Mining and Metallurgical Company Norilsk Nickel

Consolidated financial statements
for the year ended 31 December 2016

INDEX

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016

The following statement, which should be read in conjunction with the auditors' responsibilities stated in the auditors' report set out on page 2, is made with a view to distinguishing the respective responsibilities of management and those of the auditors in relation to the consolidated financial statements of Public Joint Stock Company "Mining and Metallurgical Company Norilsk Nickel" and its subsidiaries (the "Group").

Management is responsible for the preparation of the consolidated financial statements that present fairly in all material aspects the consolidated financial position of the Group at 31 December 2016 and consolidated statements of income, comprehensive income, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- selecting suitable accounting principles and applying them consistently;
- making judgements and estimates that are reasonable and prudent;
- stating whether IFRS have been followed, subject to any material departures disclosed and explained in the consolidated financial statements; and
- preparing the consolidated financial statements on a going concern basis, unless it is inappropriate to presume that the Group will continue in business for the foreseeable future.

Management, within its competencies, is also responsible for:

- designing, implementing and maintaining an effective system of internal controls throughout the Group;
- maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- taking steps to safeguard the assets of the Group; and
- detecting and preventing fraud and other irregularities.

The consolidated financial statements for the year ended 31 December 2016 were approved by:

President _________________ **V.O. Potanin**

Senior Vice President –
Chief Financial Officer _________________ **S.G. Malyshev**

Moscow, Russia
15 March 2017

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Independent Auditors' Report

To the Shareholders and Board of Directors

PJSC "Mining and Metallurgical Company Norilsk Nickel"

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of PJSC "Mining and Metallurgical Company Norilsk Nickel" and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated income statement, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Assets classified as held for sale – Measurement of Nkomati Nickel Mine	
Please refer to the Note 21 in the financial statements.	
The key audit matter	***How the matter was addressed in our audit***
As of 31 December 2016 the Group had a 50% interest in Nkomati Nickel Mine (hereinafter "Nkomati"). This investment has been classified as held for sale since 31 December 2013. As of 31 December 2016, the carrying value of this investment was USD 177 million. The Group measures its investment in Nkomati at the lower of its carrying amount and fair value less cost to sell. As of 31 December 2016, the fair value less cost to sell was determined using discounted cash flows. Given the significant judgment involved and the inherent uncertainty in measuring fair value less cost to sell, we considered this area to be a key audit matter.	Our audit procedures included testing the significant assumptions (metal price forecasts and discount rate) and evaluating the methodology used by the Group. We involved our own valuation specialists to assist us in evaluating the methodology used by the Group and to compare: — projected metal prices to publicly available market information, — discount rate calculation to our own assessment of key components of discount rate calculation — results of the model to our own sensitivity analysis In addition, we tested the Group's cash flow forecasts by comparing production volumes to reserve estimates and historical operating performance of Nkomati. We also assessed appropriateness and completeness of the disclosures in the financial statements in relation to uncertainties and judgment involved in determining the fair value less cost to sell.

Other Information

Management is responsible for the other information. The other information comprises the Financial Overview (MD&A) (but does not include the consolidated financial statements and our auditors' report thereon), which we obtained prior to the date of this auditors' report, and the information included in other sections of Annual report for 2016, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we have obtained prior to the date of this auditors' report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is:

Andrey Kim
JSC "KPMG"
15 March 2017
Moscow, Russia

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016
US Dollars million

	Notes	For the year ended 31 December 2016	For the year ended 31 December 2015
Revenue			
Metal sales	6	7,646	7,883
Other sales		613	659
Total revenue		**8,259**	**8,542**
Cost of metal sales	7	(3,651)	(3,165)
Cost of other sales		(508)	(616)
Gross profit		**4,100**	**4,761**
General and administrative expenses	9	(581)	(554)
Selling and distribution expenses	8	(93)	(129)
Impairment of non-financial assets	14	(61)	(284)
Other net operating expenses	10	(84)	(288)
Operating profit		**3,281**	**3,506**
Foreign exchange gain/(loss), net		485	(865)
Finance costs	11	(453)	(326)
Impairment of available-for-sale investments	16	(153)	–
Loss from disposal of subsidiaries and assets classified as held for sale	21	(4)	(302)
Income from investments, net	12	114	215
Share of profits of associates		6	16
Profit before tax		**3,276**	**2,244**
Income tax expense	13	(745)	(528)
Profit for the year		**2,531**	**1,716**
Attributable to:			
Shareholders of the parent company		2,536	1,734
Non-controlling interests		(5)	(18)
		2,531	**1,716**
EARNINGS PER SHARE			
Basic and diluted earnings per share attributable to shareholders of the parent company (US Dollars per share)	22	16.1	11.0

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2016
US Dollars million

	For the year ended 31 December 2016	For the year ended 31 December 2015
Profit for the year	**2,531**	**1,716**
Other comprehensive income/(loss)		
Items to be reclassified to profit or loss in subsequent periods:		
Increase in fair value of available-for-sale investments	–	74
Realised gain on disposal of available-for-sale investments	–	(73)
Reclassification of foreign currency translation reserve on disposed assets classified as held for sale to profit or loss	–	326
Effect of translation of foreign operations	13	(26)
Other comprehensive income to be reclassified to profit or loss in subsequent periods, net	**13**	**301**
Items not to be reclassified to profit or loss in subsequent periods:		
Effect of translation to presentation currency	561	(868)
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods, net	**561**	**(868)**
Other comprehensive income/(loss) for the year, net of tax	**574**	**(567)**
Total comprehensive income for the year, net of tax	**3,105**	**1,149**
Attributable to:		
Shareholders of the parent company	3,106	1,173
Non-controlling interests	(1)	(24)
	3,105	**1,149**

The accompanying notes on pages 12 - 50 form an integral part of the consolidated financial statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2016
US Dollars million

	Notes	At 31 December 2016	At 31 December 2015
ASSETS			
Non-current assets			
Property, plant and equipment	14	9,006	6,392
Intangible assets		94	50
Investment property	15	93	83
Other financial assets	16	187	62
Other taxes receivable	17	2	–
Deferred tax assets	13	56	42
Other non-current assets	18	1,013	117
		10,451	**6,746**
Current assets			
Inventories	18	1,895	1,698
Trade and other receivables	19	170	167
Advances paid and prepaid expenses		68	55
Other financial assets	16	8	1
Income tax receivable		82	234
Other taxes receivable	17	276	199
Cash and cash equivalents	20	3,301	4,054
		5,800	**6,408**
Assets classified as held for sale	21	206	217
		6,006	**6,625**
TOTAL ASSETS		**16,457**	**13,371**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	22	6	6
Share premium		1,254	1,254
Treasury shares	22	–	(196)
Translation reserve		(4,778)	(5,348)
Retained earnings	28	7,340	6,523
Equity attributable to shareholders of the parent company		**3,822**	**2,239**
Non-controlling interests	23	74	22
		3,896	**2,261**
Non-current liabilities			
Loans and borrowings	24	7,274	7,142
Provisions	26	435	357
Trade and other long-term payables	18	514	–
Deferred tax liabilities	13	303	205
Other long-term liabilities		59	30
		8,585	**7,734**
Current liabilities			
Loans and borrowings	24	578	1,124
Trade and other payables	27	1,610	1,010
Dividends payable	28	1,164	698
Employee benefit obligations	25	299	215
Provisions	26	183	205
Income tax payable		2	5
Other taxes payable	17	138	95
		3,974	**3,352**
Liabilities associated with assets classified as held for sale	21	2	24
		3,976	**3,376**
TOTAL LIABILITIES		**12,561**	**11,110**
TOTAL EQUITY AND LIABILITIES		**16,457**	**13,371**

The accompanying notes on pages 12 - 50 form an integral part of the consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016

US Dollars million

	For the year ended 31 December 2016	For the year ended 31 December 2015
OPERATING ACTIVITIES		
Profit before tax	**3,276**	**2,244**
Adjustments for:		
Depreciation and amortisation	557	506
Impairment of non-financial assets	61	284
Impairment of available-for-sale investments	153	–
Loss on disposal of property, plant and equipment	16	20
Share of profits of associates	(6)	(16)
Loss from disposal of subsidiaries and assets classified as held for sale	4	302
Change in provisions and allowances	13	120
Finance costs and income from investments, net	360	137
Foreign exchange (gain)/loss, net	(485)	865
Other	9	27
	3,958	**4,489**
Movements in working capital:		
Inventories	(751)	(340)
Trade and other receivables	(3)	74
Advances paid and prepaid expenses	13	(2)
Other taxes receivable	(36)	(62)
Employee benefit obligations	44	42
Trade and other payables	816	152
Provisions	(45)	(4)
Other taxes payable	26	28
Cash generated from operations	**4,022**	**4,377**
Income tax paid	(530)	(672)
Net cash generated from operating activities	**3,492**	**3,705**
INVESTING ACTIVITIES		
Proceeds from sale of associate	–	10
Purchase of property, plant and equipment	(1,648)	(1,626)
Purchase of other financial assets	(150)	–
Purchase of intangible assets	(47)	(28)
Purchase of other non-current assets	(31)	(31)
Loans issued	(103)	(27)
Net change in deposits placed	(10)	91
Proceeds from sale of other financial assets	10	204
Proceeds from disposal of property, plant and equipment	1	1
Proceeds from disposal of subsidiaries and assets classified as held for sale	3	–
Interest received	74	101
Dividends received	–	5
Net cash used in investing activities	**(1,901)**	**(1,300)**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2016 (CONTINUED)
US Dollars million

	For the year ended 31 December 2016	**For the year ended 31 December 2015**
FINANCING ACTIVITIES		
Proceeds from loans and borrowings	936	3,192
Repayments of loans and borrowings	(1,741)	(727)
Financial lease payments	(5)	(1)
Dividends paid	(1,232)	(2,859)
Interest paid	(591)	(376)
Proceeds from sale of a non-controlling interest in a subsidiary	80	–
Buy-out of a non-controlling interest in a subsidiary	–	(31)
Sale of own shares from treasury stock	154	–
Acquisition of own shares from shareholders	–	(196)
Net cash used in financing activities	**(2,399)**	**(998)**
Net (decrease)/increase in cash and cash equivalents	**(808)**	**1,407**
Cash and cash equivalents at the beginning of the year	**4,054**	**2,793**
Cash and cash equivalents related to assets classified as held for sale at the beginning of the year	38	5
Less: cash and cash equivalents related to assets classified as held for sale at the end of the year	(20)	(38)
Effects of foreign exchange differences on balances of cash and cash equivalents	37	(113)
Cash and cash equivalents at the end of the year	**3,301**	**4,054**

MINING AND METALLURGICAL COMPANY NORILSK NICKEL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016
US Dollars million

