the production process.

The financing structure of the Romanian operations has also been consolidated through the signing of a syndicated loan with the European Bank for Reconstruction and Development, amounting to USD 180 million, that refinances most of the Romanian segment's existing debt.

The investments in China have been continuing both in terms of production capacities for primary aluminium and added value products.

Financial Review

Sales for the period were USD 1,100 million (H1 2009: USD 639 million), up 72%. The increase was mainly determined by higher aluminium prices and the increase of demand from international markets.

Cost of goods sold increased by 72% to USD 932 million from USD 542 million during H1 2009. This was mainly due to increased quantities sold, as well as due to higher costs for raw materials (alumina, coal, etc.). Gross margin remained at the same level as for H1 2009, i.e. 15.3%.

Operating profit increased by 70% to USD 100.8 million from USD 59.4 million in H1 2009. General and administrative expenses increased by 19% to USD 54.8 million. Net profit was USD 14.9 million (H1 2009: USD 15 million) after foreign exchange losses of USD 29 million generated mainly by the strong depreciation of RON against USD and financial costs of USD 45 million.

Net cash generated by operating activities decreased to USD 72 million from USD 83 million during H1 2009, down by 14%. Net cash used in investing activities was USD 157 million (H1 2009 USD 277 million), mainly as a result of lower CAPEX expenses. Net cash generated from financing activities was USD 65 million (H1 2009: USD 182 million). On 30 June 2010, cash and cash equivalents were USD 134 million (H1 2009: USD 90 million).

On 30 June 2010 net debt increased to USD 1.54 billion, up from USD 1.49 billion at the end of 2009, as a result of increasing debt in China.

Operational Update

Romania

Sales of primary aluminium were 76,000 tonnes (H1 2009: 109,000 tonnes), while processed aluminium product sales were 28,000 tonnes (H1 2009: 17,000 tonnes). Production capacity at the smelter was running at 75% of total capacity throughout the period following the close down of one potline at the beginning of 2009.

Reported net profit for Romanian segment was USD 24 million, with a turnover of USD 286 million. Total primary aluminium production for H1 2010 was 119,000 tonnes, a level comparable to the one registered in H1 2009 (approx 112,000 tonnes), while the output of processed products reached 30,000 tonnes, 76% more than the output of H1 2009.

For the first half of 2010, operating profit was USD 52 million, compared to USD 48 million in H1 2009, partly as a result of higher aluminium prices on the London Metal Exchange.

At the beginning of August, Alro finalised the loan restructuring process and signed the syndicated loan with the European Bank for Reconstruction and Development ("EBRD") that refinances most of the company's existing debt. EBRD will refinance USD 75 million, while USD 105 million will be syndicated to commercial banks. The completion of the refinancing as the main solution for the financial restructuring of Alro will allow the financial expenses to be at a more competitive level.

In Q1 2010, Alro signed a supply contract for three TWh/year of electricity, until 2018. The supply contract for electricity improves the visibility of the business and allows Alro to further implement the development programme. As a result of the negotiations, the two parties agreed on a formula for the electricity price, considering a series of factors, including the aluminium price at the London Metal Exchange.

China

During the first half of the year, the China segment achieved sales of primary aluminium of 361,000 tonnes compared to 190,000 tonnes in the first half of 2009. Sales of processed aluminium stood at 30,000 tonnes compared with 22,000 tonnes in the first half of 2009.

The Chinese operations registered an increased work in progress inventory as new capacities were put into operation in Linfeng and an increase finished goods inventory that was offset by a decrease in the inventory of raw materials.

In H1 2010, the second phase of the new 250,000 tpa electrolytic aluminium potline in Linfeng was commissioned. As a result, the Chinese production capacity increased by 80,000 tonnes, to 760,000 tonnes. This year, Vimetco's Henan Zhongfu Industry entered into a joint venture with the aluminium producer Chalco Henan Aluminium Co., Ltd., for producing high added value aluminium products.

Sales revenues were USD 689 million for primary aluminium and USD 64 million for processed aluminium compared to USD 290 million and USD 39 million respectively for H1 2009. The primary aluminium market is still dominated by ingots sales. The Company is considering an increase in the production capacity for flat rolled products, thus capitalizing on the higher margins for processed products.

Sierra Leone

Production of bauxite reached 581,000 tonnes in H1 2010, compared to 514,000 tonnes in the first half of 2009. During H1 2010 sales of bauxite (net of moisture) were 687,000 tonnes and revenues totalled USD 17 million. Out of the 687,000 tonnes of bauxite sold, 649,000 tonnes were sold to Alum, Vimetco's alumina refinery in Romania.

Outlook

Market data shows that the aluminium market slightly improved over the past year. We remain cautiously optimistic about industry trends and will continue to carefully monitor market developments in order to take the best measures for the Company.

Statement of Management Responsibilities

To the Shareholders of Vimetco N.V.

Pursuant to the Listing Rules of the United Kingdom Listing Authority (UKLA) the Company is required to prepare financial statements which present fairly, in all material respects, the state of affairs of Vimetco N.V. and its subsidiaries (together referred to as the "Group") at the end of each financial period and of the Group's results and its cash flows for each financial period. Management is responsible for ensuring that the Group keeps accounting records, which disclose, with reasonable accuracy, the financial position and which enable them to ensure that the financial statements comply with International Financial Reporting Standards (IFRS) as endorsed by the EU.

Management also has a general responsibility for taking such steps that are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities. Management considers that, in preparing the Condensed Consolidated Interim Financial Statements set out on pages 8 to 31, the Group has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, and that appropriate International Financial Reporting Standards as endorsed by the EU have been followed.