	Notes	Equity attributable to shareholders of the parent company							
		Share capital	Share premium	Treasury shares	Translation reserve	Retained earnings	Total	Non-controlling interests	Total
Balance at 1 January 2015		**6**	**1,254**	**–**	**(4,787)**	**8,295**	**4,768**	**25**	**4,793**
Profit/(loss) for the year		–	–	–	–	1,734	**1,734**	(18)	**1,716**
Other comprehensive loss		–	–	–	(561)	–	**(561)**	(6)	**(567)**
Total comprehensive income/(loss) for the year		**–**	**–**	**–**	**(561)**	**1,734**	**1,173**	**(24)**	**1,149**
Dividends	28	–	–	–	–	(3,497)	**(3,497)**	–	**(3,497)**
Non-controlling interest on disposal of assets classified as held for sale		–	–	–	–	–	**–**	12	**12**
Acquisition of own shares from shareholders	22	–	–	(196)	–	–	**(196)**	–	**(196)**
Decrease in non-controlling interest due to increase in ownership of a subsidiary		–	–	–	–	(9)	**(9)**	9	**–**
Balance at 31 December 2015		**6**	**1,254**	**(196)**	**(5,348)**	**6,523**	**2,239**	**22**	**2,261**
Profit/(loss) for the year		–	–	–	–	2,536	**2,536**	(5)	**2,531**
Other comprehensive income		–	–	–	570	–	**570**	4	**574**
Total comprehensive income/(loss) for the year		**–**	**–**	**–**	**570**	**2,536**	**3,106**	**(1)**	**3,105**
Dividends	28	–	–	–	–	(1,708)	**(1,708)**	–	**(1,708)**
Increase in non-controlling interest due to decrease in ownership of a subsidiary	23	–	–	–	–	25	**25**	55	**80**
Sale of own shares from treasury stock	22	–	–	196	–	(38)	**158**	–	**158**
Decrease in non-controlling interest due to increase in ownership of a subsidiary		–	–	–	–	2	**2**	(2)	**–**
Balance at 31 December 2016		**6**	**1,254**	**–**	**(4,778)**	**7,340**	**3,822**	**74**	**3,896**

The accompanying notes on pages 12 - 50 form an integral part of the consolidated financial statements

1. GENERAL INFORMATION

Organisation and principal business activities

Public Joint-Stock Company "Mining and Metallurgical Company Norilsk Nickel" (the "Company" or "MMC Norilsk Nickel") was incorporated in the Russian Federation on 4 July 1997. The principal activities of the Company and its subsidiaries (the "Group") are exploration, extraction, refining of ore and nonmetallic minerals and sale of base and precious metals produced from ore. Further details regarding the nature of the business and structure of the Group are presented in note 34.

Major production facilities of the Group are located in Taimyr and Kola Peninsulas of the Russian Federation, and in Finland.

BASIS OF PREPARATION

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS").

The entities of the Group maintain their accounting records in accordance with the laws, accounting and reporting regulations of the jurisdictions in which they are incorporated and registered. Accounting principles in certain jurisdictions may differ substantially from those generally accepted under IFRS. Financial statements of such entities have been adjusted to ensure that the consolidated financial statements are presented in accordance with IFRS.

The Group issues a separate set of IFRS consolidated financial statements to comply with the requirements of Russian Federal Law No 208-FZ On consolidated financial statements ("Law 208-FZ") dated 27 July 2010.

Basis of measurement

The consolidated financial statements of the Group are prepared on the historical cost basis, except for:

- mark-to-market valuation of by-products, in accordance with IAS 2 *Inventories*;
- mark-to-market valuation of certain classes of financial instruments, in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*.

US Dollars million

2. CHANGES IN ACCOUNTING POLICIES

Reclassification

At 31 December 2016 management reassessed reclassification between cost of metal sales, cost of other sales and selling and distribution expenses in order to better align cost of sales structure with management accounts and reporting (refer to notes 7 and 8). Information for the year ended 31 December 2015 has been reclassified to conform with the current period presentation.

Other certain items presented in the consolidated financial statements were also reclassified to conform with current year presentation.

Standards and interpretations effective in the current year

In the preparation of these consolidated financial statements the Group has adopted all new and revised International Financial Reporting Standards and Interpretations issued by International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for adoption in annual periods beginning on 1 January 2016.

Adoption of an Interpretation and amendments to the existing Standards detailed below did not have significant impact on the accounting policies, financial position or performance of the Group:

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations (amended)*;
- IFRS 7 *Financial Instruments: Disclosures (amended)*;
- IFRS 10 *Consolidated Financial Statements (amended);*
- IFRS 11 *Joint Arrangements (amended);*
- IFRS 12 *Disclosure of Interests in Other Entities (amended);*
- IFRS 14 *Regulatory Deferral Accounts*;
- IAS 1 *Presentation of Financial Statements (amended);*
- IAS 16 *Property, Plant and Equipment (amended);*
- IAS 19 *Employee Benefits (amended);*
- IAS 27 *Separate Financial Statements (amended);*
- IAS 28 *Investments in Associates and Joint Ventures (amended);*
- IAS 34 *Interim Financial Reporting (amended)*;
- IAS 38 *Intangible Assets (amended);*
- IAS 41 *Agriculture (amended).*

Standards and interpretations in issue but not yet effective

At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations or amendments to them were in issue but not yet effective:

Standards and Interpretations	Effective for annual periods beginning on or after
IFRS 1 First-time Adoption of International Financial Reporting Standards (amended)	1 January 2018
IFRS 2 Share-based Payment (amended)	1 January 2018
IFRS 4 Insurance Contracts (amended)	1 January 2018
IFRS 9 Financial Instruments (amended)	1 January 2018
IFRS 12 Disclosure of Interests in Other Entities (amended)	1 January 2017
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 16 Leases	1 January 2019
IAS 7 Statement of Cash Flows (amended)	1 January 2017
IAS 12 Income Taxes (amended)	1 January 2017
IAS 28 Investments in Associates and Joint Ventures (amended)	1 January 2018
IAS 40 Investment Property (amended)	1 January 2018

Management of the Group plans to adopt all of the above standards and interpretations in the Group's consolidated financial statements for the respective periods. The impact of adoption of these standards and interpretations on the consolidated financial statements of future periods is currently being assessed by management.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

Subsidiaries

The consolidated financial statements incorporate financial statements of the Company and its subsidiaries, from the date that control effectively commenced until the date that control effectively ceased. Control is achieved where the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interests include interests at the date of the original business combination and non-controlling share of changes in net assets since the date of the combination. Total comprehensive income must be attributed to the interest of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Non-controlling interests may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

All intra-group balances, transactions and any unrealised profits or losses arising from intra-group transactions are eliminated in full on consolidation.

Changes in the Group's ownership interest in a subsidiary that do not result in the Group losing control are accounted for within the equity.

When the Group loses control of a subsidiary it derecognises the assets and liabilities and related equity components of the former subsidiary. Any gain or loss is recognised in the consolidated income statement. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost.

Associates

An associate is an entity over which the Group exercises significant influence, but not control or joint control, through participation in financing and operating policy decisions, in which it normally owns between 20% and 50% of the voting equity. Associates are equity accounted for from the date significant influence commenced until the date that significant influence effectively ceased.

Investments in associates are carried at cost, including goodwill, as adjusted for the Group's share of post-acquisition changes in associate's retained earnings and other movements in reserves. The carrying value of investments in associates is reviewed on a regular basis and if any impairment in value has occurred, it is written down in the period in which these circumstances are identified. The results of associates are equity accounted for based on their most recent financial statements after any adjustments necessary to give effect to uniform accounting policies.

Losses of associates are recorded in the consolidated financial statements until the investment in such associates is written down to nil value. Thereafter losses are only accounted for to the extent that the Group is committed to provide financial support to such associates.

Profits and losses resulting from transactions with associates are eliminated to the extent of the Group's interest in the relevant associates. When significant influence over an associate is lost, any investment retained in the former associate is stated at fair value, with any consequential gain or loss recognised in the consolidated income statement.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group at the date of acquisition in exchange for control of the acquiree.

Where an investment in a subsidiary or an associate is made, any excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the fair value of the identifiable assets acquired and the liabilities assumed at the acquisition date is recognised as goodwill. Goodwill in respect of subsidiaries is disclosed separately and goodwill relating to associates is included in the carrying value of the investment in associates. Goodwill is reviewed for impairment at least annually. If impairment has occurred, it is recognised in the consolidated income statement during the period in which the circumstances are identified and is not subsequently reversed.

If, after reassessment, the net amounts of the identifiable assets acquired and liabilities assumed at the acquisition date exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised in the consolidated income statement immediately as a bargain purchase gain.

Acquisition-related costs are recognised in the consolidated income statement as incurred.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are retrospectively adjusted during the measurement period (a maximum of twelve months from the date of acquisition), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Assets classified as held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered primarily through a sale transaction rather than through continuing use. This condition is ordinarily regarded as met when sale is highly probable within one year from the date of classification and the asset or disposal group is available for immediate sale in its present condition and management has committed to the sale.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Assets held for sale and related liabilities are presented in the consolidated statement of financial position separately from other assets and liabilities. Comparative information related to assets held for sale is not amended in the consolidated statement of financial position for the prior period.

Functional and presentation currency

The individual financial statements of each Group entity are presented in its functional currency.

The Russian Rouble ("RUB") is the functional currency of the Company, all of its subsidiaries located in the Russian Federation and all foreign subsidiaries of the Group, except for the following subsidiaries operating with a significant degree of autonomy. The functional currency of Norilsk Nickel Harjavalta Oy is US Dollar, and the functional currency of Norilsk Nickel Africa Proprietary Limited is South African Rand.

US Dollars million

The presentation currency of the consolidated financial statements of the Group is US Dollar ("USD"). Using USD as a presentation currency is common practice for global mining companies. In addition, USD is a more relevant presentation currency for international users of the consolidated financial statements of the Group. The Group also issues consolidated financial statements to comply with Law 208-FZ, which use the Russian Rouble as the presentation currency (refer to note 1).

The translation of components of the consolidated statement of financial position, consolidated income statement, consolidated statement of cash flows into presentation currency is made as follows:

- all assets and liabilities, both monetary and non-monetary, in the consolidated statement of financial position are translated at the closing exchange rates at the end of the respective reporting period;
- income and expense are translated at the average exchange rates for each quarter (unless this average rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in these cases income and expenses are translated at the dates of the transaction);
- all equity items are translated at the historical exchange rates at the dates of the transaction;
- all resulting exchange differences are recognised as a separate component in other comprehensive income; and
- in the consolidated statement of cash flows, cash balances at beginning and end of each period presented are translated at exchange rates at the respective dates;
- all cash flows are translated at the average exchange rates for the periods presented with the exception of borrowings, dividends and advances received, gains and losses from disposal of subsidiaries, which are translated using the prevailing exchange rates at the dates of the transactions;
- resulting exchange differences are presented in the consolidated statement of cash flows as effects of foreign exchange differences on balances of cash and cash equivalents.

Foreign currency transactions

Transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the exchange rates prevailing at the date of transactions. All monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates prevailing at each reporting date. Non-monetary items carried at historical cost are translated at the exchange rates prevailing at the date of transactions. Non-monetary items carried at fair value are translated at the exchange rate prevailing at the date on which the most recent fair value was determined. Exchange differences arising from changes in exchange rates are recognised in the consolidated income statement.

Exchange rates used in the preparation of the consolidated financial statements were as follows:

	At 31 December 2016	At 31 December 2015
Russian Rouble/US Dollar		
31 December	60.66	72.88
Average for the year ended 31 December	67.03	60.96
South African Rand/US Dollar		
31 December	13.78	15.55
Average for the year ended 31 December	14.68	12.69
Australia Dollar/US Dollar		
31 December	1.39	1.37
Average for the year ended 31 December	1.34	1.33
Hong Kong dollar/US Dollar		
31 December	7.75	7.75
Average for the year ended 31 December	7.76	7.75

Revenue recognition

Metal sales revenue

Revenue from metal sales is recognised when the significant risks and rewards of ownership are transferred to the buyer and represents invoiced value of all metal products shipped to customers, net of value added tax.

Revenue from contracts that are entered into and continue to meet the Group's expected sale requirements designated for that purpose at their inception, and are expected to be settled by physical delivery, are recognised in the consolidated financial statements as and when they are delivered.

Certain contracts are provisionally priced so that price is not settled until a predetermined future date based on the market price at that time. Revenue from these transactions is initially recognised at the current market price. Provisionally priced metal sales are marked-to-market at each reporting date using the forward price for the period equivalent to that outlined in the contract. This mark-to-market adjustment is recorded in revenue.

Other revenue

Revenue from sale of goods, other than metals, is recognised when significant risks and rewards of ownership are transferred to the buyer in accordance with the shipping terms specified in the sales agreements.

Revenue from service contracts is recognised when the services are rendered and the outcome can be reliably measured.

Dividends and interest income

Dividends from investments are recognised when the Group's right to receive payment has been established. Interest income is accrued based on effective interest method.

Leases

Leases under which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets subject to finance leases are capitalised as property, plant and equipment at the lower of fair value or present value of future minimum lease payments at the date of acquisition. Simultaneously, related lease obligation is recognised at the same value. Assets held under finance leases are depreciated over their estimated economic useful lives or over the term of the lease, if shorter. If there is reasonable certainty that the lessee will obtain ownership at the end of the lease term, the period of expected use is the useful life of the asset.

Finance lease payments are allocated using the effective interest rate method, between the lease finance cost, which is included in finance costs, and the capital repayment, which reduces the related lease obligation to the lessor.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating and finance leases are expensed in the period in which they are incurred.

Finance costs

Finance costs mostly comprise interest expense on borrowings and unwinding of discount on decommissioning obligations.

Finance costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time when the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all conditions and requirements attaching to the grant will be met. Government grants related to assets are deducted from the cost of these assets in arriving at their carrying value.

Employee benefits

Remuneration to employees in respect of services rendered during a reporting period is recognised as an expense in that period. Long term employee benefits obligations are discounted to net present value.

Defined contribution plans

The Group contributes to the following major defined contribution plans:
- Pension Fund of the Russian Federation;
- Mutual accumulated pension plan.

The only obligation of the Group with respect to these and other defined contribution plans is to make specified contributions in the period in which they arise. These contributions are recognised in the consolidated income statement when employees have rendered services entitling them to the contribution.

Income tax expense

Income tax expense represents the sum of the tax currently payable and deferred tax.

Income tax is recognised as an expense or income in the consolidated income statement, except when it relates to other items recognised directly in other comprehensive income, in which case the tax is also recognised directly in other comprehensive income. Where current or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Current tax

Current tax is based on taxable profit for the year. Taxable profit differs from profit for the year as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in computation of taxable profit. Deferred tax liabilities are recognised for all taxable temporary differences, and deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if a temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable profit nor accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, joint ventures and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and adjusted to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

The measurement of deferred tax liabilities and assets reflects the tax consequences of the manner in which the Group expects at the reporting date to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority. The Group offsets deferred tax assets and liabilities for the subsidiaries which entered into the tax consolidation group.

Property, plant and equipment and mine development costs

Mining assets

Mine development costs are capitalised and comprise expenditures directly related to:

- acquiring mining and exploration licences;
- developing new mining operations;
- estimating revised content of minerals in the existing ore bodies; and
- expanding capacity of a mine.

Mine development costs include interest capitalised during the construction period, when financed by borrowings.

Mine development costs are transferred to mining assets and start to be depreciated when a new mine reaches commercial production quantities.

Mining assets are recorded at cost less accumulated amortisation and impairment losses. Mining assets include cost of acquiring and developing mining properties, pre-production expenditure, mine infrastructure, plant and equipment that process extracted ore, mining and exploration licenses and present value of future decommissioning costs.

Depreciation of mining assets is charged from the date on which a new mine reaches commercial production quantities and is included in the cost of production. Carrying value of mining assets is depreciated on a straight-line basis over the lesser of their remaining economic useful lives or remaining life of mine that they relate to, calculated on the basis of the amount of proven and probable ore reserves. When determining the life of mine, assumptions valid at the time of estimation may change in case new information becomes available. Useful lives are in average varying from 2 to 45 years.

Non-mining assets

Non-mining assets include metallurgical processing plants, buildings, infrastructure, machinery and equipment and other non-mining assets. Non-mining assets are stated at cost less accumulated depreciation and impairment losses.

Non-mining assets are depreciated on a straight-line basis over their economic useful lives.

Depreciation is calculated over the following economic useful lives:

- buildings, structures and utilities 5 – 50 years
- machinery, equipment and transport 3 – 30 years
- other non-mining assets 2 – 20 years

Capital construction-in-progress

Capital construction-in-progress comprises costs directly related to construction of buildings, processing plant, infrastructure, machinery and equipment, including:

- advances given for purchases of property, plant and equipment and materials acquired for construction of buildings, processing plant, infrastructure, machinery and equipment;
- irrevocable letters of credit opened for future fixed assets deliveries and secured with deposits placed in banks;
- finance charges capitalised during construction period where such costs are financed by borrowings.

Depreciation of these assets commences when the assets are put into production.

Research and exploration expenditure

Research and exploration expenditure, including geophysical, topographical, geological and similar types of expenditure, is capitalised, if it is deemed that such expenditure will lead to an economically viable capital project, and begins to be amortised over the life of mine, when commercial viability of the project is proved. Otherwise it is expensed in the period in which it is incurred.

Research and exploration expenditure written-off before development and construction starts is not subsequently capitalised, even if a commercial discovery subsequently occurs.

Investment property

Investment property recognised at historical cost less accumulated depreciation. Investment property is depreciated on a straignt-line basis.

Intangible assets, excluding goodwill

Intangible assets are recorded at cost less accumulated amortisation and impairment losses. Intangible assets mainly include patents, licences, software and rights to use software and other intangible assets.

Amortisation of patents, licenses and software is charged on a straight-line basis over 1 – 10 years.

Impairment of tangible and intangible assets, excluding goodwill

At each reporting date, the Group analyses the triggers of impairment of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not practical to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less cost to sell and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated income statement immediately.

Where an impairment loss subsequently reversed, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the original carrying amount that would have been determined had no impairment loss been recognised in prior periods. A reversal of an impairment loss is recognised in the consolidated income statement.

Inventories

Refined metals

Main produced metals include nickel, copper, palladium, platinum; by-products include gold, rhodium, silver and other minor metals. Main products are measured at the lower of net cost of production or net realisable value. The net cost of production of main products is determined as total production cost, allocated to each joint product by reference to their relative sales value. By-products are measured at net realisable value, through a mark-to-market valuation.

Work-in-process

Work-in-process includes all costs incurred in the normal course of business including direct material and direct labour costs and allocation of production overheads, depreciation and amortisation and other costs, incurred for producing each product, given its stage of completion.

Materials and supplies

Materials and supplies are valued at the weighted average cost less provision for obsolete and slow-moving items.

Financial assets

Financial assets are recognised when the Group has become a party to the contractual arrangement of the instrument and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories:

- financial assets at fair value through profit or loss
- held-to-maturity investments;
- available-for-sale financial assets; and
- loans and receivables.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt securities other than those financial assets designated as at fair value through profit or loss.

Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss where the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement incorporates any dividend or interest earned on the financial asset.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments which are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Available-for-sale financial assets

Available-for-sale financial assets mainly include investments in listed and unlisted equity securities, that are not classified in other categories.

Listed equity securities held by the Group that are traded in an active market are measured at their market value. Gains and losses arising from changes in fair value are recognised in other comprehensive income in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in the consolidated income statement. Where an investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investment revaluation reserve is included in the consolidated income statement for the period.

Investments in unlisted equity securities that do not have a quoted market price in an active market are recorded at management's estimate of fair value.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been negatively impacted.

The Group has fully provided for all trade and other receivables which were due in excess of 365 days. Trade and other receivables that are past due for less than 365 days are provided according to expected probability of repayment and the length of the overdue period.

Objective evidence of impairment for a accounts receivable could include the Group's past experience of collecting payments, an increase in the number of delayed payments as well as observable changes in economic conditions that correlate with defaults on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an provision for doubtful debts. When trade and other receivables are considered uncollectible, it is written off against the provision. Subsequent recoveries of amounts previously written off are credited against the provision. Changes in the provision are recognised in the consolidated income statement.

With the exception of available-for-sale debt and equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

When a decline in fair value of an available-for-sale investment has been recognised in other comprehensive income and there is objective evidence that investment is impaired, the cumulative loss that had been recognised in other comprehensive income is reclassified from other comprehensive income and recognised in the consolidated income statement even though the investment has not been derecognised. Impairment losses previously recognised through consolidated income statement are not reversed. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities

The Group classifies financial liabilities into loans and borrowings, trade and other payables. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or where appropriate, a shorter period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances, cash deposits in banks, brokers and other financial institutions and highly liquid investments with original maturities of three months or less and on demand deposits, which are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value.

Provisions

Provisions are recognised when the Group has a legal or constructive obligation as a result of past events for which it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Decommissioning obligations

Decommissioning obligations include direct asset decommissioning costs as well as related land restoration costs.

Future decommissioning and other related obligations, discounted to net present value, are recognised at the moment when the legal or constructive obligation in relation to such costs arises (generally when the related asset is put into operation) and the future cost can be reliably estimated. This cost is capitalised as part of the initial cost of the related asset (i.e. a mine) and is depreciated over the useful life of the asset. The unwinding of the discount on decommissioning obligations is included in the consolidated income statement as finance costs. Decommissioning obligations are periodically reviewed in light of current laws and regulations, and adjustments are made as necessary.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCE OF ESTIMATION UNCERTAINTY

Preparation of the consolidated financial statements in accordance with IFRS requires the Group's management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires judgements which are based on historical experience, current and expected economic conditions, and all other available information. Actual results could differ from these estimates.

The most significant areas requiring the use of management estimates and assumptions relate to:
- useful economic lives of property, plant and equipment;
- impairment of assets, including fair value of assets held for sale;
- provisions;
- decommissioning obligations;
- income taxes; and
- contingencies.

Useful economic lives of property, plant and equipment

Carrying value of the Group's mining assets, classified within property, plant and equipment, is amortised on a straight-line basis over the lesser of their remaining economic useful lives or remaining life of mine. When determining the life of a mine, valid assumptions at the time of estimation may change in case of new information becomes available.

The factors that could affect the estimation of the life of mine include the following:
- changes in proved and probable ore reserves;
- the grade of mineral reserves varying significantly from time to time;
- differences between actual commodity prices and commodity price assumptions used in the estimation and classification of ore reserves;
- unforeseen operational issues at mine sites; and
- changes in capital, operating, mining, processing and decommissioning costs, discount rates and foreign exchange rates could possibly adversely affect the economic viability of ore reserves.

Any of these changes could affect prospective amortisation of mining assets and their carrying value. Useful economic lives of non-mining property, plant and equipment are reviewed by management periodically. The review is based on the current condition of the assets and the estimated period during which they will continue to bring economic benefit to the Group.

Impairment of assets

The Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets are impaired or indication of reversal of impairment. In making the assessment for impairment, assets that do not generate independent cash flows are allocated to an appropriate cash-generating unit. Management necessarily applies its judgement in allocating assets that do not generate independent cash flows to appropriate cash-generating units, and also in estimating the timing and value of the underlying cash flows within the value-in-use calculation. Subsequent changes to the cash-generating unit allocation or to the timing of cash flows could impact the carrying value of the respective assets.