The Condensed Consolidated Interim Financial Statements, which are based on the statutory accounting reports and restated in accordance with IFRS as endorsed by the EU, are hereby approved on behalf of the Board of Directors. To the best knowledge of the members of the Board of Directors:
(a) the Condensed Consolidated Interim Financial Statements set out on pages 8 to 31 have been prepared in accordance with IFRS as endorsed by the EU, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
(b) the Business Review set out on pages 3 to 5 includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that the Company faces.

Pursuant to the art. 5:25d section 2 paragraph c under 1 and 2 of the Dutch Act on financial supervision ('Wet op het financieel toezicht' or 'Wft'), the management of the Company states that to the best knowledge of the members of the Board of Directors:

1) the half-yearly financial statements prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole and
2) the half-yearly management report includes a fair review of a) the important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, b) the principal risks and uncertainties for the remaining six months of the financial year and c) for issuers of shares the major related parties transactions.

For and on behalf of the Board of Directors

Frank Mueller
Chief Executive Officer

Marian Nastase
Chief Financial Officer

24 August 2010

Condensed Consolidated Interim Financial Statements
For the six months ended 30 June 2010
Vimetco NV

Condensed Consolidated Statement of Comprehensive Income Unaudited

Condensed consolidated statement of comprehensive income for six months ended 30 June 2010

in USD '000, except per share data

	Note	Six months ended 30 June 2010	Six months ended 30 June 2009
Sales	5	1,099,996	639,346
Cost of goods sold	6	-931,727	-541,498
Gross profit		**168,269**	**97,848**
General and administrative expenses		-54,848	-46,169
Restructuring charge		-139	-2,481
Impairment of property, plant and equipment		-1,137	-2,691
Share of result of associates		-498	-2,397
Other income	7	10,719	26,073
Other expenses	7	-21,548	-10,777
Operating profit		**100,818**	**59,406**
Finance costs, net		-44,689	-30,968
Foreign exchange loss		-28,580	-17,726
Profit before income taxes		**27,549**	**10,712**
Income tax	8	-12,612	4,257
Profit for the period		**14,937**	**14,969**
Other comprehensive income / (expense):			
Translation adjustment		-68,475	-21,233
Gain on cash flow hedges		111,421	5,732
Related income tax		-17,827	-917
Amounts of cash flow hedges recycled in income statement		9,933	-36,762
Related income tax		-1,589	5,882
Other comprehensive income / (expense) for the period, net of tax		**33,463**	**-47,298**
Total comprehensive income / (expense) for the period		**48,400**	**-32,329**
Profit/(loss) attributable to:			
Shareholders of Vimetco N.V.		**-3,370**	**5,998**
Non-controlling interests		**18,307**	**8,971**
		14,937	14,969
Total comprehensive income / (expense) attributable to:			
Shareholders of Vimetco N.V.		**24,134**	**-35,283**
Non-controlling interests		**24,266**	**2,954**
		48,400	-32,329
Earnings per share			
Basic and diluted (USD)	9	-0.015	0.027

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Financial Position Unaudited

Condensed consolidated statement of financial position as at 30 June 2010

in USD '000

Assets	Note	**30 June 2010**	**31 December 2009**
Non-current assets			
Property, plant and equipment	11	2,005,221	1,951,037
Intangible assets	12	96,570	11,694
Goodwill	13	77,389	84,135
Land use rights		55,467	55,651
Investments		18,101	18,061
Derivative financial instruments	14	104,334	-
Deferred tax asset		28,817	42,219
Total non-current assets		**2,385,899**	**2,162,797**
Current assets			
Inventories	15	319,999	308,252
Trade receivables, net		91,719	177,367
Accounts receivable from related parties	18	28,920	6,672
Current income tax receivable		2,847	557
Other current assets		161,572	130,094
Derivative financial instruments	14	30,211	1,439
Restricted cash	16	622,712	507,386
Cash and cash equivalents		133,481	167,498
Total current assets		**1,391,461**	**1,299,265**
Total assets		**3,777,360**	**3,462,062**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Financial Position Unaudited

Condensed consolidated statement of financial position as at 30 June 2010

in USD ‘000

Shareholders’ Equity and Liabilities	Note	30 June 2010	31 December 2009
Shareholders' equity			
Share capital		27,917	27,917
Share premium		366,126	366,126
Other reserves		65,302	37,798
Retained earnings		212,224	183,864
Profit / (loss) for the year		-3,370	28,360
Equity attributable to shareholders of Vimetco N.V.		**668,199**	**644,065**
Non-controlling interest		302,141	273,583
Total shareholders' equity		**970,340**	**917,648**
Non-current liabilities			
Bank and other loans	17	729,467	650,423
Loans from related parties	17	172,981	172,981
Finance leases	17	2,165	4,026
Provisions		2,953	3,446
Post-employment benefit obligations		6,372	7,225
Other non-current liabilities		123	79
Derivative financial instruments	14	29,607	32,114
Deferred tax liabilities		18,957	14,565
Total non-current liabilities		**962,625**	**884,859**
Current liabilities			
Bank loans, overdrafts and other loans	17	746,019	817,034
Loans from related parties	17	17,977	10,948
Finance leases	17	1,930	2,092
Trade and other payables		1,046,180	799,592
Trade and other payables to related parties	18	426	2,435
Provisions		1,918	2,326
Current income taxes payable		2,700	7,659
Derivative financial instruments	14	27,245	17,469
Total current liabilities		**1,844,395**	**1,659,555**
Total liabilities		**2,807,020**	**2,544,414**
Total shareholders' equity and liabilities		**3,777,360**	**3,462,062**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Changes in Shareholders' Equity Unaudited

Condensed consolidated statement of changes in shareholders' equity for six months ended 30 june 2010

in USD '000

	Share capital	Share premium	Revaluation reserve	Hedging reserve	Hedging reserve - deferred tax
Balance at 1 January 2009	27,917	366,126	47,721	-2,094	335
Profit / (loss) for the period	-	-	-	-	-
Other comprehensive income / (expense)					
Translation adjustment	-	-	-	-1,719	274
Gain / (loss) on cash flow hedges	-	-	-	5,015	-
Reated income tax	-	-	-	-	-802
Amounts of cahs flow hedges recycled in income statement	-	-	-	-32,165	-
Related income tax	-	-	-	-	5,147
Total other comprehensive income / (expense)	**-**	**-**	**-**	**-28,869**	**4,619**
Non-controlling interests acquired in Vimetco Management GmbH	-	-	-	-	-
Non-controlling interests acquired in Zhongfu Power	-	-	-	-	-
Dividends distribution	-	-	-	-	-
Allocation of prior year loss	-	-	-	-	-
Balance at 30 June 2009	**27,917**	**366,126**	**47,721**	**-30,963**	**4,954**
Balance at 1 January 2010	**27,917**	**366,126**	**47,721**	**-40,638**	**6,502**
Profit / (loss) for the period	-	-	-	-	-
Other comprehensive income / (expense)					
Translation adjustment	-	-	-	-5,645	903
Gain / (loss) on cash flow hedges	-	-	-	97,489	-
Reated income tax	-	-	-	-	-15,598
Amounts of cahs flow hedges recycled in income statement	-	-	-	8,691	-
Related income tax	-	-	-	-	-1,390
Total other comprehensive income / (expense)	**-**	**-**	**-**	**100,535**	**-16,085**
Non-controlling interests acquired in Zhongfu Aluminum Product	-	-	-	-	-
Non-controlling interests acquired in Zhongshan Investment Holdings	-	-	-	-	-
Non-controlling interests acquired in Fanda Group	-	-	-	-	-
Dividends distribution	-	-	-	-	-
Appropriation of prior year profit	-	-	-	-	-
Balance at 30 June 2010	**27,917**	**366,126**	**47,721**	**59,897**	**-9,583**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

in USD ‘000

Translation reserve	Total other reserves	Retained earnings	Profit for the period	Attributable to shareholders of Vimetco N.V.	Non-controlling interests	Total shareholders’ equity
38,915	84,877	351,999	-165,268	665,651	281,374	947,025
-	-	-	5,998	5,998	8,971	14,969
-17,031	-18,476	-	-	-18,476	-2,757	-21,233
-	5,015	-	-	5,015	717	5,732
-	-802	-	-	-802	-115	-917
-	-32,165	-	-	-32,165	-4,597	-36,762
-	5,147	-	-	5,147	735	5,882
-17,031	**-41,281**	**-**	**-**	**-41,281**	**-6,017**	**-47,298**
-	-	16	-	16	-110	-94
-	-	-2,067	-	-2,067	-27,204	-29,271
-	-	-	-	-	-9,617	-9,617
-	-	-165,268	165,268	-		-
21,884	**43,596**	**184,680**	**5,998**	**628,317**	**247,397**	**875,714**
24,213	**37,798**	**183,864**	**28,360**	**644,065**	**273,583**	**917,648**
-	-	-	-3,370	-3,370	18,307	14,937
-56,946	-61,688	-	-	-61,688	-6,787	-68,475
-	97,489	-	-	97,489	13,932	111,421
-	-15,598	-	-	-15,598	-2,229	-17,827
-	8,691	-	-	8,691	1,242	9,933
-	-1,390	-	-	-1,390	-199	-1,589
-56,946	**27,504**	**-**	**-**	**27,504**	**5,959**	**33,463**
-	-	-	-	-	9,565	9,565
-	-	-	-	-	1,099	1,099
-	-	-	-	-	1,662	1,662
-	-	-	-	-	-8,034	-8,034
-	-	28,360	-28,360	-	-	-
-32,733	**65,302**	**212,224**	**-3,370**	**668,199**	**302,141**	**970,340**

Condensed Consolidated Statement of Cash Flows Unaudited

Condensed consolidated statement of cash flows for six months ended 30 June 2010

in USD '000

	Note	Six months ended 30 June 2010	Six months ended 30 June 2009
Cash flow from operating activities			
Profit before income tax		27,549	10,712
Adjustments for:			
Depreciation and amortisation		59,386	52,354
Interest and guarantee income		-7,548	-12,560
Net foreign exchange losses		16,283	5,489
Loss on disposal of property, plant and equipment		362	1,469
Charge of impairment of property, plant and equipment		1,137	2,691
Decrease in provisions		-2,100	-4,368
Interest and guarantee expense		55,868	41,706
Share of result of associates		498	2,397
Effect of derivative financial instruments		-11,612	-13,520
Changes in working capital:			
(Increase) / decrease in inventories		-33,963	38,616
(Increase) in trade receivables and other assets		-53,028	-11,776
Increase in trade and other payables		99,850	24,419
Income taxes paid		-21,903	-13,051
Interest paid		-59,040	-41,396
Net cash generated by operating activities		**71,739**	**83,182**

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Statement of Cash Flows Unaudited

Condensed consolidated statement of cash flows for six months ended 30 June 2010

in USD '000

	Note	Six months ended 30 June 2010	Six months ended 30 June 2009
Cash flow from investing activities			
Purchase of property, plant and equipment and intangible assets, net		-48,506	-103,226
Proceeds from sale of property, plant and equipment		126	268
Acquisition of consolidated investments (net of cash acquired)	19	4,289	-29,365
Acquisition of other investments		-440	-7,852
Disposal of subsidiaries (net of cash disposed)		-	-617
(Increase) / decrease of available for sale investments		-5,861	4,983
Increase in restricted cash	16	-111,987	-146,931
Interest received		5,214	5,414
Net cash used in investing activities		**-157,165**	**-277,326**
Cash flow from financing activities			
Proceeds from loans		628,218	632,590
Repayment of loans		-555,145	-448,122
Dividends paid to non-controlling interests	10	-8,034	-2,420
Net cash provided by financing activities		**65,039**	**182,048**
Net decrease in cash and cash equivalents		**-20,387**	**-12,096**
Cash and cash equivalents at beginning of period		**167,498**	**101,561**
Effect of exchange rate differences on cash and cash equivalents		-13,630	156
Cash and cash equivalents at end of period		**133,481**	**89,621**