Provisions

The Group creates provision for doubtful debts to account for estimated losses resulting from the inability of customers to make the required payments. When evaluating the adequacy of a provision for doubtful debts, management bases its estimate on current overall economic conditions, ageing of the accounts receivable balances, historical write-off experience, customer creditworthiness and changes in payment terms. Changes in the economy, industry or specific customer conditions may require adjustments to the provision for doubtful debts recorded in the consolidated financial statements.

The Group also creates a provision for obsolete and slow-moving raw materials and supplies. In addition, certain finished goods of the Group are carried at net realisable value. Estimates of net realisable value of inventories are based on the most reliable evidence available at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly relating to events occurring subsequent to the statement of financial position date to the extent that such events confirm conditions existing at the end of the period.

The Group creates a provision for social commitments. The provision represents present value of the best estimate of the future outflow of economic benefits to settle these obligations.

Decommissioning obligations

The Group's mining and exploration activities are subject to various environmental laws and regulations. The Group estimates decommissioning obligations based on management's understanding of the current legal requirements in the various jurisdictions in which it operates, terms of the license agreements and internally generated engineering estimates. Provision is made, based on net present values, for decommissioning and land restoration costs as soon as the obligation arises. Actual costs incurred in future periods could differ materially from the amounts provided. Additionally, future changes to environmental laws and regulations, life of mine estimates and discount rates could affect the carrying amount of this provision.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining provision for income taxes due to the complexity of legislation in some jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises provisions for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are reviewed at each statement of financial position date and adjusted to the extent that it is probable that sufficient taxable income will be available to allow all or part of the deferred tax asset to be utilised. The estimation of that probability includes judgements based on the expected performance.

Various factors are considered to assess the probability of the future utilisation of deferred tax assets, including past operating results, operational plans, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from these estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be affected.

Contingencies

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgement and estimates of the outcome of future events.

US Dollars million

5. SEGMENTAL INFORMATION

Operating segments are identified on the basis of internal reports on components of the Group that are regularly reviewed by the Management Board.

Management has determined the following operating segments:

- *"GMK Group"* segment, which includes mining and metallurgy operations, transport services, energy, repair and maintenance services located at Taimyr Peninsula;
- *"Group KGMK"* segment, which includes mining and metallurgy operations, energy, exploration activities located at Kola Peninsula;
- *"NN Harjavalta"* segment, which includes refinery operations located in Finland;
- *"Other metallurgical"* segment, which includes operations of Bystrinskoye project, other metallurgy operations and exploration activities located in Russia and abroad;
- *"Other non-metallurgical"* segment, which includes metal and other trading, supply chain management, transport services, energy and utility, research and other activities located in Russia and abroad.

Corporate activities of the Group do not represent an operating segment, include primarily headquarters' general and administrative expenses and treasury operations of the Group and are presented as "Unallocated", together with assets classified as held for sale and liabilities associated with assets classified as held for sale.

The amounts in respect of reportable segments in the disclosure below are stated before intersegment eliminations, excluding:

- balances of intercompany loans and borrowings and interest accruals;
- intercompany investments;
- accrual of intercompany dividends;
- intercompany metal sales.

Amounts are measured on the same basis as those in the consolidated financial statements. Information for the year ended 31 December 2015 has been presented to conform with the current year presentation.

The following tables present revenue, measure of segment profit or loss (EBITDA) and other segmental information from continuing operations regarding the Group's reportable segments for the years ended 31 December 2016 and 31 December 2015, respectively.

For the year ended 31 December 2016	**GMK Group**	**Group KGMK**	**NN Harjavalta**	**Other metallurgical**	**Other non-metallurgical**	**Eliminations**	**Total**
Revenue from external customers	5,981	465	727	7	1,079	–	**8,259**
Inter-segment revenue	213	199	–	–	620	(1,032)	**–**
Total revenue	**6,194**	**664**	**727**	**7**	**1,699**	**(1,032)**	8,259
Segment EBITDA	3,883	117	45	(11)	119	112	**4,265**
Unallocated							(366)
Consolidated EBITDA							**3,899**
Depreciation and amortisation							(557)
Impairment of non-financial assets							(61)
Finance costs							(453)
Foreign exchange gain, net							485
Other income and expenses, net							(37)
Profit before tax							**3,276**
Other segmental information							
Purchase of property, plant and equipment and intangible assets	1,284	93	16	269	33	–	**1,695**
Depreciation and amortisation	435	41	28	–	23	30	**557**
Impairment of non-financial assets	50	2	–	–	9	–	**61**

US Dollars million

5. SEGMENTAL INFORMATION (CONTINUED)

For the year ended 31 December 2015	GMK Group	Group KGMK	NN Harjavalta	Other metallur-gical	Other non-metal-lurgical	Elimi-nations	Total
Revenue from external customers	6,532	615	757	17	621	–	**8,542**
Inter-segment revenue	58	158	–	13	561	(790)	–
Total revenue	**6,590**	**773**	**757**	**30**	**1,182**	**(790)**	**8,542**
Segment EBITDA	4,429	257	63	(12)	(81)	26	**4,682**
Unallocated							(386)
Consolidated EBITDA							**4,296**
Depreciation and amortisation							(506)
Impairment of property, plant and equipment							(284)
Finance costs							(326)
Foreign exchange loss, net							(865)
Other income and expenses, net							(71)
Profit before tax							**2,244**
Other segmental information							
Purchase of property, plant and equipment and intangible assets	1,353	146	24	100	31	–	**1,654**
Depreciation and amortisation	418	37	42	1	34	(26)	**506**
Impairment of non-financial assets	272	–	–	11	1	–	**284**

The following tables present assets and liabilities of the Group's operating segments at 31 December 2016 and 31 December 2015, respectively.

At 31 December 2016	GMK Group	Group KGMK	NN Harjavalta	Other metallur-gical	Other non-metal-lurgical	Elimi-nations	Total
Inter-segment assets	296	79	160	15	49	(599)	–
Segment assets	9,922	768	383	802	793	(111)	**12,557**
Total segment assets	**10,218**	**847**	**543**	**817**	**842**	**(710)**	**12,557**
Unallocated							3,900
Total assets							**16,457**
Inter-segment liabilities	113	87	77	27	295	(599)	–
Segment liabilities	2,241	113	102	200	862	–	**3,518**
Total segment liabilities	**2,354**	**200**	**179**	**227**	**1,157**	**(599)**	**3,518**
Unallocated							9,043
Total liabilities							**12,561**

At 31 December 2015	GMK Group	Group KGMK	NN Harjavalta	Other metallur-gical	Other non-metal-lurgical	Elimi-nations	Total
Inter-segment assets	344	90	128	23	137	(722)	–
Segment assets	6,949	510	346	317	985	(171)	**8,936**
Total segment assets	**7,293**	**600**	**474**	**340**	**1,122**	**(893)**	**8,936**
Unallocated							4,435
Total assets							**13,371**
Inter-segment liabilities	178	17	1	4	522	(722)	–
Segment liabilities	1,020	78	69	157	740	–	**2,064**
Total segment liabilities	**1,198**	**95**	**70**	**161**	**1,262**	**(722)**	**2,064**
Unallocated							9,046
Total liabilities							**11,110**

The Group's non-current assets are primarily located in the Russian Federation and Finland.

US Dollars million

6. METAL SALES

The Group's metal sales to external customers are detailed below (based on external customers' locations):

For the year ended 31 December 2016	Total	Nickel	Copper	Palladium	Platinum	Semi-products	Other metals
Europe	**4,394**	1,143	1,544	821	420	123	343
Asia	**1,723**	1,104	1	478	26	92	22
North and South America	**737**	222	–	488	–	1	26
Russian Federation and CIS	**792**	156	294	101	208	–	33
	7,646	**2,625**	**1,839**	**1,888**	**654**	**216**	**424**
For the year ended 31 December 2015							
Europe	**4,698**	1,453	1,448	1,182	327	72	216
Asia	**2,110**	1,153	249	384	180	109	35
North America	**613**	232	22	209	76	12	62
Russian Federation and CIS	**462**	172	197	32	48	–	13
	7,883	**3,010**	**1,916**	**1,807**	**631**	**193**	**326**

7. COST OF METAL SALES

	For the year ended 31 December 2016	For the year ended 31 December 2015
Cash operating costs		
Labour	1,145	1,131
Purchases of metals for resale, raw materials and semi-products	555	718
Materials and supplies	520	459
Third party services	170	186
Mineral extraction tax and other levies	122	128
Electricity and heat energy	101	108
Transportation expenses	89	75
Fuel	60	66
Sundry costs	143	126
Total cash operating costs	**2,905**	**2,997**
Depreciation and amortisation	456	476
Decrease/(increase) in metal inventories	290	(308)
Total	**3,651**	**3,165**

8. SELLING AND DISTRIBUTION EXPENSES

	For the year ended 31 December 2016	For the year ended 31 December 2015
Export duties	61	78
Staff costs	13	19
Marketing expenses	7	15
Transportation expenses	5	8
Other	7	9
Total	**93**	**129**

US Dollars million

9. GENERAL AND ADMINISTRATIVE EXPENSES

	For the year ended 31 December 2016	For the year ended 31 December 2015
Staff costs	376	352
Taxes other than mineral extraction tax and income tax	58	54
Third party services	55	55
Depreciation and amortisation	20	19
Rent expenses	19	19
Transportation expenses	6	4
Other	47	51
Total	**581**	**554**

10. OTHER NET OPERATING EXPENSES

	For the year ended 31 December 2016	For the year ended 31 December 2015
Social expenses	111	114
Change in provision for reconfiguration of production facilities	(33)	116
Change in allowance for doubtful debts	14	(3)
Change in allowance for obsolete and slow-moving inventory	(2)	5
Change in allowance for value added tax recoverable	2	4
Other	(8)	52
Total	**84**	**288**

11. FINANCE COSTS

	For the year ended 31 December 2016	For the year ended 31 December 2015
Interest expense on borrowings net of amounts capitalised	403	281
Unwinding of discount on provisions	46	44
Other	4	1
Total	**453**	**326**

12. INCOME FROM INVESTMENTS, NET

	For the year ended 31 December 2016	For the year ended 31 December 2015
Interest income on bank deposits	78	107
Realised gain on disposal of investments	4	75
Other	32	33
Total	**114**	**215**

US Dollars million

13. INCOME TAX EXPENSE

	For the year ended 31 December 2016	For the year ended 31 December 2015
Current income tax expense	686	506
Deferred tax expense	59	22
Total	**745**	**528**

A reconciliation of theoretic income tax, calculated at the statutory rate in the Russian Federation, the location of major production assets of the Group, to the amount of actual income tax expense recorded in the consolidated income statement is as follows:

	For the year ended 31 December 2016	For the year ended 31 December 2015
Profit before tax	**3,276**	**2,244**
Income tax at statutory rate of 20%	655	449
Allowance for deferred tax assets	18	18
Non-deductible impairment of financial and non-financial assets	41	53
Utilisation of previously unrecognised deferred tax asset	–	(96)
Non-taxable gain from disposal of financial assets	–	(14)
Non-deductible loss from disposal of assets held for sale	–	59
Non-deductible social expenses	31	32
Effect of different tax rates of subsidiaries operating in other jurisdictions	(27)	37
Tax effect of other permanent differences	27	(10)
Total	**745**	**528**

The corporate income tax rates in other countries where the Group has a taxable presence vary from 0% to 40%.

Deferred tax balances

	At 31 December 2015	Recognised in income statement	Classified as held for sale	Effect of translation to presentation currency	At 31 December 2016
Property, plant and	**201**	58	–	41	**300**
Inventories	**92**	(6)	–	17	**103**
Trade and other receivables	**(8)**	(2)	–	(4)	**(14)**
Decommissioning	**(61)**	(4)	–	(13)	**(78)**
Loans and borrowings, trade and other payables	**(16)**	(9)	–	(8)	**(33)**
Other assets	**(9)**	(2)	–	2	**(9)**
Other liabilities	**5**	–	–	2	**7**
Tax loss carried forward	**(41)**	24	–	(12)	**(29)**
Net deferred tax liabilities	**163**	**59**	**–**	**25**	**247**

US Dollars million

13. INCOME TAX EXPENSE (CONTINUED)

	At 31 December 2014	Recognised in income statement	Classified as held for sale	Effect of translation to presentation currency	At 31 December 2015
Property, plant and	**228**	24	–	(51)	**201**
Inventories	**39**	73	–	(20)	**92**
Trade and other receivables	**(9)**	(1)	–	2	**(8)**
Decommissioning	**(56)**	(20)	–	15	**(61)**
Loans and borrowings, trade and other payables	**(5)**	(16)	–	5	**(16)**
Other assets	**(15)**	(1)	–	7	**(9)**
Other liabilities	**–**	10	–	(5)	**5**
Tax loss carried forward	**(19)**	(47)	10	15	**(41)**
Net deferred tax liabilities	**163**	**22**	**10**	**(32)**	**163**

Certain deferred tax assets and liabilities have been offset to the extent they relate to taxes levied on the Group's entities which entered into the tax consolidation group. Deferred tax balances (after offset) presented in the consolidated statement of financial position were as follows:

	At 31 December 2016	At 31 December 2015
Deferred tax liability	303	205
Deferred tax asset	(56)	(42)
Net deferred tax liabilities	**247**	**163**

Unrecognised deferred tax assets

Deferred tax assets have not been recognised as follows:

	At 31 December 2016	At 31 December 2015
Deductible temporary differences	90	78
Tax loss carry-forwards	214	187
Total	**304**	**265**

Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

At 31 December 2016 deferred tax asset in amount of USD 166 million related to tax loss arising on disposal of OJSC "Third Generation Company of the Wholesale Electricity Market" ("OGK-3") (31 December 2015: USD 138 million) was not recognised as it was incurred by the Company prior to setting up of the tax consolidation group. This deferred tax asset can be utilized only if the Company exits the tax consolidation group without expiry (2015: within nine years after the exit).

Unrecognised deferred tax assets in the amount of USD 48 million related to other tax losses will not expire and can be utilized according to specific rules stated by art. 283 of the Tax code of the Russian Federation (31 December 2015: USD 49 million – expire in ten years).

During the year ended 31 December 2015 previously unrecognised deferred tax assets arising on an impairment of available-for-sale investments in securities in amount of USD 96 million was utilised, following the changes in tax legislation.

At 31 December 2016, the Group did not recognise a deferred tax liability in respect of taxable temporary differences of USD 1,104 million (31 December 2015: USD 1,191 million) associated with investments in subsidiaries, because management believes that it is in a position to control the timing of reversal of such differences and does not expect its reversal in foreseeable future.

US Dollars million

14. PROPERTY, PLANT AND EQUIPMENT

		Non-mining assets				
	Mining assets and mine development cost	**Buildings, structures and utilities**	**Machinery, equipment and transport**	**Other**	**Capital construction-in-progress**	**Total**
Cost						
Balance at 1 January 2015	**5,042**	**2,222**	**2,850**	**5**	**1,276**	**11,395**
Additions	1,032	–	–	–	832	**1,864**
Reclassified between groups	39	(2)	(101)	89	(25)	**–**
Transfers	–	165	234	10	(409)	**–**
Change in decommissioning provision	63	25	–	–	–	**88**
Reclassified from assets held for sale	104	(3)	(2)	30	9	**138**
Reclassified to investment property	–	(8)	(2)	(2)	–	**(12)**
Disposals	(106)	(10)	(73)	(2)	(17)	**(208)**
Effect of translation to presentation currency	(1,299)	(506)	(587)	(28)	(358)	**(2,778)**
Balance at 31 December 2015	**4,875**	**1,883**	**2,319**	**102**	**1,308**	**10,487**
Additions	1,214	–	–	–	673	**1,887**
Reclassified between groups	(49)	7	(37)	26	53	**–**
Transfers	–	450	363	58	(871)	**–**
Change in decommissioning provision	(18)	5	–	–	–	**(13)**
Disposals	(58)	(11)	(100)	(7)	(31)	**(207)**
Effect of translation to presentation currency	1,077	379	431	30	256	**2,173**
Balance at 31 December 2016	**7,041**	**2,713**	**2,976**	**209**	**1,388**	**14,327**
Accumulated depreciation and impairment						
Balance at 1 January 2015	**(1,742)**	**(977)**	**(1,527)**	**(1)**	**(137)**	**(4,384)**
Charge for the year	(180)	(150)	(222)	(8)	–	**(560)**
Reclassified between groups	(32)	(5)	86	(49)	–	**–**
Reclassified from assets held for sale	(83)	2	5	–	(12)	**(88)**
Disposals	98	7	67	2	14	**188**
Impairment loss	(7)	(124)	(8)	–	(145)	**(284)**
Effect of translation to presentation currency	428	235	322	12	36	**1,033**
Balance at 31 December 2015	**(1,518)**	**(1,012)**	**(1,277)**	**(44)**	**(244)**	**(4,095)**
Charge for the year	(213)	(91)	(201)	(14)	–	**(519)**
Reclassified between groups	(11)	2	14	(5)	–	**–**
Disposals	46	7	90	3	19	**165**
Impairment loss	(7)	(70)	(2)	–	18	**(61)**
Effect of translation to presentation currency	(309)	(209)	(242)	(10)	(41)	**(811)**
Balance at 31 December 2016	**(2,012)**	**(1,373)**	**(1,618)**	**(70)**	**(248)**	**(5,321)**
Carrying value						
At 31 December 2015	**3,357**	**871**	**1,042**	**58**	**1,064**	**6,392**
At 31 December 2016	**5,029**	**1,340**	**1,358**	**139**	**1,140**	**9,006**

14. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

At 31 December 2016 capital construction-in-progress included USD 87 million of irrevocable letters of credit opened for fixed assets purchases (31 December 2015: USD 107 million), representing security deposits placed in banks. For the year ended 31 December 2016 purchases of property, plant and equipment in the consolidated statement of cash flows include USD 78 million related to these irrevocable letters of credit (for the year ended 31 December 2015: USD 103 million).

Capitalised borrowing costs for the year ended 31 December 2016 amounted to USD 202 million (for the year ended 31 December 2015: USD 153 million). Capitalisation rate used to determine the amount of borrowing costs equals to 6.59% per annum (2015: 5.14%).

At 31 December 2016 mining assets and mine development cost included USD 2,994 million of mining assets under development (31 December 2015: USD 2,026 million).

Impairment

During the year ended 31 December 2015 the Group revised its intention on the further use of the gas extraction assets. As a result, these assets were assessed as a separate cash generating unit. At 31 December 2015 the Group identified indicators of the impairment of gas production assets and determined their recoverable amount based on the value-in-use estimate. As a result, impairment loss in the amount of USD 266 million was recognised in Impairment of non-financial assets in the consolidated income statement.

At 31 December 2016 indicators of additional impairment of gas production assets have been identified. The most significant estimates and assumptions used in determination of value in use are as follows:

- Future cash flows were projected based on budgeted amounts, taking into account actual results for the previous years. Forecasts were assessed up to 2100. Measurements were performed based on discounted cash flows expected to be generated by gas production assets.
- Management estimates prices for natural gas and gas concentrate based on commodities price forecasts. Commodities price forecast was based on consensus forecast.
- Production forecasts were primarily based on internal production reports available at the date of impairment test and management’s assumptions regarding future production levels.
- The amounts and timing of capital investments were based on management’s forecast.
- Inflation indices and foreign currency rate forecasts were sourced from Economist Intelligence Unit report. Inflation used was projected within 4-6%. Forecast for exchange rates was made based on expected RUR and USD inflation indices.
- A pre-tax nominal RUR discount rate of 17.4% was estimated by the reference to the weighted average cost of capital for the Group and reflects management’s estimates of the risks specific to production units.

As a result, impairment loss in the amount of USD 50 million was recognised in Impairment of non-financial assets in the consolidated income statement.

During the year ended 31 December 2016 additional impairment losses in the amount of USD 11 million (for the year ended 31 December 2015: USD 18 million) were recognised in respect of specific individual assets, primarily non-mining assets.

15. INVESTMENT PROPERTY

At 31 December 2016 investment property is recognised in the consolidated statement of financial position at historical cost less accumulated depreciation in the amount of USD 93 million (31 December 2015: USD 83 million). Carrying value of investment property approximates to its fair value.

US Dollars million

16. OTHER FINANCIAL ASSETS

	At 31 December 2016	At 31 December 2015
Non-current		
Loans issued and other receivables	173	57
Bank deposits	10	5
Available-for-sale investments	4	–
Total non-current	**187**	**62**
Current		
Loans issued and other receivables	6	1
Derivative financial instruments	2	–
Total current	**8**	**1**

Available-for-sale investments in securities

During the year ended 31 December 2016, the Group fully impaired an interest in a related party which owns various real estate properties. Impairment loss was recognised in the consolidated income statement.

During the year ended 31 December 2015 the Group sold its 12.35% stake in PJSC Inter RAO for the total consideration in the amount of USD 204 million. Gain on disposal in the amount of USD 75 million was recognised in the consolidated income statement.

Bank deposits

Interest rate on long-term RUB-denominated deposits held in banks was 5.10% (31 December 2015: 5.10%) per annum.

17. OTHER TAXES

	At 31 December 2016	At 31 December 2015
Taxes receivable		
Value added tax recoverable	242	186
Other taxes	36	14
	278	**200**
Less: Allowance for value added tax recoverable	–	(1)
Total	**278**	**199**
Less: Non-current portion of other taxes receivable	(2)	–
Other taxes receivable	**276**	**199**
Taxes payable		
Value added tax	70	45
Social security contributions	27	23
Property tax	18	10
Mineral extraction tax	11	7
Other	12	10
Other taxes payable	**138**	**95**

US Dollars million

18. INVENTORIES

	At 31 December 2016	At 31 December 2015
Refined metals	310	541
Work-in-process	894	663
Total metal inventories	**1,204**	**1,204**
Materials and supplies	718	520
Less: Allowance for obsolete and slow-moving items	(27)	(26)
Net materials and supplies	**691**	**494**
Inventories	**1,895**	**1,698**

In December 2016 the Group acquired metal semi-products stock of USD 891 million. Part of metal semi-products stock in the amount of USD 810 million was presented in other non-current assets according to production plans. Accounts payable were recognised at fair value using market discount rate in accordance with four-year maturity. Part of accounts payable was presented in trade and other long-term payables according to maturity profiles of liabilities.

19. TRADE AND OTHER RECEIVABLES

	At 31 December 2016	At 31 December 2015
Trade receivables from metal sales	95	86
Other receivables	156	135
	251	**221**
Less: Allowance for doubtful debts	(81)	(54)
Trade and other receivables, net	**170**	**167**

In 2016 and 2015, the average credit period on metal sales varied from 0 to 30 days. Trade receivables are generally non-interest bearing.