The accompanying notes are an integral part of these condensed consolidated interim financial statements

Notes to the Condensed Consolidated Interim Financial Statements

1. Organisation and nature of business

Vimetco N.V. ("the Company") was established on 4 April 2002 as a limited liability company and its registered office is located at Prins Bernhardplein 200, 1097 JB, Amsterdam, The Netherlands. Vimetco N.V. is listed on the London Stock Exchange since 2 August 2007. The Company and its subsidiaries (collectively referred to as "the Group") are a global, vertically integrated producer of primary and processed aluminium products. The aluminium operation in Romania has its customers primarily in Central and Eastern Europe. Since October 2006, the Group expanded to China through the investment in Everwide Industrial Limited ("Everwide"), which is involved in the production of aluminium and energy in China. Everwide was acquired fully in June 2007. In July 2008 the Group invested in bauxite mining operations in Sierra Leone. The Group's administrative and managerial offices are located in The Netherlands and Romania.

A list of the principal companies in the Group is shown in the Note 22. Details of changes in the Group structure are reported in Note 19.

The Group's main shareholder is Vi Holding N.V. which owns 59.4% of the shares of the Company and its registered office is at Landhuis Joonchi, Kaya Richard J. Beaujon Z/N, Curaçao, Netherlands Antilles. The other major shareholder is Willast Investments Limited, British Virgin Islands which owns 10%. 26.5% are free floating on the London Stock Exchange and 4.1% are spread among other shareholders.

These are not the Company's statutory financial statements prepared in accordance with Part 9, Book 2 of the Netherlands Civil Code.

These condensed consolidated interim financial statements were authorised for issue by the Board of Directors on 24 August 2010.

2. Basis of preparation

The condensed consolidated interim financial statements included in this report are unaudited and have been prepared in accordance with IAS 34 **Interim financial reporting** as endorsed by the EU. They do not include all the information required for full annual financial statements and should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2009, which have been prepared in accordance with IFRS as adopted by the EU.

3. Significant accounting policies

Except as described below, the accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2009.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new Standards, amendments and interpretations to existing standards were adopted starting 1 January 2010 with no effect on financial statements:

- Amendments to IFRS 2 **Share-based Payment – Group Cash-settled Share-based Payment Transactions**. The standard has been amended to clarify the accounting for group cash-settled share-based payment transactions. This amendment also supersedes IFRIC 8 and IFRIC 11.

- Improvements to IFRSs (2009), were issued in April 2009. The effective dates vary standard by standard but most are effective 1 January 2010.

The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted:

- IFRS 9 **Financial Instruments** (replacement of IAS 39, effective date of 1 January 2013). IFRS 9 specifies how an entity should classify and measure its financial assets. It requires all financial assets to be classified in their entirety on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are measured either at amortised cost or fair value.

- IAS 24 (as revised in 2009) **Related party disclosures**. It supersedes IAS 24 Related party disclosures issued in 2003 and amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The revised IAS 24 is required to be applied from 1 January 2011. Earlier application, in whole or in part, is permitted.

- Amendments to IFRIC 14, IAS 19 – **The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction** issued in November 2009. These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement and result in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted and should be applied retrospectively to the earliest comparative period presented.

- IFRIC 19 **Extinguishing financial liabilities with equity instruments**. This clarifies the requirements of IFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010. Earlier application is permitted.

- Improvements to International Financial Reporting Standards 2010 were issued in May 2010. The effective dates vary standard by standard but most are effective 1 January 2011.

Accounting policies for new transactions and events

Embedded derivatives in power supply contract

In 2010 Vimetco's Romanian subsidiary Alro, has entered into a long-term electricity supply contract until 2018. The contract uses a formula for the electricity price, considering a series of factors, including the aluminum price at the London Metal Exchange (LME). The current contract offers predictability of costs and contributes to the long term development of the smelting activities in Romania. Alro is using the entire quantity of energy for the production process and for the current activity of the Group in Romania.

The price adjustment of electricity to LME represents an embedded derivative and in accordance with IAS 39 **Financial instruments: Recognition and Measurement** should be separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative and the combined instrument is not measured at fair value through profit or loss.

The embedded derivative of the price adjustment linked to movements in the LME aluminium price is accounted for at fair value with the value of zero at initial recognition at 1 January 2010. The embedded derivative has been designated as cash flow hedge of future sales of aluminum and the subsequent changes in the fair value of derivative between the contract date and the end of the reporting period is recongised in other comprehensive income. In the statement of financial position the embedded derivative is included in Derivative financial instruments assets/liabilities. Realized gains and losses are included in Sales.

These embedded derivatives are primarily valued using observable market prices. However, due to the length of the contracts, the valuation model also requires management to estimate the long-term price of aluminum based upon anticipated changes in worldwide supply and demand.

4. Estimates

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the 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 at end for the year ended 31 December 2009 with the exception of estimates for the new embedded derivatives on electricity supply contract (see Note 14).

5. Segment information

For management purposes, the Group is organised into geographical segments based on the location of its production sites and operational activities, regardless of where the official registered office is located. The Group's geographical segments are: China, Romania and Sierra Leone. A list of the principal companies included in each segment is shown in Note 22.