At 31 December 2016 and 2015, there were no material trade accounts receivable which were overdue or individually determined to be impaired.

The average credit period on sales of other products and services for the year ended 31 December 2016 was 32 days (2015: 27 days). No interest was charged on these receivables.

Included in the Group's other receivables at 31 December 2016, were debtors with a carrying value of USD 45 million (31 December 2015: USD 45 million) that were past due but not impaired. Management of the Group believes that these amounts are recoverable in full.

The Group did not hold any collateral for accounts receivable balances.

Ageing of other receivables past due but not impaired was as follows:

	At 31 December 2016	At 31 December 2015
Less than 180 days	41	34
180-365 days	4	11
	45	**45**

Movement in the allowance for doubtful debts was as follows:

	At 31 December 2016	At 31 December 2015
Balance at beginning of the year	**54**	**92**
Change in allowance	14	(3)
Accounts receivable written-off	(2)	(16)
Effect of translation to presentation currency	15	(19)
Balance at end of the year	**81**	**54**

US Dollars million

20. CASH AND CASH EQUIVALENTS

		At 31 December 2016	At 31 December 2015
Current accounts			
	- foreign currencies	372	525
	- RUB	58	43
Bank deposits			
	- foreign currencies	1,739	2,598
	- RUB	1,119	879
Other cash and cash equivalents		13	9
Total		**3,301**	**4,054**

21. ASSETS CLASSIFIED AS HELD FOR SALE AND DISPOSAL OF SUBSIDIARIES

In December 2013, the Group made a decision to dispose of the following assets:

- Nkomati Nickel Mine, a South Africa mining company, an associate of the Group;
- assets located in Western Australia;
- certain other non-core assets located in the Russian Federation.

During the year ended 31 December 2014, management of the Group made a decision to dispose of Tati Nickel Mining Company ("TNMC"), a subsidiary of the Group, located in Botswana.

During the year ended 31 December 2015, management of the Group made a decision to dispose of OJSC "Arkhangelsk Sea Commercial Port", a subsidiary of the Group located in the Russian Federation.

During the year ended 31 December 2015, management of the Group made a decision to reclassify certain other non-core assets located in the Russian Federation from assets classified as held for sale to investment property (refer to note 15) or to the assets classified as held for use. Reclassification does not have significant effect on operations of the Group.

All of the above assets have been measured at the lower of their fair values less costs to sell and their carrying values. The Group has assessed fair value of assets classified as held for sale at 31 December 2015 based on price offers available.

Management of the Group concluded that the sale of assets in South Africa and disposal of other assets classified as held for sale referred to above does not constitute discontinued operations.

At 31 December 2016 and 31 December 2015 aggregate net assets included:

	At 31 December 2016	At 31 December 2015
Property, plant and equipment	–	7
Investments in associates	177	154
Deferred tax assets	9	10
Trade and other receivables	–	3
Other financial assets	–	1
Cash and cash equivalents	20	42
Total assets	**206**	**217**
Deferred tax liabilities	–	(1)
Employee benefit obligations	(1)	(1)
Loans and borrowings	–	(21)
Trade and other payables	(1)	(1)
Total liabilities	**(2)**	**(24)**
Net assets	**204**	**193**

US Dollars million

21. ASSETS CLASSIFIED AS HELD FOR SALE AND DISPOSAL OF SUBSIDIARIES (CONTINUED)

On 17 October 2014, the Group entered into binding agreements to sell its assets in South Africa, comprising its 50% participation interest in Nkomati Nickel Mine ("Nkomati") and its 85% stake in Tati Nickel Mining Company (together "African assets") to BCL Investments ("BCL"). The total consideration for the assets amounts to USD 337 million subject to certain adjustments under agreement. Under the terms of the agreements, the buyers will assume all attributable decommissioning rehabilitation obligations related to the assets.

On 2 April 2015, the Group sold its 85% stake in TNMC. The carrying value of the Group's share in net assets including decommissioning obligations at the date of disposal was negative in the amount of USD 20 million. Financial result from the disposal includes the negative impact due to write down of the historical amount of the foreign currency translation reserve representing cumulative exchange differences between the presentation currency – the US dollar and the Botswana Pula.

Finalisation of sale of Nkomati was subject to completion of conditions precedent, which was achieved in September 2016. However, BCL failed to meet its obligations according to the agreement and was put into a voluntary liquidation. The Group has filed legal claims against BCL in Botswana and LCIA to enforce sale of Nkomati. Notwithstanding these circumstances management actively pursues its interests under the agreement and believes Nkomati should be classified as held for sale as of 31 December 2016.

As at 31 December 2016, the Group accounts for Nkomati at the lower of its carrying value or fair value less cost to sell. The fair value less cost to sell was determined by the Group using a discounted cash flow model approach. Based on the results of discounted cash flows analysis the Group didn't recognize any impairment of Nkomati as of 31 December 2016.

The discounted cash flow model is particularly sensitive to the following inputs:

- Increase in discount rate by 2 p.p. up to 10.8% real rate for ZAR will lead to impairment recognition amounting to USD 19 million;
- Decrease in sale price on metals by 2% will lead to impairment recognition amounting to USD 14 million.

On 29 November 2016, the Group sold its 74.8% share in OJSC "Arkhangelsk Sea Commercial Port", a subsidiary of the Group located in the Russian Federation, for a consideration of USD 7 million. The carrying value of net assets at the date of disposal amounted to USD 8 million. Loss on disposal in the amount of USD 1 million was recognised in the consolidated income statement.

In 2014 the Group sold goldfields assets North Eastern Goldfields Operations ("NEGO"), nickel assets Black Swan, Silver Swan, Lake Johnston Nickel Project, Avalon and Cawse, located in Western Australia. During the year ended 31 December 2016, the Group received deferred consideration in the amount of USD 2 million related to NEGO. During the year ended 31 December 2016, the Group sold certain royalty rights related to previously disposed assets in Western Australia, for USD 7 million.

On 15 April 2016, the Group sold its aircompany assets comprising 96.8% share in CJSC "Nordavia – Regional Airlines" ("Nordavia"), a subsidiary of the Group located in the Russian Federation and related to Nordavia aircrafts and infrastructure, for a consideration of USD 10 million. The carrying value of net assets at the date of disposal amounted to USD 14 million. Loss on disposal in the amount of USD 4 million was recognised in the consolidated income statement.

22. SHARE CAPITAL

Authorised and issued ordinary shares

	2016	2015
At 1 January	156,995,401	158,245,476
Acquisition of own shares from shareholders	–	(1,250,075)
Sale of own shares from treasury stock	1,250,075	–
At 31 December	**158,245,476**	**156,995,401**

US Dollars million

22. SHARE CAPITAL (CONTINUED)

During the year ended 31 December 2015, the Group acquired 1,250,075 ordinary shares for a cash consideration in the amount of USD 196 million.

During the year ended 31 December 2016, the Group sold 1,250,075 treasury shares to the non-controlling shareholder Crispian Investments Limited for a cash consideration in the amount of USD 158 million.

Earnings per share

	For the year ended 31 December 2016	For the year ended 31 December 2015
Basic earnings per share (US Dollars per share):	16.1	11.0

The earnings and weighted average number of shares used in the calculation of earnings per share are as follows:

	For the year ended 31 December 2016	For the year ended 31 December 2015
Profit for the year attributable to shareholders of the parent company	2,536	1,734

	For the year ended 31 December 2016	For the year ended 31 December 2015
Weighted average number of shares on issue	156,995,401	158,245,476
Less: weighted average number of treasury shares	–	(489,575)
Effect of sale of own shares from treasury stock	54,648	–
Weighted average number of issued common shares outstanding	**157,050,049**	**157,755,901**

As at 31 December 2016 and 31 December 2015, the Group had no securities, which would have a dilutive effect on earnings per share of ordinary stock.

23. NON-CONTROLLING INTEREST

During the year ended 31 December 2016 the Group sold 10.67% share in Bystrinskoye project for USD 80 million.

US Dollars million

24. LOANS AND BORROWINGS

	Currency	Fixed or floating interest rate	Average nominal rate during the year ended 31 December 2016, %	Maturity	At 31 December 2016	At 31 December 2015
Unsecured loans	USD	floating	3.04%	2018-2025	2,704	3,404
	RUB	fixed	12.52%	2019-2021	1,990	1,655
Secured loans	USD	floating	7.37%	2024	165	–
Total loans					**4,859**	**5,059**
Corporate bonds	USD	fixed	5.62%	2018-2022	2,715	2,717
	RUB	fixed	11.60%	2026	247	480
					2,962	**3,197**
Finance leasing	EUR	fixed	7.10%	2026	24	–
	USD	fixed	4.20%	2019	7	10
					31	**10**
Total					**7,852**	**8,266**
Less: current portion due within twelve months and presented as short-term loans and borrowings					(578)	(1,124)
Long-term loans and borrowings					**7,274**	**7,142**

The Group is obliged to comply with a number of restrictive financial and other covenants, including maintaining certain financial ratios and restrictions on pledging and disposal of certain assets.

25. EMPLOYEE BENEFIT OBLIGATIONS

	At 31 December 2016	At 31 December 2015
Accrual for annual leave	179	136
Wages and salaries	147	96
Other	21	5
Total obligations	**347**	**237**
Less: non-current obligations	(48)	(22)
Current obligations	**299**	**215**

Defined contribution plans

Amounts recognised within continuing operations in the consolidated income statement in respect of defined contribution plans were as follows:

	For the year ended 31 December 2016	For the year ended 31 December 2015
Pension Fund of the Russian Federation	273	287
Mutual accumulated pension plan	7	8
Other	5	6
Total	**285**	**301**

US Dollars million

26. PROVISIONS

	At 31 December 2016	At 31 December 2015
Current provisions		
Tax provision	124	127
Provision for social commitments	19	12
Other provisions	40	66
Total current provisions	**183**	**205**
Non-current provisions		
Decommissioning obligations	391	308
Provision for social commitments	43	38
Other long-term provisions	1	11
Total non-current provisions	**435**	**357**
Total	**618**	**562**

	Decommissioning	Social commitments	Tax	Other	Total
Balance at 1 January 2015	**228**	**61**	**140**	**1**	**430**
Provision accrued	–	3	4	95	**102**
Settlements during the year	–	(13)	(3)	–	**(16)**
Change in estimates	122	11	–	(1)	**132**
Unwinding of discount	35	6	–	3	**44**
Effect of translation to presentation currency	(77)	(18)	(14)	(21)	**(130)**
Balance at 31 December 2015	**308**	**50**	**127**	**77**	**562**
Provision accrued	–	12	3	4	**19**
Settlements during the year	–	(16)	(5)	(30)	**(51)**
Change in estimate	(13)	(1)	–	(27)	**(41)**
Unwinding of discount	32	6	–	5	**43**
Effect of translation to presentation currency	64	11	(1)	12	**86**
Balance at 31 December 2016	**391**	**62**	**124**	**41**	**618**

Decommissioning obligations

Key assumptions used in estimation of decommissioning obligations were as follows:

	At 31 December 2016	At 31 December 2015
Discount rates of Russian entities	8.5% - 8.6%	9.3% - 10.4%
Discount rates of non-Russian entities	3% - 5%	3% - 8%
Expected closure date of mines	up to 2059	up to 2056
Expected inflation over the period from 2017 to 2029	3.7% - 5.4%	4.1% - 8.7%
Expected inflation over the period from 2030 onwards	3.6%	4.0%

Present value of expected cost to be incurred for settlement of decommissioning obligations was as follows:

	At 31 December 2016	At 31 December 2015
Due from second to fifth year	265	170
Due from sixth to tenth year	44	49
Due from eleventh to fifteenth year	4	16
Due from sixteenth to twentieth year	26	5
Due thereafter	52	68
Total	**391**	**308**

US Dollars million

26. PROVISIONS (CONTINUED)

In 2015 the Group approved a programme for reconfiguration of production facilities located in the Taimyr Peninsula. The programme started in 2016 and also included activites related to closure of the Nickel plant. In 2016 changes in the provision estimates for the reconfiguration of production facilities were recognised in Other net operating expenses in the consolidated income statement.

Social commitments

In 2010 the Group entered into several multilateral agreements with the Government of the Russian Federation, the Krasnoyarsk Regional Government and the Norilsk Municipal Authorities for construction of pre-schools and other items of social infrastructure in Norilsk and Dudinka, and resettlement of families currently residing in these cities to other Russian regions with more favorable living conditions during 2015-2020. The provision represents present value of the best estimate of the future outflow of economic benefits to settle these obligations.

27. TRADE AND OTHER PAYABLES

	At 31 December 2016	At 31 December 2015
Financial liabilities		
Trade payables	605	173
Payables for acquisition of property, plant and equipment	146	93
Other creditors	141	140
Total financial liabilities	**892**	**406**
Non-financial liabilities		
Advances received	718	604
Total non-financial liabilities	**718**	**604**
Total	**1,610**	**1,010**

The maturity profile of the Group's financial liabilities was as follows:

	At 31 December 2016	At 31 December 2015
Due within one month	189	175
Due from one to three months	209	198
Due from three to twelve months	494	33
Total	**892**	**406**

28. DIVIDENDS

On 16 December 2016, the Extraordinary General shareholder's meeting declared interim dividends in respect of the 9 months ended 30 September 2016 in the amount of RUB 444.25 (USD 7.21) per share with the total amount of USD 1,141 million. The dividends were paid to the shareholders in January 2017 in the amount of USD 1,169 million at the prevailing RUB/USD rates on the payments dates.

On 10 June 2016 the Annual General shareholders' meeting declared dividends for the year ended 31 December 2015 in the amount of RUB 230.14 (USD 3.61) per share with the total amount of USD 571 million (including USD 4 million in respect of Treasury shares). The dividends were paid to the shareholders in July 2016 in the amount of USD 567 million recognised in the consolidated cash flow statement, using prevailing RUB/USD rates on the payments dates.

US Dollars million

28. DIVIDENDS (CONTINUED)

On 19 December 2015, the Extraordinary General shareholder's meeting declared interim dividends in respect of the 9 months ended 30 September 2015 in the amount of RUB 321.95 (USD 4.51) per share with the total amount of USD 714 million (including USD 6 million in respect of Treasury shares). The dividends were paid to the shareholders in January 2016 in the amount of USD 665 million using prevailing RUB/USD rates on the payment dates.

On 14 September 2015, the Extraordinary General shareholder's meeting declared interim dividends in respect of the 6 months ended 30 June 2015 in the amount of RUB 305.07 (USD 4.49) per share with the total amount of USD 710 million (including USD 4 million in respect of Treasury shares). The dividends were paid to the shareholders from September to December 2015 in the amount of USD 731 million, recognised in the consolidated cash flow statement using prevailing RUB/USD rates on the payment dates.

On 13 May 2015, the Annual General shareholder's meeting declared final dividends for the year ended 31 December 2014 in the amount of RUB 670.04 (USD 13.2) per share with the total amount of USD 2,083 million. The dividends were paid to the shareholders in May and June 2015 in the amount of USD 2,126 million recognised in the consolidated cash flow statement, using prevailing RUB/USD rates on the payment dates.

29. RELATED PARTIES TRANSACTIONS AND OUTSTANDING BALANCES

Related parties include shareholders, associates and entities under common ownership and control of the Group's major shareholders and key management personnel. The Group defines major shareholders as shareholders, which have significant influence over the Group activities. The Company and its subsidiaries, in the ordinary course of their business, enter into various sale, purchase and service transactions with related parties. Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

	Sale of goods and services		Purchase of goods and services and financial assets	
Transactions with related parties	**For the year ended 31 December 2016**	**For the year ended 31 December 2015**	**For the year ended 31 December 2016**	**For the year ended 31 December 2015**
Entities under ownership and control of the Group's major shareholders	13	–	177	19
Associates of the Group	2	6	169	242
Total	**15**	**6**	**346**	**261**

	Accounts receivable and cash		Accounts payable, loans and borrowings received	
Outstanding balances with related parties	**At 31 December 2016**	**At 31 December 2015**	**At 31 December 2016**	**At 31 December 2015**
Entities under ownership and control of the Group's major shareholders	–	–	2	–
Associates of the Group	1	2	20	25
Total	**1**	**2**	**22**	**25**

Terms and conditions of transactions with related parties

Sales to and purchases from related parties of electricity, heat energy and natural gas supply were made at prices established by the Federal Tariff Service, government regulator responsible for establishing and monitoring prices on the utility and telecommunication markets in the Russian Federation.

Compensation of key management personnel

Key management personnel of the Group consists of members of the Management Board and the Board of Directors. For the year ended 31 December 2016 remuneration of key management personnel of the Group included salary and performance bonuses amounted to USD 62 million (for the year ended 31 December 2015: USD 61 million).

US Dollars million

30. COMMITMENTS

Capital commitments

At 31 December 2016, contractual capital commitments amounted to USD 1,138 million (31 December 2015: USD 798 million).

Operating leases

The land plots in the Russian Federation where the Group's production facilities are located are owned by the state. The Group leases land through operating lease agreements, which expire in various years through 2065. According to the terms of lease agreements the rent rate is revised annually subject to the decision of the relevant local authorities. The Group entities have a renewal option at the end of the lease period and an option to buy land at any time, at a price established by the local authorities.

Future minimum lease payments due under non-cancellable operating lease agreements for land and buildings were as follows:

	At 31 December 2016	At 31 December 2015
Due within one year	29	31
From one to five years	95	128
Thereafter	92	79
Total	**216**	**238**

At 31 December 2016, ten aircraft lease agreements (31 December 2015: nine) were in effect. The lease agreements have an average life of five (31 December 2015: eight) years with a renewal option at the end of the term and place no restrictions upon lessees by entering into these agreements.

Future minimum lease payments due under non-cancellable operating lease agreements for aircrafts were as follows:

	At 31 December 2016	At 31 December 2015
Due within one year	43	37
From one to five years	70	89
Total	**113**	**126**

Social commitments

The Group contributes to mandatory and voluntary social programs and maintains social assets in the locations where it has its main operating facilities. The Group's social assets as well as local social programs benefit the community at large and are not normally restricted to the Group's employees.

The Group's commitments are funded from its own cash resources.

31. CONTINGENCIES

Litigation

At 31 December 2016 the Group has unresolved legal disputes with the state authorities due to non-approval of the reduction of the negative environmental impact charge in relation to the environmental protection expenditure incurred by the Group. Management believes that the Group complied with all relevant regulations to be eligible for the reduction and that no provision for these disputes is required. Additionally, the Group is involved in other legal disputes in the ordinary course of its operations, with the probability of their unfavorable resolution being assessed as possible. At 31 December 2016, total claims under unresolved litigation amounted to approximately USD 25 million (31 December 2015: USD 53 million).

31. CONTINGENCIES (CONTINUED)

Taxation contingencies in the Russian Federation

The Russian Federation currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include value-added (VAT), corporate income tax, mandatory social security contributions, together with others. Tax returns, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by government authorities, which are authorised by law to impose severe fines, penalties and interest charges. Generally, tax returns remain open and subject to inspection for a period of three years following the fiscal year.

While management of the Group believes that in the financial statements of the Group it has provided adequate reserves for tax liabilities based on its interpretation of current and previous legislation, the risk remains that tax authorities in the Russian Federation could take differing positions with regard to interpretive issues. This uncertainty may expose the Group to additional taxation, fines and penalties.

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

These transfer pricing rules provide for an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe the basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level.

Currently there is lack of practice of applying the transfer pricing rules by the tax authorities and courts, however, it is anticipated that transfer pricing arrangements will be subject to very close scrutiny potentially having effect on the financial results and the financial position of the Group.

Environmental matters

The Group is subject to extensive federal, state and local environmental controls and regulations in the countries in which it operates. The Group's operations involve pollutant emissions to air and water objects as well as formation and disposal of production wastes.

Management of the Group believes that the Group is in compliance with all current existing environmental legislation in the countries in which it operates. However, environmental laws and regulations continue to evolve. The Group is unable to predict the timing or extent to which those laws and regulations may change. Such change, if it occurs, may require that the Group modernise technology to meet more stringent standards.

Russian Federation risk

As an emerging market, the Russian Federation does not possess a fully developed business and regulatory infrastructure including stable banking and judicial systems which would generally exist in a more mature market economy. The economy of the Russian Federation is characterised by a currency that is not freely convertible outside of the country, currency controls, low liquidity levels for debt and equity markets, and continuing inflation. As a result, operations in the Russian Federation involve risks that are not typically associated with those in more developed markets. Stability and success of Russian economy and the Group's business mainly depends on the effectiveness of economic measures undertaken by the government as well as the development of legal system.

The situation in Ukraine has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities has resulted in increased economic uncertainty including more volatile equity and currency markets, a reduction in both local and foreign investment inflows and a significant tightening in the availability of credit. Management assesses the changes in the Russian business environment did not significantly affect the operations, financial results and the financial position of the Group.

US Dollars million

32. FINANCIAL RISK MANAGEMENT

Capital risk management

The Group manages its capital structure in order to safeguard the Group's ability to continue as a going concern and to maximise the return to shareholders through the optimisation of debt and equity balance.

The capital structure of the Group consists of debt, which includes long and short-term borrowings, equity attributable to shareholders of the parent company, comprising share capital, other reserves and retained earnings.

Management of the Group regularly reviews its level of leverage, calculated as the proportion of Net Debt to EBITDA, to ensure that it is in line with the Group's financial policy aimed at preserving investment grade credit ratings.

As at 19 and 25 October 2016 the Company maintains BBB- investment grade ratings, assigned by rating agencies Fitch and S&P's, despite S&P's maintenance of Russian sovereign rating BB+ on 19 September 2016. The Company's rating assigned by Moody's is restrained by Russia's country ceiling at Ba1 level.

Financial risk factors and risk management structure

In the normal course of its operations, the Group is exposed to a variety of financial risks: market risk (including interest rate and currency risk), credit risk and liquidity risk. The Group has an explicit risk management structure aligned with internal control procedures that enable it to assess, evaluate and monitor the Group's exposure to such risks.

Risk management is carried out by financial risk management. The Group has adopted and documented policies covering specific areas, such as market risk management system, credit risk management system, liquidity risk management system and use of derivative financial instruments.

Interest rate risk

Interest rate risk is the risk that changes in interest rates will adversely impact the financial results of the Group. The Group's interest rate risk arises from long- and short-term borrowings at floating rates.

The Group performs thorough analysis of its interest rate risk exposure regularly. Various scenarios are simulated. The table below details the Group's sensitivity to a 2 percentage points increase in those borrowings subject to a floating rate. The sensitivity analysis is prepared assuming that the amount of liabilities at floating rates outstanding at the reporting date was outstanding for the whole year.