The Chinese operations are located in Gongyi, Zhengzhou and Linzhou, Henan Province. The integrated operations in China principally consist of primary aluminium production, processed aluminium production and captive thermal power generation.

The Group's operations in Romania are based in Slatina and Tulcea. Sales are generated by selling primary aluminium and processed aluminium. The captive alumina plant was restarted during 2009 as a further step in vertical integration strategy of the Group.

In Sierra Leone the Group operates a bauxite mine under a mining lease with the Government of Sierra Leone. The mining activities are currently outsourced to an external contractor.

Reconciliation to Group includes corporate activities, intercompany eliminations and non-allocatable items.

Segment income and expenses, assets and liabilities are measured and disclosed using the same accounting policies and valuation methods as for the Group.

Management monitors interest income and expense on a net basis.

Segment revenues and results for the 6 month periods ended 30 June 2010 and 2009 were as follows:

	China	Romania	Sierra Leone	Inter-segment transactions	Reconciliation to Group	Total
Six months ended 30 June 2010						
Total segment sales	**812,799**	**286,046**	**16,513**	**-15,362**	**-**	**1,099,996**
Segment results (operating profit)	**52,652**	**52,380**	**-630**		**-3,584**	**100,818**
Group finance cost, net						-44,689
Group foreign exchange loss						-28,580
Group profit before income taxes						**27,549**
Six months ended 30 June 2009						
Total segment sales	**362,337**	**270,048**	**6,961**		**-**	**639,346**
Segment results (operating profit)	**16,519**	**47,648**	**-1,434**		**-3,327**	**59,406**
Group finance cost, net						-30,968
Group foreign exchange loss						-17,726
Group profit before income taxes						**10,712**

Segment assets at 30 June 2010 and 31 December 2009, respectively, were as follows:

	30 June 2010	31 December 2009
Segment assets		
China	3,096,792	2,749,388
Romania	643,441	667,351
Sierra Leone	42,368	41,677
Reconciliation to total Group	-5,241	3,646
Total consolidated assets	**3,777,360**	**3,462,062**

in USD 000 except where otherwise mentioned

6. Cost of goods sold

	Six months ended 30 June 2010	Six months ended 30 June 2009
Electricity, water and gas	178,829	128,033
Raw materials and trading goods	506,930	314,540
Personnel costs	30,757	28,648
Consumables	92,599	37,167
Depreciation and amortisation	49,735	39,042
Movement in provision for obsolescence	795	-41,445
Other direct costs	72,082	35,513
Total	**931,727**	**541,498**

7. Other income and expenses

	Six months ended 30 June 2010	Six months ended 30 June 2009
Other income		
Sale of emission rights	6,187	13,876
Government grants	2,598	5,539
Other income	1,934	6,658
Total other income	**10,719**	**26,073**

Government grants represent mainly compensation for replacing old facilities, bonuses for local development and awards for applying advanced technical knowhow received from the government of China.

	Six months ended 30 June 2010	Six months ended 30 June 2009
Other expenses		
Payment resulting from a legal case	-16,373	-
Idle plants maintenance expenses	-4,216	-8,340
Net loss on disposal of property, plant and equipment	- 362	-1,469
Other expenses	-597	-968
Total other expenses	**-21,548**	**-10,777**

Payment resulting from a legal case represents the settlement terminating the arbitration commenced by a calcinated alumina supplier claiming damages in respect of the repudiation of a contract.

Until October 2009 Alum was closed for a technological overhaul, which resulted in its costs being classified under other expenses in the period subsequent to the closure of the factory for modernisation. In the period ending 30 June 2009, the costs incurred by Alumduring the modernization period are presented as “Idle plants maintenance expenses”. These include depreciation of USD -3,318.

Idle plants maintenance expenses include also the maintenance expenses incurred for the idle power plants held by one of the Group’s subsidiaries. These include depreciation of USD -4,216 (2009: USD -4,182).

Other expenses include smaller sundry expenses which can not be allocated to other categories.

8. Income tax

Income tax expense is recognized based on management’s best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period. The estimated average annual tax rate for the 6 months of 2010 is 21.9% (6 months ended 30 June 2009 was 22.8%).

The major components of the income tax expense in the interim consolidated statement of comprehensive income are:

	30 June 2010	30 June 2009
Income tax		
Current income tax expense	-14,539	-2,597
Deferred income tax expense	1,927	6,854
Income tax expense	**-12,612**	**4,257**
Income tax recognised in other comprehensive income	-19,416	4,965
Total income taxes	**-32,028**	**9,222**

9. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	Six months ended 30 June 2010	Six months ended 30 June 2009
Profit for the year attributable to shareholders of Vimetco N.V.	**-3,370**	**5,998**
Weighted average number of ordinary shares outstanding during the period	219,484,720	219,484,720
Basic and diluted earnings per share in USD	-0.015	0.027

Basic and diluted per share data are the same as there are no dilutive securities.

in USD 000 except where otherwise mentioned

10. Dividends

No dividends were declared and paid by Vimetco N.V. relating to the years 2009 and 2008.

Dividends in amount of USD 8,034 relating to the year 2009 (2008: USD 9,617) were declared by subsidiaries in respect of non-controlling interests. Payments of dividends during 6 months 2010 amounted USD 8,034 (6 months 2009: USD 2,420).

11. Additions and disposals of property, plant and equipment

The Group acquired property, plant and equipment in the amount of USD 160,928 (2009: USD 128,156) in the period of January to June 2010.

From January to June 2010, the Group disposed property, plant and equipment in the net amount of USD 438 (2009: USD 1,750).

12. Intangible assets

In the period January to June, the Group acquired intangible assets in amount of USD 86,831 (2009: USD 410), out of which mining rights with a provisional fair value of USD 86,803 were obtained on the acquisition of Fanda Group (see Note 19).

13. Goodwill

	Six months ended 30 June 2010	Six months ended 30 June 2009
Balance 1 January	84,135	92,266
Translation adjustment	-6,746	-1,965
Balance 30 June	**77,389**	**90,301**

Comparative balances were adjusted by USD 3,030 after the completion in 2009 of fair value measurements of net assets of Global Aluminium Ltd.

Impairment test for goodwill

The goodwill is allocated to the cash-generating units as follows (after additions and impairment)

	30 June 2010	31 December 2009
China	26,632	26,487
Romania	46,158	53,049
Sierra Leone	4,599	4,599
Total	**77,389**	**84,135**

Cash-generating units were not tested for impaiment as there were no impairment indicators at 30 June 2010.

14. Derivative financial instruments

Details of the fair value of derivative financial instruments are set out below:

	Assets	Liabilities
30 June 2010		
Embedded derivatives on energy contract - cash flow hedges	125,010	-
Forward foreign exchange contract - cash flow hedges	-	56,440
Aluminium forward swaps - cash flow hedges	-	113
Aluminium options	9,535	299
Total	**134,545**	**56,852**
Thereof:		
Non-current	104,334	29,607
Current	30,211	27,245
31 December 2009		
Embedded derivatives on energy contract - cash flow hedges	-	-
Forward foreign exchange contract - cash flow hedges	-	48,445
Aluminium forward swaps - cash flow hedges	249	-
Aluminium options	1,190	1,138
Total	**1,439**	**49,583**
Thereof:		
Non-current	-	32,114
Current	1,439	17,469

In 2010, a Group's subsidiary in Romania, has entered into a long-term electricity supply contract valid until January 2018. The contract sets forth the quantities of electricity to be supplied each year that represent expected volumes to be consumed by the Group. The agreed pricing contains an LME-linked price adjustment. Management has analysed the contract and concluded that the price adjustment is not clearly and closely related to the host contract and therefore represents an embedded derivative which should be separated from the host contract and accounted for at fair value through profit and loss.

The embedded derivative has been designated as cash flow hedge of future sales of aluminum and the subsequent changes in the fair value of derivative between the contract date and the end of the reporting period is recognised in other comprehensive income. Realized gains and losses for the 6 months ended 30 June 2010 in amount of USD 3,610 are included in Sales.

The change in fair value of these derivative financial instruments between the contract date and 30 June 2010 amounted to USD 125,010 which was recorded as a derivative financial asset with a corresponding gain in the statement of comprehensive income. The change in fair value was driven primarily by the change in the aluminium price.

in USD 000 except where otherwise mentioned

The fair value of the embedded derivatives at inception of the contract was measured at USD nil. Subsequent changes in fair value are determined based on the observable market data of High Grade Aluminium quote of the London Metal Exchange, but due to the length of the contracts, the valuation model also requires management to estimate the long-term price of aluminum. The embedded derivatives in the electricity supply contract are classified within Level 3 of the fair value measurement hierarchy.

The embedded derivative included in the energy supply contract consists in a series of 97 monthly forward contracts to sell aluminium, each contract commencing at the date when the price adjustment contractual provisions came into effect (1 January 2010) and being settled at the end of each consecutive month over the contract duration.

The fair value of the forward contracts was determined using the “3 month seller” aluminium quotations on LME for each remaining contract term, discounting using LIBOR rates for USD adjusted for the credit and liquidity spread of the contract counterparty.

The strike price of the forward contracts was determined as the average “3 months seller” aluminium quotations for the month preceding each contract term as of 1 January 2010, so as the fair value of the contract is zero on initial recognition.

The notional amounts of the forward contracts are determined on the basis of the aluminium quantities specified under the energy supply contract, which represents the Group’s management best estimate of amounts to be aquired under the contract as at the inception date.

15. Inventories

	30 June 2010	31 December 2009
Raw and auxiliary materials	142,438	167,876
Work in progress	132,601	95,773
Finished goods	49,787	49,610
Less: Provision for obsolescence	-4,827	-5,007
Total	**319,999**	**308,252**

The movements in the provision for obsolescence are as follows:

	Six months ended 30 June 2010	Six months ended 30 June 2009
Balance at 1 January	-5,007	-55,465
(Charge) / credit to cost of goods sold	-795	41,445
Utilisations and other movements	-	739
Translation adjustment	975	3,071
Balance at 30 June	**-4,827**	**-10,210**

There is no pledged inventory as at 30 June 2010 and 30 June 2009.

16. Restricted cash

Restricted cash represents amounts:

- pledged to banks to guarantee repayments of bills of exchange issued by the Group;
- held in bank accounts as restricted cash with the purpose of financing the construction of a new flat rolled products plant in China;
- held in escrow and classified as restricted cash as a guarantee under the provisions of a loan agreement with a syndicate of banks. The guarantee represents estimated interest expenses to be paid by the Company within the following 15 months.

17. Borrowings

	30 June 2010	31 December 2009
Long-term borrowings		
Long-term bank loans	664,361	716,111
Less: Short-term portion of long-term bank loans	-86,512	-109,893
Bank loans	577,849	606,218
Other loans	151,618	44,205
Bank and other loans	729,467	650,423
Loans from related parties (Note 18)	172,981	172,981
Finance leases	2,165	4,026
Total long-term borrowings	**904,613**	**827,430**
Short-term borrowings		
Short-term bank loans and overdrafts	519,867	582,268
Short-term portion of long-term bank loans	86,512	109,893
Bank loans and overdrafts	606,379	692,161
Other loans	139,640	124,873
Bank loans, overdrafts and other loans	746,019	817,034
Loans from related parties (Note 18)	17,977	10,948
Finance leases	1,930	2,092
Total short-term borrowings	**765,926**	**830,074**
Total borrowings	**1,670,539**	**1,657,504**

in USD 000 except where otherwise mentioned

Short-term bank loans and overdrafts include amounts received for the bills of exchange discounted at banks in amount of USD nil (2009: USD 93,852).