	2% LIBOR increase impact	
	For the year ended 31 December 2016	For the year ended 31 December 2015
Loss	57	68

Management believes that the Group's exposure to interest rate risk fluctuations does not require additional hedging activities.

US Dollars million

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument denominated in foreign currency will fluctuate because of changes in exchange rates.

The major part of the Group's revenue and related trade accounts receivable are denominated in US dollars and therefore the Group is exposed primarily to USD currency risk. Foreign exchange risk arising from other currencies is assessed by management of the Group as immaterial.

The carrying amounts of monetary assets and liabilities denominated in foreign currencies other than functional currencies of the individual Group entities at 31 December 2016 and 31 December 2015 were as follows:

	At 31 December 2016			At 31 December 2015		
	USD	**HKD**	**Other currencies**	**USD**	**HKD**	**Other currencies**
Cash and cash equivalents	1,053	1,014	32	2,068	1,009	32
Trade and other receivables	162	–	2	88	–	8
Other assets	140	–	101	95	–	115
Total assets	**1,355**	**1,014**	**135**	**2,251**	**1,009**	**155**
Trade and other payables	261	–	66	200	–	82
Loans and borrowings	5,584	–	–	6,121	–	–
Other liabilities	12	–	24	11	–	5
Total liabilities	**5,857**	**–**	**90**	**6,332**	**–**	**87**

Currency risk is monitored on a monthly basis utilising sensitivity analysis to assess if a risk for a potential loss is at an acceptable level. The Group calculates the financial impact of exchange rate fluctuations on USD-denominated monetary assets and liabilities in respect of the Group entities where functional currency is the Russian Rouble. The following table presents the decrease of the Group's profit and equity before tax due to a 20% weakening of the Russian Rouble against USD.

	US Dollar 20% strengthening	
	For the year ended 31 December 2016	**For the year ended 31 December 2015**
Loss	900	816

Given that the Group's exposure to currency risk for the monetary assets and liabilities is offset by the revenue denominated in USD, management believes that the Group's exposure to currency risk is acceptable. The Group does not apply hedge instruments.

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from cash and cash equivalents, bank deposits as well as credit exposures to customers, including outstanding uncollateralised trade and other receivables. The Group's exposure to credit risk is continuously monitored and controlled.

Having dealing with new counterparty, management assesses the creditworthiness of a potential customer or financial institution. If the counterparty is rated by major independent credit-rating agencies, this rating is used to evaluate creditworthiness; otherwise it is evaluated using an analysis of the latest available financial statements of the counterparty and other publically available information.

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

The balances of ten major counterparties are presented below. The banks have a minimum of BB+ credit rating.

	Outstanding balance	
Cash and cash equivalents	**At 31 December 2016**	**At 31 December 2015**
Bank A	1,014	1,009
Bank B	653	948
Bank C	521	632
Bank D	381	369
Bank E	226	312
Total	**2,795**	**3,270**
Trade receivables		
Company A	11	17
Company B	9	10
Company C	7	8
Company D	7	6
Company E	6	5
Total	**40**	**46**

The Group is not economically dependent on a limited number of customers because the majority of its products are highly liquid and traded on the world commodity markets. Metal and other sales to the Group's customers are presented below:

	For the year ended 31 December 2016			For the year ended 31 December 2015		
	Number of customers	**Turnover USD million**	**%**	**Number of customers**	**Turnover USD million**	**%**
Largest customer	1	973	12	1	1,025	12
Next 9 largest customers	9	2,587	31	9	3,382	40
Total	**10**	**3,560**	**43**	**10**	**4,407**	**52**
Next 10 largest customers	10	1,154	14	10	1,091	13
Total	**20**	**4,714**	**57**	**20**	**5,498**	**64**
Remaining customers		3,545	43		3,044	36
Total		**8,259**	**100**		**8,542**	**100**

Management of the Group believes that with the exception of the bank balances indicated above there is no significant concentration of credit risk.

The following table provides information about the exposure to credit risk for cash and cash equivalents, loans, irrevocable letters of credit, bank deposits and trade and other receivables:

	At 31 December 2016	**At 31 December 2015**
Cash and cash equivalents	3,301	4,054
Loans, trade and other receivables	349	225
Irrevocable letters of credit	101	121
Bank deposits	10	5

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due.

The Group has a well-developed liquidity risk management system to exercise control over its short-, medium- and long-term funding. The Group manages liquidity risk by maintaining adequate reserves, committed and uncommitted banking facilities and reserve borrowing facilities. Management continuously monitors rolling cash flow forecasts and performs analysis of maturity profiles of financial assets and liabilities, and undertakes detailed annual and quarterly budgeting procedures.

US Dollars million

32. FINANCIAL RISK MANAGEMENT (CONTINUED)

The following table contains the maturity profile of the Group's borrowings (maturity profiles for other liabilities are presented in note 27) based on contractual undiscounted payments, including interest:

At 31 December 2016	Total	Due within one month	Due from one to three months	Due from three to twelve months	Due in the second year	Due in the third year	Due in the fourth year	Due in the fifth year	Due there-after
Fixed rate bank loans and borrowings									
Principal	**4,996**	–	–	5	741	668	1,348	976	1,258
Interest	**1,882**	–	76	357	417	394	306	137	195
	6,878	**–**	**76**	**362**	**1,158**	**1,062**	**1,654**	**1,113**	**1,453**
Floating rate bank loans and borrowings									
Principal	**2,899**	11	134	431	445	553	222	609	494
Interest	**419**	4	18	71	83	73	63	43	64
	3,318	**15**	**152**	**502**	**528**	**626**	**285**	**652**	**558**
Total	**10,196**	**15**	**228**	**864**	**1,686**	**1,688**	**1,939**	**1,765**	**2,011**

At 31 December 2015	Total	Due within one month	Due from one to three months	Due from three to twelve months	Due in the second year	Due in the third year	Due in the fourth year	Due in the fifth year	Due there-after
Fixed rate bank loans and borrowings									
Principal	**4,874**	–	480	3	2	742	551	1,273	1,823
Interest	**1,838**	–	69	310	362	346	325	259	167
	6,712	**–**	**549**	**313**	**364**	**1,088**	**876**	**1,532**	**1,990**
Floating rate bank loans and borrowings									
Principal	**3,430**	–	144	501	626	988	754	17	400
Interest	**366**	6	18	69	85	62	33	21	72
	3,796	**6**	**162**	**570**	**711**	**1,050**	**787**	**38**	**472**
Total	**10,508**	**6**	**711**	**883**	**1,075**	**2,138**	**1,663**	**1,570**	**2,462**

At 31 December 2016 the Group had available financing facilities for the management of its day to day liquidity requirements of USD 2,622 million (31 December 2015: USD 1,870 million) which reflects the initiative of the Group's prudent financial policy through the increase of undrawn committed credit facilities as an additional source of the medium term liquidity.

33. FAIR VALUE OF FINANCIAL INSTRUMENTS

Management believes that the carrying value of financial instruments such as cash and cash equivalents (refer to note 20), short-term accounts receivable (refer to note 19) and payable (refer to note 27), approximates to their fair value.

Certain financial instruments such as other financial assets and finance leases obligations were excluded from fair value analysis either due to their insignificance or due to the fact that assets were acquired or liabilities were assumed close to the reporting dates and management believes that their carrying value either approximates to their fair value or may not significantly differ from each other.

US Dollars million

33. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the assets or liability, either directly or indirectly; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data.

The information presented below is about loans and borrowings, whose carrying values differ from their fair values.

	At 31 December 2016		At 31 December 2015	
	Carrying value	**Fair value Level 1**	**Carrying value**	**Fair value Level 1**
Fixed rate corporate bonds	2,962	3,171	3,197	3,210
Total	**2,962**	**3,171**	**3,197**	**3,210**
		Fair value		**Fair value**
Loans and borrowings including:	**Carrying value**	**Level 2**	**Carrying value**	**Level 2**
Floating rate loans and borrowings	2,869	2,734	3,404	3,339
Fixed rate loans and borrowings	1,990	2,121	1,655	1,722
Total	**4,859**	**4,855**	**5,059**	**5,061**

The fair value of financial liabilities presented in table above is determined as follows:

- the fair value of corporate bonds was determined based on market quotations existing at the reporting dates;
- the fair value of floating rate and fixed rate loans and borrowings at 31 December 2016, was calculated based on the present value of future cash flows (principal and interest), discounted at the best management estimation of market rates, taking into consideration currency of the loan, expected maturity and risks attributable to the Group existing at the reporting date. The discount rates ranged from 4.28% to 6.63% for USD-denominated loans and borrowings (2015: from 4.00% to 5.55%) and 10.63% (2015:11.60%) for RUB-denominated loans.

US Dollars million

34. INVESTMENTS IN SIGNIFICANT SUBSIDIARIES AND ASSOCIATES

			Effective % held	
Subsidiaries by business segments	**Country**	**Nature of business**	**At 31 December 2016**	**At 31 December 2015**
Group GMK				
JSC "Norilsky Kombinat"	Russian Federation	Rental of equipment	100	100
JSC "Taimyrgaz"	Russian Federation	Gas extraction	100	100
JSC "Norilskgazprom"	Russian Federation	Gas extraction	100	100
JSC "Taimyrenergo"	Russian Federation	Rental of equipment	100	100
JSC "NTEK"	Russian Federation	Electricity production and distribution	100	100
LLC "ZSC"	Russian Federation	Construction	100	100
LLC "Norilsknickelremont"	Russian Federation	Repairs	100	100
LLC "Norilskgeologiya"	Russian Federation	Geological works	100	100
LLC "Norilskyi obespechivaushyi complex"	Russian Federation	Production of spare parts	100	100
Group KGMK				
JSC "Kolskaya GMK"	Russian Federation	Mining and Metallurgy	100	100
LLC "Pechengastroy"	Russian Federation	Repairs	100	100
Norilsk Nickel Harjavalta				
Norilsk Nickel Harjavalta OY	Finland	Metallurgy	100	100
Other metallurgical				
LLC "GRK "Bystrinskoye"	Russian Federation	Mining	89.33	100
Other non-metallurgical				
Metal Trade Overseas A.G.	Switzerland	Distribution	100	100
LLC "Institut Gypronickel"	Russian Federation	Research	100	100
JSC "TTK"	Russian Federation	Supplier of fuel	100	100
OJSC "Enisey River Shipping Company"	Russian Federation	River shipping operations	100	100
OJSC "Arkhangelsk Sea Commercial Port"	Russian Federation	Sea port	-	74.80
LLC "Aeroport Norilsk"	Russian Federation	Airport	100	100
JSC "AK "NordStar"	Russian Federation	Aircompany	100	100

			Effective % held	
Associates by business segments	**Country**	**Nature of business**	**At 31 December 2016**	**At 31 December 2015**
Other metallurgical				
Nkomati Nickel Mine	Republic of South Africa	Mining	50	50

35. EVENTS SUBSEQUENT TO THE REPORTING DATE

On 24 January 2017 the Board of Directors of PJSC MMC Norilsk Nickel has approved the sale of an up to 39.32% stake in the Bystrinskiy Project to CIS Natural Resources Fund. The sale contract closing is subject to certain pre-conditions and necessary regulatory approvals.

On 15 February 2017 the Group increased a non-controlling interest in a related party for the consideration of USD 100 million.