Bank borrowings mature until 2023 and bear interest (fix and variable for different currencies) at annual interest rates between 0.85% and 15% (2009: 1.71% and 14.73%).

According to the existing borrowing agreements the Group is subject to certain restrictive covenants. These covenants require the Group, among other things, to maintain certain finacial ratios inculding minimum debt to earnings before interest, taxation, depreciation and amortisation ("EBITDA"), tangible net worth to tangible assets and interest cover.

During 2010 some amendments to the loan covenants were made, the Group being always in compliance with the loan covenants.

Current and future receivables from certain customers are assigned in favor of another syndicate of banks.

The Company has estimated that the fair value of the borrowings equals their carrying amount, due to the short nature of the borrowing for the short-term borrowings and for the long-term borrowings based on the fact the borrowings bear interest at floating interest rates.

18. Related party transactions

The Group enters, under normal terms of business, into certain transactions with its major shareholder, companies under common control, directors and management. The transactions between the related parties are based on mutual agreements and management considers such transactions to be on an arm's length basis.

The primary related party transactions are described below.

Financing

Related party	30 June 2010	31 December 2009
Vi Holding N.V.	190,958	183,929
Total borrowings from related parties	**190,958**	**183,929**
Thereof:		
Short-term portion of borrowings	17,977	10,948
Long-term portion of borrowings	172,981	172,981

The loan payable to Vi Holding N.V. at 30 June 2010 is repayable on 31 May 2013 and is subject to interest at LIBOR plus 5.75% (between September 2009 and 13 May 2010 it was LIBOR plus 7.75%). The loan is subordinated.

Interest expense related to loans from related parties amounted to USD 7,029 (2009: USD 7,985).

Other services

Goods and services provided to related parties:

	Six months ended 30 June 2010	Six months ended 30 June 2009
Vi Holding N.V.	-	-
Companies under common control	37	33
Associates	1,154	-
Total goods and services provided to related parties	**1,191**	**33**

Goods and services purchased from related parties:

Vi Holding N.V.	-	-
Companies under common control	5,195	4,761
Associates	-	-
Total goods and services purchased from related parties	**5,195**	**4,761**

Furthermore, the following balances were outstanding at 30 June 2010:

Trade and other accounts receivable

	30 June 2010	31 December 2009
Vi Holding N.V.	-	-
Companies under common control	29	280
Associates	28,891	6,392
Total trade and other accounts receivable from related parties	**28,920**	**6,672**

Trade and other accounts payable:

Vi Holding N.V.	164	296
Companies under common control	262	2,139
Associates	-	-
Total trade and other accounts payable to related parties	**426**	**2,435**

Management compensation

Total compensation of the Group's key management personnel included in "general and administrative expenses" in the income statement:

	Six months ended 30 June 2010	Six months ended 30 June 2009
Short-term employee benefits	274	610
Post-employment benefits	19	7
Total	**293**	**617**

in USD 000 except where otherwise mentioned

19. Acquisitions and disposals of subsidiaries

On 14 April 2010 the Group's subsidiary Henan Zhongfu Industrial Co., Ltd. and Chalco Henan Aluminum Fabrication Co. set up a new company Henan Zhongfu Specialized Aluminum Product Co., Ltd.

The company's issued capital is USD 36,788, of which Chalco Henan Aluminum Fabrication Co. made a cash contribution of USD 9,565, representing 26% of the capital and Henan Zhongfu Industrial Co., Ltd made contribution comprising production facilities of USD 27,223.

On 15 April 2010 the Group's subsidiary Linzhou Zhenxin Machinery Casting Ltd. merged with its 100% parent company Linzhou Linfeng Aluminium Product Ltd. (former Linzhou Hongfeng Aluminium Ltd.).

On 13 June 2010 the Group's subsidiary Henan Zhongfu Power Co., Ltd. set up a new company Henan Zhongshan Investment Holdings Co. Ltd. The company has a registered capital of USD 7,323 of which Henan Zhongfu Power Co., Ltd. made a cash contribution of USD 6,224 representing 85% of the registered capital.

On 23 June 2010 the Group's new subsidiary Henan Zhongshan Investment Holdings Co. Ltd. acquired 100% of an investment company Zhengzhou City Fanda Investment Management Co. Ltd. Fanda's assets included a 70% shareholding in a coal mine Zhengzhou City Huixiang Coal Industry Ltd.

Details of the net assets acquired and goodwill are as follows:

Total purchase consideration (cash)	**85,313**
Thereof paid in 2010	7,342
Fair value of net assets acquired	85,313
Goodwill	**-**

Provisional fair values of assets acquired and liabilities assumed at the date of acquisition were as follows:

Fanda Group	Carrying value
Current assets	21,342
Property, plant and equipment	39,370
Other non-current assets	9
Mining rights	86,803
Current liabilities	-59,151
Non-current liabilities	-1,398
Net assets of Fanda	**86,975**
Minority interest	-1,662
Net assets acquired (100%)	**85,313**

Cash and cash equivalents in group acquired: USD 967.

Fair value measurements for the initial accounting of the above mentioned business combination are still being verified, hence the net assets acquired are reported on a preliminary basis only

Net cash outflow on acquisition of subsidiaries

Consideration at acquisition of Fanda group	-85,313
Add: consideration payable for acquisition of Fanda Group	77,971
Add: cash and cash equivalent contributed by minority for Henan Zhongfu Specialized Aluminum Product Co., Ltd.	9,565
Add: cash and cash equivalent contributed by minority for Henan Zhongshan Investment Holdings Co. Ltd.	1,099
Add: cash and cash equivalent balances acquired at Fanda Group	967
Net cash inflow on acquisition of subsidiaries	**4,289**

20. Contingencies and commitments

Commitments

Investment commitments. The Group has investment commitments associated with certain production and environmental projects. The contracts for these projects require the Group to make certain investments, which are estimated at USD 975,231 at 30 June 2010 and USD 492,534 at 31 December 2009.

Raw material purchase contracts. The Group has entered into various contracts for acquiring energy, gas and other material and consumables at market prices prevailing at the date of purchase.

The Group has committed to purchase electricity until 2018 under a long-term agreement with a Romanian electricity supplier. The estimated value of this commitment is USD 1,310,402 and is based on estimates made at inception date of the contract, excluding the impact of embedded derivatives recognised in these consolidated financial statements.

21. Events after the balance sheet date

In August 2010 the Company signed a loan agreement with Raiffeisen Bank for a total long term financing in amount of USD 75,000. The loan will be used for refinancing current facilities and has a maturity period of 5 years.

In August 2010 one of the Group's subsidiaries signed a syndicated loan agreement in amount of USD 180,000 with European Bank for Reconstruction and Development ("EBRD") that refinances most of the subsidiary's existing debt. The EBRD will retain USD 75,000 on its account, with USD 105,000 to be syndicated to commercial banks.

in USD 000 except where otherwise mentioned

22. Principal companies in the Vimetco Group

The principal companies in the Vimetco Group at 30 June 2010 and 31 December 2009, classified by segment, are as follows:

	30 June 2010		31 December 2009	
	shareholding	votes [1]	shareholding	votes [1]
China				
Datang Gongyi Yulian Power Co., Ltd.	47.42%	49.00%	47.42%	49.00%
Datang Linzhou Thermal Power Co., Ltd.	9.93%	20.00%	9.93%	20.00%
Everwide Industrial Ltd.	100.00%	100.00%	100.00%	100.00%
Henan Non-Ferrous Metal Holdings Co., Ltd.	0.30%	0.31%	0.30%	0.31%
Henan Yellow River Helup Branch Water Supply Ltd.	42.58%	44.00%	42.58%	44.00%
Henan Yinhu Aluminium Co., Ltd.	49.63%	100.00%	49.63%	100.00%
Henan Yonglian Coal Industry Ltd.	43.55%	45.00%	43.55%	45.00%
Henan Yulian Energy Group Co., Ltd.	96.78%	96.78%	96.78%	96.78%
Henan Zhongfu Alumiunium Product Co., Ltd.	36.72%	74.00%	0.00%	0.00%
Henan Zhongfu Anodes Carbon Co., Ltd.	56.78%	51.01%	56.78%	83.52%
Henan Zhongfu Industry Co., Ltd.	49.63%	51.28%	49.63%	51.28%
Henan Zhongfu Power Co., Ltd.	73.63%	50.90%	73.63%	100.00%
Henan Zhongfu Thermal Power Ltd.	36.08%	49.00%	36.08%	49.00%
Henan Zhongshan Investment Holdings Co. Ltd.	62.58%	85.00%	0.00%	0.00%
Jinhe Electrical Power Equipment Co., Ltd.	25.31%	51.00%	25.31%	51.00%
Linzhou Linfeng Aluminium Product Ltd.[2]	49.63%	100.00%	49.63%	100.00%
Linzhou Linfeng Aluminium and Power Co., Ltd.	49.63%	100.00%	49.63%	100.00%
Linzhou Zhenxin Machinery Casting Ltd.	0.00%	0.00%	49.63%	100.00%
Shanghai Zhongfu Aluminium	44.66%	90.00%	44.66%	90.00%
Shenzhen OK (OUKAI) Industry Development Co., Ltd.	49.63%	100.00%	49.63%	100.00%
Zhengzhou City Fanda Investment Management Co. Ltd	62.58%	100.00%	0.00%	0.00%
Zhengzhou City Huixiang Coal Industry Ltd.	43.81%	70.00%	0.00%	0.00%

1. For this purpose, the voting rights reported are those of the immediate parent company or companies, where the immediate parent company or companies are, themselves, controlled by Vimetco Group. Consequently, the voting rights reported above may differ significantly from the effective shareholding. Companies in which the voting rights as reported above are greater than 50% are fully consolidated, even if the effective shareholding is less than 50%, since the Vimetco Group is deemed to have control over them.
2. Formerly named Linzhou Hongfeng Aluminium Ltd.

	30 June 2010		31 December 2009	
	shareholding	votes [1]	shareholding	votes [1]
Romania				
Alro S.A.	87.50%	87.97%	87.50%	87.97%
Alum S.A.	86.96%	99.38%	86.96%	99.38%
Conef S.A.	87.47%	99.97%	87.47%	99.97%
Vimetco Extrusion S.r.l.	87.50%	100.00%	87.50%	100.00%
Vimetco Management Romania S.r.l.	100.00%	100.00%	100.00%	100.00%
Vimetco Power Romania S.r.l.	100.00%	100.00%	100.00%	100.00%
Vimetco Trading S.r.l.	100.00%	100.00%	100.00%	100.00%
Sierra Leone				
Bauxite Marketing Ltd.	100.00%	100.00%	100.00%	100.00%
Global Aluminium Ltd.	100.00%	100.00%	100.00%	100.00%
Sierra Mineral Holdings I, Ltd.	100.00%	100.00%	100.00%	100.00%
Corporate and other				
Vimetco N.V.	n/a	n/a	n/a	n/a
Vimetco Management GmbH	100.00%	100.00%	100.00%	100.00%